

LABORATORY INDUSTRY REPORT®

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Hospital Partnerships The Key To Growth For Independent Labs, Says PAML CEO

Hospitals will continue to evolve toward the integrated delivery system model, folding in more and more healthcare services under their wings, says Tom Tiffany, PhD, chief executive of Pathology Associates Medical Laboratories (PAML—Spokane, WA). And, he adds, one key component of an integrated delivery system is a laboratory that covers the testing needs for inpatients as well as all ambulatory sites including physician offices.



Tom Tiffany

For every hospital system that has chosen to get out of the lab outreach business, there are a dozen more that are either seeking to launch a new lab outreach program or reinvigorate an existing one, according to Tiffany. "Hospitals are now looking at laboratories as a revenue opportunity rather than a cost center...They have a great deal of leverage over where the testing business from their affiliated physicians goes," notes Tiffany. As a result, he believes that independent labs that do not adapt will face market share losses.

The key success factor for independent labs will be their ability to partner with hospitals seeking to grow their outreach testing. The independent labs that figure out a way to provide billing, marketing, and information systems management services to hospital-based outreach programs will wind up being the winners, predicts Tiffany. For more on how PAML is situating itself to take advantage of this predicted trend, see *Inside the Laboratory Industry*, pp. 5-7. 🏠

Major Revenue Opportunity For Labs Emerging In Colorectal Cancer Screening

The Centers for Medicare & Medicaid Services (CMS) says it will expand the type of colorectal cancer screening tests that may be eligible for Medicare coverage. The announcement, published last Dec. 31 in the final physician fee schedule rule, could pave the way for CMS to institute a national coverage decision and payment amount for a new immunoassay-based fecal occult blood test (FOBT) developed by Enterix, Inc. (Falmouth, ME). Reimbursement for the Enterix test could potentially wind up being substantially higher than the meager \$4.54 that Medicare currently pays labs for conventional guaiac-based FOBTs.



150,000 Americans will be diagnosed this year with colorectal cancer and 55,000 will die from the disease, according to the American Cancer Society

■ **MAJOR REVENUE OPPORTUNITY**, *from page 1*

Currently, CMS has a national coverage policy in place for annual colorectal cancer screening tests for people over age 50 that is limited to conventional guaiac-based FOBTs, flexible sigmoidoscopy, colonoscopy, and barium enema. Conventional FOBTs are by far the most widely used screening method. A FOBT detects tiny traces of blood hidden in the stool. Polyps and tumors in the colon can cause this bleeding. These trace amounts of blood are the most significant predictor of risk for colorectal cancer.

The CMS decision to consider national coverage for additional methods was prompted by a request from Enterix, which makes an immunoassay-based FOBT test named InSure. Robert Bruce, vice president of reimbursement at Enterix, predicts that CMS will announce a national coverage determination regarding immunoassay-based FOBTs within the next few months.

Enterix’s InSure test is currently covered by Medicare carriers for diagnostic purposes (not screenings) on a “gap-fill” basis under CPT Codes 82274 and 82274QW. Bruce says that payment levels vary widely from state to state. Some carriers reimburse only \$4.54 for the InSure test (this is the same amount that conventional FOBTs are reimbursed at under CPT Code 82270). But, other carriers, including those in Alabama and Mississippi, provide reimbursement as high as \$24.18, according to Bruce.

Bruce says that Enterix is seeking a national payment decision from CMS for immunoassay-based FOBTs of \$34. Bruce notes that this level of payment would be comparable to Medicare reimbursement for other immunoassay-based tests for cancer, including PSA Total at \$25.70, or CA-125 at \$29.07. However, *LIR* observes that gaining this level of reimbursement for a screening test may be wishful thinking especially given the ballooning federal budget deficit and the Bush Administration’s plan to restructure Medicare, which includes the addition of an expensive, new prescription drug benefit.

The InSure test was cleared by the FDA for commercial sale in January 2001.

Currently, Enterix allows testing for InSure to be performed only at its own laboratory in Falmouth, ME. However, Craig Sands, president and chief executive of Enterix, says that the company may begin selling its test kits to other labs if and when CMS establishes a national coverage and payment amount.

Sands says that most labs lose money on conventional FOBTs because of poor patient compliance. He notes that only one out of every four patients who are given a sample collection kit for a conventional FOBT return the kit back to their doctor for testing. The expense of the unused test collection kits is borne by laboratories.

