

LABORATORY INDUSTRY REPORT®

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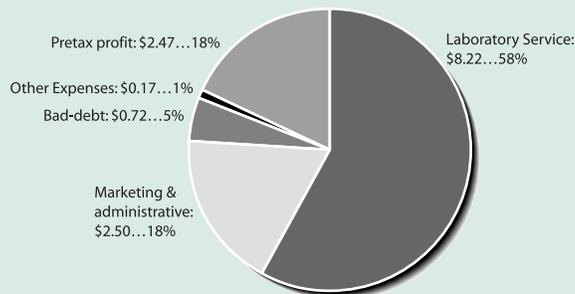
The Nitty Gritty Behind The Average Test At The Big Labs

What are the economics behind the average billable test processed by Quest Diagnostics and LabCorp? For the answer, *LIR* scoured the financial reports of each of the big two commercial labs. Here's what we found:

On average, the two big commercial labs received \$35.25 of revenue per requisition, or \$14.10 per billable test (assuming 2.5 billable tests per requisition). They spend an average of \$8.22 to obtain, transport, and test the average billable unit. Another \$2.50 is spent on marketing and administration (including billing operations). Bad-debt and other costs add up to \$0.89. That leaves an average of pretax profit of \$2.47 per billable test for an 18% margin.

Increasing economies of scale have helped Quest and LabCorp raise their pretax profit margins from the 6% to 7% range that each lab was operating at five years ago. But smaller lab competitors say these financial gains have come at the expense of the loss of the "personal touch" these corporate giants have with their clients. For more, see pages 5-7. 🏠

Billable Test Breakdown for Quest and LabCorp
(average revenue per requisition = \$14.10)



Source: *LIR* based on 2004 company reports

California, Missouri Expand Newborn Screening

Within the past three months, six states have expanded required lab testing for newborns, including California (530,000 births/year) and Missouri (75,000 births/year). These state-level changes represent part of a larger trend toward uniform national standards for newborn screening of at least 29 conditions being advocated by the federal government, the American College of Medical Genetics, the American Academy of Pediatrics, and the March of Dimes. Expanded newborn screening is creating a significant market opportunity for a handful of commercial and hospital labs that subcontract testing from state health agencies.

■ CALIFORNIA, MISSOURI, SOUTH DAKOTA, from page 1

Newborn screening is performed from a blood specimen taken from a prick to an infant's heel a few days after the child is born. These testing programs are run by state public health laboratories. However, when a state does not have the funds or expertise to operate a newborn-screening laboratory, they will subcontract the testing out to a commercial lab.

For example, Pediatrix Screening (Bridgeville, PA) holds statewide contracts to perform newborn screening in Mississippi and Nebraska; Mayo Medical Laboratories (Rochester, MN) has the contract in Minnesota; and the University of Massachusetts holds contracts in Massachusetts, Maine, Vermont, and Rhode Island.

In addition, some states allow each hospital to choose which newborn screening lab to use. The cost of state-mandated testing is either paid by the parent's health insurance or Medicaid.

The first newborn screening test was developed in 1961 for phenylketonuria, or PKU, an enzyme abnormality. Without dietary management, PKU causes mental retardation, dangerous blood clots, and liver failure. Now, nearly all states screen for PKU and three other disorders (galactosemia, congenital hypothyroidism, and sickle cell disease).

But since there is currently no federal law regulating newborn screening programs, each state determines its own policies and procedures. For example, 23 states require screening for more than 20 disorders, 12 states require between 10 and 20 tests; while another 15 states and the District of Columbia mandate fewer than 10 tests, according to a recent survey by the March of Dimes.

