

# LABORATORY

# INDUSTRY REPORT®

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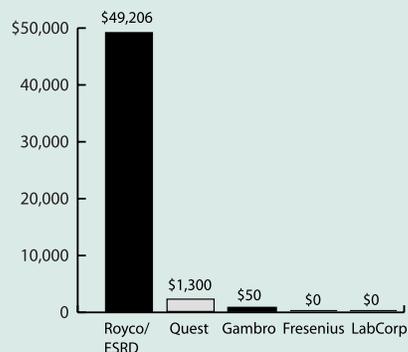
## Do Big Political Donations Give Royco/ESRD An Edge In Florida's Medicaid Lab Competition?

Over the past several years, Royco Inc., an independent dialysis patient testing lab that does business as ESRD Laboratory (Fort Lauderdale), has contributed more than \$200,000 to dozens of candidates and their political parties in Florida. Several executives at competing labs in Florida, who would not go on the record, have suggested to *LIR* that Royco/ESRD's political contributions could give it an edge in winning a lab contract with the state's Medicaid program.

According to data from the Florida Dept. of State, Division of Elections, Royco/ESRD has so far made a total of \$49,206 in political contributions in the 2004 election cycle, including \$45,000 to the Republican Party of Florida. By comparison, Quest Diagnostics has given \$1,300, Gambro Healthcare, \$50, while Fresenius and LabCorp have each made no contributions. In the previous election cycle, Royco/ESRD gave a total of \$128,000 to more than 100 Florida candidates and political parties, while the company's top executives gave another \$27,000.

Royco/ESRD's political contributions have been focused on lobbying efforts in support of legislation that prevents dialysis providers from referring tests to laboratories they own, according to the company's president Kent Mahlke. "As far as the Medicaid contract goes, I think people are jumping to conclusions," he tells *LIR*. ➔ p. 2

Political Contributions in Florida's 2004 Election\*



\*Through March 31, 2004  
Source: Florida Dept. of State, Division of Elections

## HealthHelp, LabCorp Poised To Win Huge Auto Contract

It looks like radiology-benefit-manager HealthHelp (Houston) together with LabCorp may have submitted the winning bid for a huge contract to manage laboratory testing services for hundreds of thousands of employees at Ford Motor Company and Daimler Chrysler. A final decision has not been announced, but *LIR* has learned that the other top competitors (Quest, Mayo, and ARUP) have dropped out of the bidding process. ➔ p. 2





The HealthHelp-LabCorp bid calls for HealthHelp to provide lab test utilization management and for LabCorp to perform the actual lab tests for the auto employees.

## ■ HealthHelp, LabCorp Poised To Win, from page 1

Up until now, HealthHelp has been focused on providing radiology benefit management services to managed care companies. The company manages a network of approximately 800 diagnostic imaging centers and provides radiology benefit management services to 12.6 million health plan members around the country. Its clients include Horizon Blue Cross Blue Shield of New Jersey, Humana, and Mercy Health Plans.

Cherrill Farnsworth, chief executive at HealthHelp, has confirmed to *LIR* that HealthHelp has made a bid on the Ford/Daimler Chrysler contract. Farnsworth also says that HealthHelp has partnered with a “major national lab” to serve the potential contract and has struck a “strong relationship” with this unnamed lab, which *LIR* believes is LabCorp.

“We think we can apply the same skill set that we’ve developed with our evidence-based initiatives [i.e., utilization protocols] in radiology to lab testing.... We are not approaching this [the move into lab testing] lightly,” says Farnsworth. Because lab testing is performed early in each episode of care, Farnsworth says that, with proper management, it has the potential to help create savings in more expensive downstream costs.

A spokeswoman from LabCorp offered no comment. However, on a recent conference call with analysts, LabCorp chief executive Tom Mac Mahon mentioned that LabCorp was on the verge of winning a “very large contract.”

Meanwhile, Greg Richard, vice president of managed care and insurer markets at Quest Diagnostics, tells *LIR*, “We are not proactively pursuing direct-to-employer lab benefit contracts.” Richard says that bidding on direct lab contracts with employers is difficult because of “certain legal and other requirements that have to be met.” He also does not believe that direct contracting with employers will become a major factor in the lab industry. “We’re not seeing the same push to carve out the lab benefit that has occurred in pharmacy and mental health benefits,” he notes.

ARUP Laboratories was offered the chance to bid on the contract but declined. And Mayo Medical Laboratories had been working with Joint Venture Hospital Laboratories (JVHL-Detroit) to make a bid, but is now out of the running, *LIR* hears. 🏠

## ■ Big Political Contributions, from page 1

The Florida Agency for Health Care Administration (FAHCA) is developing a new RFP for competitive bidding for independent lab services to the state’s Medicaid population. The initial RFP had asked for bids on a discounted fee-for-service basis, but was cancelled following a formal protest by LabCorp (see *LIR*, May 2004, pp. 3-4). FAHCA is now developing a new RFP based on directions from the Florida legislature to request bids on a capitated basis. The new RFP is expected to be issued within the next 90 days and will be awarded to a single laboratory, an FAHCA official tells *LIR*.

