

LABORATORY INDUSTRY REPORT®

Jondavid Klipp, Managing Editor, labreporter@aol.com

Vol. IX, No. 5/May 2005

HIGHLIGHTS

TOP OF THE NEWS

Many hospital lab outreach programs still struggling with financial reporting 1
North Shore LIJ expands Aetna agreement 1-2

MERGERS & ACQUISITIONS

Carilion buys PCS lab group 2-3
LabCorp to buy Esoterix 10

PATHOLOGY

Former Impath execs charged with financial malfeasance 3-4
Jury awards \$12M for Pap test mistake 10

INSIDE THE LAB INDUSTRY

Hospitals struggling to get a grip on lab outreach profitability 5-6
Highlights from G-2's outreach conference 7

FINANCIAL

BestCare doubles in size 4
Lab managers earn average \$67.5K 8
Payday for commercial lab execs 8-9
Lab stocks down 11% YTD 11

INDUSTRY BUZZ

Specialty's marketing VP axed 12



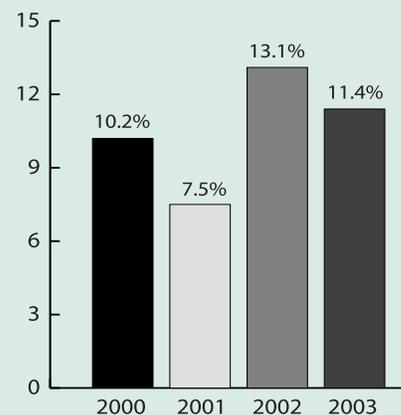
Hospital Lab Outreach Programs Post Strong Growth, But Profitability Remains A Mystery For Most

Despite being excluded from many key managed care contracts held by the two big national commercial labs, hospital outreach programs have consistently grown their annual test volumes near or above the double-digit area. According to the latest national outreach survey from Park City Solutions (now named Chi Solutions Inc.), hospital lab outreach test volumes grew by an average of 11.4% in 2003 (the latest year for which survey results are available).

However, the survey shows that hospitals still have a lot of work to do when it comes to measuring the financial health of their lab outreach programs. Only 53% reported that they had access to net revenue information, while just 22% knew their bad-debt rate, and a mere 18% knew their days sales outstanding (aka days in accounts receivable).

The strong volume growth combined with the inability to measure important financial yardsticks suggests that many outreach programs are "losing money on each sale, but think they can make it up on volume." For more survey details, see *Inside the Laboratory Industry*, pp. 5-7. 🏠

Average Lab Outreach Test Volume Growth



Source: Park City Solutions' annual hospital lab outreach surveys, 2002-2005

North Shore-LIJ Labs Expands Aetna Agreement

The core laboratory at North Shore-Long Island Jewish Health System (Long Island, NY) has negotiated an expanded agreement with Aetna and will now be able to provide outpatient/outreach lab services to patients of physicians who are affiliated with the health system's hospitals in Long Island and Staten Island, New York. Previously, North Shore-LIJ had only been able to provide inpatient lab testing services to Aetna members. Robert Stallone, vice president of laboratories at North Shore LIJ, says the expanded agreement will allow for better continuity of patient care. ➔ p. 2

■ North Shore-LIJ Labs Expands Aetna Agreement, from page 1

Stallone believes Aetna chose to expand the agreement for two related reasons: 1) to provide enhanced service and access to its physicians and members; and 2) to reduce leakage to non-contracted labs.

Meanwhile, at a presentation at Washington G-2's recent outreach conference in Atlanta, Thomas Sodeman, M.D., chairman of laboratory medicine at North Shore-LIJ, noted that the days when out-of-network labs could sneak through lab billings may be numbered. "Managed care companies are increasingly trying to shut this down," he said.

"I think I can win a physician office client without any problem. The real competition is for insurance contracts. If I can't win insurance contracts, I can't win physicians offices," said Sodeman.

North Shore-LIJ includes 18 hospital labs, which send 60% to 80% of their volume to a 60,000 square-foot core laboratory in Long Island, New York. The core laboratory also has an outreach business that generated about \$25 million of net revenue last year. 🏠

Carilion Acquires Park City Solutions' Lab Services Group

Carilion Health System (Roanoke, VA), which includes six owned and three partner hospitals, purchased Park City Solutions' Laboratory Services Group on April 1 and renamed it Chi Solutions Inc.

