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LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

United Healthcare RFP Seeks 15-20% Lab Cuts; Potential Commercial Lab Middleman Worries Labs

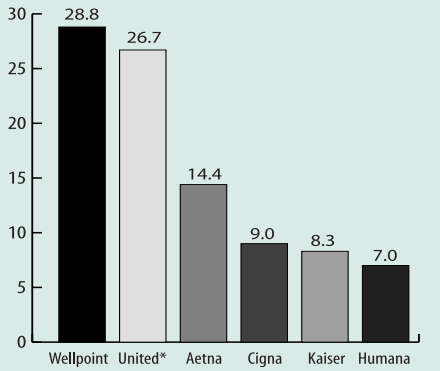
United Healthcare (Minnetonka, MN) has issued a request for proposal (RFP) for laboratory management services to its 20+ million health plan members with the goal of cutting a minimum 15% to 20% off its current $2 billion per year outpatient lab testing expense. United is seeking proposals for both regional and national solutions, and proposals are due Sept. 30, 2005.

News of the RFP has raised the anxiety levels of executives at hospital outreach programs and independent labs throughout the nation. Most view Quest Diagnostics or LabCorp as the only organizations that have the management resources and low cost structure necessary to make legitimate bids for the contract. This could mean that all labs wanting to perform lab tests for United's members would need to be part of a lab network managed by either Quest or LabCorp.

The contract(s) would impact nearly every lab in the nation. After the close of its recently announced plans to acquire PacifiCare Health Systems (Cypress, CA), United will provide health plan coverage (including HMO, POS, PPO, and indemnity plans) to a total of 26.7 million members. That equates to roughly one out of every 12 people in the United States. For more details, see *Inside the Laboratory Industry*, pp. 5-9.

Health Plan Membership

(in millions as of June 30, 2005)



*includes 3.4 million members from pending PacifiCare acquisition Source: *LIR* from companies

Publicly Traded Labs Growing By Average 6%

Fourteen publicly traded lab companies increased their revenue on a pro forma basis (i.e., after adjustments for acquisitions) by a weighted average of 5.7% in the first six months of 2005. That's a small deceleration from the average 6.1% growth these same companies booked in full-year 2004.

➥ *p. 2*

PUBLICLY TRADED LABS GROWING BY AVERAGE 6%, *from page 1*

The fastest-growing publicly traded lab was **Clarient Inc.** (San Juan Capistrano, CA), which grew its revenue by 113% to $9.2 million in the six months ended June 30, 2005. Clarient was formerly named Chromavision and had been focused on selling a digital imaging system to anatomic pathology labs. Early this year, the company was renamed Clarient and shifted its focus to offering flow cytometry and genetic testing services from a new CLIA-certified laboratory in Irvine, California.

Next was **Myriad Genetics** (Salt Lake City), whose main product is its BRACAnalysis test for hereditary breast cancer. Myriad grew its lab business by 58.8% to $39.4 million in the six months ended June 30, 2005.

ViroLogic (South San Francisco), which specializes in esoteric tests for HIV, grew by 22.8% to $22.4 million; **Bio-Reference Labs** (Elmwood Park, NJ) grew by 21% to $76.9 million; and **Specialty Laboratories** (Valencia, CA) grew by 17.3% to $75.7 million.

The only lab company to report declining revenue was **Genzyme Genetics** (Westborough, MA), whose revenue fell 8% to $106.9 million (after adjustments for last year's acquisitions of Alfigen and Impath's cancer testing business).

The largest lab, **Quest Diagnostics** (Teterboro, NJ) grew by 5.2% to $2.697 billion (after adjusting for the acquisition of Omega Medical Laboratories earlier this year). **LabCorp** (Burlington, NC) increased its revenue by 3.6% to $1.652 billion (after adjustments for the acquisitions of MDS labs in New York and Georgia, Redding Pathologists Labs, Clinical Labs of the Black Hills, US Labs, and Esoterix).

Excluding Quest and LabCorp, the 12 other publicly traded lab companies grew by a weighted average of 11.0% (after adjustments for acquisitions) in the six months ended June 30, 2005.