Mahlke says that Royco/ESRD plans to bid on the contract. He believes that one of the company’s advantages in the bidding process will be in the area of Web-

LIR estimates that the value of the contract could be worth well over \$50 million per year in revenue. All hospital inpatient and outpatient lab testing is expected to be excluded from the contract.



*Royco/ESRD has 15 lobbyists in Tallahassee, according to the Legislature's Web site, while Fresenius has two, Quest and Gambro each have one lobbyist, and LabCorp has none.*

based reporting. The new RFP is expected to require the winning lab to transmit test results to the state's real-time prescription tracking and dispensing system. He says Royco/ESRD has created sophisticated reporting systems that can track lab utilization on an individual patient basis to lower redundant testing. Mahlke says these tracking services have been a long-time requirement for competing in the dialysis patient testing business, but have not yet been applied to traditional clinical lab testing.

But has Royco/ESRD, which employs 15 lobbyists in Tallahassee, been active in trying to influence how the RFP will be structured? "Yes, we've had some involvement in that, but so have other labs," answers Mahlke.

Indeed, Alan Mertz, president of the American Clinical Laboratory Association, plus representatives from five of its member companies (Quest Diagnostics, LabCorp, Specialty Labs, Fresenius, and DaVita Laboratories) met with FAHCA officials on May 19 to argue their case against a sole-source contract and capitation. Also in attendance was Philip Chen, M.D., Ph.D., who is president of Cognoscenti Health Institute (Orlando), and represents a coalition of 26 independent labs in Florida.

The group argued that sole-sourcing would limit Medicaid beneficiary access to lab testing and result in more expensive visits to hospital emergency rooms. Labs also made the case that a sole-source contract would drive some smaller labs out of business thereby reducing competition. In addition, the group made the point that capitating the contract would not limit test utilization because doctors order tests, not labs. Mertz tells *LIR* that the FAHCA officials listened to the group's arguments, but are still leaning toward sole-sourcing and capitation. Later in the day, the group met for 30 minutes with Alan Levine, who is currently deputy chief of staff for Gov. Jeb Bush, but is slated to become the director of FAHCA in June.

*Royco/ESRD is not opposed to Florida Medicaid's plans to sole source its independent lab contract, says Kent Mahlke, president.*

Meanwhile, Mahlke says that Royco/ESRD is currently focused on providing testing services to independent dialysis centers around the country, but is making preparations to enter the traditional clinical lab market. "Consolidation among the national labs has created opportunities for smaller labs," says Mahlke.

Royco/ESRD employs about 175 people at a 24,000-square-foot lab and office building in Fort Lauderdale and generates about \$20 million to \$25 million in annual revenue. To make room for anticipated growth, Mahlke says the company is constructing a new 90,000-square-foot facility that Royco/ESRD will move into this summer.

Growth at Royco/ESRD could be fueled by either winning the Medicaid contract or an increase in dialysis patient testing, *LIR* observes. In early 2002, the Florida legislature passed a bill preventing dialysis providers from referring tests to laboratories they own. The Patient Self Referral Act was part of a large healthcare bill, SB46-E, which became effective in October 2002. "We spent a lot of money on trying to ban this monopolistic practice and we're still fighting it," says Mahlke.

Note: *LIR* plans to cover the self-referral controversy in the dialysis testing market in greater detail in our next issue. 🏠



## Who's Spending Big On The Upcoming Federal Election?

The College of American Pathologists PAC is the most active lobbying organization in the lab industry.

Through March 31, 2004, seven laboratory political action committees (PACs) have contributed a grand total of \$377,469 to federal candidates and committees for the 2004 election, according to data from the Federal Election Commission. So far, all of the money has gone to incumbents (mostly Republicans).

The **College of American Pathologists PAC** (Northfield, IL) has contributed a total of \$239,408 toward the 2004 elections, including \$168,408 to individual candidates (29% to Democrats, 71% to Republicans), \$68,500 to various political committees, and \$2,500 to national party committees.

The **AdvaMed PAC** (Washington, DC) has contributed a total of \$94,811, including \$70,261 to individual candidates (41% to Democrats, 59% Republicans), \$21,850 to other PACs, and \$2,700 to national party committees.

The **Quest Diagnostics PAC** has given a total of \$33,000, and all of it has gone to individual candidates (24% to Democrats, 76% to Republicans); **LabCorp** has given \$2,000 to Rep. Billy Tauzin (R-LA).