According to the Centers for Disease Control, only 20% of adults over the age of 50 have been

Sample Medicare Carrier Reimbursement Rates For Enterix InSure Test

Alabama	\$24.18
Arizona	4.49
California	4.54
Florida	5.60
Illinois	8.98
Michigan	8.98
Mississippi	24.18
North Carolina	5.50
New York	13.98-17.89*
Pennsylvania	4.49
Texas	10.00

*Range for three carriers in New York

Source: Enterix



screened for colorectal cancer at recommended intervals with traditional FOBTs, as compared to 60% to 70% for breast and cervical cancer. The high non-compliance rate for FOBT is largely a function of dietary and prescription drug restrictions that must be followed by a patient for 6 to 10 days prior to taking the sample, notes Sands. In addition, conventional FOBTs require patients to perform

the unpleasant task of smearing their stool onto a specimen collection card. The most commonly used conventional FOBTs are the Hemoccult tests made by Beckman Coulter (Fullerton, CA).

In contrast, the InSure test utilizes a long-handled brush to collect toilet water from around the stool. The brush is then dabbed onto a test card that is sent to the

InSure vs. Conventional FOBTs

	InSure	Conventional FOBT (Old version)	Conventional FOBT (New version)
Sensitivity	87%	37%	79%
Specificity	98%	98%	87%

Source: Data for InSure comes from clinical trials data submitted to the FDA; data for conventional FOBTs comes from *New England Journal of Medicine* 1996; Issue 334; pp. 155-159: Comparison of FOBT for Colorectal Cancer Screening

Enterix lab for testing. Unlike conventional FOBTs, the InSure test eliminates the need for stool handling by the patient and requires no dietary or medicinal restrictions. Sands notes that in clinical trials, InSure increased patient compliance levels by up to 65% over conventional FOBTs. Higher compliance combined with an anticipated higher reimbursement rate, should mean that labs will no longer lose money when performing colorectal cancer screenings, according to Sands.

Last, but not least, Bruce notes that the InSure test is both more sensitive and more specific than conventional FOBTs. He cites the company's FDA clinical trial data, which showed 87% sensitivity and 98% specificity. This compares with 37% sensitivity and 98% specificity for older versions of conventional guaiac-based FOBTs, and 79% sensitivity and 87% specificity for newer versions of conventional guaiac-based FOBTs. 🏠

American Cancer Society Cites Benefits Of Immunoassay FOBTs

The case for using immunoassay-based FOBTs vs. conventional guaiac-based tests has received a major boost from the American Cancer Society (ACS—Atlanta, GA). The ACS's Recommendations for Screening and Surveillance for the Early Detection of Adenomatous Polyps and Colorectal Cancer now include the statement: "in comparison with guaiac-based tests for the detection of occult blood, immunochemical tests are more patient-friendly, and are likely to be equal or better in sensitivity and specificity."

The ACS revision was based on findings from the group's Colorectal Cancer Advisory Group which recently completed a formal review of new technologies for colorectal cancer screening that included CT colonography, immunochemical FOBT, and stool screening using molecular markers. Findings have been published in the January/February 2003 issue of the cancer journal *CA* (the article is available online at: CAonline.AmCancerSoc.org).

According to the advisory group, "The recent studies of InSure combined with previously published reports on the performance of immunochemical tests for

stool occult blood provide a persuasive argument that these tests offer enhanced specificity in colorectal cancer screening compared with guaiac-based testing.”

The advisory group also analyzed data on a gene-based test made by Exact Sciences (Maynard, MA) and found that the test was highly accurate with a high degree of sensitivity and specificity. But, the advisory group also found that the expense of the Exact test (\$400 per test) could limit its usefulness as a screening test. Patient acceptance of the test was also questioned, given that the Exact test “requires the patient to send their entire bowel movement to the processing laboratory, something that some patients may find unacceptable.” 🏠

LabCorp Completes Purchase Of Dianon

In less than two months after first announcing the deal, Laboratory Corp. of America (Burlington, NC) has completed its acquisition of Dianon Systems (Stratford, CT). LabCorp paid \$47.50 per share in cash, or a total of \$544 million (after adjustments for debt and cash held by Dianon). LabCorp expects the acquisition to add \$210 million of revenue this year. Based on these figures, LabCorp paid 2.6 times revenue for Dianon (*i.e.*, \$544 million/\$210 million=2.6).