Revenue Growth* at 14 Publicly Traded Lab Companies *($000)*

Company	*Revenue First-Half '05*	*Revenue First-Half '04*	*Reported Change*	*Pro forma Change*
Quest Diagnostics	$2,697,014.0	$2,553,416.0	5.6%	5.2%
LabCorp[1]	1,652,400.0	1,536,800.0	7.5	3.6
AmeriPath	277,514.0	251,117.0	10.5	6.2
LabOne[2]	251,959.0	230,308.0	9.4	7.1
Genzyme Genetics[3]	106,903.0	77,242.0	38.4	-8.0
Bio-Reference[4]	76,884.0	62,597.0	22.8	21.0
Specialty Laboratory	75,678.0	64,521.0	17.3	17.3
Myriad Genetics[5]	39,361.0	24,784.0	58.8	58.8
Medtox Scientific[6]	24,068.0	21,715.0	10.8	10.8
ViroLogic	22,408.0	18,249.0	22.8	22.8
Orchid Cellmark	30,502.0	28,425.0	7.3	7.3
Enzo Clinical Labs[7]	16,579.0	14,610.0	13.5	13.5
Psychemedics	10,953.1	9,502.9	15.3	15.3
Clarient	9,216.0	4,322.0	113.2	113.2
Total, 14 companies	5,291,439.1	4,897,608.9	8.0	5.7
Total,12 companies (ex. Quest and LabCorp)	942,025.1	807,392.9	16.7	11.0

*After adjustments for acquisitions. [1]Pro forma change for LabCorp is estimated. [2]Pro forma change for LabOne is estimated. [3]Pro forma change for Genzyme Genetics is estimated. [4]Bio-Reference's revenue is for six months ended April 30. [5]Myriad Genetics' revenue is for its lab business only. [6]Medtox's revenue is for lab services only. [7]Enzo's revenue is for six months ended April 30. Source: *LIR* from company reports

UBS Conference Highlights: Quest, Myriad, Bio-Reference

Quest's CFO says pricing discipline is extremely important.

At the UBS Global Life Sciences Conference, September 26 to 29 in New York City, several publicly traded labs made presentations to mutual fund managers and hedge funds. Here are some highlights:

Quest Diagnostics serves half of the physicians and half of the hospitals in the nation, Robert Hagemann, chief financial officer, told the money managers. Because of its size, diagnostic test manufacturers seeking distribution of new tests come to Quest first, according to Hagemann. "Quest has the right of first refusal for distribution of new tests," he said.

Hagemann also touted Quest's information technology capabilities through its Care360 physician portal/electronic medical record and its Chart Maxx hospital electronic patient record. He noted that Quest employs a total of 1,500 people in information technology development and support. The company currently sends 60% of its test results and gets 40% of orders via the Internet.

Hagemann said that Quest currently generates about 50% of its revenue, or $2.55 billion, from managed care contracts. "As the industry leader, maintaining pricing discipline is extremely important," said Hagemann.

Myriad Genetics expects to generate $2 million per month in cash profits from its genetic testing business over the next year, according to Peter Meldrum, president. He said the testing profits are being used to fund the development of drugs the company is developing for Alzheimer's, HIV, and cancer.

The company currently has four predictive tests on the market: BRACAnalysis for breast and ovarian cancer ($2,975 per test); the colon cancer tests Colaris and Colaris AP (respectively priced at $1,950 and $1,685); and Melaris for skin cancer ($745 per test).

Meldrum said new tests under development include predictive tests for prostate cancer and Type II diabetes as well as a pharmacogenomic test for pancreatic cancer.

Bio-Reference Laboratories grew its revenue by 19% to $42.7 million in the three months ended July 31, 2005; revenue per requisition increased by 4% to $57.17. Marc Grodman, M.D., president, said that the company has the capacity for continued growth after nearly doubling its laboratory and headquarters space to 140,000 square feet last year.

Myriad is generating $2 million per month in cash profits from its expensive genetic tests.