The **American Society for Clinical Laboratory Science** (ASCLS-Bethesda, MD) has given a total of \$7,250, including \$6,250 to individual candidates (36% to Democrats, 64% to Republicans) plus \$1,000 to the Rely on Your Beliefs PAC. The **American Association of Bioanalysts** (St. Louis) has given \$1,000 to Rep. Bill Pascrell Jr. (D-NJ); and the **Clinical Laboratory Management Association PAC** (Wayne, PA) has not yet made any contributions, although it has raised \$25,054. 🏠

### Laboratory PAC Political Contributions for 2004 Federal Elections

Laboratory PAC	Total Contributions*	Biggest Recipients
CAP	\$239,408	Committee for the Preservation of Capitalism, Sen. John Breaux (D-LA), Sen. Jim Bunning (R-KY), Sen. Tom Daschle (D-SD), Sen. Chuck Grassley (R-IA), Sen. Blanche Lincoln (D-AR), Rep. Dave Hobson (R-OH)
AdvaMed	\$94,811	Keep Our Majority PAC, Bush-Cheney 2004, Rep. Jennifer Dunn (R-WA), Rep. Anna Eshoo (D-CA), Sen. Chuck Grassley (R-IA), Rep. Nancy Johnson (R-CT), Sen. Blanche Lincoln (D-AR), Rep. Bill Thomas (R-CA)
Quest Diagnostics	\$33,000	Rep. Joe Barton (R-TX), Rep. Nancy Johnson (R-CT), Sen. Arlen Specter (R-PA)
ASCLS	\$7,250	Rely On Your Beliefs PAC, Rep. Xavier Becerra (D-CA), Rep. Mark Foley (R-FL), Rep. Pete Stark (D-CA), Sen. John Ensign (R-NV), Sen. Arlen Specter (R-PA)
LabCorp	\$2,000	Rep. Billy Tauzin (R-LA)
AAB	\$1,000	Rep. Bill Pascrell Jr. (D-NJ)
CLMA	\$0	None

\*Total contributions to candidates, other PACs, and national parties for the 2004 election cycle through 3/31/04  
Source: Federal Election Commission

## The Latest Trends In The Health Insurance Market

In 2004, health plan costs for active employees and retirees will rise by 12%, according to estimates from the consulting group Towers Perrin. This marks the fifth straight year of double-digit health plan cost increases. In fact, companies are now paying twice as much for health plan benefits as they did in 1999. The premium increases have allowed for stable or moderately higher reimbursement to hospitals, physicians, and labs. Believe it or not, the past five years were probably as good as it gets for health care providers, *LIR* observes.

But if the traditional five-year health insurance cycle holds true to form, employers will soon start pressuring health insurance providers to put a lid on premium hikes. And that will put pressure on providers, including labs.

In fact, the cycle may already be turning. Below we highlight four key new trends in the health insurance market and describe how they will impact labs.

### 1. More Uniformity in Reimbursement to Providers

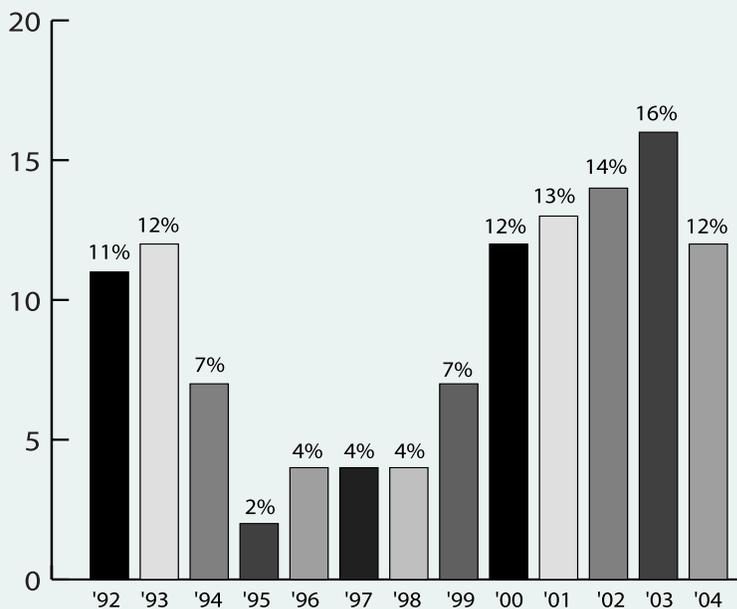
Health insurance companies and payers are making greater efforts to establish more uniform reimbursement to providers and eliminate high-cost outliers.

On May 18, the Health Benefits Committee of the California Public Employees' Retirement System, or CalPERS, voted 7 to 1 in favor of cutting 38 hospitals from the HMO network of Blue Shield of California (BSC-San Francisco)

in an effort to rein in hospital care costs. The Blue Shield HMO covers 460,000 out of CalPERS total 1.2 million covered employees, retirees, and dependents.

