

LABORATORY INDUSTRY REPORT®

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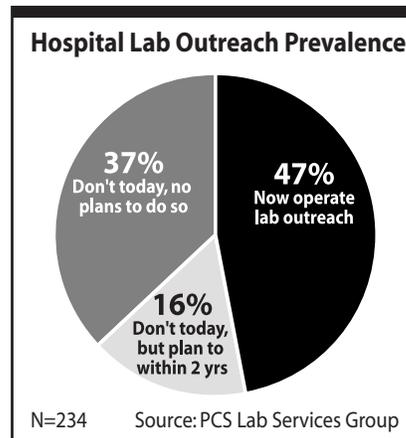


Hospital Outreach Programs Growing, But Measuring Profitability Remains Elusive

Forty-seven percent of all hospitals with more than 150 beds now operate a laboratory outreach program, according to a new national survey by Park City Solutions/Laboratory Services Group (Ann Arbor, MI). The survey, completed by 234 hospitals, showed that another 16% of hospitals that don't offer lab outreach today do plan to launch such a program within the next two years. The remaining 37% without outreach have no plans to do so.

Lab outreach is most prevalent in Wisconsin, Illinois, Indiana, Michigan and Ohio, where 62% of hospitals operate a program. In the Pacific region (California, Oregon, Washington and Hawaii), only 30% do.

Overall, hospital outreach programs report that testing volume grew an average 10% per year in 2000 and 2001; pricing increases helped raise outreach revenue growth to 14-15% per year. But the survey indicated more work is needed to measure outreach's bottom-line impact. For example, only 62% of hospitals with outreach had analyzed the profitability of their programs. For more on the survey and the latest news at seven outreach programs, see *Inside The Laboratory Industry*, pp. 5-7. 🏠



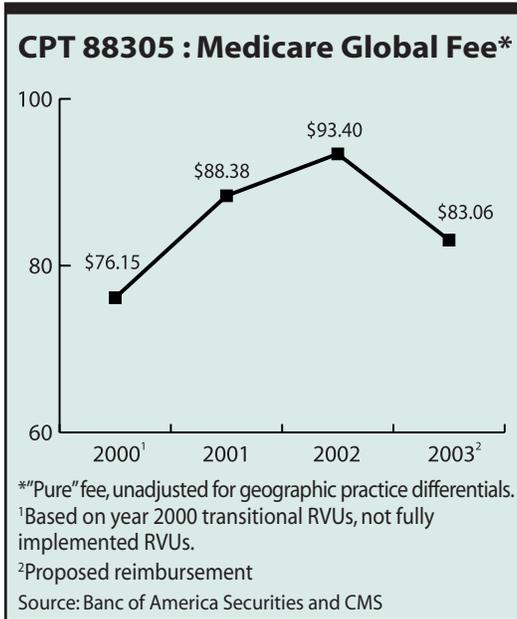
Reimbursement For Pathology Code 88305 To Drop By 11% Under Proposed Fee Schedule

The Centers for Medicare & Medicaid Services has released its proposed Medicare physician fee schedule for 2003 and the news is not good for pathologists. The proposal calls for a 4.4% cut in the conversion factor applied to all procedures. It also would impose a 7% reduction in the relative value units (RVUs) for CPT 88305 (surgical biopsy), the most commonly billed code for anatomic pathology. If finalized without change, the proposal would lower global Medicare reimbursement for 88305 by 11.1% next year to \$83.06 vs. current reimbursement of \$93.40.

Continued on p. 2

■ **PATHOLOGY CODE 88305**, from page 1

The technical component of CPT 88305 would be hit the hardest. Under the proposal, published in the June 28 *Federal Register*, it would be cut 16% to \$44.64 in 2003 from \$52.85 this year. The professional component would drop 5% to \$38.42 in 2003 from \$40.54 this year.



The proposed cuts represent a reversal of prior positive trends for 88305. From 2000 to 2002, its global reimbursement increased 23% to \$93.40, with the greatest increase going to the technical component (*LIR, Jan. '02, p. 10*).