Uniform Screening Panel Recommended by March of Dimes

(29 conditions, organized into 5 categories. MS/MS = tandem mass spectrometry)

Organic Acid Metabolism Disorders—test by MS/MS

IVA = Isovaleric academia
GA-I = Glutaric acidemia type I
HMG = 3-Hydroxy-3-methylglutaric aciduria
MCD = Multiple carboxylase deficiency
MUT = Methylmalonic acidemia, mutase deficiency form
3MCC = 3-Methylcrotonyl-CoA carboxylase deficiency
Cbl A,B = Methylmalonic acidemia, Cbl A and Cbl B forms
PROP = Propionic acidemia
BKT = Beta-ketothiolase deficiency

Amino Acid Metabolism Disorders — test by MS/MS

PKU = Phenylketonuria
MSUD = Maple syrup urine disease
HCY = Homocystinuria
CIT I = Citrullinemia type I
ASA = Argininosuccinate acidemia
TYR I = Tyrosinemia type I

Fatty Acid Oxidation Disorders—test by MS/MS

MCAD = Medium-chain acyl-CoA dehydrogenase deficiency
VLCAD = Very long-chain acyl-CoA dehydrogenase deficiency
LCHAD = Long-chain hydroxyacyl-CoA dehydrogenase deficiency
TFP = Trifunctional protein deficiency
CUD = Carnitine uptake defect

Hemoglobinopathies (Hemoglobin Disorders)

Hb S/S = Sickle cell disease
Hb S/Th = Hemoglobin S/Beta-thalassemia
Hb S/C = Sickle C disease

Others

CH = Congenital hypothyroidism
BIO = Biotinidase deficiency
CAH = Congenital adrenal hyperplasia
GALT = Classical galactosemia
HEAR = Hearing deficiency
CF = Cystic fibrosis

Source: The March of Dimes (based on the American College of Medical Genetics report, "Newborn Screening: Toward a Uniform Screening Panel and System," 2005)



The March of Dimes group is urging states to follow recently issued recommendations from the American College of Medical Genetics that testing be required for a total of 29 conditions (*see table on page 2*).

“Parents need to know that the extent of newborn screening for serious and treatable disorders depends entirely on the state in which their baby is born,” says Jennifer Howse, M.D., president of the March of Dimes. “For infants affected with these conditions, the tests can mean the difference between life and death, or health and lifelong disability,” she adds. Howse says states should be able to perform the 29 tests at a cost of less than \$100 per baby screened.

LIR estimates that the total market for newborn screening in the United States is some \$205 million per year (4.1 million newborns per year multiplied by an average of \$50 of lab testing). About two-thirds of the testing is performed by state public health laboratories and one-third by commercial and hospital labs. [Editor’s note: *LIR* initially underestimated the size of the newborn screening market at \$100 million (*see LIR, June 2005, page 12*).]

The market for newborn screening could easily double as more and more states mandate increased testing, *LIR* believes. Here’s what’s happening in six states that recently expanded their screening requirements:

California

Effective July 11, California’s newborn screening program increased the number of conditions it screens for from four to more than 45 for the 530,000 babies born each year in the state. California had detected about 500 newborns per year with one of the four disorders for which it was screening, and with the expansion, the state anticipates it will detect another 115 to 150 newborns every year with one of the added disorders.

To pay for the program, California raised its newborn screening fee from \$60 to \$78, according to George Cunningham, M.D., chief of the genetic disease branch at the California Department of Health Services (CDHS).

CDHS contracts with eight commercial laboratories in the state to perform the screenings, including the labs at Kaiser Permanente (north and south), Western Clinical Laboratory (Roseville), Allied Labs (Cupertino), Fresno Community Hospital (Fresno), Orange Coast Health Tech Regional Laboratory (Fountain Valley), Memorial Medical Center (Long Beach), and Quest Diagnostics (Van Nuys).

Texas

On July 1, Texas Governor Rick Perry signed into law a bill that gives the Texas Department of State Health Services the authority to expand its newborn screening program to the extent that funding is available. Texas currently screens the 374,100 babies born each year in the state for six disorders at a price of \$19.20 per newborn screened. Testing is performed at the Department of State Health Services’ laboratory in Austin.

Jann Melton-Kissell, director of specialized health services for the Texas Department of State Health Services, says the department is currently evaluating which tests to add to the panel. It is also calculating whether it is more cost effective to

purchase the necessary tandem mass spectrometers and hire additional lab staff or subcontract the additional testing to a commercial lab. She says the decision will be made by November 2006.

