

LABORATORY INDUSTRY REPORT®

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Benchmarks: How Does Your Lab Stack Up?

What does it take to be competitive with the nation's largest commercial labs on a financial basis? *LIR's* analysis of the 2003 financial reports from a dozen commercial labs shows they average \$147,017 of revenue per full-time employee, with Quest Diagnostics and LabCorp each at about \$127,000. This compares with an average of about \$101,390 of revenue per FTE at larger hospital-owned independent labs.

One key differentiating factor appears to be the increasing portion of esoteric testing performed at the larger commercial labs. For example, Quest now derives nearly 20% of its annual revenue from esoteric testing, while LabCorp gets about 30% of its business from this high-revenue segment.

There's no doubt that scale also plays a role, as the large commercial labs generate an average of \$107 million per year in revenue at each major laboratory facility they operate.

For all the details behind these calculations, see *Inside the Laboratory Industry*, pages 5-7. 🏠

Commercial Lab Statistics, 2003

Revenue per FTE	\$147,017
Revenue per major lab	\$107M
Annual Reqs per FTE	3,483
Annual Billables per FTE	8,709
Days in Accounts Receivable	77 days
Bad-Debt Expense	7.7%

Note: statistics are measured using net revenue (after contractual discounts), and FTEs include all administrative and technical staff

Source: *LIR* from 12 companies

PPI Capitalizing On Outpatient Surgery Trend

In less than four years since receiving its CLIA certification, Pathology Partners Inc. (PPI-Irving, TX) has become a national anatomic pathology lab with annual revenue in excess of \$30 million. And Stephen Spotts, president, tells *LIR* that PPI, which is focused on gastrointestinal (GI) disease diagnosis, is aiming to surpass the \$50 million mark in this year. A key to the company's success has been its focus on serving ambulatory surgery centers, especially endoscopy centers, according to Spotts. He points to a general shift from inpatient to outpatient surgery and estimates that the number of GI surgeries performed at freestanding surgery centers is growing well above 10% per year.



■ **PPI CAPITALIZING ON OUTPATIENT SURGERY TREND**, *from page 1*

Spotts says that Pathology Partners has been able to thrive despite competition from the major reference labs because of its focus. “We’ll always have an advantage in service and diagnostic quality because of our specialization,” he says. He believes the biggest weakness at the major labs is the complex logistics involved with getting GI tissue samples to specially trained pathologists who are often contracted rather than staff employees.

Pathology Partners Inc. at a Glance

President & CEO: Stephen Spotts
 Chief financial officer: Everett Truitt
 Medical director: Dan Irons, M.D.
 Employees: 125
 Main lab: Irving, TX (20,000 sq. ft.)
 Physician clients: 800
 2003 revenue: estimated \$35M
 Source: *LIR* from Pathology Partners

Pathology Partners currently serves about 800 physicians in 27 states. Most of its clients work at single specialty gastrointestinal surgery centers. Spotts says Pathology Partners guarantees a 48-hour turnaround time and many times can return the pathology report within 24 hours. A key to meeting this goal has been use of the company’s proprietary SmartPath system that enables the gastroenterologists to automate

several administrative post-surgery chores and combine them with the pathology reports, providing an important chain-of-custody function for specimens, according to Spotts.

Spotts joined Pathology Partners in November 1999 when the company’s business model was centered on pathology group practice management. At that time, Pathology Partners was based in Nashville and owned pathology groups in Florida, Texas, and Alabama. Spotts unwound the practice management affiliations and recast Pathology Partners as a gastroenterology lab based in Irving, Texas (near Dallas).

Spotts says Pathology Partners now has a fee-for-service contract for professional services with Metroplex Pathology Associates (Irving, TX), an independent pathology group with 10 pathologists. Spotts says that the idea behind Pathology Partners’ old physician practice management model made sense, most pathology groups still need better business management systems, but failed to take into account the strong will of most physicians. “It’s difficult for physicians to be employees of business people,” he adds. 🏠

Shift in Outpatient Utilization from Hospital-Based to Freestanding Providers

The percentage of Medicare-reimbursed GI outpatient procedures performed at freestanding ambulatory surgery centers has risen from 19% of total procedures in 1994 to 36% in 2001, according to data from the healthcare research firm Solucient (Evanston, IL). Over the same time frame, the percentage performed at hospitals has declined from 81% to 64%.