The acquisition resulted in a big windfall to several of Dianon’s top executives, including the company’s chairman and CEO, Kevin Johnson, whose stake of 118,364 shares of Dianon has been converted to \$5.6 million of cash. Johnson is expected to continue to manage Dianon now that it is part of LabCorp and to help with the integration. But a change of control clause in his employment contract provides him with a “safety net” of three years’ worth of salary and bonus if he is terminated within the next two years. Based on his earnings for 2001, this would result in a lump-sum payment of roughly \$2.5 million. 🏠

AmeriPath Shareholder Urge Buyout Rejection

MMI Investments (New York City), which owns about 4.5% of AmeriPath (Riviera Beach, FL), is seeking to convince other investors to reject the proposed acquisition of AmeriPath by buyout firm Welsh, Carson, Anderson & Stowe (New York City) because the \$21.25 per share bid offer is too low. MMI has also filed a lawsuit seeking to block the acquisition.

MMI claims, “Were AmeriPath to seek a buyer only nine months from now we believe shareholders would realize significantly higher value due to a less distracted buyers’ universe and pricing based on 2004’s expected robust growth. If we sell now the only people who will profit from this anticipated growth and strategic interest will be Welsh Carson and AmeriPath executives, who will be awarded options on 12% of the new company.”

In a filing with the Securities & Exchange Commission, James New, chairman and chief executive of AmeriPath, stated: “The complaint rehashes previous incorrect comments made by certain shareholders and misstates other facts. We do not believe the plaintiffs will be successful and do not foresee this lawsuit being an impediment to completion of our previously announced merger.” Further comment from AmeriPath was not available. 🏠

PAML Chief Sees Hospital Partnerships As Key For Success

There's still time to expand your market share in the laboratory outreach sector by attending the seminar, Advanced Solutions & Strategies For Laboratory Outreach, that will be held Feb. 20-21 in Atlanta, GA. See the enclosed brochure for full details or call (202) 789-1034

Tom Tiffany, PhD, chief executive of Pathology Associates Medical Laboratories (PAML—Spokane, WA), believes that the trend among the nation's hospital systems continues to be consolidation and integration of more and more healthcare services. Part of this larger trend includes the expansion of hospital lab outreach programs. "Ten years ago there was not a lot of interest on the part of hospitals to get into outreach, but that has changed," notes Tiffany.

One factor driving the increased interest in lab outreach is the desire by hospitals to combine inpatient and outpatient clinical information to create comprehensive patient care records, according to Tiffany. He believes that a second driver is a growing confidence among hospitals that they can effectively compete against the national labs. Tiffany notes that any hospital launching an outreach program has one major advantage over its national lab competitors from day one. Namely, hospitals have a great deal of influence in determining where the testing business from on-campus physician offices goes.

Tiffany says that the recognition of these trends prompted PAML to seek out and develop laboratory network partnerships (*i.e.*, joint ventures) with the leading hospitals in the Pacific Northwest beginning in the mid-1990s. Tiffany believes that the ability of independent labs to strike partnerships with hospitals will be a determining success factor for independent labs over the next 10 years.

PAML at a Glance

Chief Executive: Tom Tiffany, PhD

Chief Scientific Officer: Lawrence Killingsworth, PhD

Chief Financial Officer: Kurt Rogers

Chief Marketing Officer: Noel Maring

Origins: Founded in Spokane, WA in 1957 by a group of pathologists; clinical business sold in 1984 to International Clinical Labs; bought from ICL in 1986 by Sacred Heart Medical Center

Employees: 900 (includes employees at joint ventures)

Clients: 100+ hospitals throughout the Pacific Northwest

Revenue for 2002: \$96 million, including \$41 million billed directly by PAML plus \$55 million billed by PAML joint ventures

Source: PAML

Tiffany emphasizes that he believes the market share shift toward hospital-based outreach will take place at an evolutionary (not revolutionary) pace. "We have no illusions that Quest or LabCorp will go away. They are excellent competitors," adds Tiffany.

An Inside Look at PAML

PAML is a for-profit independent laboratory owned by Sacred Heart Medical Center (also in Spokane) that provides reference testing services and management services to hospital lab networks throughout the Pacific Northwest. Over the past three years, the four hospital lab network joint ventures managed by PAML have grown their billings by an average annual rate of better than 20% to reach a total of \$55 million in 2002, according to data supplied by PAML. In addition to managing these networks, PAML operates an esoteric testing center in Spokane that serves more than 100 hospital clients and generated approximately \$41 million of revenue in 2002.