Grodman said the company's esoteric testing is driving growth and now accounts for 35% of revenues. He highlighted the company's hematopathology (leukemia/lymphoma diagnosis) business, which is marketed by the company's 20 specialized sales reps.

He also noted the company's Web-based lab order entry and results reporting business, CareEvolve, which is now being used by 21 hospital systems and generating $500,000 per quarter in revenue.

Note: The November issue of *LIR* will include highlights from presentations made by LabCorp, Monogram Biosciences (formerly ViroLogic), Orchid Cellmark, Prometheus Laboratories, and XDx Inc.

Genomic Health Seeks Up To $70M From IPO

Genomic Health (Redwood City, CA), which markets a proprietary breast cancer test called Oncotype Dx, is planning to sell 5.02 million shares at a price of $12 to $14 each through an initial public offering (IPO). JPMorgan and Lehman Brothers are the lead underwriters for the offering.

Genomic Health says it will use the proceeds from the IPO (between $60.2 million and $70.3 million) for marketing, research and development, and capital expenditures.

The company launched its Oncotype Dx test, which uses PCR to analyze 21 genes associated with breast cancer, as a home brew in January 2004. Oncotype Dx uses PCR to analyze 21 genes associated with breast cancer on tumor-tissue samples. The test provides a quantitative result that physicians can use to make cancer-patient therapies more individualized.

Genomic Health markets the test at a list price of $3,460. The company is marketing the test directly to oncologists through its 40-person sales team. The company says the test can help eliminate low-risk patients that are misclassified as high risk and receive toxic and expensive chemotherapy that can cost more than $20,000 per treatment cycle.

Oncotype Dx is currently Genomic Health's only commercially available test, and all testing is performed at the company's 25,000-square-foot laboratory in Redwood City, California. The company says it's developing other tests to help physicians evaluate recurrence and the therapeutic benefit of chemotherapy in colon, prostate, renal cell, and lung cancers and melanoma.

In the six months ended June 30, 2005, Genomic Health recorded a net loss of $15.7 million versus a net loss of $12.3 million in the same period a year earlier; revenue was $1.7 million versus $33,000. The company says more than 3,000 Oncotype Dx tests were ordered by physicians in the first half of 2005. From its inception in August 2000 through June 30, 2005, Genomic Health has accumulated losses totaling $80.5 million.

After the IPO, Genomic Health will have a total of 24.3 million shares outstanding and a market value of $316 million (assuming a share price of $13).

The top shareholders of Genomic Health include the California venture capital firms Kleiner Perkins Caufield & Byers and Versant Ventures, each of which owns 2.4 million shares, or a 9.7% stake, which will be worth $31 million assuming a share price of $13. In addition, Randy Scott, Ph.D., chairman and chief executive of Genomic Health, owns 2.25 million shares, or 9.2%, with a potential value of $29.3 million. Prior to helping found Genomic Health, Scott served 10 years as chief executive at the drug discovery firm Incyte Corp. (Wilmington, DE).

Genomic Health in Brief

Headquarters/lab:	Redwood City, CA
Chairman and CEO:	Randy Scott, Ph.D.
Chief medical officer:	Steven Shak, M.D.
Employees:	118
Proprietary test/price:	Oncotype Dx/$3,460
Accumulated losses:	-$80.5M

Source: *DTTR* from Genomic Health

Does United RFP Signal New Reimbursement Cycle Squeeze?

The pricing environment for lab tests has been pretty benign for the past five years. Although average pricing for outpatient lab tests hasn't gone up very much, it hasn't gone down a lot either. Most managed care companies have been content to try and drive test volume to their low-cost, exclusive providers (Quest, LabCorp, and a few regional labs) rather than dictate across the board lab fee schedule cuts.

But United Healthcare's plan to off load the management of its laboratory testing needs to a network manager at a 15% to 20% reimbursement cut could mark the beginning of a new cycle of pricing pressure, and it could happen quickly. Remember, United currently spends $2 billion annually on lab testing (including outpatient and outreach, clinical lab and anatomic pathology), so a 15% to 20% cut amounts to $300 million to $400 million of annual savings.