Site of care for GI procedures	1994	1995	1996	1997	1998	1999	2000	2001
Freestanding	19%	22%	25%	27%	28%	31%	32%	36%
Hospital-based	81%	78%	75%	73%	72%	69%	68%	64%

Source: Solucient



Some Tips On How To Crack The Direct-Access Testing Market

The Lab is a privately held CLIA-licensed lab that operates a main lab and 10 PSCs in the Sacramento area plus another PSC near Los Angeles.

On June 9, Washington G-2 Reports sponsored a national audio conference titled *Direct-Access Testing: Looking Before You Leap*. The conference featured two veterans in direct-access testing (DAT): David Carrozza, president of The Lab (Folsom, CA), a privately held lab that has offered DAT for more than 10 years, and John Bell, president of Direct Laboratory Services (DLS-Mandeville, LA), which markets lab tests directly to consumers through its Web site: www.DirectLabs.com. These two companies are among the highest-volume DAT lab companies in the nation. Here's some of their advice:

What should labs entering the DAT market expect?

Don't expect to make a lot of money in DAT; breaking even is difficult, said Bell. He noted that while DLS has more than 15 years experience and currently sells about 500 to 700 test panels each month to consumers, the business is just barely keeping its neck above water.

Bell also observed that most DAT Internet sites go out of business within 2-3 years. Most recently, mydailyapple.com disappeared, he noted.

Carrozza said that The Lab was servicing about 50 to 75 DAT customers per week, representing about 5% of the company's overall \$3 million to \$4 million in annual revenue (the remaining 95% comes from physician-office referrals). Carrozza said the DAT business was operating at about breakeven, but was useful because it helps attract traditional lab business too.

Deaconess Billings Clinic Launches "DBC Lab Direct"

Although most DAT businesses are floundering, Deaconess Billings Clinic (Billings, MT) launched a program in February that has exceeded volume expectations by threefold, according to Dianna Chestnut, reference lab manager at Deaconess. A key to the program's success has been the support of Deaconess' physicians, says Douglas Carr, M.D., medical director of clinical operations. Deaconess operates Deaconess Hospital as well as a multi-specialty group with a dozen clinics in Montana and Wyoming.

Chestnut says that DBC Lab Direct was started with a 12-month budget of only about \$13,000. The program is relying on modest ads in local newspapers, radio stations, and cable TV. But she says the biggest source of customers is probably the posters and brochures displayed at Deaconess' five PSCs. The most requested tests include: lipid panel, priced at \$30; chemistry panel (including cholesterol panel), \$35; hemoglobin A1C, \$20; and PSA, \$40.

Chestnut notes that Quest Diagnostics and a local hospital competitor (St. Vincent's) have each tried DAT programs in Montana with limited success.

Both experts agreed that the DAT market would not take off until a larger portion of the population was responsible for paying for their own healthcare. That's about 5-10 years into the future, they predicted.

Carrozza said that about 50% of The Lab's DAT business is from repeat customers; the figure is 20% at DLS, according to Bell.

What are some of the mistakes that other labs make in DAT?

Both experts noted the importance of repeat business and said that many DAT programs often have rude patient service center staff and/or long waiting times to draw blood. It's hard enough to



Direct
Laboratory
Services markets
lab tests to
consumers over
the Internet.
It contracts its
lab testing to
LabCorp and
LabOne.

attract DAT customers into the door, so once you get them there, you've got to make sure they get top service.

What kind of advertising budget is necessary, and which form of advertising works best?

Bell said that DLS spends about \$2,000 to \$3,000 every month on Internet search engine advertising. Sites like Google or Overture charge between 5 cents and \$5 every time a potential customer uses these portals to get to your Web site. The key is to have a link to your DAT program appear on the right-hand side of the page when consumers search for phrases like "lab test" or "cholesterol test," according to Bell.

Carrozza said that The Lab spends about \$2,000 to \$2,500 each month for radio and cable TV commercials. He noted that advertising is a constant expense in the DAT market. "Everyone knows Coca-Cola, but they still spend a billion dollars on advertising each year," he observed.