Pathology groups have until Aug. 27 to submit comments to CMS on the proposed changes. In a July 2 research report, analysts at Banc of America Securities (BAS-New York City) contend that pathologists have strong grounds for opposing the reduction in RVUs, including rising malpractice costs and a shortage of histotechnologists and cytotechnologists that is driving up labor costs. BAS adds that since the RVUs overall are intended to remain relatively flat from 2002, any revisions for pathology would likely be made at the expense of other specialties. 🏠

Pathologist Salaries Up 7.6% To An Average \$210,000

The national average salary for pathologists increased 7.6% in 2001 to \$210,000, according to a survey of more than 5,000 hospitals and physician practices conducted by Martin, Fletcher (Irving, TX), a healthcare staffing firm. Oncologists saw the largest gain, up 15.5% to an average \$260,000. The only specialties not posting a gain last year were family practice (obstetrics) and pediatrics, each flat at an average \$160,000.

Increasing numbers of outpatient clinics and procedures have boosted the demand for specialists, the report notes. Better hours, less stress and not having to

Specialty	2001			Increase from 2000
	Low	Average	High	
Anesthesiology	\$180,000	\$280,000	\$375,000	5.6%
Cardiology	190,000	290,000	500,000	5.4%
Emergency Med	140,000	200,000	240,000	11.0%
Fam Practice	125,000	155,000	180,000	3.3%
Fam Practice (OB)	140,000	160,000	220,000	0.0%
Oncology	225,000	260,000	380,000	15.5%
Pathology	160,000	210,000	290,000	7.6%
Pediatrics	120,000	160,000	185,000	0.0%
Psychiatry	125,000	160,000	250,000	6.6%
Radiology	190,000	320,000	500,000	6.6%
Urology	280,000	315,000	400,000	5.0%

Source: Martin, Fletcher

be on-call are attracting doctors to these facilities. "Regionally, skyrocketing malpractice premiums and awards, changes in the J1 visa program and a greater need for specialists are causing pocket shortages around the country... Even large facilities in large metropolitan areas are being challenged in their staffing initiatives," notes Sean Endicott, vice president of Martin, Fletcher's physician search division. 🏠



Specialty Labs Deemed Compliant By State Of California

Specialty Laboratories (Santa Monica, CA) announced July 3 that the California Department of Health Services (CDHS) has found it to be in substantial compliance with California clinical laboratory law. Specialty says the ruling was based on a recent on-site inspection as well as review and acceptance of a plan of correction submitted to CDHS.

Specialty says it continues to actively pursue resolution of substantially similar compliance issues with the Centers for Medicare & Medicaid Services. In April, CMS revoked Specialty's CLIA certificate and suspended payments under Medicare and Medicaid, alleging that the company allowed employees without proper licenses to perform and supervise testing. The lab filed an appeal and continues to conduct lab testing during the appeal process.

"Since California state requirements were the core of the enforcement measures taken by CMS and CDHS, we are optimistic that the compliance issues with CMS can be successfully resolved," stated Douglas Harrington, MD, chief executive of Specialty, in a press release.

Specialty's compliance problems have taken a toll on the company. It recently announced that it was cutting its workforce by 10%, or about 80 employees. The company also said it expects to report significant net loss in the second quarter related to a planned restructuring as well as costs associated with personnel licensing and regulatory requirements. Other significant costs have included the outsourcing of certain tests that Specialty did not have the licensed personnel to perform itself.

Specialty says the restructuring includes a reduction in the number of management layers and expansion of licensed laboratory personnel. Among the management changes is the resignation of Paul Beyer as president, chief operating officer and board member. Specialty says that it is eliminating the COO position. Beyer's board seat is being filled by Terrance H. Gregg who is also president of Medtronic MiniMed (Northridge, CA), which makes insulin delivery pumps and is developing a continuous glucose monitoring system for diabetics.

Other management changes include the resignation of Specialty's laboratory director, Albert Rabinovitch, MD, PhD. *Laboratory Industry Report (LIR)* has also learned that Jack Redding has resigned as director of e-business for Specialty and is now vice president of sales at Labtest Systems (Midland Park, NJ), a vendor of Internet-based services for labs (previously named Labtest.com).

Earlier this year, James Peter, MD, PhD, resigned as chairman and chief executive of Specialty. He remains on the company's board of directors and continues to hold a 66% ownership stake.

