

LABORATORY

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Economies Of Scale Grow At Quest And LabCorp

Net revenue per employee stats for Quest Diagnostics and LabCorp continued to move higher last year driven by the growth of their highly reimbursed genetic/esoteric testing businesses and consolidation of recent acquisitions. Quest increased its average revenue per employee (including all administrative and technical staff) to \$138,557 in 2004 from \$127,364 in 2003; LabCorp's was \$134,122 versus \$127,800.

The increased productivity is allowing each company to invest heavily in internal growth and customer retention strategies. For example, Quest's capital budget for 2005 is about \$220 million, including \$70 million to \$75 million for information system investments.

LabCorp's capital budget is \$110 million to \$125 million and key projects include the roll out of Cytyc's automated Pap imaging system, test menu expansion at recently acquired US Labs (Irvine, CA), and enhancements to Web-connectivity and electronic medical record systems. For a quick review of year-end 2004 results for Quest and LabCorp, see pages 9-10. 🏠

Some Regional Labs Getting Access To More Contracts

An LIR survey of 17 major contracts awarded in the past 12 months shows that some regional labs and midsize reference labs are gaining access to contracts once tightly held by Quest Diagnostics and LabCorp. In particular, managed care companies have become more willing to assign "in-network" status to lab organizations that have gained significant share in their markets. However, for those hospital outreach programs and independent labs that haven't yet achieved critical mass (i.e., annual collected revenue of \$50+ million) managed care contracts remain hard to break into.

Most recently, **Spectrum Laboratory** (Greensboro, NC) became an in-network provider to Cigna in five southeastern states (see LIR, February 2005, page 8), giving it the opportunity to provide lab testing services to some 1.2 million HMO and PPO members.

Among the hospital-based labs winning important contracts was **Stanford University Hospital** (Palo Alto, CA), which won a capitated agreement with Santa Clara County IPA (N. California) effective Jan. 1, 2004.



■ SOME REGIONAL LABS GETTING ACCESS, *from page 1*

At the midsize reference labs: **Esoterix** (Austin, TX) won an exclusive reference lab contract with Catholic Healthcare West and also became an in-network provider to UnitedHealth, while **Specialty Laboratories** (Valencia, CA) won contracts with the two largest GPOs in the nation, Novation and Premier.

Meanwhile, **Quest Diagnostics** scored three hospital lab outsourcing contracts (Adventist, HealthPartners Central Minnesota, and Spring Valley Hospital) and won a capitated contract with Health Options HMO in Florida. **LabCorp** won a long-term deal to manage the lab at Swedish Medical Center Providence (Seattle, WA) and also won a capitated contract to serve Wellpoint's HMO members in Georgia.

Lab Contract Scoreboard

Contract (location)	Winner	Loser	Effective Date
Adventist HealthCare (Maryland)	Quest Diagnostics	None-lab outsourcing contract	Jan. 2004
HealthPartners Central Minnesota	Quest Diagnostics	None-lab outsourcing contract	Jan. 2004
Spring Valley Hospital (Las Vegas, NV)	Quest Diagnostics	None-lab outsourcing contract	Jan. 2004
Catholic Healthcare West (California)	Esoterix	Several other reference labs	Jan. 2004
Santa Clara County IPA (N. California)	Stanford Univ. Hospital	Quest Diagnostics	Jan. 2004
Swedish Medical Center Providence (Seattle, WA)	LabCorp	PacLab Network	Mar. 2004
Health Options HMO (Florida)	Quest Diagnostics	LabCorp	Aug. 2004
UnitedHealth (national)	Esoterix	None—Esoterix joins Quest and LabCorp	June 2004
Humana (national)	LabOne	None—LabOne joins Quest and LabCorp	Aug. 2004
Texas Dept. of Family Protective Services (southern TX)	SED Medical Labs	Several other DOA labs	Aug. 2004
Community Blue (western New York)	The Hospital Laboratory Network (HLN)	None—HLN joins Quest (for AP services only)	Sept. 2004
Novation GPO (national)	Specialty Labs	None—Specialty joins ARUP and Mayo Labs	Nov. 2004
Illinois Masonic Med. Center PHO	ACL Labs	Quest Diagnostics	Nov. 2004
John Deere Health Plan (Tennessee)	Carilion Consolidated Lab	None—CCL joins Quest, LabCorp, LabOne, and Spectrum/Medex	Dec. 2004
Wellpoint GA HMO	LabCorp	Quest Diagnostics	Dec. 2004
Premier GPO (national)	Specialty Labs	Specialty replaced LabCorp and joins ARUP and Quest	Jan. 2005
Cigna (GA, NC, SC, TN, VA)	Spectrum Laboratory	None—Spectrum joins Quest and LabCorp	Jan. 2005