Thirteen of the excluded hospitals are operated by Sutter Health (Sacramento), which has been locked in a bitter dispute with CalPERS over costs. "They rightly see it as a momentous decision, and the message is CalPERS isn't going to tolerate cost outliers," Paul Markovich, senior vice president with Blue Shield, told the *San Francisco Chronicle*. Blue Shield has estimated that Sutter hospitals cost 60% to 80% more than comparable hospitals, a claim that Sutter has denied. CalPERS says

**Average Health Care Plan Cost Increases**



Source: Towers Perrin

that cutting Sutter from the network will save \$36 million in 2005 and \$50 million a year thereafter.

CalPERS will spend an estimated \$3.889 billion on health benefits this year, up 16% from \$3.364 billion in 2003, which was up a stunning 27% from \$2.65 billion in 2002. Because CalPERS is the third-largest purchaser of health care in the United States, after the federal government and General Motors, it is viewed as a bellwether for future trends.

Greg Richard, vice president of managed care and insurer markets at Quest Diagnostics, tells *LIR* that several of the nation's largest health insurance companies have begun working to establish uniform outpatient fee schedules that will apply to all contracted lab providers, including hospitals, independent labs, and POLs. Richard says that the fees are being set at the prices that Quest or LabCorp receive, which are generally a fraction of what other labs now get. Richard says that health insurance companies have recognized the need for hospital labs and POLs, but are telling them that if they want to remain in the network they need to accept the same rates paid to the commercial labs.

## **2. Greater Efforts to Reduce "Leakage" to Out-of-Network Lab Providers**

Health insurers are stepping up efforts to reduce leakage to non-contracted labs. "This is something that everybody [i.e., health insurers] is talking about," says Paul Knoll, senior consultant at Park City Solutions/Lab Service Group (Ann Arbor, MI). Managed care companies used to be more willing to allow non-contracted labs to provide services as long as they accepted the plan's fee schedule, but there's been a move toward more exclusivity, observes Knoll. Indeed, *LIR* notes that managed care companies like UnitedHealth Group and Wellpoint have told Wall Street analysts in

recent months that they are actively trying to reduce leakage to non-contracted labs to curb rising medical costs.

Knoll says the difficult part for managed care companies is ensuring that physicians refer their lab tests to contracted lab providers only. The old method has always been to either bill the patient directly for out-of-network lab tests or to deny payment to the non-contracted lab, which will then typically bill the patient. But these methods result in unhappy managed care members.

So, Knoll says that some managed care plans with sophisticated information systems are now creating reports that show which physicians are using out-of-network labs. These reports are being shared with the big commercial labs so that they can contact those physicians and "educate" them on where to send their lab tests.

Some managed care companies are also sending sanction letters to uncooperative physicians, threatening to kick them out of the network if they don't start using the plan's preferred lab(s). Knoll says that he has seen some managed care companies take this extreme step in several instances.

## **3. A Shift Toward Self-Insurance**

Richard Hamer, director of InterStudy Publications (St. Paul, MN), a managed care research firm, says more employers are beginning to question the value that managed care companies bring to the table. "Managed care needs to prove that they really do have a way to moderate medical inflation," he says. Some employer groups are looking at the 15% administrative fees charged by managed care companies and opting to create their own self-insured health plans, according to Hamer. "It's been a slow and steady trend that is starting to accelerate," he notes.

In the lab industry this trend is most clearly represented by Ford and Daimler



Chrysler's plan to carve out their lab-testing benefit and direct contract with a single lab company (see pp.1-2).

#### 4. Medicare Aims to Increase Managed Care Enrollment

Managed care plans in the Medicare+Choice program got a 10.6% premium increase on March 1, and they will get another 6.6% increase next year. The increased payments are designed to entice managed care companies to expand existing plans in the program and attract new ones.

The increased premiums result from changes in how the payment rate is set

under the recently enacted Medicare reform law. Medicare+Choice has been plagued with mass defections in the past few years as plans say that annual payment increases, capped at around 2%, have been outstripped by annual cost hikes of 10% to 12%.

Currently, only about 11% of the nation's 41 million Medicare beneficiaries are enrolled in a managed care plan. But the Bush administration is hoping that higher payments will entice managed care companies to pursue members more aggressively. The Bush administration projects that 32% of Medicare beneficiaries will be enrolled in the M+C program, which is being renamed Medicare Advantage, by 2009.

This potential shift will mean that getting managed care contracts will be more important than ever for labs. Those beneficiaries in a managed care plan receive lab services from contracted labs, not the traditional fee-for-service program, which is open to competition from any licensed lab.

InterStudy's Hamer believes the shift from the traditional Medicare program to managed care will depend on "how steady and predictable the federal government is as a business partner." He notes that many managed care companies withdrew their M+C plans after payment levels were reduced under the 1997 Balanced Budget Act. Nonetheless, he says that PacifiCare, which covers 689,000 Medicare enrollees, Kaiser (859,000), and Humana (333,200) are best positioned to benefit from the recent M+C premium hikes and expand their membership. 🏠

#### Is Capitation Making a Comeback?

In the past, those managed care companies that have found it difficult to manage lab costs under fee-for-service arrangements have turned to capitation. There is no clear trend toward or away from capitation in today's market. But it looks like LabCorp has been the most aggressive at going after the handful of capitation contracts that have gone out to bid in the past year or so.