Meanwhile, Gregg Mann, spokesman for Specialty, says the company continues to move forward on plans to relocate its laboratory and headquarters to Valencia, CA (approximately 40 miles north of Santa Monica). Construction has begun on the new facility, and Mann expects the final move to take place in the second half of 2003. 🏠



MDS, ARUP Labs Reach Collaborative Agreement

ARUP grew its revenue by 15-17% to roughly \$160 million in the fiscal year ended June 30, 2002. Contrary to some rumors, ARUP says it has no intention of putting itself up for sale

MDS Inc. (Toronto, CA) and ARUP Laboratories (Salt Lake City, UT) have announced a collaborative agreement under which ARUP will serve as the primary esoteric reference laboratory for all MDS-managed regional laboratories in the U.S. MDS' current U.S. operations include majority ownership of MDS Hudson Valley Laboratories (Poughkeepsie, NY) and laboratory management agreements with Baptist Memorial Health Care System (Memphis, TN) and Duke University Health System (Durham, NC). MDS also manages hospital labs for HCA (Nashville, TN) in Florida and Georgia.

As part of the accord, says Ronald Weiss, MD, ARUP senior vice president of business development, ARUP will identify its hospital clients that are considering expanding or launching an outreach program, creating a core lab or evaluating joint venture opportunities with a commercial lab, then refer these clients to MDS. ▲

Westcliff Medical Labs Expanding Throughout Southern California

In the fiscal year ended Aug. 31, 2001, the company generated revenue of around \$23 million and is on track to reach \$26 million this year

Westcliff Medical Laboratories Inc. (Newport Beach, CA) has expanded into the San Diego area and now covers most of southern California, says its president/CEO, Richard Nicholson. Westcliff was dealt a setback in 2000 when its largest contract—a capitated agreement with Greater Newport IPA (110,000 patients)—was not renewed and went to a competitor. Since then, it has more than made up for the loss with added business from fee-for-service clients, Nicholson says.

New tests that Westcliff has brought in-house over the past 12 months have included DNA-based HPV testing, immunofixation (IFE), highly-sensitive reactive C-reactive protein, lipoprotein (a) and insulin. Tests it may bring in-house in the coming year include HIV-1 quant bDNA, HepC quant bDNA, ACE, Aldolase, Cardiolipin A,G,M, H. Pylori M, PTH, IGF, and ENCA.

Nicholson is not overly concerned about the planned merger of Quest Diagnostics and Unilab. He welcomes the potential for Quest's contract pricing discipline vs. Unilab's apparent loss-leader strategy on capitated contracts. "Intense pricing pressure and the resulting low profit margins have left California labs with little funds left for capital investment, particularly in information system upgrades," he points out.

To Nicholson, the biggest risk of the merger is that Quest might seek to sign exclusive contracts directly with the state's largest insurance companies. ▲

Westcliff At A Glance

President & CEO	Richard Nicholson
Lab Director	Clark Chow
Main Lab	Garden Grove, CA
Patient Service Centers	35
Employees	282 FTEs
Billable test volume	2M
Revenue (12 mos. ended Aug. 31, 2001)	\$23M

INSIDE THE LAB INDUSTRY

Expert Advice On Measuring Lab Outreach Financial Results

“Incremental revenue and expenses measure the actual economic effect of the outreach effort,” says Thomas Joseph, financial planning director at PCS/LSG. Copies of the company’s outreach survey report may be purchased directly from PCS/LSG at 734-662-6363

Only 62% of 89 responding hospital laboratory directors say they have measured the profitability of their outreach programs, and of this total, only 53% used actual net revenue as the basis of their analysis, according to a new survey by Park City Solutions/Laboratory Services Group (PCS/LSG). These figures suggest that the profitability of only about one-third of hospital lab outreach programs has been analyzed, using actual net revenue.

Despite the seeming lack of adequate financial information, the survey by PCS/LSG (Ann Arbor, MI) revealed that an overwhelming 90% of lab directors “believe” their outreach program is profitable. This contrasts with 62% of hospital chief financial officers who “believe” their hospital outreach programs are profitable.

Thomas Joseph, director of financial planning at PCS/LSG, says too many hospitals rely on “cost per test” measurements that can be misleading indicators of financial success. Outreach profitability should be measured by incremental net revenue, minus incremental costs associated with the program, Joseph says. He defines net revenue (or cash collections) as gross charges, less contractual allowances and bad debt. Net revenue can be more easily measured if outsourced to a billing firm or done by lab staff on their own billing system, he adds. When outreach billing is mixed with a hospital’s billing system, the ability to measure actual net revenue becomes extremely difficult.