Both experts said they direct their ads at middle-aged women, which represent the majority of their customers. In addition, they noted that women play a large role in prodding their husbands, fathers, brothers, etc. into getting tested.

Carrozza said that because women play the dominant role, The Lab locates most of its patient service centers (PSCs) near retail shopping centers like Wal-Mart's or Mervyn's. It also decorates its PSCs with nice carpeting, flowers, curtains, etc., to appeal to women.

Are DAT customers price sensitive?

"Yes," answered both experts. Bell noted that consumers can easily shop for lab tests from many different sources on the Internet. He said that DLS prices its most popular panel—a comprehensive wellness panel with 50 different tests—at only \$89. Its second most popular test is a cardio panel (\$59) that includes a lipid profile, kidney and liver panels, electrolytes, and glucose.

Carrozza said that The Lab's most popular tests include lipid panels, priced at \$35; blood pregnancy tests, \$10; and total cholesterol, \$10.

How do you handle interventions for critical results?

Carrozza said that because of The Lab's limited menu of routine tests, critical results are rare. But when they do occur, either he will personally phone the patient and advise them to contact their physician, or The Lab's medical director will call the patient.

Bell said that because DLS deals mostly with older people, about 20% need to be contacted for critical results. In those cases, a DLS-contracted physician will call the patient and urge them to contact their doctor.

Which states has direct-access testing been most popular?

Bell said that DLS see its greatest activity in Florida, New York, New Jersey, and California. 🏠

INSIDE THE LAB INDUSTRY

Consolidation Leads To Productivity Gains At Major Labs

LabCorp has increased its revenue per FTE by 47% since 1997, while Quest's is up 33%.

Over the past five years, more than \$7 billion worth of mergers and acquisitions have been completed in the lab industry. The goal has always been to increase productivity, but has it worked? Well, a simple analysis of the trend in average annual revenue per employee (including all administrative and technical staff) at Quest Diagnostics and LabCorp shows that it has.

Quest Diagnostics increased its average revenue per employee from \$95,500 per year in 1997 to \$127,400 in 2003. Over the same period, LabCorp's revenue per employee went from \$86,800 to \$127,800. There have been bumps along the way because of the timing of acquisitions, but the general trend has been up.

Annual Revenue per FTE (\$000)

	1997	1998	1999	2000	2001	2002	2003
Quest Diagnostics	95.5	102.4	84.8	131.6	125.1	123.0	127.4
LabCorp	86.8	86.9	94.6	101.8	112.2	104.5	127.8

Source: LIR from company reports

Smaller labs argue that the growing sizes of Quest, LabCorp, LabOne, etc., have created "dis-economies of scale" when it comes to providing good service and quality test results—an assertion that the commercial labs reject. Regardless of who's right in this debate, there's no question that the larger commercial labs are becoming more productive based on the most common financial benchmarks.

To get a handle on exactly how productive the big commercial labs are, LIR reviewed their 2003 annual reports. Here are the details of our analysis:

Productivity at Four Commercial Labs, 2003

	Quest	LabCorp	Bio-Reference	LabOne ¹	Unweighted Averages
2003 Requisitions	131,500,000	87,915,100	2,115,000	2,518,000	—
2003 Billable tests ²	328,750,000	219,787,750	5,287,500	6,295,000	—
Full-time employees ³	37,200	23,000	871	607	—
Annual reqs per FTE	3,535	3,822	2,428	4,148	3,483
Daily reqs per FTE ⁴	14.1	15.3	9.7	16.6	13.9
Annual billable tests per FTE	8,837	9,556	6,071	10,371	8,709
Daily billable tests per FTE ⁴	35.4	38.2	24.3	41.5	34.9
Avg. revenue per requisition	\$36.03	\$33.43	\$51.41	\$35.13	\$39.00
Avg. revenue per billable test	\$14.41	\$13.37	\$20.61	\$14.05	\$15.61
Major laboratories	35	31	1	1	—
Revenue per laboratory	\$135.4M	\$94.8M	\$109.0M	\$88.5M	\$106.9M
Patient service centers	1,925	1,150	52	24	—
Revenue per PSC	\$2.5M	\$2.6M	\$2.1M	\$3.7M	\$2.7M
Adjusted revenue per PSC ⁵	\$738K	\$767K	\$629K	\$1.1M	\$809K

1) for LabOne's clinical lab business only, employees are estimated based on pro rata revenue; 2) assumes 250 workdays per year; 3) includes all administrative and technical staff, part-time employees are counted as one FTE; 4) assumes 2.5 billable tests per requisition; 5) assumes that 30% of total revenue is derived from specimens drawn at PSCs (remainder is obtained directly from physician office and hospital clients).