Bud Thompson, executive vice president at Carilion, says there will be no significant structural changes in the way Chi Solutions operates. Chi has about 40 employees/consultants and generated roughly \$6 million to \$7 million of revenue last year. "They will continue to offer all of their services and follow their previous service expansion plan, and it is the expectation that their revenue will grow as well," says Thompson.



Kathy Murphy

He says Kathy Murphy, Ph.D., will continue in her role as senior vice president at Chi and will be responsible for the day-to-day operations at the consulting group. She will report to Thompson. Jim Root, former chief of Park City Solutions' Laboratory Services Group, is expected to become an independent consultant supporting the Chi group on specific engagements. Root tells *LIR* that he will be providing consulting services to other clients as well.

LIR asked Thompson if he was concerned that potential hospital lab clients for Chi in the Southeast might be wary of dealing with Chi because Carilion also operates a substantial laboratory outreach business, Carilion Consolidated Laboratory (CCL). Thompson says that there might be an occasional prospective client that elects not to use Chi for this reason, but he believes there are plenty of client opportunities outside of CCL's market area.

"In fact, I think more often there will be benefit to the Chi client. CCL will be another source of experience that Chi staff will be able to tap into to assist them in meeting their client needs. We also expect to extend IT relationships and

pricing that we have developed to Chi clients that will lower their cost in providing outreach services," he adds.

CCL is a division of Carilion Health System that operates like an independent lab. CCL, which has 388 FTEs, manages five hospital labs in western Virginia as well as a fast-growing outreach business that currently covers western Virginia and the Richmond and Tidewater areas, as well as eastern Tennessee. CCL currently performs more than three million billable tests per year with about 50% of volume coming from the managed hospital labs and 50% from outreach. In the fiscal year ended Sept. 30, 2004, CCL's outreach business grew 23% to reach approximately \$20 million of net revenue.

Thompson says CCL will continue to focus on organic growth, but has enough capital to make acquisitions or investments that will add to the bottom line. "It is possible that as we make acquisitions, we may well tap into the capabilities within Chi to help ensure a smooth transition of the acquired lab into our organization," he says.

Finally, Thompson says that plans are being finalized for the construction of a new 50,000 square-foot core lab for CCL in Roanoke. Construction is expected to begin this summer. CCL's main lab is currently located at Carilion Roanoke Memorial Hospital. 🏢

Former Impath Execs Charged With Cooking The Books



Anu Saad

The Securities & Exchange Commission (SEC) has charged seven top executives at once high-flying Impath Inc. with a wide-ranging financial fraud that resulted in shareholder losses of \$260 million.

Anu Saad, Ph.D., 48, former chairwoman and chief executive, and Richard Adelson, 39, former president and chief operating officer, have both pleaded not guilty to the charges. They each face up to 20 years in prison for each charge of securities fraud, soliciting proxies with false statements, and making false filings. Their trial is scheduled to begin October 17 at U.S. District in lower Manhattan.

The SEC's complaint alleges that from 1999 to 2003, the defendants engaged in fraudulent accounting practices that allowed Impath to falsely report multimillion-dollar profits when it actually suffered huge losses. To meet Wall Street expectations and boost Impath's stock price, the defendants allegedly made or directed others to make phony accounting entries that artificially increased the company's revenue and overstated its accounts receivables.

If that weren't enough, Saad failed to disclose to shareholders that she was billing her personal expenses to her corporate credit card—including \$250,000 worth of art, furniture, jewelry, beauty products, and vacation trips, according to the indictment.

The improper accounting resulted in shareholder losses of \$260 million at the company, according to David Kelley, attorney for the Southern District of New

York. Impath filed for bankruptcy in 2003, and its cancer-testing business was bought by Genzyme Genetics in May 2004.

Saad was born in India and came to the United States at the age of 11. She received a degree in biology from the University of Pennsylvania, a doctorate in developmental biology from the University of Chicago, and completed post-doctoral work at Cornell University. She was recruited from Cornell, where she was a research scientist, to become Impath's scientific director in 1990. Three years later, she was named CEO. The company grew to 1,100 employees with reported annual revenue of \$189 million during her tenure.

Meanwhile, four other former Impath executives have already pleaded guilty to charges in the case, including David Cammarata, 40, who was chief financial officer; Peter Torres, 35, vice president of finance; Kevin Gardner, 33, controller; and Kenneth Jugan, 43, national billing director.