Missouri

Effective July 1, Missouri's newborn screening program increased the number of conditions it screens for from five to 27 for the 75,000 babies born each year in the state. All of the testing is performed at the state's Newborn Screening Laboratory in Jefferson City, Missouri.

About 90 of 75,000 newborns in Missouri are confirmed to have one of the five diseases currently screened each year. As a result of the expansion to 27 tests, an estimated 10 to 15 additional infants each year will be identified and will benefit from early intervention and medical care, according to Missouri Gov. Matt Blunt.

Blunt said health insurance companies or Medicaid will pick up the costs of the screenings, which are \$50 a child. The Republican governor said a \$550,000 federal grant helped to fund costs related to the expanded screenings.

South Dakota

Effective June 1, 2005, the South Dakota Newborn Screening Program, which tests 11,000 babies per year, expanded its newborn panel from four tests to more than 30. The price per screen increased from \$18.53 to \$111.41. Sioux Valley Clinical Laboratories is the contracted lab for South Dakota.

Kentucky

Kentucky, which has 52,700 newborns per year, recently began expanding its newborn screening program from five tests to the 29 tests recommended by the March of Dimes. The Department for Public Health in the Cabinet for Health and Family Services manages the state's newborn screening program. Kentucky plans to do all testing at its public health laboratory in Lexington and has purchased two new tandem mass spectrometers.

New York

New York's newborn screening program, operated by the State Health Department's Wadsworth Laboratory (Albany), expanded its panel of tests from 11 to 31 disorders at the end of 2004, and added another 13 tests in May of this year. The Wadsworth Laboratory now screens all 252,000 babies born in New York every year for 44 disorders at no cost to the patient.

Direct Marketing to Parents

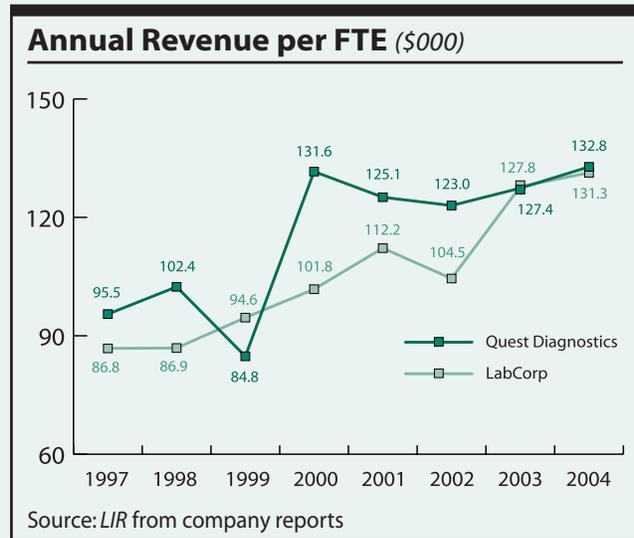
In addition to subcontracts with state public health agencies, commercial newborn screening labs also market supplemental newborn screening panels directly to parents who are willing to pay out of pocket for expanded testing. For example, Pediatrix advertises in parenting magazines and on Google, spokesman Bob Kneeley says. Expectant parents can order the "StepOne Newborn Screening Packet" from Pediatrix for \$89, plus \$6.35 for specimen shipping to the company's lab in Pennsylvania. Under this program, a physician must confirm whether the test is medically appropriate, order the test, oversee specimen collection, and receive a copy of and release the results to the parent(s). 🏠

INSIDE THE LAB INDUSTRY

Benchmarking The Major Labs

LIR's second annual review of benchmarking statistics (see *LIR*, July 2004, pp. 1, 5-7) at the two major commercial labs shows that acquisitions continue to raise their productivity. Last year, Quest Diagnostics increased its average revenue per employee by 4% to \$132,813; LabCorp's increased by 3% to \$131,268.

Employees (FTEs) at Quest processed an average of 14.4 requisitions per workday in 2004, up from 14.1 in 2003. LabCorp increased to 15.5 reqs/FTE per day from 15.3.