Incremental costs should include full program and support costs, including marketing, billing, courier services and patient service centers, Joseph says. “Often, finance managers take the position that outreach business should cover full costs, yet if an outreach program were terminated, only incremental costs would be eliminated....”

National Lab Outreach Survey, 2002: Profitability Review

	Yes	No	Unsure
Has your outreach profitability been analyzed?	62%	30%	8%

	Actual	Estimated	Unsure
If yes, was net revenue actual or estimated?	53%	41%	6%

	Yes	No	Unsure
If yes, did the expense analysis include:			
—Hospital overhead?	35%	53%	12%
—Laboratory administration?	75%	17%	8%
—Outreach support (couriers, marketing, etc.)?	88%	6%	6%

	Average	Incremental	Unsure
Technical costs based on:			
—Average or variable/incremental costs	12%	74%	14%

	Yes	No	Uncertain
Belief that your outreach program is profitable:			
—Chief financial officer’s belief	62%	6%	32%
—Respondent’s belief (primarily lab directors)	90%	1%	9%

N=89 Source: PCS Lab Services Group

Outreach Execs Bullish On Program Prospects

At the June 6-7 conference, "Succeeding In The Laboratory Outreach Market: Measuring The Real Bottom-Line," co-sponsored by Washington G-2 Reports and Park City Solutions/Laboratory Services Group, several hospital lab managers and CEOs offered updates on their operations and advice for other labs. Here's a run-down of what they had to say:

Nathan Headley, chief executive of Spectrum Laboratory Network (Greensboro, NC), contends: "By virtue of acquisitions, Quest Diagnostics and Laboratory Corp. of America are having difficulty appearing small to their clients and maintaining service levels to physicians....There's a tremendous opportunity for regional operations to compete against the major labs."

Spectrum has added 112 new outreach clients from the start of the year through early June, most of them defections from LabCorp. "We've won a lot of accounts that said they hadn't seen a LabCorp representative in two years."

Spectrum covers all of North Carolina and is expanding into South Carolina, according to Headley. It also is introducing an Internet-based lab test ordering and results reporting service from Atlas Medical (Woodland Hills, CA).

One key to outreach success is a well-staffed, well-compensated sales team, Headley asserts. Spectrum has 15 salespeople and will soon hire two more. The average compensation for the sales staff is roughly \$130,000 per year, including a base salary of \$45,000-\$50,000 and the remainder from commissions and bonuses. Prior experience in selling lab services is not essential, he adds, noting that Spectrum has hired three ex-pharmaceutical salespeople who are doing very well.

Headley advises lab outreach programs to carefully review the costs and benefits of same-day turnaround time policies. "Same-day turnaround time is not necessary to effectively compete with Quest and LabCorp."

Spectrum is a consolidated lab venture owned by Moses Cone Health System (Greensboro), High Point Regional Health System (High Point, NC) and Novant Health System (Charlotte, NC). It manages six hospital labs and a freestanding core lab in Greensboro. Spectrum will increase its net revenue by 35% this year to \$67 million, Headley estimates, including \$20 million from hospital work (billed at cost) and \$47 million from outreach. He anticipates that Spectrum will pay cash dividends of \$2.5-\$3 million to its owners this year (after all expenses, including capital expenditures).

Frederick Kiechle, MD, PhD, chairman of the clinical pathology department at William Beaumont Hospital (Royal Oaks, MI), says the hospital's outreach program—Beaumont Regional Laboratories (BRL)—employs five salespeople and plans to hire another five within the next 12 months. BRL, now focused on the greater Detroit area, is expanding west into Lansing and Grand Rapids.

According to Kiechle, in 2001, BRL performed 2.258 million billable tests (excluding anatomic pathology), up 9% from 2.081 million in 2000. BRL, which now accounts for more than 40% of the total volume at William Beaumont Hospital, has 348 employees and generates annual net revenue of \$32 million. It is more profitable than any other division within the hospital, he claims.

BRL's volume growth has been spurred, Kiechle says, by its membership in Joint Venture Hospital Laboratories (JVHL-Detroit), a network of more than 100 hospi-

tal labs that has capitulated lab contracts covering more than one million members throughout Michigan. BRL is getting an “enormous amount” of pull-through business from the JVHL contracts, he notes.

Wendell O’Neal, PhD, vice president of Alliance Laboratory Services (ALS-Cincinnati, OH), estimates that ALS has about 65% of the physician office market in the greater Cincinnati area. Quest and LabCorp split the remaining market share.