Source: LIR



Of course the bigger news may be the groundbreaking contracts that have failed to be finalized (and may never be). At the top of the list has been an attempt by Florida's Agency for Health Care Administration to issue a winner-take-all, three-year contract to provide independent lab services to the state's one million Medicaid beneficiaries. Protests by the American Clinical Laboratory Association and independent labs in Florida have put the breaks on the RFP for this contract (at least temporarily).

In addition, an RFP from two of the big three automakers (Ford and DaimlerChrysler) that sought to contract all non-hospital lab testing services with a single national lab (see *LIR*, June 2004, pp. 1-2) has gone nowhere fast.

And finally, clinical lab companies in India that boasted they would soon be providing outsourced lab services to hospitals in the United States have not yet completed any contracts (see *LIR*, Sept. 2004, pp. 1, 7-8). 🏠

Pathologists/Labs Get 8.7% Hike For CPT 88305

Although Medicare reimbursement for flow cytometry procedures has been cut by 40% to 50% this year (see *LIR*, February 2005, pp. 1-2), pathologists and labs did get an 8.7% hike in the reimbursement for CPT 88305 (the most commonly billed anatomic pathology code). The new global reimbursement level for 88305 is \$103.46 versus \$95.21 in 2004.

The technical (i.e., laboratory) component for 88305 has been increased by 14.2% to \$61.39, while the professional (i.e., pathologist) was increased by 1.5% to \$42.07.

Pathology consultant Joe Plandowski calls the double-digit increase in technical reimbursement "a gift from the heavens." He says pathologists should also be thankful for the small increase in professional fees because they had initially been scheduled for a 3.5% reduction.

"This is the second year in a row that professional fees went up when the formula said they should have gone down. I believe this is the last year for gifts. The Medicare program is currently being hit hard with higher costs than anticipated, and this is before the drug program kicks in next year. Those costs are now anticipated to be much higher than expected. Watch for severe Medicare cuts in the next year or so. The laboratory industry will again be taking more than their share because

Medicare Reimbursement for CPT Code 88305*

	1999	2000	2001	2002	2003	2004	2005	6-Year CAGR**
Global	\$64.95	\$76.15	\$88.38	\$93.39	\$94.54	\$95.21	\$103.46	8.1
Technical	19.80	31.12	44.00	52.85	53.71	53.77	61.39	20.8
Professional	45.15	45.03	44.38	40.54	40.83	41.44	42.07	-1.2

*Unadjusted for geographic practice cost differences. **Compound Annual Growth Rate, 1999-2005
Source: Medicare physician fee schedules, 1999 to 2005. CPT codes © American Medical Assn.

they are the traditional whipping boy for such cuts," observes Plandowski.

Over the past six



years, the global reimbursement for 88305 has risen by an average of 8.1% per year. The highest increases have come for the technical component, which has risen by a whopping annual average of 20.8%, while the professional component has actually declined by 1.2% per year. 🏠

New Chairman At Specialty Labs; Harrington Quits As CEO

Specialty Laboratories (Valencia, CA) says that Rick Belluzzo, age 51, has resigned as the company’s chairman (after less than one year in the role) and is not staying on as a director. Belluzzo cited “recently expanded responsibilities as CEO of Quantum Corporation” as the reason for cutting ties with Specialty. San Jose-based Quantum makes digital tape storage cartridges and systems for computer hardware vendors like Hewlett-Packard and IBM.

Richard Whitney, 37, who joined Specialty’s board less than six months ago (September 2004), has been named the company’s new chairman. Whitney is an independent healthcare consultant and recently served as chief financial officer of the dialysis service provider DaVita (El Segundo, CA). Whitney is Specialty’s fourth chairman in the past three years (see table).