Furthermore, the winning bidder(s) is likely to take a 5% or 10% slice for administrative costs associated with managing the lab network. That would leave subcontracted labs in the network facing cuts of 20% to 30% from United's current rates.

United wants all proposals by September 30 and says it will announce its selection(s) by October 28, 2005. The contract(s) will be awarded for an effective date of Jan. 1, 2007. Contract negotiation and implementation, including network communication, system preparation, and relation transition activities, would begin immediately after the announcement of contract winner(s), according to United's RFP, which *LIR* has obtained a copy of.

What United Healthcare Wants:

1) **Electronic Data Interchange (EDI):**
Selected vendor needs 100% adoption of EDI for claims submission and electronic funds transfer for accepting fee-for-service claims payment.

2) **Long-Term Deal:**
Proposals structured for three years will be looked at favorably.

3) **Pricing:**
Wants 15% to 20% savings over current lab budget.

4) **Network Management:**
Seeks vendors that can help design a laboratory services network.

5) **Patient Access:**
Lab network must have at least one service center within 10 miles of all members in urban areas, within 30 miles for rural areas.

6) **Utilization Management:**
Assistance in developing protocols and reimbursement policies for lab services and physician compliance. United says the winning bid(s) will employ a combination of capitation and fee-for-service.

Why is United doing this?

Over the past two years, United has been on an acquisition frenzy. In February 2004, United bought Mid Atlantic Medical Services (Rockville, MD) for $2.7 billion and added 870,000 health-plan members in Maryland, Virginia, and North Carolina. Then United acquired Oxford Health Plans (Norwalk, CT) in July 2004 for $5 billion adding more than one million members in New York, Connecticut, and New Jersey. Neighborhood Health Plan, a small HMO in southern Florida, was purchased for $175 million in June 2005.

Most recently, United agreed to buy PacifiCare Health Systems for $8.1 billion in a deal that will bring in 3.3 million more members, predominantly in California, Arizona, Colorado, and Texas.

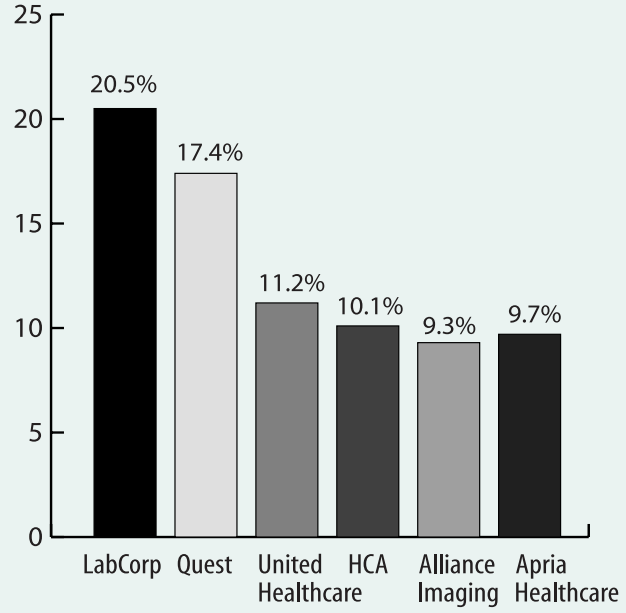
Each of these acquired managed care companies has different lab arrangements. So by putting out to bid an RFP, United can roll up all the various lab contracts at the acquired companies into one huge contract. Assuming the contract goes to a single winning lab, United will simplify its lab services needs and substantially lower its healthcare expenses (*see page 9*).

United Healthcare's Recent Acquisitions

Acquisition	*Closing Date*	*Price*	*Members*	*Key States*
Mid Atlantic Medical	Feb. 2004	$2.7B	870,000	MD, VA, NC
Oxford Health	July 2004	5.0B	1,511,600	NY, CT, NJ
Neighborhood Health	June 2005	175M	135,000	So. Florida
PacifiCare	Pending	8.1B	3,332,400	CA, AZ, CO, TX
Totals		16.0B	5,849,000	

In addition, United might feel tempted to try to squeeze down the profit margins at Quest and LabCorp. In the first half of 2005, Quest and LabCorp recorded pretax profit margins of 17.4% and 20.5%, respectively. These are almost double United's pretax profit margin of 11.2% during the same period.