In addition, Robert McKie, 40, former vice president, finance and operation at Impath's predictive oncology unit, didn't admit to or deny the SEC allegations, but agreed to a settlement in which he will turn over more than \$100,000 of bonuses, with interest, and pay a \$150,000 penalty. 🏛️

BestCare Lab Doubles In Size



Karim Maghareh

In April 2004, *LIR* wrote an article about the formation of a new lab, BestCare Laboratory Services (Houston, TX), and its president Karim Maghareh, who started the company in 2002 with \$100,000 in personal savings. More than a year has passed and Maghareh says his lab is on a roll. Last year, BestCare doubled its revenue to more than \$4 million, while its number of nursing home clients has increased from 30 (275 requisitions per day) to 43 (450 requisitions per day). The company now has 30 employees, up from 18 a year ago.

Maghareh says BestCare could have grown even more last year, but was limited by lab space constraints (currently 3,000 square feet). So late last year he bought 2.2 acres of land next to Clear Lake Hospital (Webster, TX—just south of Houston) and is building a new 23,000 square-foot facility at a cost of \$3.5 million to \$4 million. Half of the new building will be used by BestCare, and the other half will be leased to physicians. Maghareh hopes to move into the new building in July.

With the expanded space, Maghareh is aiming for revenue of \$6 million to \$6.5 million this year. He says BestCare, which now serves about half of the nursing homes in Houston, has been growing strictly by word of mouth, but will soon begin more formal marketing in conjunction with plans to expand into cities outside of Houston later this year. He'd also like to begin competing for physician office business after BestCare gets signed up as a lab provider with a few more health insurance plans.

Maghareh says BestCare is profitable despite the challenges associated with serving the nursing home market. He says the key to effective and proper billing is developing a close relationship with the individual at each nursing home that handles the patient face sheets, which contain 95% of the information necessary for billing. "You want to know and recognize this person because you have to constantly be in touch with them," he adds. 🏛️

Many Hospitals Still Struggling To Get A Grip On Outreach Profitability

“Many smaller outreach programs are really trying to manage by brail,” was how Kathleen Murphy, Ph.D., senior vice president at Chi Solutions Inc., described the financial management situation at some hospital lab outreach programs. In a presentation at G-2’s outreach conference in Atlanta, March 31 to April 1, she cited results from Park City Solutions’ (now named Chi Solutions Inc.) *Fourth Comprehensive National Laboratory Outreach Survey 2005* that showed only half of all lab outreach managers and directors had the tools in place to analyze their programs’ profitability (see table).

Financial Management Abilities at Hospital Lab Outreach Programs

	Yes	No	Unsure
Access to net revenue information	53%	41%	6%
Have tools to analyze program profitability	50	50	0
Know the bad-debt rate?	22	78	0
Know the days sales outstanding (DSO)	18	82	0
Belief that your outreach is profitable			
Hospital chief financial officer responses	69	10	21
Hospital lab responses	93	2	5
	Hospital	Outside	Unsure
Billing performed by hospital or outside service	77	20	3

Source: Park City Solutions’ *Fourth Comprehensive National Laboratory Outreach Survey 2005*

The survey was based on responses from 215 hospitals, including 159 (or 74%) with lab outreach programs, collected in late 2004/early 2005. Among those hospitals with lab outreach programs, the median net outreach revenue for 2003 was \$2.266 million, with median test volume of 247,486, and median net revenue of \$11.03 per billable test.

Among those hospital outreach programs that could measure their days sales outstanding (DSO), the median was 60 days and the average was 69 days. This compares with a DSO of 46 days at Quest Diagnostics in 2004; LabCorp, 52 days; and AmeriPath, 55 days.