Quest raised its average annual revenue per major lab facility by 9% to \$147.8 million per year, while its patient service centers averaged \$851,000 in annual revenue, up 15%. LabCorp generated \$96.4 million per major lab, up 2%, and its PSCs averaged \$878,000, up 14% from 2003's average of \$767,000.

Critics say the tremendous and growing throughput at Quest and LabCorp facilities is resulting in poorer service and more lost specimens and test results. Regardless of who's right in this debate, there's no question that the larger commercial labs are becoming productive based on the most common financial benchmarks.

To get a handle on exactly how productive the big commercial labs are, *LIR* reviewed their 2004 annual reports. Here are the details of our analysis:

Productivity at Four Commercial Labs, 2004

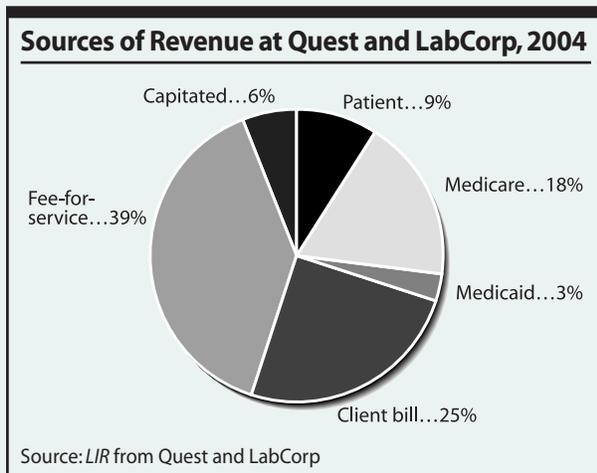
	Quest ¹	LabCorp	Bio-Reference	LabOne ²	Unweighted Averages
2004 Requisitions	139,000,000	91,117,600	2,522,000	4,461,000	—
2004 Billable tests ³	347,500,000	227,794,000	6,305,000	11,152,500	—
Full-time employees ⁴	38,600	23,500	988	1,086	—
Annual reqs per FTE	3,601	3,877	2,553	4,107	3,535
Daily reqs per FTE ⁴	14.4	15.5	10.2	16.4	14.1
Annual billable tests per FTE	9,003	9,693	6,382	10,269	8,837
Daily billable tests per FTE ⁵	36.0	38.8	25.5	41.1	35.4
Avg. revenue per requisition	\$36.16	\$33.86	\$53.71	\$37.38	\$40.28
Avg. revenue per billable test	\$14.47	\$13.54	\$21.48	\$14.95	\$16.11
Major laboratories	34	32	1	2	—
Revenue per laboratory	\$147.8M	\$96.4M	\$136.2M	\$83.4M	\$116.8M
Patient service centers	1,950	1,160	53	47	—
Revenue per PSC	\$2.6M	\$2.7M	\$2.6M	\$3.5M	\$2.9M
Adjusted revenue per PSC ⁶	\$851K	\$878K	\$848K	\$1.2M	\$944K

1) The revenue for Quest used in these calculations excludes an estimated \$100 million from the company's test kit manufacturing and information technology businesses (i.e., total 2004 revenue of \$5.127 billion minus \$100 million = \$5.027 billion in clinical lab and pathology revenue.); 2) for LabOne's clinical lab business only, employees are estimated based on pro rata revenue; 3) assumes 250 workdays per year; 4) includes all administrative and technical staff, part-time employees are counted as .5 FTE; 5) assumes 2.5 billable tests per requisition; 6) assumes that one-third 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 \$149K in Revenue per Employee

Revenue per full-time employee averaged \$148,849 for 10 major commercial labs last year, up slightly from \$148,742 in 2003, according to an analysis of financial reports by *LIR*.

Specialty Laboratories generated the most revenue per employee, at \$195,650, followed by **AmeriPath** at \$185,882, and **LabOne** at \$153,529. **Quest Diagnostics** (\$132,813) edged out **LabCorp** (\$131,268). But in terms of profitability, LabCorp led the pack by earning pretax income of \$26,183 per employee, followed by Quest, \$21,635, and **Bio-Reference**, \$12,334.