Most recently, *LIR* hears that LabCorp won a capitated contract covering roughly 125,000 members of Health Now (aka Blue Shield of Northeastern New York). These members had previously been served on a fee-for-service basis by a variety of hospitals and independent labs.

How low is LabCorp bidding? A recently published research note from Merrill Lynch indicates that LabCorp receives an average of only \$10.09 in reimbursement per accession under its capitated contracts. This means that, assuming an average of 2.5 tests per accession, LabCorp is being paid the equivalent of only about \$4 per test under its capitated contracts.

#### LabCorp: Average Price per Accession by Payor

	1Q2003	1Q2004	% Chg*
Physician bill .....	\$27.49	\$26.54	-3.5
Patient direct .....	113.50	119.71	5.5
Third party .....	34.70	33.57	-3.3
Managed Care			
Capitated .....	10.00	10.09	0.9
Fee-for-service .....	45.61	45.91	0.7
Total managed care .....	32.29	33.01	2.2
Consolidated average .....	\$33.42	\$33.43	0.0

\*exact percentages may be skewed by rounding

Source: Merrill Lynch research note (4/22/04)



## Publicly Traded Labs Growing by Average 7% Per Year

**T**hirteen publicly traded lab companies increased their revenue (after adjustments for acquisitions) by a weighted average of 7.2% in the first quarter of 2004. Including acquisitions, reported average growth was 12%.

The fastest-growing publicly traded lab was **ViroLogic** (South San Francisco), which specializes in esoteric tests for HIV. ViroLogic reported revenue of \$9 million for first quarter 2004, up 29.5% from the same period a year earlier; net loss narrowed to \$1.3 million from \$5.1 million.

**Myriad Genetics** (Salt Lake City), whose main product is its BRACAnalysis test for hereditary breast cancer, grew its lab business by 25.6% to \$11.7 million in the three months ended March 31, 2004; net loss expanded to \$10.7 million from \$5.5 million.

**Bio-Reference Labs** (Elmwood Park, NJ) grew by 21.8% to \$28.9 million in the three months ended Jan. 31, 2004; net income increased to \$919,000 from \$470,000. After adjustments for the recent acquisitions of Alliance Lab Services and Northwest Toxicology, **LabOne** (Lenexa, KS) grew its revenue by 18.9% to \$112.8 million; net income rose to \$5.9 million from \$4.6 million.

After adjustments for the acquisition of Unilab, **Quest Diagnostics** (Teterboro, NJ) grew by 8% in the first quarter to \$1.256 billion; net income increased to \$116.1 million from \$88 million. Quest's 8% revenue growth was comprised of a 2.9% increase in requisition volume, 4.7% from higher average price per requisition, with the remainder from growth in Quest's clinical trials and software businesses.

**LabCorp** (Burlington, NC) grew by an estimated 3.5% to \$752.5 million, after adjustments for the acquisitions of Dianon, the northern California assets of Quest/Unilab, and Clinical Labs Inc. Revenue growth was driven by increased requisition volume, while average price per requisition was unchanged. First-quarter net income was \$87.3 million vs. \$73.9 million. 🏠

The niche esoteric-testing labs, ViroLogic and Myriad Genetics, are growing the fastest.

### Revenue Growth at 13 Publicly Traded Lab Companies (\$000)

Company	Revenue 1Q2004	Revenue 1Q2003	Reported Change	Pro forma Change
Quest Diagnostics .....	\$1,255,742.0	\$1,092,797.0	14.9%	8.0%
LabCorp .....	752,500.0	712,200.0	5.7%	3.5%*
AmeriPath .....	125,800.0	118,957.0	5.8%	5.5%*
LabOne .....	112,825.0	81,928.0	37.7%	18.9%
Specialty Laboratory .....	31,304.0	30,300.0	3.3%	3.3%
Bio-Reference .....	28,950.0	23,759.0	21.8%	21.8%
Genzyme Genetics .....	28,613.0	24,453.0	17.0%	8.0%*
Myriad Genetics .....	11,699.0	9,314.0	25.6%	25.6%
Medtox Scientific .....	13,583.0	12,471.0	8.9%	8.9%
ViroLogic .....	9,022.0	6,968.0	29.5%	29.5%
Enzo Clinical Labs .....	7,060.0	7,092.0	-0.5%	-0.5%
PharmChem .....	5,606.0	6,335.0	-11.5%	-11.5%
Psychemedics .....	4,155.9	3,657.6	13.6%	13.6%
Total, 13 companies .....	\$2,386,859.9	\$2,130,231.6	12.0%	7.2%