ALS, which operates as a distinct unit of The Health Alliance (Cincinnati), runs a core laboratory in downtown Cincinnati serving five area hospitals (Christ Hospital, Jewish Hospital, University Hospital, St. Luke Hospital East and St. Luke Hospital West). Total annual billable test volume at ALS is approximately 7.5 million (including roughly 50% from outreach) and is growing 10% per year, according to O’Neal. Annual net revenue from outreach exceeds \$30 million.

“I can’t overemphasize the value and importance of salespeople....The laboratory business is a relationship business,” he stresses. ALS employs four full-time salespeople.

O’Neal says ALS has put off installing an Internet-based system for lab test ordering and results reporting because there is not yet a clear winner among the various vendors.

Michael Bissell, MD, PhD, director of clinical services and vice chairman of the pathology department at Ohio State University Medical Center in Columbus, says Ohio State has aspirations of growing its outreach business (doing business as University Reference Laboratories-URL) into a regional operation. URL generates \$6 million in annual net revenue from outreach with year-over-year growth of better than 25%.

URL employs three salespeople and is considering adding a sales manager and several new salespeople. One of its goals is to expand testing services for cytogenetics,

genetics, molecular pathology and PCR testing. Bissell says URL is in the process of bringing in-house its largest send-out test, HIV viral load.

One of URL’s biggest challenges will be to recruit lab staff, Bissell says. He anticipates that URL will lose two-thirds of its lab staff to retirement over the next five years. One solution has been to set up a recruitment office in the Philippines.

Beth Deaton, sales and business manager for Sentara Laboratory Services (Norfolk, VA), which includes five hospital labs and Sentara Reference Lab (SRL), says taking clinicians and training them to be salespeople is generally a bad idea. “Salespeople and clinicians have two very different types of personalities.” SRL, which is part of Sentara Healthcare (Norfolk), performs roughly 1.2 million billable tests per year, or approximately 32% of the total 3.8 million tests performed throughout the Sentara system.

William Hofer, director of business development at Clinical Laboratories of the Midwest (CLM-Sioux Falls, SD), advises labs not to be afraid to challenge reimbursement levels set by health plans. CLM was able to get increased reimbursement for allergy testing by showing health plans that the testing could reduce unnecessary utilization of allergy medications. CLM is a hospital-based reference lab owned by Sioux Valley Hospital.

Thomas Tiffany, PhD, chief executive of Pathology Associates Medical Laboratories (PAML-Spokane, WA), says one of the biggest benefits that outreach programs can provide to physician office clients is integrated inpatient and outpatient clinical information. PAML, a for-profit subsidiary of Sacred Heart Medical Center in Spokane, provides reference testing and management services to hospital lab networks in Seattle and Spokane and in Idaho. 🏠



Digene Terminates Acquisition Agreement With Cytoc

Digene (Gaithersburg, MD) has terminated its agreement to be acquired by Cytoc Corp. (Boxborough, MA). This action follows a recent announcement by the U.S. Federal Trade Commission that it would seek an injunction to block the deal (*First Monday, July '02*). FTC feared the deal would have led to reduced competition and increased consumer prices in the highly concentrated market for primary cervical cancer screening tests, both now and in the future. "We regret that the proposed merger with Cytoc will not be permitted to proceed, but we do not believe it is in the best interest of our company and its stockholders at the present time to pursue a potentially protracted and uncertain dispute in the courts with the FTC," says Evan Jones, Digene chairman and CEO. 🏠

Molecular Diagnostics Begins Sale Of New Pap Collection Device

Molecular Diagnostics Inc. (MDI-Chicago, IL) has received clearance from the U.S. Food & Drug Administration to begin selling its InPath e2 Collector to physicians for use in collecting cervical samples for Pap testing. The e2 Collector consists of a small silicone balloon, shaped to fit the cervix, and a reusable handle. The balloon is inflated in the cervix and collects cells from all areas, then is placed in liquid preservative. While the traditional Pap test requires scraping both parts of the cervix (endo- and ectocervix) separately, the e2 Collector obtains cell samples from both areas of the cervix in a single step.