PAML formed its first laboratory network joint venture, PacLab Network Laboratories (Seattle, WA), in 1996. PAML owns approximately 41% of PacLab, which is structured as a for-profit limited liability corporation. Hospital system owners of PacLab include the Providence Health System, Franciscan Health System, Swedish Hospital, and Overlake Hospital. In total, PacLab's three hospital system partners operate 10 individual hospitals throughout the Puget Sound area of Washington.

PAML also manages joint ventures in southeastern Washington (Tri-Cities Lab); southern Idaho (Treasure Valley Lab); and northern Idaho (Alpha Medical Lab). PAML provides management services to each of its joint ventures, including billing services, compliance programs and monitoring, information system support, and esoteric testing services. All four of the PAML joint ventures posted profits last year, according to Noel Maring, chief marketing officer at PAML.

PAML's esoteric testing center in Spokane performs more than 1,000 different types of tests and handles the send-out work for the joint ventures as well as other hospitals throughout the Pacific Northwest, including northern California and Alaska. PAML's Spokane lab also provides testing services to roughly 300,000 HMO members of Group Health Cooperative (Seattle) who live in eastern Washington.

Tiffany says that PAML is aggressively seeking to expand its test menu and add more send-out clients. Last year, PAML added over 20 new assays, including ImmunoCap testing, a new generation of allergy

testing; 25 Hydroxy Vitamin D; and Bordatella Pertussis. Lawrence Killingsworth, PhD, chief scientific officer, anticipates that PAML will add cystic fibrosis testing, DHEA, and soluble transferrin receptor to its menu this year.

Other initiatives at PAML include the roll out of an Internet-based test reporting system developed by American Medical Laboratories (now part of Quest) called LabPortal. Maring says physician adoption of the results reporting option has been strong. He notes that some of PAML's physician office clients have gone 100% to online result reporting and disconnected their lab printers. However, adoption of the order-entry component has been much more difficult, notes Maring. "It's a convenience factor. Physicians find it easier to pick up a requisition form and check off a couple boxes," he adds.

In addition to its esoteric testing center in Spokane and its four partnerships, PAML also owns a small laboratory in Yakima, WA and it recently acquired a small independent lab in Salt Lake City named Biolabs, Inc. Tiffany says that PAML will maintain and seek to expand Biolabs' business (currently at about \$1 million per year) in the Utah market, which has been largely dominated by LabCorp and Quest Diagnostics. 🏠

PAML Joint Ventures

	<i>Hospital Partners</i>	<i>Geographic Coverage</i>	<i>Outreach Revenue (\$ in millions)</i>
PacLabs	10	Seattle, WA	\$36
Tri-Cities Lab	3	Richland, WA	9
Treasure Valley Lab	1	Boise, ID	6
Alpha Medical Lab	1	Coeur d'Alene, ID	4
Total			\$55