In addition, Specialty has announced that Doug Harrington, M.D., age 52, is stepping down from his position as chief executive effective March 29. Harrington has also stepped down as a director of Specialty immediately. Harrington cited his desire to pursue other scientific and business ventures, and to spend more time with his family.” [Note: Harrington lives nearly 100 miles from Specialty’s new headquarters and has twin babies at home.]

Harrington had been a director at Specialty since 1996. He became chief executive in April 2002 after regulatory problems concerning lab employee licenses forced

James Peter, M.D., Ph.D., to resign. In the three years that Harrington served as CEO, he helped the company regain regulatory compliance, return to growth, and move into a new laboratory and headquarters in Valencia, California.

Upon Harrington’s departure as CEO, Kevin Sayer, 46, Specialty’s chief financial officer, will be the company’s acting senior officer. Sayer has been with Specialty for less than one year. He previously held executive positions at MiniMed (Northridge, CA) and Medtronic (Minneapolis, MN).

Specialty’s board now has seven directors, including company founder Dr. Peter, 71, who owns a controlling 62% of Specialty’s outstanding stock. 🏠

Recent Management Changes at Specialty

Date	Management Change
April 22, 2002	James Peter, M.D., Ph.D., resigns as chairman and CEO
April 22, 2002	Thomas Testman becomes chairman
April 22, 2002	Doug Harrington, M.D., becomes CEO
June 3, 2004	Testman resigns as chairman, but stays on board
June 3, 2004	Richard Belluzzo becomes chairman
March 19, 2004	Frank Spina resigns as chief financial officer
April 12, 2004	Kevin Sayer becomes chief financial officer
Sept. 10, 2004	Testman resigns from board
Sept. 11, 2004	Richard Whitney joins board
Feb. 10, 2005	Belluzzo resigns from board
Feb. 10, 2005	Whitney becomes chairman
Feb. 14, 2005	Harrington resigns as CEO (effective March 29) and leaves board (effective immediately)
March 29, 2005	Kevin Sayer to become acting CEO

Source: LIR from Specialty Labs

Some Tips On Marketing Your Lab From Two Veterans



Karen Yoemans

On January 20, Washington G-2 Reports sponsored a national audio conference titled *How to Market Your Lab: Strategies for Winning the Day-to-Day Battle for New Accounts*. The conference featured two sales and marketing veterans: Karen Yoemans, vice president of sales and marketing at Spectrum Laboratory Network (Greensboro, NC), which has approximately 1,000 employees and annual revenue of \$100+ million, and Nanci George, vice president of sales and marketing at SED Laboratories (Albuquerque, NM), which has 500 employees and annual revenue of \$50+ million. Here's some of their advice:



Nanci George

Yoemans has been with Spectrum Laboratory Network through its planning stages and official creation in 1997.

George has been with SED Labs for more than 20 years and helped develop its sales and marketing program from the ground up.

Who should you hire for your sales staff?

Yoemans said that Spectrum employs a total of 22 sales reps, and only one of them was formerly a medical technologist. "Most of the time MT's can't handle the rejection. . . . You can teach the science to a new sales rep, you can't teach the personality needed for sales," noted Yoemans.

SED Labs employs three sales reps, including George who handles national account contracts and two sales/service reps (both of whom are medical technologists). "Technical knowledge is important, but the ability to communicate and connect with the people you are selling to is the key. . . . The individual you hire in sales must have survival skills. Rejection is the name of most of this game, and emotional survival is important," according to George.

Should sales and service be separate positions?

George said that if you do not have the budget or staff, then the two positions can be combined. "But make sure that the position remains balanced. The focus can shift either way to primarily service or sales, but to such a point where one or the other job duty can suffer," she explained. George said that SED's two sales/service reps try to focus half of their time on sales and half on service.

How should you compensate your sales staff?

A small base salary with an aggressive commission package works best, according to Yoemans. She said that commissions at Spectrum are based on the collected revenue from the new accounts each sales rep signs on each month. The commissions on each new account are paid out for one year. "It's key that your salespeople understand the formula that determines their commissions. They need to see their monthly revenue and new accounts so they can understand their commissions weren't pulled out of a hat," she advised.