And where do the two biggest commercial labs derive their revenue? Quest and LabCorp get the biggest percentage of their revenue (39%) from fee-for-service health insurance plans; Medicare accounts for 18%; client billing to hospitals and physician offices accounts for 25%; direct billing of patients, 9%; and Medicaid, 3%.

Capitated managed care contracts represent only 6% of revenue (or 15% to 20% of testing volume) at the big labs. This means that 94% of their business (or 80% to 85% of testing volume) is open to competition

from independent labs and hospital outreach programs. Although the level of capitation varies depending on the geographic market and preferred lab provider status for fee-for-service enrollees is sometimes tied into these contracts, there's no mistaking the fact that the majority of the business at Quest and LabCorp is not tied down by contract. This seems to put a big hole in the "exclusion from managed care contracts is holding back our growth" argument that some independent and hospital labs make.

Financial Benchmarks at 10 Commercial Labs, 2004

Company	Revenue (millions)	Full-Time Employees*	Revenue/Employee	Pretax Income (millions)	Pretax inc./Employee
Quest Diagnostics	\$5,126.6	38,600	\$132,813	\$835.1	\$21,635
LabCorp	3,084.8	23,500	131,268	615.3	26,183
AmeriPath	507.3	2,729	185,882	2.9	1
Genzyme Genetics	187.4	1,500	124,942	NA	NA
LabOne**	166.7	1,086	153,529	NA	NA
Bio-Reference	136.2	988	137,838	12.2	12,334
Specialty Laboratories	134.8	689	195,650	-13.1	-19,058
Medtox	56.7	415	136,713	2.9	7,077
ViroLogic	36.8	250	147,204	-81.8	-327,016
Enzo Biochem***	28.7	201	142,647	NA	NA
Unweighted average			\$148,849		NA

*includes all administrative and technical staff, part time employees are counted as 1-half 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

The average days in accounts receivable (DAR) at 10 commercial labs was 77 days in 2004, unchanged from 2003. However, bad-debt expense rose to an average of 8.6% versus 7.5%. In other words, last year, these 10 lab companies received payment an average of 77 days after sending out their bills and had to write off 8.6% of their net billings (after contractual allowances) as uncollectible.

Quest Diagnostics had the lowest DAR at 46 days (versus 47 days in 2003), with a bad-debt expense of 4.4% (versus 4.8% in 2003) of net revenue. Quest attributed part of the improvements to greater use of electronic ordering by its clients and patient service centers. Quest currently receives approximately 40% of its requisitions electronically, up from 30% a year ago.

LabCorp's DAR improved to 52 days from 54 days; bad-debt was lowered to 6.3% from 7.3%. LabCorp says reducing the number of requisitions with missing billing information is a top priority. The company is monitoring the number of requisitions received with missing information from each ordering client, as well as determining what specific information was not provided.

LabCorp then attempts to identify the root causes of why the information was missing and re-educates its clients as to what information is needed for the company to bill and collect for the test.

LabCorp says it's also implementing numerous initiatives related to self-paying patients, including 1) collecting payment at the time of service; 2) increased training for billing personnel related to improving collections during phone calls; and 3) reviewing bill design and frequency.

Meanwhile, the purely esoteric lab companies all reported respectable DARs and low bad-debt expenses. For example, **Specialty Laboratories** (Valencia, CA) had a DAR of 72 days and a bad-debt expense of 4.0%; **ViroLogic** (South San Francisco, CA) also had a DAR of 72 days and bad-debt of just 0.9%. 🏠

Billing & Collection Management at 10 Commercial Labs, 2004 vs. 2003

Company	Average Days in Accounts Receivable		Bad-Debt Expense	
	2004	2003	2004	2003
AmeriPath	55	61	15.1%	14.7%
Bio-Reference	110	110	12.9	11.7
Enzo Biochem*	167	174	35.7	29.6
LabCorp	52	54	6.3	7.3
LabOne	57	61	2.0	1.8
Medtox	53	59	1.0	1.2
Myriad Genetics	90	73	3.6	0.1
Quest Diagnostics	46	47	4.4	4.8
Specialty Laboratories	72	68	4.0	3.2
ViroLogic	72	67	0.9	0.3
Unweighted averages	77	77	8.6%	7.5%