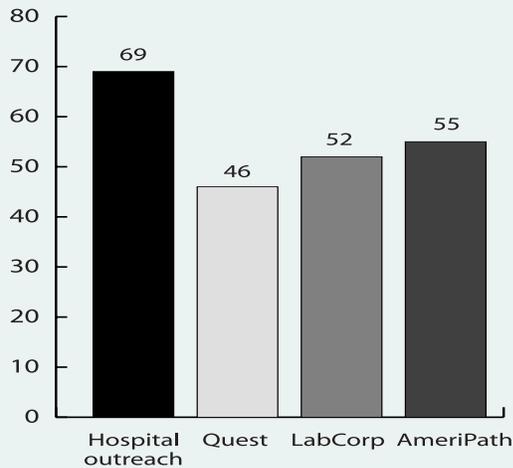
The bad-debt writeoff as a percentage of revenue at hospital outreach programs that could measure it was a median of 5% and an average of 8.6%, according to the survey. Quest had a bad-debt rate of just 4.4% last year, while LabCorp’s was 6.3%, and AmeriPath’s was 15.1%.

Market Share Experience

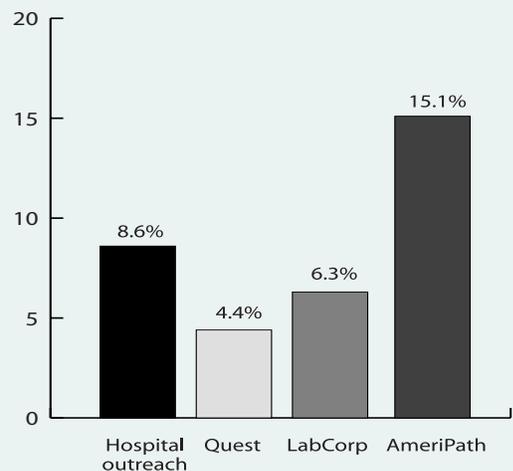
The 11.4% growth in test volumes that hospital outreach programs reported for 2003 (see page 1) compares with test volume changes of -1% for Quest and -2.4% for LabCorp over the same period (after adjustments for acquisitions).

Twenty-six percent of surveyed labs said they were gaining share versus Quest, while 13.5% were losing share, and 60.1% were holding steady. Twenty-five percent said they were gaining versus LabCorp; 15.1% losing; and 59.7% holding steady.

Days Sales Outstanding



Bad-Debt Rate



Source: Hospital outreach figure from Park City Solutions' Fourth Comprehensive National Laboratory Outreach Survey 2005; commercial lab figures from 2004 annual reports

Independent labs seem to be the toughest competition. Twenty-six percent said they were gaining versus independents; 16.7% losing; and 57.3% holding steady.

Market Share Experience of Hospital Outreach Programs

	Holding	Gaining	Losing	Net Gaining-Losing
vs. Quest Diagnostics	60.1%	26.4%	13.5%	+12.9
vs. LabCorp	59.7	25.2	15.1	+10.1
vs. independent lab	57.3	26.0	16.7	+9.3

Source: Park City Solutions' Fourth Comprehensive National Laboratory Outreach Survey 2005

Strengths and Weaknesses at Hospital Outreach Programs

The survey showed that those hospital labs with outreach programs believe their primary strengths are fast turnaround time, excellent quality reputation, and strong customer service. The leading weaknesses cited were: no dedicated sales force, ineffective information system connectivity, and billing and collections.

Top 10 Outreach Program Strengths

1. Turnaround time 83.0%
2. Excellent quality reputation 67.3
3. Strong customer service 59.7
4. Pathologist service and reputation 54.1
5. Profitability 49.1
6. Convenient patient service centers 39.6
7. Strong physician loyalty 38.4
8. Hospital administration support 30.8
9. Clinical patient data repository 29.6
10. Basic information system connectivity 25.8

Top 10 Outreach Program Weaknesses

1. No dedicated sales force 47.8%
2. Ineffective information system connectivity 43.4
3. Billing and collections 42.8
4. No marketing plan 37.1
5. Mediocre sales capability 35.2
6. Pressure to reduce costs 27.0
7. Pricing inflexibility 20.8
8. Need new LIS 19.5
9. Limited presence in market 17.6
10. Facilities restrictive 17.0

Note: Survey respondents could pick more than one answer

Source: Park City Solutions' Fourth Comprehensive National Laboratory Outreach Survey 2005

G-2 Outreach Conference Highlights

Washington G-2 Reports' fourth annual outreach conference in Atlanta featured presentations from more than 20 speakers. Here are some of the nuggets of wisdom they offered attendees:

Thomas Sodeman, M.D., chairman of laboratory medicine at **North Shore-LIJ**, said that the ability of hospital outreach programs to provide physician office clients with inpatient, outpatient, and outreach patient tests results with uniform reference ranges is an advantage they have over their commercial lab competitors. The advantage commercial labs have is greater access to capital for investment, he added.