Source: LIR from company reports



Commercial Labs Average \$147K in Revenue per Employee

Revenue per full-time employee averaged \$147,017 for 12 major commercial labs last year, while pretax income per employee averaged \$1,918, according to an analysis of financial reports by *LIR*.

AmeriPath generated the most revenue per employee, at \$180,634, followed by **ViroLogic**, \$178,497, and **Specialty Laboratories**, \$175,187. As mentioned earlier, **Quest Diagnostics** and **LabCorp** were neck and neck at \$127,364 and \$127,800, respectively. In terms of profitability, LabCorp led the pack by earning pretax income of \$23,496 per employee, followed by Quest at \$19,833.

Meanwhile, a separate *LIR* survey showed that revenue per employee at 12 large hospital-owned independent lab companies averaged \$101,390. These 12 labs had average 2003 revenue of \$47 million each.

Among the 12 hospital-owned lab companies with higher revenue-per-employee figures than their peers was **ARUP Laboratories** (Salt Lake City), which generated \$190 million of revenue last year and has 1,600 employees (\$118,750 per employee), and **Spectrum Laboratory Network** (Greensboro, NC), which posted approximately \$80 million of revenue with 740 employees (\$108,108 per employee).

Finally, another survey of 12 large privately held independent labs showed that they averaged \$117,880 of revenue per employee last year. These 12 labs had average 2003 revenue of \$51 million each. Among those that exceeded the average was **Sunrise Medical Labs** (Hauppauge, NY), which generated approximately \$40 million of revenue last year with 280 employees (\$142,857 per employee).

Financial Benchmarks at 12 Commercial Labs, 2003

Company	Revenue (millions)	Full-Time Employees*	Revenue/ Employee	Pretax Income (millions)	Pretax inc./ Employee
Quest Diagnostics	\$4,738.0	37,200	\$127,364	\$737.8	\$19,833
LabCorp	2,939.4	23,000	127,800	540.4	23,496
AmeriPath	485.0	2,685	180,634	10.6	3,954
Specialty Laboratories	119.7	683	175,187	-9.3	-13,543
Bio-Reference	109.0	871	125,183	8.6	9,878
Esoterix	108.0	850	127,059	NA	NA
Genzyme Genetics	101.5	700	145,000	NA	NA
LabOne**	88.5	607	145,725	NA	NA
US Labs	53.9	360	149,722	NA	NA
Medtox	51.5	417	123,436	-0.3	-739
ViroLogic	33.4	187	178,497	-5.5	-29,455
Enzo Biochem***	29.5	186	158,602	NA	NA
Averages	\$147,017	\$1,918

*includes all administrative and technical staff, part time employees are counted as _ FTE

**for LabOne's clinical lab business only, employees are estimated based on pro rata revenue

***calculated for Enzo's clinical lab business only

Source: *LIR* from company reports



Commercial Labs Averaged 77 Days in Accounts Receivable Last Year

Ten large commercial labs had an average days in accounts receivable (DAR) of 77 days and bad-debt expense of 7.7% in 2003. In other words, these 10 lab companies received payment an average of 77 days after sending out their bills and had to write off 7.7% of their net billings (after contractual allowances) as uncollectible.

Quest Diagnostics had the lowest DAR at 40 days, with a bad-debt expense of 4.8% of net revenue. Quest attributes its billing and collection management success to “best practices” that have significantly reduced the percentage of requisitions it receives with missing information. For example, Quest says that the percentage of requisitions it receives with missing billing information is currently just 4%, down from 16% in 1996. As a result, Quest has lowered

its bad-debt expense from about 7% during 1996 to 4.8% during 2003.