Eric Gombrich, MDI vice president, says the e2 Collector is designed to be more comfortable for patients and to reduce bleeding. The expected sales price is \$0.50 to \$1.00 per collection. Among MDI's first customers is AmeriPath (Riviera Beach, FL), the nation's largest pathology company with 435 pathologists. 🏠

Former Damon Executive Sentenced To 3 Months' Jail Time

Damon's former president, Joseph Isola, pled no contest on July 28, 2000, to one count of conspiracy to defraud Medicare and was sentenced to three years' probation

Senior U.S. District Court Judge Edward Harrington of Boston, MA, has sentenced William Thurston, age 52, to three months' imprisonment, followed by three years of supervised release, the first three months of which are to be served in home confinement.

Thurston was convicted by a trial jury last Dec. 17 (*First Monday, Jan. '02*) of conspiring to defraud Medicare by deceiving physicians into ordering unnecessary serum ferritin tests, which were bundled into a commonly ordered blood chemistry panel. Thurston oversaw this scheme in the late 1980s/early 1990s, the government alleges, while he was senior vice president of Damon Clinical Laboratories, headquartered in Needham, MA.

In October 1996, as a corporation, Damon (now part of Quest Diagnostics) pled guilty to conspiracy to defraud Medicare in connection with the same conduct for which Thurston was convicted, as well as other misconduct. Damon paid a total of \$119 million to the government under a 1998 settlement: \$35.3 million as a criminal fine and \$83.7 million to resolve related civil liabilities. 🏠



LabCorp, Exact Sign Exclusive Deal For Colorectal Cancer Test

Laboratory Corp. of America (Burlington, NC) has announced an exclusive five-year agreement with Exact Sciences (Maynard, MA) to market Exact's PreGen-Plus test for early detection of colorectal cancer in the average-risk population. This year in the U.S., there will be approximately 148,000 new cases and 57,000 deaths from this type of cancer, the American Cancer Society estimates. If caught early, survival rates improve dramatically. The Society recommends that the 80 million Americans aged 50 and older undergo regular colorectal cancer screening.

Exact's PreGen-Plus test works by isolating human DNA that is shed in the colon every day and exits the body in stool. The DNA is analyzed for mutations associated with colorectal cancer. The patient collects a single stool sample at home, then ships it in a supplied container and packaging materials to a LabCorp testing facility, which sends the test results to the patient's physician. Patients with positive results are expected to be referred for a colonoscopy, which provides a definitive diagnosis at a cost of \$1,000-\$2,000.

Tom Mac Mahon, LabCorp's chairman and CEO, says pricing for PreGen-Plus has not yet been determined. However, Exact's PreGen-26 test for determining hereditary predisposition to colorectal cancer lists for \$500-\$600 per test. Fecal occult blood testing, capped by Medicare at \$4.49, is the most common colon cancer screening test, but it has been criticized for low sensitivity and specificity. Exact is working on PreGen-Plus cost-effectiveness studies, says company president Don Hardison.

As part of the deal, LabCorp has agreed to pay Exact as much as \$75 million in upfront, milestone and performance-based payments. LabCorp made the first payment of \$15 million upon signing the agreement. A second payment of \$15 million will be made upon commercial launch of PreGen-Plus, expected in the first half of 2003. LabCorp also has agreed to pay Exact up to \$45 million more based on achieving certain milestones, including reimbursement approval by payers and certain test volume targets. Exact will get a royalty fee for each PreGen-Plus test performed by LabCorp. Finally, Exact has issued to LabCorp a warrant to purchase one million shares of Exact common stock, exercisable over the next three years at an exercise price of \$16.09.

Under a separate deal with Myriad Genetics (Salt Lake City, UT), LabCorp has an agreement to market Myriad's tests, including Colaris (list price \$1,950) and Colaris AP (list price \$1,685), which are DNA-based tests for hereditary colon cancer. 🏠

Methods For Colon Cancer Testing: Reimbursement Range Among Payers

Test method	Reimbursement
Fecal occult blood	\$4.49 ¹
OTC home tests/FOB	\$4-7
Flexible sigmoidoscopy	\$80-\$250
PreGen-26	\$500-\$600
Virtual colonoscopy ²	\$950
Colaris AP ³	\$1,685
Colaris ³	\$1,950
Colonoscopy	\$700-\$2,000

¹Medicare national limitation amount.

²Diagnostic imaging method.

³Colaris and Colaris AP are predictive tests developed by Myriad Genetics.