George said that her reps are paid a high base salary with the opportunity to earn quarterly commissions based on overall sales growth at SED.

Neither Spectrum nor SED gives its sales people company cars. Sales reps at each company receive a car allowance that can be used to help purchase or lease any car that they chose; they are also reimbursed for mileage. Finally, neither Spectrum nor SED buys its sales reps a laptop computer (although they can, of course, buy laptops out of their own pockets if they choose).

How do you divide territories for your sales staff?

George said that one SED sales rep covers northern New Mexico and the other covers the southern half of the state; the city of Albuquerque (the biggest market) is open. As mentioned previously, George handles national accounts. “But we must all be well versed in handling all accounts due to the small staff size,” she added.

Yoemans said that each Spectrum rep covers a couple of counties. “Make sure the opportunities are equitable and are big enough to allow your reps to be successful,” she advised.

What kind of quotas do you set for your salespeople?

Spectrum’s sales reps are expected to make eight to 10 physician office sales visits everyday and generate \$5,000 to \$8,000 of new business (i.e., collected revenue) every month, according to Yoemans. She said that the average physician office client generates about \$3,500 per month in collected lab revenue, so Spectrum’s salespeople need to sign an average of two new clients per month to meet the quota.

In addition, Yoemans noted that Spectrum has about 20 field service reps that are responsible for servicing 50 to 100 accounts

each. These employees have the opportunity to earn “lead fees” if they provide a sales rep with a lead that results in a new client.

George said the goal at SED is simply to grow commercial revenue by 5% per year. If the lab reaches this target, then commissions are paid out.

How do you get sales/presentation appointments with physician offices?

Both speakers said there is no magic formula for winning appointments, and persistence is the key. Their advice: Cold call (i.e., drop in) or initiate a phone call to a prospective client, and introduce yourself to the individual at the front desk. Leave your business card and ask who is in charge of the lab or who is the decision maker regarding lab services. Call that individual later, and try to schedule an appointment to talk or visit.

“It can take—in some cases—a long time to wrap up an account. Never give up! ‘No’ means ‘not today,’ and that’s all it usually means,” said George.

How can you increase your chances of closing on an account during an appointment?

Yoemans recommends asking probing questions like “How do you like your current pickup time?” or “How often do you have lost specimens?” or “What are turnaround times at your current lab?” She noted, “Many physician offices don’t realize there may be a better way, and these questions can help you discover the other lab’s weaknesses.”

George advises asking prospective clients for a “lab wish list.” The question to ask is: “If you could have the perfect lab, what would they do for you?” The answer can help your sales reps create detailed proposals, she said.

Both speakers emphasized the usefulness of bringing pathologists on important appointments, especially with specialty physician groups that order a lot of esoteric tests that require interaction with a pathologist for interpretation.

In addition, both speakers noted that their salespeople are required to wear business attire, and couriers wear collared shirts with the lab's monogram on them.

Is Web-based order entry and results reporting a must?

All labs need to offer some type of Web-based connectivity, be able to deliver results to an electronic medical record, and have HL7 interface capabilities, according to George. SED uses CareEvolve system. "Some physician offices love it and use it. Some absolutely had to have it, but then rarely use it," she observed.

Yoemans agreed that Web-based connectivity is now a "must have" for labs. She noted that more and more physician offices are seeking labs that can download test results directly into their office management systems. Spectrum, which uses Atlas Medical, currently receives 75% of its accessions from the Web. "It gives control to the docs. They order exactly what they want, and there's no interpretation of handwriting on our side," she said.

What's the biggest mistake you see hospital outreach programs making in their sales and marketing efforts?

Yoemans cited two mistakes: 1) Telling clients what they want and need and how they have to do things in order to use their lab; and 2) Not having all the necessary resources to be successful (e.g., convenient specimen pickup times, Web-based order entry, etc.).

George said, "Outreach is a business that

requires a specific structure to be developed. Some hospitals that enter outreach fail to change their inpatient focus."

What do you do when your lab makes a mistake?