\*Pro forma change for LabCorp, AmeriPath and Genzyme Genetics is estimated. Source: LIR from company reports

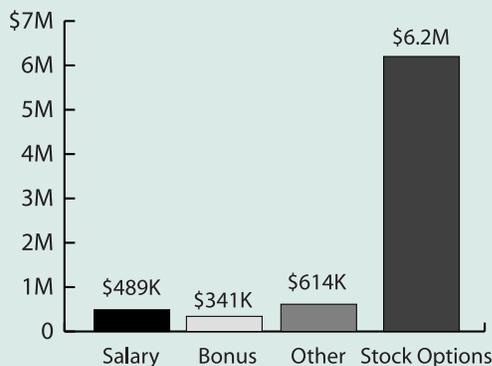


## Commercial Lab Execs Paid An Average \$7.6M Each Last Year

The top executives at 11 publicly traded laboratory testing companies received total compensation (including options) of \$83.6 million last year for an average of about \$7.6 million per executive, according to an *LIR* analysis of proxy reports filed with the Securities & Exchange Commission.

The average salary for the 11 executives in 2002 was \$489,477; bonuses averaged \$340,545; and “other” compensation (e.g., restricted stock awards, automobile allowances, country club memberships, etc.) was \$614,439. But the biggest component of compensation was stock options, which averaged \$6.2 million in value per executive. Stock prices at the 11 companies analyzed rose by an average of 34% in 2003.

### Average Lab Executive Pay, 2003



Source: *LIR* from proxy statements

The average total compensation of \$7.5 million per year for the 11 executives compares with an average salary of \$59,280 for medical technologist managers in 2002, according to the latest survey data from the American Society of Clinical Pathology (*see p. 9*).

The highest-paid lab executive in 2002 was Ken Freeman, age 53, chairman of Quest Diagnostics America, who received total compensation of a whopping \$62.6 million last year, including a salary of \$1.1 million, bonus of \$1.2 million, plus other compensation of \$5 million, which included a \$4.9 million restricted stock award. Last, but not least, Freeman received options to

purchase 700,000 shares of Quest stock at a strike price of \$49.52. These options have a potential value of \$55.2 million if Quest’s stock price rises by an average of 10% per year until their expiration date in December 2012. Quest’s net income rose to \$436.7 million in 2003 from \$322.2 million in 2002. Quest’s stock rose 29% last year to \$73.11 per share.

Freeman stepped down as chief executive of Quest on May 4, 2004, but will remain as chairman until Dec. 14, 2004. Freeman will get an annual pension of \$1.2 million after he turns age 55. His non-compete contract with Quest ends on Dec. 14, 2005.

The next highest-paid lab executive was Tom Mac Mahon, 57, chairman of LabCorp, who received total compensation of \$6.1 million last year, including a salary of \$845,625, bonus of \$1.3 million, plus options to purchase 288,400 shares of LabCorp stock with a grant date present value of \$3.9 million. LabCorp’s net income rose to \$321 million in 2003 from \$254.6 million in 2002. LabCorp’s stock price was up 59% last year.

The third highest-paid lab executive was Elazar Rabbani, Ph.D., 59, chairman of Enzo Biochem (Farmingdale, NY), who received a total of \$4.2 million, including salary of \$402,963, bonus of \$275,000, and options valued at \$3.5 million. Enzo’s net income fell to \$3.8 million in the fiscal year ended July 31, 2003, from \$6.9 million in the previous fiscal year; its stock price was up 34% last year.



## Comparing Lab CEO Pay to What Other Lab Professionals\* Earn

Lab CEOs .....	\$7,604,243
Pathologists .....	\$196,984
Lab Administrative Director .....	\$88,723
Chief Medical Technologist .....	\$52,313
Cytotechnologist .....	\$51,065
Medical Technologist .....	\$46,076
Medical Lab Technician .....	\$32,936
Phlebotomist .....	\$23,053

\*National median earnings (salary plus bonus)

Source: [www.monster.com](http://www.monster.com)

James New, 59, former chairman and chief executive of AmeriPath (Riviera Beach, FL), was paid a total of \$4.1 million, including salary of \$493,462, bonus of \$125,000, and a special bonus of \$1.6 million payment related to the sale of AmeriPath to the venture capital firm Welsh Carson. New also got 3.2 million stock options valued at \$1.9 million. In addition, after resigning in February 2004, New received a severance payment of \$1.125 million payable in 12 monthly installments. Net income at AmeriPath fell to \$5.4 million in 2003 from \$44.6 million in 2002; its stock price was down 1% from the start of 2003 through the completion of the sale to Welsh Carson in March 2003. 🏠