Source: LIR, Exact Sciences, Myriad Genetics



Days In Accounts Receivable Average 77 At Big Labs

Thirteen major clinical laboratory and pathology companies got their claims paid in an average 77 days in full-year 2001, according to a *LIR* analysis of company financial reports. This is an improvement from the average 82 days in accounts receivable (DAR) for full-year 2000. Labs say they are cutting down on DAR by implementing front-end initiatives to reduce the number of requisitions received with key information missing.

Three pathology companies got their claims paid in an average 86 days last year, while the DAR at 10 clinical laboratories was 75 days. Among the thirteen companies analyzed, bad-debt expense ranged from just 1% at Athena Diagnostics (Worcester, MA) to 18% at Impath (New York City), with an estimated overall average of approximately 10%.

Quest Diagnostics (Teterboro, NJ) continues to have the lowest DAR at 51 days (with bad-debt expense equal to 6% of revenue). Unilab (Tarzana, CA), which is being acquired by Quest, is second-lowest at 59 days (with bad-debt expense of 7-8%). Laboratory Corp. of America (Burlington, NC) is third-lowest at 61 days (with bad-debt expense of 9%).

Bio-Reference Labs (Elmwood Park, NJ) has the longest collection cycle—124 days (with bad-debt expense of 13%). Impath is next at 123 days (with bad-debt expense of 18%), followed by Athena Diagnostics at 89 days (with bad-debt expense of only 1%). 🏠

How Many Days Does It Take To Get Paid?

Pathology Companies	Days In Accounts Receivable			
	1998	1999	2000	2001
AmeriPath	74	72	78	71
Dianon	71	86	77	63
Impath	127	152	134	123
Unweighted avg. (3 cos.)	91	103	96	86
Clinical Laboratory Companies				
American Medical Labs ¹	77	87	83	80
Athena Diagnostics	NA	NA	85	89
Bio-Reference Labs	163	126	132	124
Dynacare ²	77	106	70	84
LabCorp	83	75	70	61
LabOne	67	80	73	66
Medtox	74	74	69	64
Quest Diagnostics	58	60	52	51
Specialty Labs	71	75	78	70
Unilab	68	64	68	59
Unweighted avg. (10 cos.)	82	83	78	75
Total unweighted avg. (13 cos.)	84	88	82	77

Note: DAR=Accounts receivable divided by average net sales per day (after deductions for contractual allowances).

¹2001 data for AML are for the nine months ended Sept. 30, 2001. AML was acquired by Quest earlier this year.

²Data for Dynacare are based on financial results under U.S. accounting standards.