George said the best policy is to be completely forthright when a mistake (e.g., lost specimen, missed courier pickup, etc.) is made. "Generally, I will handle it directly and let the client know what we are doing so that the same mistake won't happen again. If you repeat a mistake, chances are you'll lose the client."

How do you market your lab to managed care organizations? How do you become a preferred/in-network lab provider?

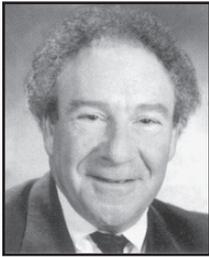
Yoemans and George offered similar advice: 1) there is no short and easy answer; 2) your lab needs to grow and gain a presence in your market; 3) managed care will pay attention if enough physicians in your market begin requesting the use of your lab; 4) if your lab is owned by a hospital, then you need to utilize that affiliation to gain access to the hospital's managed care contracts; 5) get to know selected individuals at the managed care organization, and make sure you are on their RFP list.

Do you market to nursing homes?

George said that SED has made a deliberate effort to back out of the nursing home and assisted living business over the past few years because of difficulties with compliance and billing issues. "We have educated all out, but the turnover at nursing homes and use of temporary employees make it too difficult," she said.

"We have been continually backing out of nursing homes because nobody can figure out how to get paid for lab services provided," added Yoemans. 🏠

IGeneX Expands To Meet Growing Demand For Lyme Testing



Nick Harris, Ph.D.

IGeneX (Palo Alto, CA) has nearly tripled its clinical laboratory and research space to 11,200 square feet to accommodate rapid growth in demand for its specialized Lyme disease tests, according to president Nick Harris, Ph.D. Over the past three years, he says the company has doubled in size, growing 30% in 2004 to reach \$6.5 million in net revenue.

Harris says the driver of their success has been a growing recognition among patients and physicians that the standard ELISA cut-off test for screening for Lyme disease has only marginal sensitivity (at best 70%). The Centers of Disease Control and Prevention estimates that about 20,000 people in the United States are infected with Lyme disease each year. But Harris believes that if a more sensitive group of tests were used, there could be as many as 200,000 new cases identified each year.

“Physicians don’t use a single test for diagnosing HIV or hepatitis and the same should hold true for Lyme disease,” says Harris. He says that IGeneX recommends a group of tests that includes Western Blot; serum, blood, and urine PCR for *Borrelia* (Lyme) DNA; and *Borrelia* antigen in urine. The combination of these tests yields a sensitivity of 90+% with specificity of 95+%. The downside is cost, as IGeneX typically charges \$600 to \$700 for this full group of tests versus the \$60 to \$80 that other labs typically charge for the ELISA cut off test.

At the very least, Harris says a Western Blot antibody test (\$180 to \$200), which is more sensitive and specific than ELISA, should be used as an initial screen. He believes the additional costs associated with Western Blot combined with additional Lyme tests if necessary saves money in the long run.

He notes that many cases of arthritis, chronic fatigue syndrome, and multiple sclerosis are actually misdiagnosed manifestations of Lyme disease. Without proper testing, these patients can suffer for years with symptoms that are not being properly addressed at a cost of thousands of dollars for multiple physician opinions, CAT scans, and inappropriate medication.

Lyme disease, a bacterial infection that is spread by deer ticks, begins in the skin and spreads to the joints and nervous system. The disease can cause joint pain, heart problems, sleep disturbances, stiff neck, rashes, numbness, and exhaustion.

IGeneX at a Glance

President:	Nick Harris, Ph.D.
Lab director:	Jyotsna Shah, Ph.D.
Headquarters/lab:	Palo Alto, CA (11,200 sq. feet)
Employees:	32 FTEs
Annual revenue:	\$6.5 million
Inception:	1991
Source:	IGeneX

Harris says IGeneX plans to remain focused on testing for Lyme disease and related co-infections. He says the company is developing new DNA sequencing tests for additional disease confirmation as well as tests to monitor Lyme disease activity.