"However, these advantages are secondary. The number one thing physicians want is to use one lab rather than two or three labs. . . . When it's all said and done, the key is competition for insurance contracts," said Sodeman.

He also advised hospitals to base their outreach programs at a freestanding core lab rather than at a hospital to keep it neutral and avoid jealousies between hospitals.

Tom DeBord, chief operating officer at **Barberton Citizens Hospital** (Barberton, OH), said any hospital with a lab outreach program must make it a strategic initiative with full support from top hospital administration. Barberton operates an outreach program named LabCare that serves 1,000 physician clients (22,000 requisitions per month) in northeast Ohio with four full-time salespeople, 14 courier cars, and eight PSCs.

DeBord noted that the costs associated with lab outreach are rising, driven by physician office demands for onsite phlebotomy

services and costs associated with Web connectivity.

Without the support of top hospital management, DeBord said outreach programs will not get the capital budget necessary for investment to compete. The key to gaining management support is having detailed financial reports that show the profitability of your outreach program, according to DeBord.

Hope Foster, an attorney at the Washington, DC, office of **Mintz Levin**, emphasized that tax-exempt hospitals are subject to ordinary corporate tax rates on their outreach testing profits (some hospitals mistake income from lab outreach as being non-taxable). She said outreach testing should be defined as testing performed by a hospital lab for individuals who are neither inpatients nor outpatients.

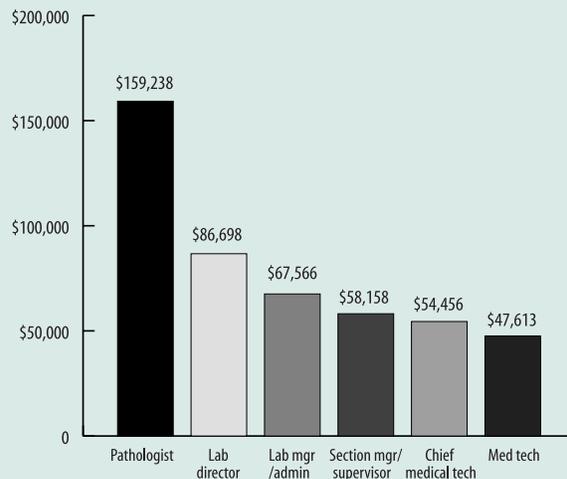
Kathleen Murphy from **Chi Solutions** emphasized the importance of patient service centers as the "face" of the laboratory and recommended that hospital outreach programs put their best phlebotomists in their PSCs and at a higher salary than their inpatient phlebotomists.

Tom Hirsch, president of **Laboratory Billing Solutions** (Portsmouth, NH), said most hospitals fail to understand the importance of lab outreach logistics and compromise service by combining it with other transport services. He said logistics should cost about 5% to 7% of revenue (or 10 requisitions collected per courier hour worked). He said that his former lab company, Path Lab Inc., used to hire older couriers (average age in the mid-50s) because they tended to be more responsible and provided a good image for the lab. 🏠

Average Lab Manager Earns \$67.5K Per Year

Lab managers earned a median salary of \$67,566 last year, according to a survey of 2,128 lab workers conducted by *Medical Laboratory Observer* (MLO—see March 2005 issue). The survey reported median salaries of \$159,238 for pathologists; lab directors, \$86,698; and medical technologists, \$47,613. According to MLO’s survey respondents, the representative lab worker is a female (70%), 49 years of age, and has a supervisory position as a lab manager (26%) or section supervisor (22%) in a hospital lab (61%). She expects a salary increase of 2% to 4% (63%) this year and believes that her job is somewhat (46%) or very secure (46%). 🏠

Median Salary by Job Function



Source: MLO, March 2005

Commercial Lab Execs Paid An Average \$8.5M Each Last Year

The top executives at 11 publicly traded laboratory testing companies received total compensation (including the value of exercised stock options) of \$101.6 million last year for an average of about \$8.5 million per executive, according to an *LIR* analysis of proxy reports filed with the Securities & Exchange Commission. This represents an average of approximately 10% of the net income earned at each of the 11 companies last year.