Source: *LIR* from company reports



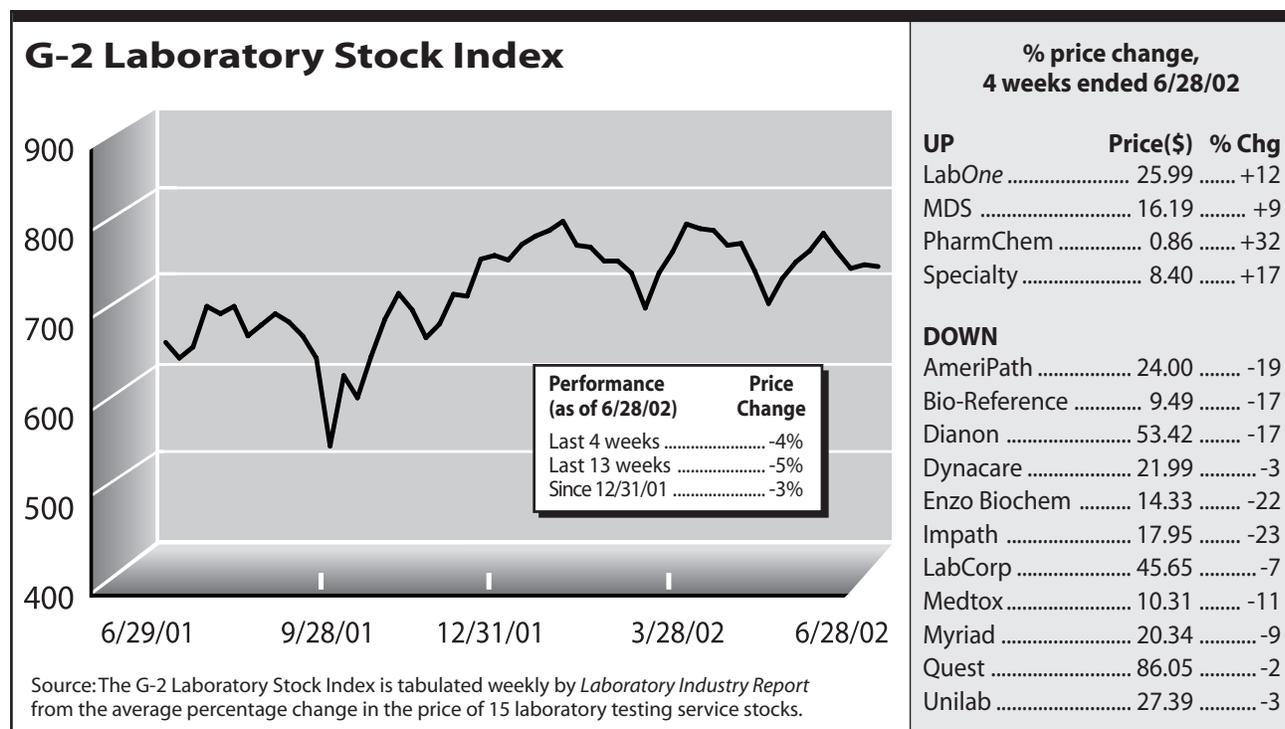
Lab Stocks Drop 4% In Latest Four Weeks

Stock prices for the 15 companies in the G-2 Laboratory Stock Index were down an unweighted average of 4% in the four weeks ended June 28, 2002, with 11 stocks falling in price and four rising. So far this year, lab stocks have fallen 3%, while the S&P 500 is down 14% and the Nasdaq is down 25%.

Pathology stocks were hammered by news of revisions proposed by the Centers for Medicare & Medicaid Services to Medicare payment policies under the physician fee schedule for 2003 (*see p. 1*). **Impath** (New York City) dropped 23% to \$17.95 per share for a market capitalization of \$292 million; **AmeriPath** (Riviera Beach, FL) fell 19% to \$24 per share for a market cap of \$684 million; and **Dianon** (Stratford, CT) fell 17% to \$53.42 for a market cap of \$648 million.

Enzo Biochem (Farmingdale, NY) fell 22% to \$14.33 per share for a market cap of \$408 million. The company recently reported that revenue at its lab division fell to \$6.8 million for the three months ended April 30, 2002, from \$9.9 million in the same period a year earlier. Enzo says it has instituted new marketing and cost-containment programs to enhance operating results and has brought several new tests in-house, including a panel of tests for neural tube defects and chromosomal abnormalities such as Down's syndrome.

Specialty Laboratories (Santa Monica, CA) rose 17% to \$8.40 per share for a market cap of \$183 million on speculation that the company may be close to resolving its regulatory issues with the Centers for Medicare & Medicaid Services (*see p. 3*). 🏠



Malpractice costs jumping. AmeriPath (Riviera Beach, FL) says an inability to get traditional malpractice insurance has forced it to shift to a self-insured program at significantly higher costs. AmeriPath had used St. Paul Companies (St. Paul, MN), but this company has chosen to exit the malpractice market. St. Paul had been the nation's largest provider of malpractice insurance.

AmeriPath says the shift to self-insurance will result in extra annual costs of \$6-\$8 million per year. Total malpractice costs for AmeriPath for the year ending June 30, 2003 will now be in the range of \$12-\$14 million, according to company chairman and CEO Jim New. That amount is equal to more than \$30,000 of annual malpractice cost for each of AmeriPath's 435 pathologists. "Malpractice insurance has been a well-publicized problem. In fact, it is becoming financially paralyzing in many sectors. We believe some type of government reform will be necessary before the market returns to acceptable levels," says New.

High Court ruling a boon to drug testing labs. The U.S. Supreme Court recently ruled 5-4 that public high schools and middle schools can randomly test students involved in competitive after-school activities for drug use. The ruling expands the parameters

of student drug testing (previously limited to athletes) to activities such as chess clubs, choirs and debating teams. An estimated 7+ million students will be affected. While the decision has been criticized as an invasion of privacy, several drug testing companies applaud it. American Bio Medica Corp. (Kinderhook, NY), which makes on-site drugs-of-abuse testing kits, calls it "a major victory for parents, educators and students." Psychomedics (Cambridge, MA), which sells a drugs-of-abuse test using hair samples, anticipates that the decision could dramatically increase the market for drug testing. 🏠

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