Healthcare Service Company Profit Margins *(for six months ended June 30, 2005)*



Source: *LIR* from company reports

The two big labs are also considerably more profitable than several other healthcare service groups. For example, the hospital chain operator HCA (Nashville, TN) has a pretax profit margin of 10.1%, while the diagnostic imaging center company Alliance Imaging (Anaheim, CA) is at 9.3%, and home healthcare provider Apria Healthcare (Lake Forest, CA) is at 9.7%.

Why is this contract so important?
With a grand total of 26.7 million members nationwide, United provides health insurance to 9% of the U.S. population. And if you exclude the 45 million people in the United States without health insurance, then United covers 11% of the insured population.

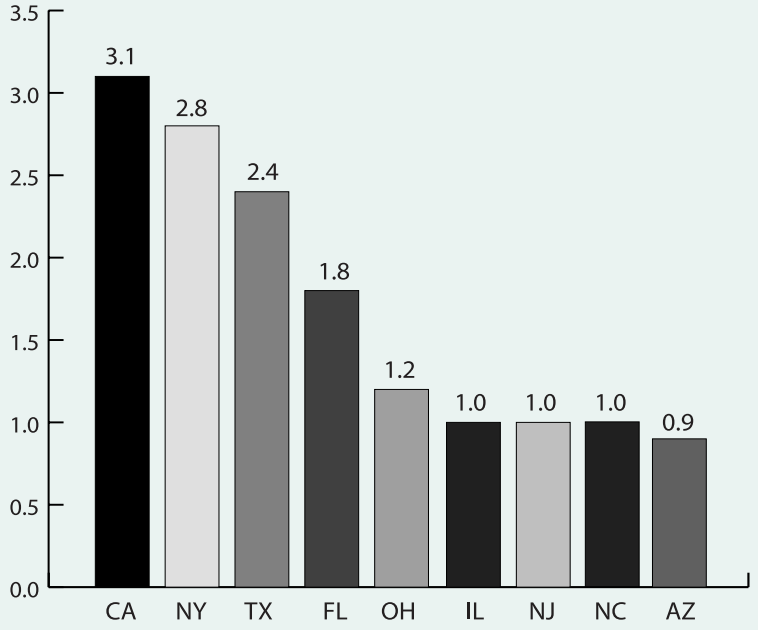
United has its greatest presence in California, 3.1 million members; New York, 2.8 million members; and Texas, 2.4 million members.

These are big numbers even for a company like Quest. Keep in mind that Quest's annualized revenue (including pending LabOne acquisition) is about $5.9 billion. The United contract could represent up to $1.7 billion of annual revenue ($2 billion in lab spending minus 15% discount).

LIR estimates that United already represents between 5% and 10% of Quest's current revenue. A sole-source national contract would raise this to as high as 30% of Quest's business.

Can any lab other than Quest or LabCorp really win this contract?
The short answer is "no." On Sept. 15, 2005, United hosted a "Bidders Conference" in Minneapolis. The meeting was the only opportunity that labs had to pose questions regarding the RFP. One attendee from a large independent lab told *LIR* that United appeared to be primarily interested in contracting with either Quest or LabCorp and was just "going through the motions" as far as other bidders were concerned.

United Healthcare's Membership* Presence by State
(in millions as of July 2005)



*includes members that will be added with acquisition of PacifiCare
Source: *LIR* from United and PacifiCare

A representative from a large Texas lab asked why United is focusing on national contracting when other major carriers, such as Cigna, have recently contracted with mid-sized labs with significant regional coverage. United answered that they feel they can save more money with either Quest or LabCorp.

Another strike against everyone but Quest and LabCorp is the pricing discount that United is asking for. Several labs across the country tell *LIR* that United's current fee schedule reimbursement for clinical lab work (excluding anatomic) which typically ranges from 60% to 90% of the Medicare Part B fee schedule, depending on the geographic market. Tack on a 20% discount and contract winner(s) could be looking at reimbursement that averages around $5 to $8 per billable test. Potential bidders that *LIR* contacted said they'd find it difficult to break even on pricing this low.