To date, the company’s growth has come from word-of-mouth, medical conference presentations, and endorsements from patient advocacy groups like the Lyme Disease Association, California Lyme Disease Association, and the Lyme Disease Foundation. 🏠



■ **ECONOMIES OF SCALE GROW AT QUEST AND LABCORP**, from page 1

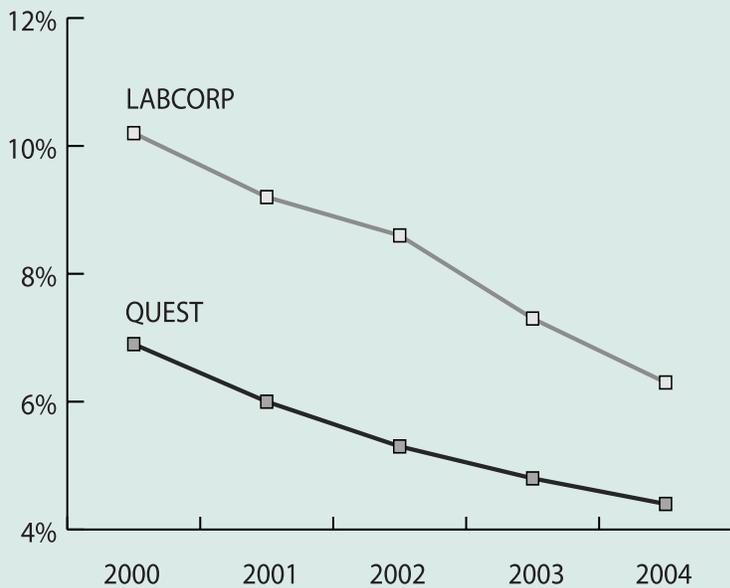
Quest Diagnostics (Teterboro, NJ) reported net income of \$499 million for 2004 versus \$437 million in 2003; revenue increased by 8.2% to \$5.1 billion. Excluding the acquisition of Unilab (completed February 2003), Quest's internal revenue growth rate was 6.7%, comprised of a 3.2% increase in requisition volume, a 3% increase in average revenue per requisition, and 0.5% from growth in Quest's other businesses (e.g., IT sales, reagent kits, clinical trials testing). This increase was a marked improvement from Quest's internal growth rate of 4.1% in 2003 and 4.7% in 2002.

Overall, Quest processed a total of approximately 141.5 million requisitions in 2004 and generated an average of \$36.23 of revenue per requisition.

This year Quest expects internal revenue growth of 5% to 6%, including a 2% rise in average revenue per requisition and 3% to 4% volume growth. On a January 7 conference call, CEO Surya Mohapatra, Ph.D., said Quest's initiatives in information technology were helping to raise the company's growth rate. He noted that Quest now employs some 1,500 information technology professionals and currently transmits 60% of all test results to doctors and receives 40% of all test orders via the Internet.

Bad-Debt Expense

Over the past five years, Quest and LabCorp have each made big improvements in their billing and collection efforts. As a result, Quest has lowered its bad-debt writeoffs from 6.9% in 2000 to 4.4% last year. LabCorp has lowered its bad-debt from 10.2% of revenue in 2000 to 6.3% in 2004.



Source: LIR from company financial reports

Among Quest's strongest growing areas of testing are gene-based testing, cancer testing, women's health (i.e., HPV and Chlamydia/gonorrhea), and clinical trials testing, according to Mohapatra. He also cited a turnaround in the company's drugs-of-abuse testing business.

LabCorp (Burlington, NC) reported net income of \$363 million for 2004 versus \$321 million in 2003; revenue was up 4.9% to \$3.1 billion, including a 3.6% increase in volume and a 1.3% hike in average price.

Revenue growth was driven by the acquisitions of Dianon (January 2003), the northern California assets of Quest/Unilab (February 2003), Clinical Labs Inc. (July 2003), MDS in New York and Atlanta (March 2004), and Redding Pathologists (March 2004). After accounting for the effects of all of these acquisitions, LIR estimates that LabCorp's



Full-Year 2004 Stats at Quest and LabCorp

	<i>Quest Diagnostics</i>	<i>LabCorp</i>
Revenue	\$5,126,600,000	\$3,084,800,000
Pretax income	835,100,000	615,300,000
Net income	499,200,000	363,000,000
Pretax margin	16.3%	20.0%
Net income margin	9.7%	11.8%
Patient service centers	2,000	1,150
Requisitions	140,000,000	91,117,600
Billable tests ¹	364,000,000	236,905,760
Full-time employees ²	37,000	23,000
Revenue per PSC ³	\$845,889	\$885,203
Revenue per FTE	138,557	134,122
Revenue per requisition	\$36.62	\$33.86
Pretax profit per requisition	5.97	6.77
Revenue per billable test	14.08	13.02
Pretax profit per billable test	2.30	2.60
Days in accounts receivable	46	52
Bad-debt expense	4.4%	6.3%