Source: PAML

The Competitive Landscape In The Pacific Northwest

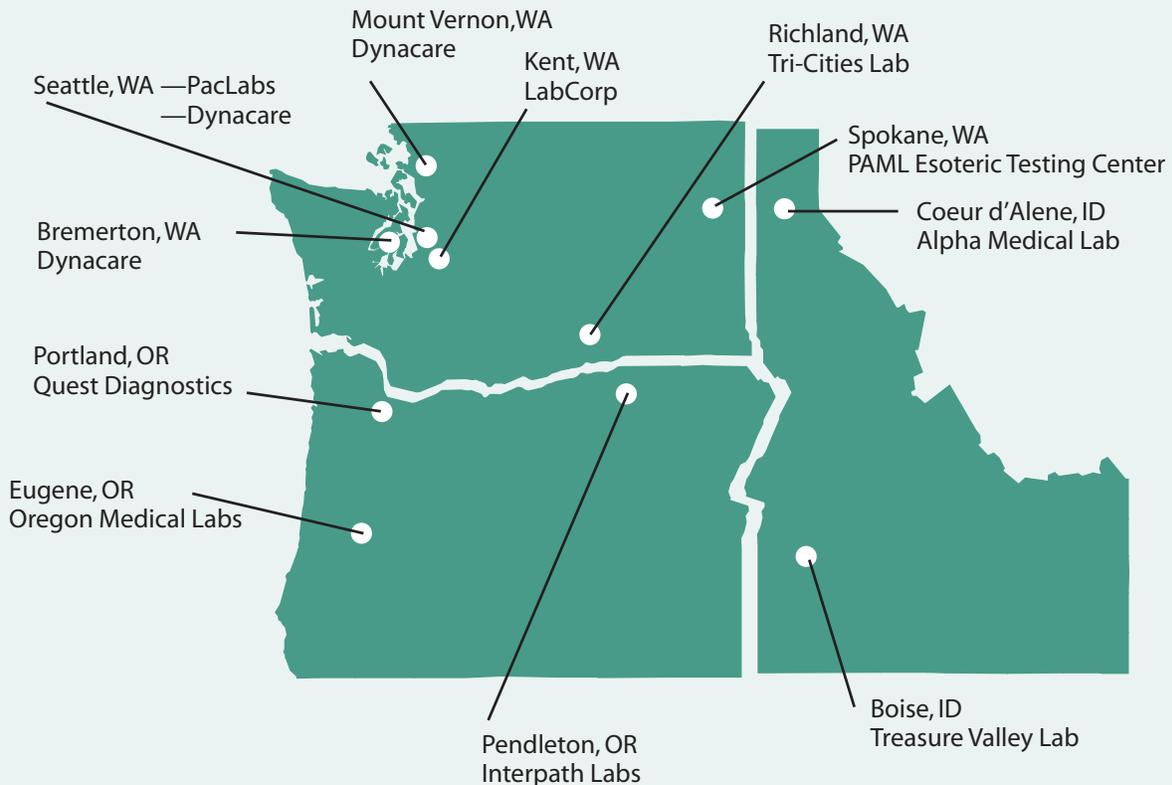
There are three major players competing for physician office lab work in the Pacific Northwest—Quest, LabCorp and PAML—and each generates an estimated \$100 million or more in annual revenue from the region. In addition, there are two mid-sized competitors—Oregon Medical Laboratories and Interpath Labs—that each generate an estimated \$25+ million of revenue from the region.

PAML's marketing chief Noel Maring notes that over the past three years pricing competition has been fairly rational, in part due to the shift from capitated contracts to fee-for-service. However, he explains that following several years of double-digit premium hikes, health insurance companies are beginning to see a push back from employer groups. And, this is resulting in some downward pressure on lab reimbursement. Maring says that in some cases,

PPO plans are to cut their lab reimbursement schedules by 20%.

Maring says that PAML's success has generated regular inquiries from the national labs looking to partner with or acquire the company. However, he says that Sacred Heart Medical Center has no interest in selling PAML.

The big lab news in the Pacific Northwest over the past year was LabCorp's acquisition of Dynacare in July 2002. LabCorp operates a major lab in Kent, WA (just south of Seattle). The Dynacare acquisition brings a major lab located on the Swedish Hospital campus in Seattle plus labs in Mount Vernon—about 50 miles north of Seattle and Bremerton (west of Seattle across Puget Sound). Much of the testing performed at Dynacare labs is expected to be consolidated into LabCorp's main facility in Kent. 🏠





HealthcheckUSA To Offer Physician-Interpreted Test Results

HealthcheckUSA (San Antonio, TX), a privately held company with 18 employees that markets lab tests directly to consumers, is now marketing physician-interpreted test results by phone for an additional \$30 per test or test panel. The service is being fulfilled through a partnership with Virtual Medical Group (Morrisville, NC). Here is how it works:

1 A consumer contacts HealthcheckUSA either through its Web site, www.healthcheckusa.com, or by a 1-800 telephone number and places an order for a lab test or panel.

2 Payment by the consumer is made up front by credit card, and then HealthcheckUSA mails the consumer a requisition form. Payment from Medicare, Medicaid, or private health insurance plans is not accepted.

3 The consumer takes the requisition form to a local patient service center (PSC) and gets a blood or urine sample drawn. HealthcheckUSA has contracts with Quest Diagnostics, LabCorp, LabOne, and other labs that take samples at their PSCs and then perform the actual testing at their labs.

4 Test results are forwarded to HealthcheckUSA and reviewed by the company's medical director, who flags abnormal results. A hardcopy is then mailed to the consumer. Those with abnormal results are advised to contact their local doctor.

5 For an extra \$30, consumers get access to a two- or three-minute voice mail message from a physician at Virtual Medical Group. The message discusses

in layman's terms the meaning of the test results and highlights any abnormality.