*calculated for Enzo's clinical lab business only

Source: LIR from company reports



Lab Outreach Snapshot: Northeast Georgia Health System

Lab outreach at Northeast Georgia Health System (NGHS-Gainesville) has grown by an average of approximately 16% per year for the past 10 years and now represents nearly 30% of total lab volume of 1.2 million billable tests and about \$6.5 million of annual collected revenue, according to Jo Brewer, administrative lab director. She says lab outreach at NGHS is on track to reach to 300,000 billable tests for the fiscal year ending September 30, up from 275,000 the previous year.

The main laboratory at NGHS is located at Northeast Georgia Medical Center, a 450-bed hospital that's located 50 miles north of Atlanta. NGHS owns a primary care network of 15 physician groups that are used as draw stations for the outreach program.

NGHS competes with both Quest Diagnostics and LabCorp, each of which operates a major lab in Atlanta. Additional competition comes from a small privately held lab named Clinical Laboratory Services in nearby Winder, Georgia. There are also two local clinics with sizable labs in the area.

Brewer attributes NGHS's lab outreach growth to a combination of aggressive sales and a heightened focus on customer service. "Fortunately, since we are local, comparatively smaller and nimble, our sales rep gets to new local prospects before the competition. Because we are hospital based, we generally know before others when a new physician is coming to town," she says. "Our client services department is comprised of experienced MLTs. They are on a first name basis with many of the staff in the offices and take ownership of the care and service of our outreach clients," she adds.

Brewer notes that BCBS of Georgia operates the biggest HMO in the state and LabCorp has the exclusive contract. But she says that less than 5% of the population in northeast Georgia enrolled in the HMO, leaving plenty of PPO members to compete for.

Northeast Georgia Health System at a Glance

Medical director: Linton L. Kuchler, M.D.
 Administrative director: Jo Brewer
 Main laboratory: Northeast Georgia Medical Center
 Lab employees: 120 FTEs
 Inpatients volume: 900,000 billable tests/yr
 Outreach volume: 300,000 billable tests/yr
 Collected outreach revenue: \$6.5 million/yr
 Reference lab: Mayo Medical Laboratories
 LIS system: Misys
 Web-connectivity vendor: Dr. Chart
 Source: LIR from NGHS

NGHS began using the Dr. Chart Web-connectivity system in May 2001 and now has 48 physician office clients hooked up for order entry and results reporting. LIS manager Joyce Massey says physician office clients that generate \$1500 to \$2000 in collected lab revenue per month, or have the potential to so, are targeted for installation.

Massey says most physician clients have been willing to type patient demographic data into the Dr.



Chart system for test ordering. And she says NGHS is in the process of interfacing Dr. Chart with practice management systems from IDX and Misys to make test ordering easier. Massey says staff from IDX, Misys, and Dr. Chart are helping to establish these interfaces. She notes that the Dr. Chart system is already interfaced with an electronic medical record (Logician) being used by one of its largest physician group clients (35 docs).

Massey says that Web-based ordering has helped reduce missing information on requisitions, especially diagnosis codes and ordering physicians' names. Another benefit is that ABNs are automatically printed when a test won't be reimbursed by Medicare.

The key to getting physician offices to input their own orders is vigilant training, according to Massey. She notes that NGHS employs a full-time person dedicated to giving onsite Web order-entry training to physician clients. "If you don't put in the required training resources, then it won't get used," she notes.

In terms of test menu expansion, Brewer says the NGHS main lab has added BNP, Myoglobin, Methotrexate, and Platelet Function testing within the last 12 months. For the next 12 months, she says, Cyclosporin will be added and possibly molecular testing for higher volume infectious disease testing only. 🏛️

Texas Will Now Require Coverage Of HPV Testing

Texas has become the third state to require that insurers pay for testing for the human papillomavirus (HPV) as part of cervical cancer screening for women age 30 and older. Texas will require the new coverage as of Jan. 1, 2006.