¹Assumes 2.6 billable tests per requisition. ²Includes all administrative and technical staff.
³Assumes that 33% of total revenue comes from specimens collected at PSCs (with remainder obtained directly from physician office and hospital clients).

Source: *LIR* from company financial reports

revenue growth was 2.5%, comprised of a volume increase of roughly 1.5% and a 1% increase in average revenue per requisition.

On a February 15 conference call, Tom Mac Mahon, chief executive of LabCorp, said that the company was putting in place specific strategies to reduce customer churn, including tying bonuses to customer retention, connecting more clients to Web-based systems, installing end-to-end specimen tracking systems, and significantly increasing the company's sales force.

Overall, LabCorp processed 91.1 million requisitions in 2004, with an average revenue per requisition of \$33.86. 🏠

Florida Medicaid's Sole-Source Contract Kaput; 10% Cut Coming

Florida's Agency for Health Care Administration has withdrawn its invitation to negotiate (AHCA ITN 0508) for a sole-source capitated contract for Medicaid independent lab services. The move follows protests filed by the American Clinical Laboratory Association and its two biggest members: Quest Diagnostics and LabCorp.

The trio had argued that the contract, if awarded, would deprive Medicaid recipients of their right under federal law to obtain tests from any qualified lab and would violate state Medicaid requirements for "delivery of quality healthcare."

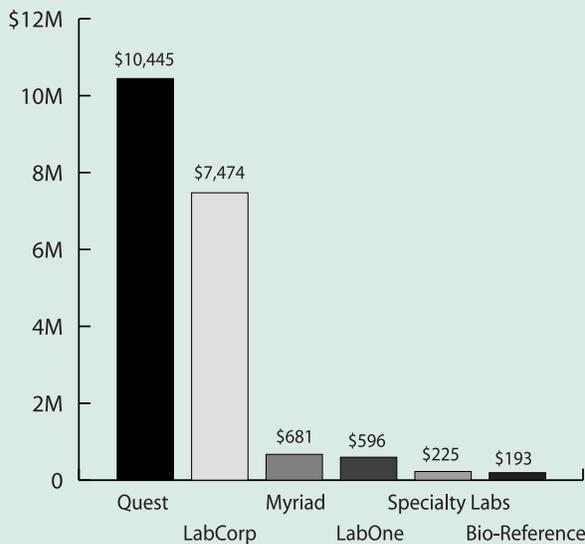
"It looked like we had a good chance to prevail in an administrative hearing, but it's now a dead issue," ACLA president Alan Mertz tells *LIR*. Mertz says ACLA will now fight to stop a mandated 10% cut in Florida Medicaid lab fees that is scheduled to become effective on April 1. Florida Medicaid currently reimburses lab on a fee schedule that is about 70% below Medicare rates, observes *LIR*. 🏠



Lab Stocks Slip 1% In Latest Five Weeks; Bio-Reference up 10%

Stock prices for the 10 companies in the G-2 Laboratory Index fell an unweighted average of 1% in the five weeks ended Feb. 14, 2005, with four stocks up in price, one unchanged, and five down. So far this year, lab stocks are down 4%, while the S&P 500 is down 1%, and the Nasdaq is off 4%.