The highest-paid lab executive in 2004 was **Ken Freeman**, age 54, former chairman and chief executive of Quest Diagnostics. He received total compensation of \$84 million last year, including a salary of \$1.2 million, bonus of \$2.1 million, plus other compensation of \$1.7 million, which included severance payments of \$1.6 million. Last, but not least, Freeman realized a gain of \$79.1 million by exercising some of his stock options.

Freeman resigned as chief executive of Quest on May 4, 2004, and stepped down as chairman on Dec. 14, 2004. He will get an annual pension of \$1.5 million payable as a straight life annuity commencing at age 55. He also owns 1.2 million shares of Quest with a current value of approximately \$125 million. His non-compete contract with Quest ends on Dec. 14, 2005.

Freeman’s successor, **Surya Mohapatra, Ph.D.**, earned a total of \$4.2 million last year, including \$2 million from exercised stock options.

Quest’s net income rose to \$499.2 million in 2004 from \$436.7 million in 2003. Quest’s stock rose 31% last year to \$95.55 per share.



The next highest-paid lab executive was **Tom Mac Mahon**, 58, chairman of LabCorp, who received total compensation of \$5.5 million last year, including a salary of \$885,375, a bonus of \$1.6 million, plus \$3.1 million from exercised stock options. LabCorp's net income rose to \$363 million in 2004 from \$321 million in 2003. LabCorp's stock price went up 35% last year.

Some Examples of What Other Healthcare Execs Got Paid

William McGuire, M.D., 56, chairman of UnitedHealth, earned \$124.8 million last year, including \$114.6 million from stock options he exercised; **Miles White**, 49, chairman of Abbott Laboratories, earned \$6.8 million; **Jack Wareham**, 63, chairman of Beckman Coulter, was paid \$5.8 million, including \$4.4 million from exercised options; **John Rowe, M.D.**, 60, chairman of Aetna, got \$22.2 million, including \$18.2 million from exercised options; and **William Weldon**, 56, chairman of Johnson & Johnson, received \$6.2 million. 🏠

2004 Laboratory Executive Total Compensation

Company/Executive	Salary	Bonus	Other Comp*	Value of Exercised Options	2004 Total Comp	2004 Company Net Income	2004 Stock Price % Chg
AmeriPath							
Donald Steen, 58, Chmn.	\$286,862	\$0	\$26,200	\$0	\$313,062	\$1,514,000	NA
Joseph Sonnier, M.D., 50, Pres.	500,000	70,000	125,453	0	695,453	1,514,000	NA
Bio-Reference (1)							
Marc Grodman, M.D., 53, Chmn.	554,625	125,000	0	0	679,625	8,516,000	33%
Enzo Biochem (2)							
Elazar Rabbani, Ph.D., 60, Chmn.	430,942	275,000	0	2,509,221	3,215,163	-6,232,000	14%
LabCorp							
Tom Mac Mahon, 58, Chmn.	885,375	1,586,654	0	3,070,872	5,542,901	363,000,000	35%
LabOne							
W.Thomas Grant II, 54, Chmn.	325,000	325,000	28,077	0	678,077	26,724,000	-1%
Medtox							
Richard Braun, 60, Chmn.	310,962	372,000	15,060	0	698,022	1,821,000	127%
Myriad Genetics (3)							
Peter Meldrum, 57, Pres.	520,518	240,507	8,069	0	769,094	-40,620,000	75%
Psychemedics							
Raymond Kubacki, Jr., 60, Chmn.	285,289	29,000	6,150	0	320,439	2,764,000	38%
Quest Diagnostics							
Ken Freeman, 54, former Chmn.	1,167,846	2,068,700	1,686,050	79,081,384	84,003,980	499,195,000	31%
Surya Mohapatra, Ph.D., 55, Chmn.	900,192	1,163,400	152,742	1,999,954	4,216,288	499,195,000	31%
Specialty Laboratories							
Doug Harrington, M.D., 52, former CEO	436,154	0	54,810	0	490,964	-12,950,000	-34%
Total, 12 execs	6,603,765	6,255,261	2,102,611	86,661,431	101,623,068	843,732,000	
Average, 12 execs	\$550,314	\$521,272	\$175,218	\$7,221,786	\$8,468,589	\$84,373,200	35%

*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.

1) Bio-Reference executive compensation and net income figures are for fiscal year ended Oct. 31, 2004; 2) Enzo Biochem executive compensation and net income figures are for fiscal year ended July 31, 2004; 3) Myriad Genetics executive compensation and net income figures are for fiscal year ended June 30, 2004.