Texas follows New Mexico and Maryland, both of which recently passed similar laws requiring insurance coverage of HPV testing as part of routine screening. HPV is a common virus that causes almost all cases of cervical cancer.

Digene (Gaithersburg, MD) makes the only test approved by the FDA for high-risk types of HPV. While only three states require coverage, Digene says an estimated 23 states have set up task forces to study ways to expand cervical cancer screening and educate women on the importance of regular screening and the availability of new approaches such as HPV testing. 🏛️

LabOne Begins Move Into New Cincinnati Lab

LabOne (Lenexa, KS) says it has begun moving into its new \$24 million laboratory in Cincinnati, home to the company's second-largest operations center outside its Kansas headquarters. The 136,000-square-foot lab will serve as the new home for the acquired lab operations of the Health Alliance of Greater Cincinnati, which had been operating out of the basement of a hospital. To fill up the new capacity, LabOne has been expanding into new cities and towns in Ohio and is seeking to make lab acquisitions that can be consolidated. 🏛️

Some Tips On Negotiating Better Reference Lab Contracts

On July 21, Washington G-2 Reports sponsored a national audio conference titled *Holding the Line on Reference Testing Expenses: How to Play Hardball with the Big Labs*. The conference featured two executives, Debbie Warren, director of business development at Chi Solutions and former general manager of LabCorp's operations in the Burlington, North Carolina/Blue Ridge Region, and Glen McIver, managing director of laboratory and respiratory care services at Centra Health (Lynchburg, VA), a hospital system that includes Lynchburg General Hospital and Baptist Virginia Hospital.

Here are some of the highlights from the audio conference:

What can labs do help ensure they are getting the best pricing from their reference lab vendor? McIver advised labs to look beyond the pricing for their top 25 to 50 send-out tests. He said that reference labs often use these high-volume tests as loss leaders and make up the difference with higher pricing for low-volume tests at list prices that exceed \$100 per test. "We've seen differences of \$50,000 to \$60,000 per year on one test when we compared prices from different reference labs," said McIver. "Don't just look at the tip of the iceberg. Look at the entire package," he added.

Warren said that reference labs often judge the profitability of a hospital client based on the average price per requisition (PPR) they receive from each client. If the PPR is \$40 or more, then the account is considered to be profitable to the reference lab. As a result, Warren advises hospital clients to calculate their average price paid per-requisition and compare that to the \$40 mark.

In addition, Warren said that hospitals that are members of group purchasing organizations (GPOs) should not be afraid to seek contract with non-preferred reference labs. She noted that generally there is no penalty to the hospital for going outside the GPO and that non-preferred labs are often willing to provide better pricing.

What can labs do to limit their exposure to high-priced proprietary tests that companies like Myriad Genetics, Athena Diagnostics, and Prometheus Labs market directly to physicians? Warren said hospital labs need to take themselves out of the billing loop so they don't get stuck paying for expensive tests ordered by physician offices. She noted that in Texas, two of her client hospitals contacted the sales rep of a proprietary lab and negotiated a contract to draw blood. These hospitals now get a \$10 fee per patient for phlebotomy services and are not billed for the expensive tests from the proprietary lab.

What are some of the fast-growing send-out tests that labs should keep an eye on? McIver said he's seeing increased volumes from OB/GYN offices for testing done from thin-layer PAPs like Chlamydia/gonorrhea and HPV. Warren agreed and noted increased volumes from OG/GYN offices for AFP quad and cystic fibrosis testing. She noted a hospital that saved \$125,000 per year just by renegotiating pricing with its reference lab for these two tests.

Is there a difference in quality between the major reference labs?

Warren said each reference lab could be counted on for the accuracy of their testing. The difference is in the customer service support and access to pathologists for consultation, she said. "Some reference labs have chosen not to invest in these types of people and 24/7 coverage," according to Warren. 🏠



Lab Stocks Down 7% So Far This Year

Stock prices for the 10 companies in the G-2 Laboratory Index have fallen an unweighted average of 7% year to date through July 19, with six stocks down in price and four up. Over the same time period, the S&P 500 is up 1%, and the Nasdaq is flat.