Quest believes that in the longer term, with a continuing focus on process discipline and the increased use of electronic ordering by our customers, bad debt as a percentage of net revenues can be reduced to 4% or less. Quest currently receives approximately 30% of its requisitions electronically, which represents nearly all of the orders it processes from its patient service centers.

On the other side of the spectrum is **Enzo Biochem** (Farmingdale, NY), which generated \$29.5 million from its clinical laboratory subsidiary, Enzo Clinical Labs, last year. Enzo Clinical Labs had a DAR of 174 days and a bad-debt expense of a whopping 30.8%, which was actually an improvement from 180 days and 50.6% in 2002.

AmeriPath (Riviera Beach, FL), the nation’s largest pathology company, is also struggling to better manage its accounts receivable. AmeriPath had a DAR of 61 days in 2003, down from 69 days in 2002, but its bad-debt expense jumped to \$71.4 million (14.7% of net revenue) from \$58.2 million (12.2% of net revenue). AmeriPath attributed part of the increase in bad debt to greater difficulty in collecting billings for clinical professional component services.

Meanwhile, the esoteric and drugs-of-abuse lab companies all reported respectable DARs and low bad-debt expenses. For example, **Specialty Laboratories** (Santa Monica, CA) had a DAR of 69 days and a bad-debt expense of 3.2%; **Medtox** (Minneapolis) had a DAR of 59 days and bad-debt of just 1.2%; and **ViroLogic** had a DAR of 67 days and bad-debt of just 0.3%. 🏠

Billing & Collection Management at the 10 Lab Companies, 2003

Company	Average Days in Accounts Receivable	Bad-Debt Expense
AmeriPath	61	14.7%
Bio-Reference	110	11.7
Enzo Biochem*	174	30.8
LabCorp	54	7.3
LabOne	61	1.8
Medtox	59	1.2
Myriad Genetics	73	1.1
Quest Diagnostics	40	4.8
Specialty Laboratories	69	3.2
ViroLogic	67	0.3
Averages	77	7.7%

*calculated for Enzo’s clinical lab business only

Source: LIR from company reports



LabCorp To Shut Down MDS Lab In New York

LabCorp plans to close the 30,000-square-foot MDS Hudson Valley laboratory in Poughkeepsie, New York (about 60 miles north of New York City) in September, a LabCorp spokeswoman tells *LIR*. LabCorp acquired the Poughkeepsie lab plus MDS Laboratories Georgia (Atlanta) in March (see *LIR*, April 2004, p. 3).

Testing volume at the Poughkeepsie lab will be shifted to LabCorp facilities in Raritan, New Jersey and Albany, New York. About 110 employees at the Poughkeepsie lab will lose their jobs. LabCorp plans to keep open 21 MDS patient service centers in the Poughkeepsie area and will continue to manage labs at Vassar Brothers Hospital, Northern Dutchess Hospital, and Kingston and Benedictine Hospitals. Plans for MDS Laboratories Georgia have not yet been announced.

Combined, the Poughkeepsie and Atlanta labs produced an operating loss of approximately \$11 million last year, according to financial reports from MDS. The two labs are currently generating about \$25 million per year in revenue, down sharply from approximately \$40 million to \$50 million in 2003.

Recent Lab Acquisitions

Separately, *LIR* has learned that LabCorp has acquired Redding Pathologists Lab (Redding, CA), a privately held lab in northern California. In addition, Bio-Reference Labs acquired the assets of Metropolitan Diagnostic Medical Laboratory (Brooklyn, NY) in March for \$546,000. The biggest acquisition completed so far this year has been Genzyme Genetics' purchase of Impath for \$215 million in May. 🏠

Laboratory Mergers & Acquisitions, YTD 2004 (\$ millions)

<i>Date</i>	<i>Buyer</i>	<i>Target</i>	<i>Purchase Price*</i>	<i>Acquired Revenue</i>	<i>Price/Revenue</i>
Jan-04	American Esoteric	ThromboCare Laboratories	NA	NA	NA
Jan-04	LabOne	Alliance Lab Services	42.4	50.0	0.85
Feb-04	Genzyme Genetics	Alfigen	47.6	20.0	2.38
Mar-04	LabOne	Northwest Toxicology	10.0	11.5	0.87
Mar-04	LabCorp	MDS Labs in NY and GA	NA	25.0	NA
Mar-04	LabCorp	Redding Pathologists Lab	NA	NA	NA
Mar-04	Bio-Reference	Metropolitan Diagnostic Med Lab	0.5	NA	NA
May-04	Genzyme Genetics	Impath	215.0	125.0	1.72