HealthcheckUSA has been in business since 1987. Its focus has been on managing community screening programs and in 1999 it began marketing tests directly to consumers. Last year, the company provided test services (*i.e.*, acted as a middleman between consumers and labs) to approximately 70,000 customers. Of this total, approximately 75% came from community screening programs and the other 25% came from customer orders received via the Internet or 1-800 telephone number.

Frequently Ordered Tests At Healthcheckusa.com

Panels	Description	Price
Comprehensive Thyroid Profile	T3 uptake, T4 total, T7, and TSH	\$45
Super Chemistry	Lipid panel, triglycerides, glucose, kidney, liver and heart functions, potassium, calcium, uric acid, electrolytes, iron, plus a CBC	50
VIP Plus Profile	Super Chemistry +Thyroid Panel	85

Individual Tests

Cardio C-Reactive Protein	High-sensitivity CRP	90
Colon Cancer Screening	Fecal occult blood test	50
Coronary Screen	Cholesterol panel	30
Diabetes Management Test	A1c + glucose	50
Hepatitis Profile	Hepatitis A, B, C	195
Homocysteine	Homocysteine	70
Lyme Disease Test	Lyme disease	100
Prostate Cancer Screening	PSA	45
TSH	TSH	30

Note: HealthcheckUSA charges an additional \$12 per requisition for shipping and handling

Source: *LIR* from HealthcheckUSA



Holt Vaughan, executive vice president, tells *LIR* that the company's most frequently ordered test is a "VIP Plus Profile" that sells for \$85 and includes tests for TSH, lipids, triglycerides, glucose, and kidney, liver, and heart functions. In addition to the test fee, consumers also must pay a \$12 shipping and handling fee.

Thus, for example, a consumer ordering a "Diabetes Management Test" (*i.e.*, A1c plus glucose) with a physician interpretation from Virtual Medical would pay a total of \$92, including \$50 for the test, \$12 for shipping and handling, and \$30 for the physician interpretation. Vaughan claims that the prices at HealthcheckUSA average 50% less than typical patient bill rates from labs. And, the company aggressively advertises this claim on its Web site and in its press releases.

HealthcheckUSA markets its testing service to consumers through a number of venues including the Internet and newspaper ads. The company has also developed relationships with several not-for-profit health organizations, which refer business to the company free of charge. For example, the American Hemochromatosis Society (Lake Mary, FL) steers individuals concerned that they may have the disease to HealthcheckUSA to get a test for hereditary hemochromatosis.

Roughly half of the states in the country prohibit or limit an individual's ability to order lab tests on their own without a physician's authorization. To sidestep this issue, Vaughan says that HealthcheckUSA contracts with physicians in various parts of the country who review lab test orders and sign off on them (even though they don't meet face to face with the ordering customers). But some states are now seeking to eliminate this loophole. For example, the California Dept. of Health now says that a physician must have a "personal relationship" with a person ordering a test before they can sign off on it. 🏠

Metrika Gets FDA Clearance For HbA1c Home Test

Metrika (Sunnyvale, CA) has received FDA clearance to sell its A1cNow diabetes monitor over the counter, without a prescription. As a result, A1cNow has become the first glycated hemoglobin (aka, HbA1c) test available for patient self-testing at home. Today, nearly all HbA1c testing is performed at laboratories and requires patients to make a visit to a hospital or physician office to have blood drawn by venipuncture in the arm.

Metrika's A1cNow monitor is a disposable, pager-sized device that provides quantitative HbA1c results in about eight minutes from a drop of blood from the fingertip. The A1cNow test is currently available through mail order and over the Internet at a retail price of \$22.95 per kit, or \$109 for a package of 10 kits (*i.e.*, \$10.90 each). Metrika says the test will soon be available at drug stores as well. 🏠

Announcing G-2's Lab & Diagnostic Alert
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Congress To Have Final Say On Payment Cuts For Key Pathology Codes

With massive lobbying by medical interests and White House support already sewed up, it's all but certain say Washington insiders, that Congress will agree to freeze physician payment rates for 2003 at 2002 levels, thus preventing another reduction in Medicare fees for doctors starting March 1

Unless Congress steps in and decrees otherwise, reimbursement for 9 of the 10 most commonly performed anatomic pathology procedures under the Medicare physician fee schedule will be cut by a range of 4.2% to 19.9% effective March 1, 2003 (see table below).

As it currently stands, the conversion factor for the Medicare physician fee schedule for 2003 has been lowered by 4.4% to 34.592. This cut combined with changes in the relative value units (RVUs) for the technical and professional component of various anatomic pathology procedures means that, for example, global reimbursement for CPT code 88305 is being cut by 4.8% to \$88.90.