Source: L/R from company proxy statements filed with SEC

LabCorp To Buy Esoterix For \$150 Million

LabCorp (Burlington, NC) has agreed to buy Esoterix (Austin, TX) from its owner, Behrman Capital (New York City) for \$150 million. The all-cash deal is expected to close by June 30.

Esoterix, which has a total of about 800 employees, operates 10 specialty laboratories around the country, including labs in California, Colorado, Florida, Minnesota, New Jersey, Tennessee, and Texas. The company also operates a clinical trials lab in the Netherlands. A spokesman from LabCorp says no decisions regarding potential facility consolidations have been made yet.

In the last issue of *LIR*, we speculated that Esoterix was for sale and would fetch between \$200 million and \$300 million, or roughly 2.5 times its estimated revenue of \$125 million for 2004. The \$150 million price tag works out to be only a little more than one times annual revenue, suggesting that Esoterix was probably not earning substantial profits. 🏠

Jury Awards \$11.8M For Doc/Lab Pap Test Mistakes

A Manhattan jury has awarded \$11.8 million to the husband and children of a woman who died of cervical cancer after her doctor failed to diagnose her cancer condition that had gone undetected through several years of medical exams and tests.

Vicki Malouf, 45, died in 2001 because her gynecologist missed abnormalities that developed into full-blown cancer and the medical laboratory that she used misread the results of two Pap smears, lawyer Judith A. Livingston argued.

The jury found Heidi Rosenberg, M.D., of Murray Hill Ob/Gyn and Quest Diagnostics negligent in treating and testing Malouf. Rosenberg was found 55% responsible and Quest was found 45% responsible.

Despite routine pelvic exams and Pap smears in 1996 and 1997, Malouf's tumor was not discovered until she suffered heavy bleeding in 1998. By then, the growth was the size of a grapefruit, said Livingston.

Quest reported Malouf's 1996 and 1997 Pap smears as normal when they were actually abnormal, Livingston said. In addition, Rosenberg failed to tell the lab that Malouf had an abnormal Pap smear in 1994. Under the law, two people have to read the Pap smears if the patient had an earlier abnormal one, but that wasn't done.

"It's a tragic story. Our sympathies go out to the family. . . . This was a very complicated case, and we vigorously defended our interpretations in court," Quest spokesman Gary Samuels, told *LIR*. He says that Quest plans to appeal the jury decision and will argue that the damages amount allocated to Quest is excessive. 🏠



Lab Stocks Down 11% So Far In 2005

Ten laboratory stocks have dropped an unweighted average of 11% year-to-date through April 22. In comparison, the S&P 500 Index has fallen 4%, and the Nasdaq is down 10%.

Four stocks have fallen 20% or more so far this year: **Enzo Biochem** is down 25%; **Myriad Genetics**, -24%; **Medtox**, -23%; and **Bio-Reference Laboratories**, -22%.

Only two lab stocks are up in price year to date. **LabOne** is up 9% to \$34.97 per share; **Quest Diagnostics** is also up 9% to \$103.68 per share. which are each up 9%.

Currently, the cheapest lab stocks (among the six publicly traded companies that are actually earning a profit) on a price-to-earnings ratio are **LabCorp**, with a P/E of 19, and **Bio-Reference Labs**, with a P/E of 20. The most expensive is **Medtox**, with a P/E of 30. 🏠

Year-to-Date Lab Stock Review

Company (ticker)	12/31/04 Price	4/22/05 Price	YTD % Chg	P/E Ratio	Div. Yield
LabOne (LABS)	\$32.04	\$34.97	9%	23	...
Quest Diagnostics (DGX)	95.55	103.68	9	21	0.6%
LabCorp (LH)	49.82	49.22	-1	19	...
Psychemedics (PMD)	12.95	12.25	-5	23	2.6%
ViroLogic (VLGX)	2.79	2.51	-10	NA	...
Specialty Labs (SP)	11.04	9.00	-18	NA	...
Bio-Reference (BRLI)	17.40	13.54	-22	20	...
Medtox (TOX)	9.00	6.93	-23	30	...
Myriad Genetics (MYGN)	22.51	17.20	-24	NA	...
Enzo Biochem (ENZ)	19.47	14.63	-25	NA	...
Unweighted average			-11		

NA=The company has reported a loss in the most recent four quarters or the P/E is 100 or more.