## 2003 Laboratory Executive Total Compensation

<i>Company/Executive</i>	<i>Salary</i>	<i>Bonus</i>	<i>Other Comp*</i>	<i>Options Value**</i>	<i>2003 Total Comp</i>	<i>2003 Company Net Income</i>	<i>2003 Stock Price % Chg</i>
<b>AmeriPath</b>							
James New, 59, Chmn. ....	\$493,462	\$125,000	\$1,600,000	\$1,917,184	\$4,135,646	\$5,395,000	-1%
<b>Bio-Reference<sup>1</sup></b>							
Marc Grodman, MD, 52, Chmn. ....	499,750	154,750	0	0	654,500	6,540,000	112%
<b>Enzo Biochem<sup>2</sup></b>							
Elazar Rabbani, PhD, 59, Chmn. ....	402,963	275,000	0	3,506,513	4,184,476	3,844,000	34%
<b>LabCorp</b>							
Tom Mac Mahon, 57, Chmn. ....	845,625	1,297,910	0	3,912,212	6,055,747	321,000,000	59%
<b>LabOne</b>							
W. Thomas Grant II, 53, Chmn. ....	325,000	320,125	26,993	274,475	946,593	18,033,000	83%
<b>Medtox</b>							
Richard Braun, 59, Chmn. ....	292,500	178,800	90,063	210,693	772,056	-308,000	-10%
<b>Myriad Genetics<sup>3</sup></b>							
Peter Meldrum, 56, Pres. ....	455,518	150,507	10,284	1,969,069	2,585,378	-24,825,000	-12%
<b>Psychemedics</b>							
Raymond Kubacki, Jr., 59, Chmn. ....	275,000	0	6,029	0	281,029	1,218,000	-1%
<b>Quest Diagnostics</b>							
Ken Freeman, 53, Chmn. ....	1,091,525	1,243,901	4,972,853	55,245,489	62,553,768	436,717,000	29%
<b>Specialty Laboratories</b>							
Douglas Harrington, M.D., 51, CEO ....	422,908	0	49,604	0	472,512	-6,361,000	74%
<b>ViroLogic</b>							
William Young, 59, Chmn. ....	280,000	0	3,000	721,965	1,004,965	-9,273,000	183%
<b>Total, 11 execs</b> .....	<b>5,384,251</b>	<b>3,745,993</b>	<b>6,758,826</b>	<b>67,757,600</b>	<b>83,646,670</b>	<b>751,980,000</b>	<b>.....</b>
<b>Average, 11 execs</b> .....	<b>\$489,477</b>	<b>\$340,545</b>	<b>\$614,439</b>	<b>\$6,159,782</b>	<b>\$7,604,243</b>	<b>\$68,361,818</b>	<b>34%</b>

\*Other compensation includes the value of restricted stock awards, plus company contributions to retirement plans and life insurance policies, forgiven loans, company cars, country club memberships, etc.

\*\*Options values assume 10% annual stock appreciation, except for LabCorp which is based on grant date present value.

1) Bio-Reference executive compensation and net income figures are for fiscal year ended Oct. 31, 2003.

2) Enzo Biochem executive compensation and net income figures are for fiscal year ended July 31, 2003.

3) Myriad Genetics executive compensation and net income figures are for fiscal year ended June 30, 2003.