NA=not available

*Purchase prices include assumed debt

Source: *LIR* estimates and company reports



LabOne Breaks Ground On 136,000-Square-Foot Lab

LabOne (Lenexa, KS) has begun building a 136,000-square-foot lab in Cincinnati and expects to complete construction of the \$21 million facility by mid-2005. The new lab will serve greater Cincinnati and will essentially double LabOne's capacity. The company's main lab is located in Lenexa, Kansas (near Kansas City), measures 268,000 square feet, and is currently operating at about 50% of its capacity.

LabOne entered Cincinnati in January through the purchase of Alliance Lab Services for \$42.4 million from the Health Alliance of Greater Cincinnati (see *LIR*, February 2004, p. 1). The lab currently operates in the basement of the Health Alliance Business Center, in the former Jewish Hospital building in downtown Cincinnati. LabOne is leasing that space from the Health Alliance until the new facility is built.

LabOne says it currently has a total of about 500 employees in Cincinnati, and that number is expected to grow to 900 over the next few years as the company expands its market share. Executives at LabOne say that since acquiring Alliance Lab Services, its sales staff in Cincinnati has been expanded from three part-time salespeople to six full timers plus three customer service reps. LabOne is also introducing Internet-based test order and results reporting capabilities in Cincinnati.

LabOne had been scouting out potential sites for the new lab since January. It chose Cincinnati after the state of Ohio offered a 10-year, \$4.1 million tax-incentive package. The city of Cincinnati also agreed to \$2.6 million in incentives for LabOne. Kentucky had offered a 10-year, \$2 million incentive package in an attempt to lure the project to Boone County in northern Kentucky. 🏠

ViroLogic To Acquire Aclara BioSciences For \$200 Million

ViroLogic (South San Francisco), an esoteric lab that specializes in HIV testing, has reached an agreement to acquire Aclara BioSciences (Mountain View, CA), which has developed an instrument system called "eTag" for testing biopsy-sized samples of patient tumors. ViroLogic says the acquisition will help it enter the cancer-testing market.

ViroLogic & Aclara in Brief, 2003 (\$000)

	ViroLogic	Aclara
Revenue	\$33,379	\$1,513
Operating loss	-5,629	-21,547
Net loss	-9,273	-19,958
Total losses since inception	-106,272	-163,026

Source: *LIR* from company reports

Under the terms of the deal, ViroLogic will exchange 1.7 of its shares for each Aclara share, or about \$4.20 per Aclara share, based on ViroLogic's closing stock price on June 17. In addition, Aclara will get up to 85 cents per share in cash. The total value of the deal is approximately \$200 million.

Last year, ViroLogic recorded a net loss of \$9.3 million on revenue of \$33.4 million; Aclara lost \$20 million on revenue of \$1.5 million. Combined, the two companies have lost a total of \$269 million since being formed. 🏠



Big Dialysis Chains Battling Self-Referral Law In Florida

In May 2002, the Florida legislature passed a bill preventing dialysis providers from referring blood tests to laboratories they own. The legislation (statute 456.053) was part of a larger healthcare bill, SB46-E, which became effective in October 2002. Its passage was seen as a victory for Mark Ginsburg, M.D., owner of ESRD Laboratories (Fort Lauderdale), who had lobbied for several years to end the existing exemption for dialysis tests.

But the law has caused major headaches for the nation’s biggest dialysis chains—Fresenius, Gambro, and DaVita. These three companies each own and operate major lab facilities that specialize in testing for their dialysis patients.

The big three companies have chosen not to comply with the new law and have filed consolidated lawsuits seeking to repeal the law in both state and federal courts. In response, Arthur Rosenthal, Ph.D., lab director at ESRD Laboratories, recently filed a complaint with the Florida Department of Health and the State’s Board of Medicine that has prompted an investigation. The two agencies recently

subpoenaed the medical directors at some 30 dialysis clinics in the state for information regarding their ownership in affiliated laboratories.