Source: LIR

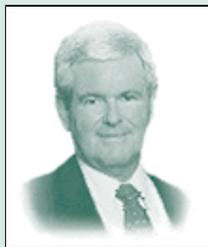
INDUSTRY *buzz*

The management shake-up at **Specialty Laboratories** (Valencia, CA) continues. Earlier this year, CEO Doug Harrington, M.D. resigned. Now *LIR* has learned that **Dan Angress**, senior vice president, strategic marketing, was forced to resign in early April after the company eliminated his position. Angress had been with Specialty for 10 years.

Save these dates on your calendar

October 19-22, 2005

You'll want to join us for our **23rd annual LAB INSTITUTE, *Transforming the Lab in the 21st Century***, to be held at the Crystal Gateway Marriott Hotel, Arlington, VA.



The lead-off keynote speaker: Newt Gingrich, author of *Saving Lives and Saving Money*, former Speaker of the U.S. House of Representatives, and founder of the Center for Healthcare Transformation

LIR also hears that **Hal Rose**, former chief executive of **Quentin Medical Laboratory** (Brooklyn, NY), has been hired by **National Laboratory Partners** (NLP), which recently acquired Universal Diagnostics Labs (Brooklyn, NY). Following Rose's departure, Quentin underwent a management reorganization (not a financial reorganization—see *LIR*, April 2005, p. 10).

Meanwhile, we hear that NLP has held takeover talks with all the big independent labs in New York City, including Sunrise Medical Labs, Bendiner & Schlesinger, Shiel Medical Laboratory, and Quentin, but hasn't yet completed another deal. "If they want to close more deals, they're going to have to open up their wallets," one independent lab executive tells *LIR*. 🏠

References in this issue

BestCare Laboratory Services
281-335-0997

Carilion Consolidated Laboratory
540-981-7157

Chi Solutions 734-662-6363

Esoterix 800-444-9111

LabCorp 336-584-5171

Laboratory Billing Solutions
603-766-8204

North Shore LIJ core lab
516-719-1100

Quest Diagnostics 201-393-5000

Subscribers are invited to make periodic copies of sections of this newsletter for professional use. Systemic reproduction or routine distribution to others, electronically or in print, is an enforceable breach of intellectual property rights. G2 Reports offers easy and economic alternatives for subscribers who require multiple copies. For further information, contact Randy Cochran at 212-576-8740 (rcochran@ioma.com).

LIR Subscription Order or Renewal Form

YES, enter my one-year subscription to the *Laboratory Industry Report (LIR)* at the rate of \$379/yr. Subscription includes the *LIR* newsletter, e-mail alerts, and yearly subject index. Subscribers outside the U.S. add \$50 postal surcharge.

YES, I would also like to order *Lab Industry Strategic Outlook 2005: Market Trends & Analysis* for \$995 (\$795 for Washington G-2 Reports subscribers). (LR37)

Check enclosed (payable to Washington G-2 Reports)

American Express VISA Mastercard

Card # _____ Exp. Date _____

Cardholder's Signature _____

Name As Appears On Card _____

Name/Title _____

Company/Institution _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

e-mail address _____

MAIL TO: Washington G-2 Reports, 3 Park Avenue, 30th Floor, New York, NY 10016-5902.
Or call 212-629-3679 and order via above credit cards or fax order to 212-564-0465. LIR 5/05

© 2005 Washington G-2 Reports, a division of the Institute of Management and Administration, New York City. All rights reserved. Reproduction in any form prohibited without express permission. Reporting on commercial products is to inform readers only and does not constitute an endorsement.

Laboratory Industry Report (ISSN 1060-5118) is published by Washington G-2 Reports, 3 Park Avenue, 30th Floor, New York, NY 10016-5902.
Tel: 212-244-0360. Fax: 212-564-0465. Order line: 212-629-3679. Website: www.g2reports.com

Jondavid Klipp, Managing Editor; Dennis Weissman, Executive Editor; Janice Prescott, Sr. Production Editor; Perry Patterson, Vice President and Group Publisher.
Receiving duplicate issues? Have a billing question? Need to have your renewal dates coordinated? We'd be glad to help you. Call customer service at 212-244-0360, ext. 2.