CPT code 88305 is the most commonly billed code for anatomic pathology and represents more than half of the total billable volume and allowed charges paid by Medicare to pathologists. The professional component for CPT code 88305 has been lowered by 5.3% to \$38.40 and the technical component has been cut by 4.5% to \$50.50.

Meanwhile, pathologists and other physicians are demanding a fast fix to avert the impending fee reductions. While CMS believes the negative update is inappropriate because the current update formula relies on estimates rather than actual data, the agency maintains that only Congress can remedy the problem. (CMS said it thought the 2003 fee update should be 1.6%.)

On Jan. 23, the Senate passed omnibus fiscal year 2003 appropriations legislation that would extend the freeze on the conversion factor through Sept. 30, but allow the rest of the fee schedule rule to move forward. At press time, the Senate bill was headed for reconciliation with another bill from the House that would prevent implementation of the fee schedule altogether and keep physician reimbursement at rates in effect in 2002. The White House has signaled its support for halting the impending cut in physician fees, citing worries that doctors will desert or limit care to Medicare beneficiaries. 🏠

Medicare Reimbursement For Common Anatomic Pathology Procedures

Code	Procedure	2003 Fees			2002 Fees			Change
		Prof.	Tech.	Global	Prof.	Tech.	Global	
88305	Gross & Micro, Level IV	\$38.40	\$50.50	\$88.90	\$40.54	\$52.85	\$93.39	-4.8%
88304	Gross & Micro, Level III	11.42	28.36	39.78	11.95	31.49	43.44	-8.4%
88180	Cell Marker Study	18.33	36.67	55.00	19.55	16.29	35.84	+53.5%
88342	Immunocytochemistry	43.59	32.86	76.45	45.97	38.37	84.34	-9.4%
88312	Special Stains, Microorg	27.67	47.74	75.41	29.32	52.49	81.81	-7.8%
88313	Special Stains, Others	12.45	37.71	50.16	13.03	49.59	62.62	-19.9%
88307	Gross & Micro, Level V	81.64	71.26	152.90	86.52	73.12	159.64	-4.2%
88108	Cytopath, Concent Tech	28.71	20.76	49.47	30.41	25.34	55.75	-11.3%
88331	Path Consult During Surgery	61.23	17.99	79.22	64.43	12.67	77.10	-16.4%
88311	Decalcify Tissue	12.45	3.46	15.91	13.03	3.98	17.01	-6.5%

Note: Fees listed above are "pure" fees, unadjusted for geographic practice cost differences

Source: LIR from Federal Register, Dec. 31, 2002



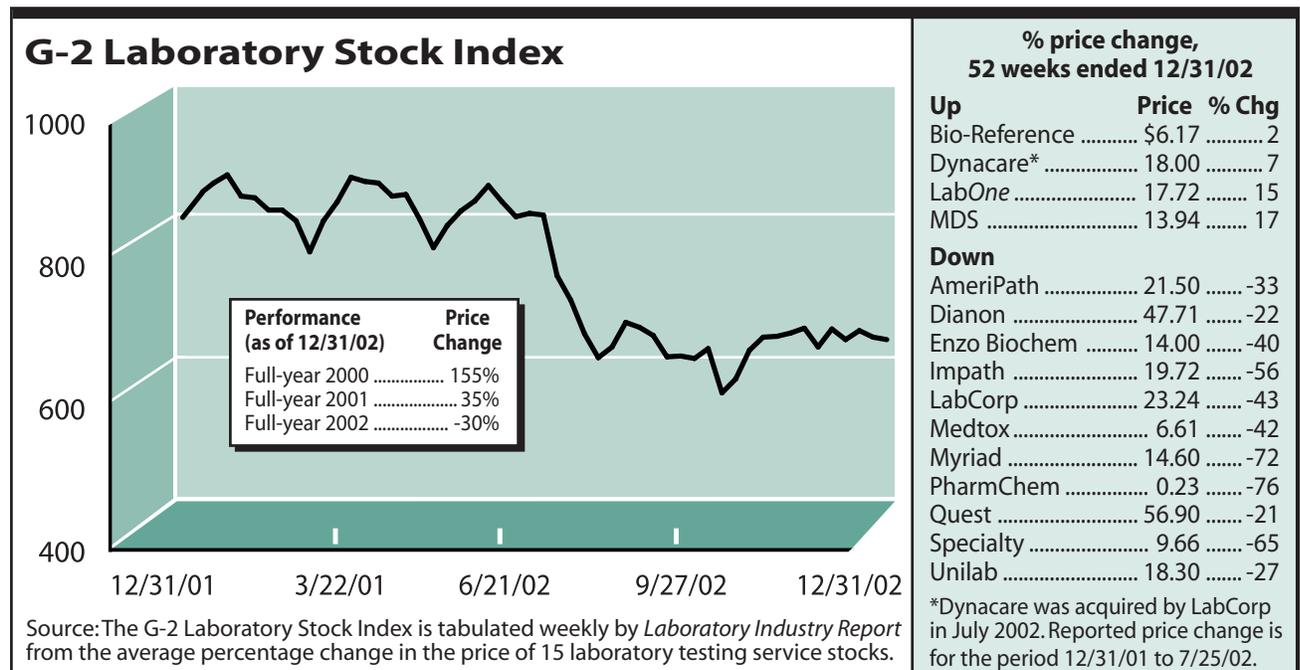
Lab Stocks Fall 30% In 2002—Quest Off 21%, LabCorp Down 43%