The big three companies claim that the new statute is unconstitutional because it conflicts with Federal

Big Three Dialysis Companies, 2003

Company	Clinics	Patients	Treatments	Estimated Lab Revenue	Est'd Florida Lab Revenue
Fresenius (Spectra Labs)	1,110	82,400	12,366,028	\$150M	\$20M
Gambro Healthcare	562	43,350	6,563,000	75M	10M
DaVita (Total Renal Labs)	566	48,500	6,373,894	60M	8M
Total, 3 companies	2,238	174,250	25,302,922	\$285M	\$38M

Source: LIR from companies (lab revenue is estimated)

“Stark” law, which allows physician self-referrals for lab testing for dialysis patients. “It’s somewhat specious for a party [Rosenthal] to file a complaint against physicians as we seek clarification on this issue,” says Gabe Imperato, an attorney at Broad and Cassel (Ft. Lauderdale), which is representing the three dialysis chains. “You can’t have state law going one way and federal law going the other way,” he adds.

LeAnne Zumwalt, spokeswoman for DaVita, says that the federal government and all states (except Florida) allow dialysis companies to use their own labs for good reason. She notes that dialysis patients require a small menu of tests, generally 100-200 tests, and are frequently tested. Forcing dialysis companies to send patient specimens to outside labs would lengthen turnaround times, be more costly, and disrupt patient test result histories, according to Zumwalt. “Dialysis companies are vertically integrated for a good reason,” she adds.

LIR estimates that the average dialysis patient generates somewhere in the range of \$1,000 to \$2,000 per year in lab fees (above and beyond composite rate reimbursements for dialysis patients). Nationally, the three big dialysis companies generate an estimated \$265 million per year in revenue from lab services, including \$38 million from Florida. Kent Mahlke, president of ESRD Labs, tells LIR, “Eliminating this monopolistic practice is a survival issue for us.”



Lab Stocks Up 2% Led By Gains At LabOne And Medtox

Stock prices for the 11 companies in the G-2 Laboratory Index rose an unweighted average of 2% in the four weeks ended June 17, 2004, with six stocks up in price, one unchanged, and four down. So far this year, lab stocks have risen 8%, while the S&P 500 is up 1% and the Nasdaq is down 2%.

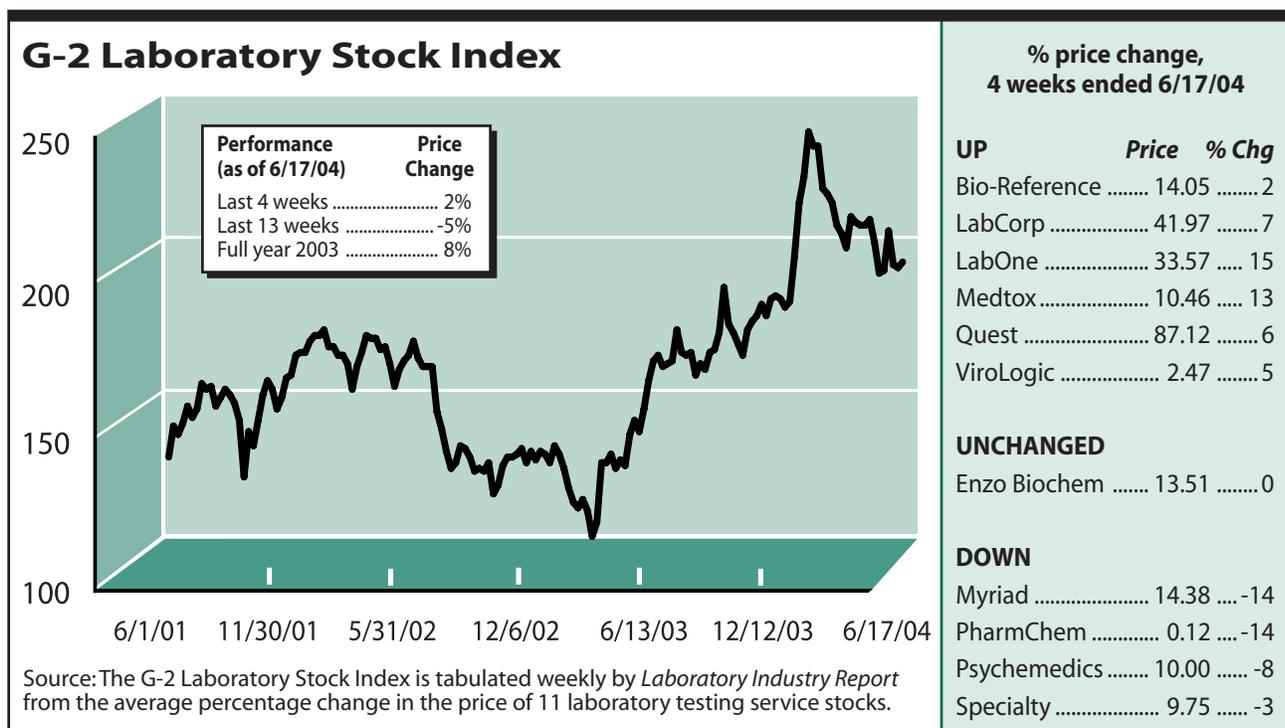
LabOne was up 15% to \$33.57 per share for a market value of \$572 million. The company recently began construction of a gigantic new lab in Cincinnati (see pages 8-9).