Source: *LIR* from company proxy statements filed with SEC



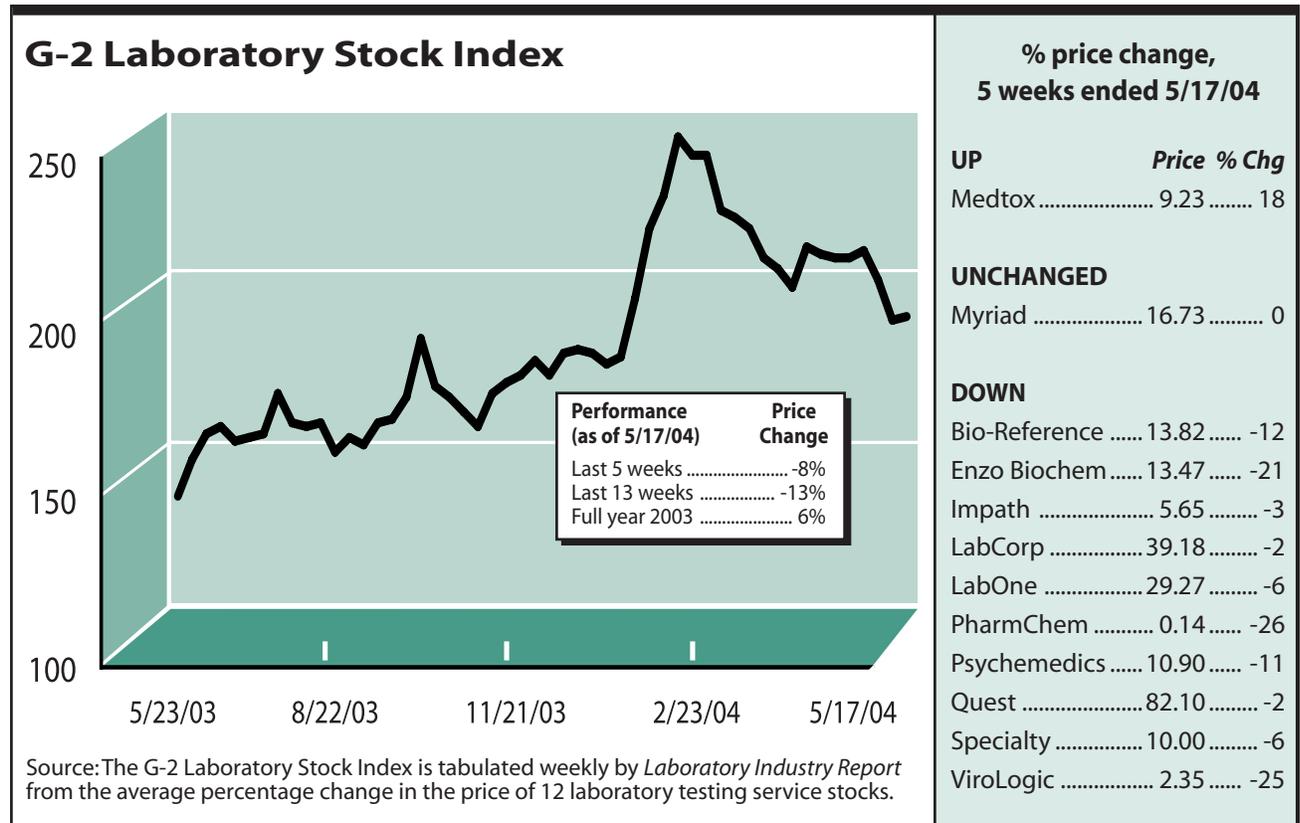
## Lab Stocks Down 8% In Latest 5 Weeks

Stock prices for the 12 companies in the G-2 Laboratory Index fell an unweighted average of 8% in the five weeks ended May 17, 2004, with 10 stocks down in price, one unchanged, and one up. So far this year, lab stocks have risen 6%, while the S&P 500 has dipped 3% and the Nasdaq is down 6%.

**ViroLogic** (South San Francisco, CA), an esoteric testing lab focused on infectious disease, was down 25% to \$2.35 per share for a market cap of \$125 million. The company recently announced an expanded referral testing agreement with Quest Diagnostics. Under the terms of the agreement, Quest Diagnostics will make ViroLogic its preferred provider of HIV phenotypic resistance testing. No other terms of the agreement were disclosed.

The only lab stock rising was **Medtox Scientific** (St. Paul, MN), which was up 18% to \$9.23 per share for a market cap of \$47 million. The company, which is focused on drugs-of-abuse testing, recently announced that its revenue for the first quarter ended March 31, 2004, increased by 9% to \$13.6 million from \$12.5 million from the prior-year period; net income was \$414,000 compared to a net loss of \$203,000.

Meanwhile, **Quest Diagnostics** and **LabCorp** each fell 2% for respective market caps of \$8.7 billion and \$5.9 billion. 🏠





Over the past few years, dozens of traditional hospital and independent laboratories as well as new Website companies have tried their hand at marketing lab tests directly to consumers. The idea of selling “health profile” panel tests at \$90 to \$120 each and getting paid upfront by cash or credit card is alluring. Glowing articles in the *New York Times* and *Washington Post* have described a “paradigm shift” where individuals are increasingly taking charge of their health.

But the idea of driving out to a patient service center, getting a needle stuck in your arm, and paying \$100 to find out what your cholesterol, triglycerides, blood glucose, etc. levels are has not struck home with consumers. Instead of becoming a cash cow used to supplement traditional hospital outreach or independent lab business, most DAT programs have become money-losing ventures.

A lot of labs are spending a lot of money trying to figure out what works in this tricky market. But now you can tap into the minds of two executives with more than 30 years of experience between them in the DAT market. Make sure you listen in on Washington G-2’s special audio conference, *Direct Access Testing: Looking Before You Leap*, on Wednesday, June 9, 2004 from 2:00-3:30 pm (Eastern Time).

The program will feature **John Bell**, president of **Direct Laboratory Services** (Mandeville, LA), and **David Carrozza**, president of **The Lab** (Folsom, CA). Find out what’s really happening in the DAT market and learn the best way to approach this business opportunity from two experts who don’t sugar-coat reality. For more information on this audio conference call (800) 522-7347 or visit [www.g2reports.com](http://www.g2reports.com). 🏠

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847-832-7000
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- LabCorp 336-584-5171
- Medtox 651-636-7466
- Park City Solutions 800-860-5454
- Quest Diagnostics 201-393-5000
- Royco/ESRD 954-938-0999
- ViroLogic 650-635-1100

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