Market Value of Selected Lab Stocks (\$ millions)



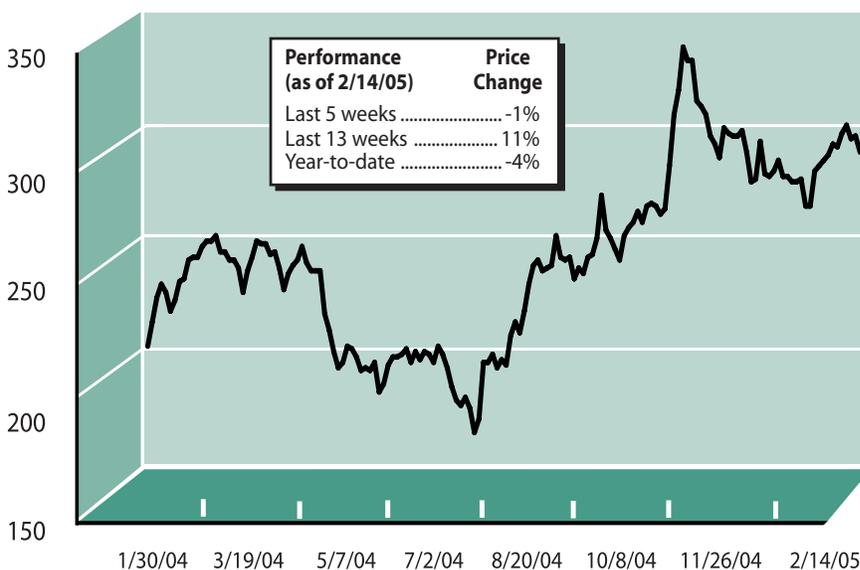
Source: LIR

Bio-Reference Laboratories (Elmwood Park, NJ) was up 10% to \$15.23 per share for a market value of \$193 million. The company currently trades at 1.4 times its fiscal-year 2004 revenue of \$136.2 million and 23 times its net income of \$8.5 million.

Quest Diagnostics (Teterboro, NJ) was up 7% to \$99.48 and now has a \$10.4 billion market value. Quest currently trades at two times its 2004 revenue of \$5.1 billion and 21 times net income of \$499 million.

Myriad Genetics (Salt Lake City, UT) fell 10% to \$21.97 per share for a market value of \$681 million. Myriad, which has not reached profitability, currently trades at 9.4 times its annualized revenue of \$72.7 million (based on reported results for six months ended Dec. 31, 2004).

G-2 Laboratory Stock Index



Source: The G-2 Laboratory Stock Index is tabulated weekly by *Laboratory Industry Report* from the average percentage change in the price of 10 laboratory testing service stocks.

**% price change,
5 weeks ended 2/14/05**

Up	Price	%Chg
Bio-Reference	\$15.23	10
LabCorp	48.85	1
LabOne	34.43	4
Quest Diagnostics	99.48	7
Unchanged		
Psychemedics	\$12.71	0
Down		
Enzo Biochem	18.15	-2
Medtox	8.18	-1
Myriad	21.97	-10
Specialty	9.80	-6
ViroLogic	2.50	-8

More and more hospitals are seeking to create their own blood banks to get relief from rising prices charged by the American Red Cross. The latest is a group of four hospitals in Syracuse, New York, including University, St. Joseph's, Crouse, and Community General.

Together, these hospitals spent \$11.59 million for blood last year. A study commissioned by the hospitals shows they could save at least 20%, or more than \$2 million a year, by establishing a local, independent blood center.

Their blood costs increased 65% from 2000 to 2004. Last year alone, the four hospitals' blood costs rose nearly 13%. That hike reflected increased use of blood products, the cost of new federally mandated testing and an annual fee increase, according to a spokesman from the Red Cross.

"Over the years it's been, 'Here's the rate, guys. Take it or leave it,'" Ted Pasinski, president of St. Joseph's Hospital Health Center, told the *Syracuse Post Standard*.

Before going ahead with the proposal, the hospitals need to determine if the community would support a new blood bank. The hospitals say they will conduct focus groups with donors, business leaders, and other members of the community to gauge support, then make a decision by late March or early April. It would cost Syracuse hospitals about \$2.6 million to start a blood bank, according to the feasibility study, which was conducted by William Coenen, former chief operating officer of a community blood center in Kansas City.

The Red Cross has told the hospitals that it can cut blood prices by 4% to 8%, if they significantly increase the amount of blood raised through hospital-sponsored drives. But the hospitals say they would like to save more than that. 🏠

References in this issue

IGeneX 800-832-3200

LabCorp 336-584-5171

Joe Plandowski 847-295-8805

Quest Diagnostics 201-393-5000

SED Medical Laboratories
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