Medtox Scientific (St. Paul, MN) was up 13% to \$10.46 per share for a market value of \$52 million. Medtox stock appears to be rallying based on indications that the drugs-of-abuse testing market is rebounding.

Myriad Genetics (Salt Lake City) fell 14% to \$14.38 per share for a market value of \$440 million. The company recently raised \$50 million through the sale of 3.4 million shares of common stock.

ViroLogic (South San Francisco, CA) was up 5% to \$2.47 per share for a market value of \$132 million. The company recently announced plans to acquire Aclara BioSciences (see page 9).

Quest Diagnostics was up 6% to \$87.12 per share for a market value of \$9 billion, or nearly twice its annual revenue of \$5 billion and 18 times estimated E.P.S. of \$4.85 for this year. **LabCorp** was up 7% to \$41.97 per share for a market value of \$5.9 billion, also about two times revenue and 17 times estimated E.P.S. of \$2.51 for 2004. 🏠





Florida Labs May Form Network To Bid On Medicaid RFP

Twenty six independent laboratories in Florida are looking at forming a consortium to bid on the state's forthcoming Medicaid lab RFP, says Philip Chen, M.D., Ph.D., who is president of Cognoscenti Health Institute (Orlando). In addition to Cognoscenti, other labs that may join the consortium include DSI Laboratories (Naples), Meridian Clinical Labs (Miami), Doctors Laboratory (Valdosta, GA), American Health Associates (Miramar), and Suncoast Labs (St. Petersburg). Chen says that if all 26 labs join the consortium the resulting network would cover all of Florida except the Panhandle.

Florida's Agency for Health Care Administration (FAHCA) is expected to issue a new RFP for a statewide Medicaid lab contract by early September and is leaning toward a sole-source capitated contract. The American Clinical Laboratory Association (ACLA) continues to lobby against the coming RFP and appears to be worried that a smaller lab, such as Royco/ESRD Laboratories, may wind up winning it. After meeting with Alan Levine, secretary of FAHCA, in May, ACLA president Alan Mertz followed up with a letter to Levine that said:

"In the case of this proposed capitated RFP, a winning bidder would simply win low or marginal Medicaid testing. It is extremely unlikely that a physician would switch laboratories for the majority of his or her patients because of the award of the Medicaid portion to a different laboratory—particularly if the winning bidder were a new, relatively unknown entrant. Physicians will be concerned about an unknown laboratory's turnaround times, quality, and the potential professional liability if testing is not performed in a timely manner." 🏠

References in this issue

- American Clinical Laboratory Assn. 202-637-9466
- Bio-Reference Labs 201-791-2600
- Deaconess Hospital 406-657-4000
- Direct Laboratory Services 800-908-0000
- LabCorp 336-584-5171
- LabOne 913-888-1770
- Pathology Partners Inc. 214-277-8700
- Quest Diagnostics 201-393-5000
- Royco/ESRD 954-938-0999
- The Lab 916-983-3522

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