The 15 stocks in the G-2 Laboratory Stock Index fell an unweighted average of 30% in the 52 weeks ended Dec. 31, 2002, with 11 stocks ending the year lower in price and four higher. In comparison, the S&P 500 Index fell by 23% and the Nasdaq was down 32%. The losses taken by lab stocks last year followed three straight years of advances, including a gain of 35% in 2001, a 155% gain in 2000, and a 105% gain in 1999.

Quest Diagnostics (Teterboro, NJ) fell by 21% last year to \$56.90 per share for a market capitalization of \$5.7 billion—an amount equal to approximately 1.4 times its annual revenue of \$4.236 billion (based on annualized reported sales for the three months ended Sept. 30, 2002). **LabCorp** (Burlington, NC) dropped 43% to \$23.24 per share for a market cap of \$3.4 billion, or approximately 1.3 times its annual revenue of \$2.621 billion. The stocks of both companies have suffered from investor concern over sluggish volume growth (excluding acquisitions).

The worst performing lab stock was **PharmChem** (Haltom City, TX), which declined 76% to \$0.23 per share for a market capitalization of \$1.4 million—an amount equal to just one-twentieth of its annual revenue of \$29.3 million (based on annualized reported sales for the three months ended Sept. 30, 2002). The company has suffered from costs associated with the relocation of its laboratory from California to Texas as well as weak demand in the drugs-of-abuse testing market.

Other stocks performing poorly in 2002 included **Myriad Genetics** (Salt Lake City, UT), which dropped 72% to \$14.60 per share for a market cap of \$348 million—an amount equal to 5.6 times its annual revenue of \$62 million (based on annualized reported sales for the three months ended Sept. 30, 2002). ▲





Health Alliance's timetable for selling its laboratory testing business—Alliance Laboratory Services (ALS-Cincinnati, OH)—has hit a speed bump. A request for proposal (RFP) was to be sent to potential buyers in early December, who were to have until Dec. 31 to submit bids. But, at press time, the RFPs had still not been sent out.

Gail Myers, spokeswoman for Health Alliance, says that physicians affiliated with Health Alliance have held up the process. News of the decision to sell Alliance Lab Services has caused concern among physicians who fear that a sale will result in a large portion of testing now done at ALS being moved to a distant lab, resulting in reduced service levels.

As a result, Health Alliance physicians are now reviewing and editing the RFP to make sure it includes specific quality and service standards that will need to be followed by any potential acquirer.

Myers says that despite the delay, Health Alliance still hopes to make a decision concerning the sale of ALS by early spring. She says that Health Alliance has received expressions of interest from more than three potential buyers. *LIR* presumes that these would include Quest, LabCorp, and MDS, but we have no idea who the other(s) might be. 🏠

Don't miss G-2 Report's special CLIA Alert Audioconference—Strategies for Implementing Revised CLIA Requirements—on Feb. 18 from 2-3:30 pm (EST). To register call 1-800-651-7916 or go to <http://glyphics.quickconf.com/sem-online/IOMA>. For more information, call 202-789-1034.

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Metrika 408-524-2255
Oregon Medical Labs 800-826-3616
PAML 509-755-8900
PharmChem 817-605-5300
Quest Diagnostics 201-393-5000

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