LabOne is the leading gainer so far this year—up 25% to \$40 per share for a market cap of \$696 million. Wall Street analysts expect the company to earn \$1.73 per share in 2005, up 19% from \$1.45 last year; revenue is expected to increase by 11% to \$518.6 million.

Quest Diagnostics, which had a two-for-one stock split effective June 21, is up 12% to \$53.39 per share for a market cap of \$10.64 billion. Analysts expect Quest to earn \$2.76 per share in 2005 versus \$2.42 in 2004; revenue is forecast to rise by 5.5% to \$5.4 billion.

LabCorp is up 3% year to date to \$51.42 per share for a market cap of \$6.88 billion. The company is expected to earn \$2.80 per share in 2005 versus \$2.45 in 2004; revenue is forecast to rise by 7.5% to \$3.31 billion.

Specialty Labs is down 22% to \$8.64 per share for a market cap of \$201 million. Analysts expect Specialty to lose \$0.17 per share in 2005 versus a loss of \$0.54 per share last year; revenue is forecast to rise by 12% to \$151.3 million.

Medtox is down 22% to \$7 per share for a market cap of \$52 million. Analysts expect Medtox to earn \$0.34 per this year versus \$0.23 per share in 2004; revenue is forecast to grow by 11% to \$63 million. 🏠

Lab Stock Performance Year to Date through July 19, 2005

<i>Company (ticker)</i>	<i>12/31/04 Price</i>	<i>7/19/05 Price</i>	<i>YTD % Chg</i>	<i>P/E Ratio</i>	<i>Div. Yield</i>	<i>Market Cap (\$ millions)</i>
LabOne (LABS)	32.04	40.00	25%	23	...	\$696
Quest Diagnostics (DGX)	47.78	53.39	12	21	0.6%	10,640
LabCorp (LH)	49.82	51.42	3	19	...	6,880
Psychemedics (PMD)	12.95	13.37	3	23	2.3%	69
ViroLogic (VLGX)	2.79	2.52	-10	NA	...	306
Enzo Biochem (ENZ)	19.47	17.05	-12	NA	...	545
Bio-Reference (BRLI)	17.40	13.68	-21	20	...	172
Specialty Labs (SP)	11.04	8.64	-22	NA	...	201
Medtox (TOX)	9.00	7.00	-22	30	...	52
Myriad Genetics (MYGN)	22.51	17.43	-23	NA	...	544
Unweighted average			-7	23		



Specialty Labs (Valencia, CA) has named David Weavil as its CEO effective July 22. The hiring fills the gap left when Doug Harrington, M.D. resigned as chief executive in March (see *LIR*, June 2005, pp. 1-3).

From 1982 to 1995, Weavil served in a variety of capacities at Roche Biomedical Laboratories (RBL), including as chief financial officer, and later as senior vice president and chief operating officer, overseeing the merger of RBL and National Health Laboratories to form LabCorp in 1995. From 1995 to 1997, he served as executive vice president and chief operating officer of LabCorp. In 1997 he left LabCorp to serve as chairman and chief executive of Unilab. Since 1999, Weavil has served as a healthcare consultant, advising companies on strategy and growth opportunities.

“David is an accomplished and seasoned executive with impressive leadership skills and deep experience in all aspects of laboratory operations. We are confident that he will implement the business discipline necessary to continue the company’s turn-around and increase shareholder value,” said Specialty chairman Richard Whitney in a press release.

Specialty says that David Schreiber, a member of the company’s board and former chief financial officer at Dianon, will continue to serve as a consultant to the company to assist Weavil with various financial and operating initiatives. 🏠

References in this issue

- Chi Solutions 734-662-6363
- Digene 301-944-7000
- LabOne 913-888-1770
- March of Dimes 914-949-7166
- Mayo Medical Labs, 800-533-1710
- National Newborn Screening and Genetics Resource Center
512-454-6419
- Pediatrix Screening 412-220-2300
- Quest Diagnostics 800-222-0446
- Specialty Laboratories
661-799-6543

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