And United is also seeking capitation agreements for its HMO membership, presumably at even lower reimbursement than its fee-for-service contracts. In 2004, Quest derived approximately 19% of its testing volume and just 7% of its revenue from capitation. Based on Quest's annual report, these percentages equate to roughly 70 million billable tests for revenue of $350 million, or an average of about $5 per test. LabCorp's average revenue per capitated billable test is even lower: $3.91. And these are the big labs' average capitated reimbursement across all payers—it's a safe bet that United will want even lower rates.

Capitation at Quest and LabCorp, 2004

	Quest	*LabCorp*
Capitation revenue	$350M	$133M
Capitated requisition volume	26.5M	12.8M
Capitated billable test volume*	70M	34M
Revenue per requisition	$13.21	$10.36
Revenue per billable test	$5.00	$3.91

*assumes 2.65 billable tests per requisition
Source: *LIR* based on company reports

So that leaves Quest and LabCorp. And of these two, Quest would appear to have the advantage because it already manages a network of laboratories in the New York City region for Oxford (now part of United) called QuestNet. More than a dozen labs subcontract with Quest, which acts as the network administrator. QuestNet could be the model that Quest proposes on a national scale for United.

What about the potential regulatory risk of lowball pricing?
There could be a big regulatory risk for the winning bidder(s) related to the Medicare discriminatory billing rule proposed by the HHS Office of Inspector General. The OIG has threatened enforcement action, including exclusion from Medicare and Medicaid, against labs and other providers that billed these programs "substantially in excess" of (or 120% of) their usual charges to managed care plans and other payers.

The proposal, which first appeared in the Sept. 15, 2003, *Federal Register*, applies broadly to most Medicare Part B providers, including labs. In the OIG's view, an unlawful tiered pricing structure results when a provider's usual charge to most of its customers (excluding services to uninsured patients and capitated payments) is substantially below charges to Medicare.

The size of the United contracts plus the large expected discounting could put the winning bidder(s) at risk of being scrutinized by the OIG for discriminatory billing.

There is also the risk that the United lab contract could raise antitrust issues with the Federal Trade Commission.

Profits Up, Medical Expenses Down At United Healthcare

Over the past five years, United has been able to more than double its pretax profit margin from 5.5% in 2000 to 11.2% for the six months ended June 30, 2005. Over the same period, United's medical cost ratio (MCR) has dropped from 85.4% down to 80.1%.

The MCR measures the percentage of healthcare premiums that is spent on medical care for United's health-plan members. For example, last year United collected $33.5 billion of premiums and spent $27 billion on medical care for a MCR of 80.6% ($27 billion/$33.5 billion = 80.6%).

Over the past five years, United has been able to lower its MCR largely because it has increased the premium rates charged to its employer groups at a higher rate than its medical costs have risen. For example, last year United raised its premium rates by an average of 9%, while its medical costs rose by 8%.

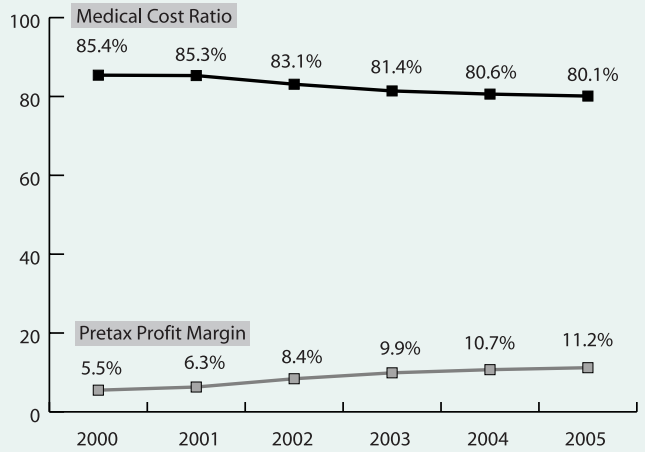
The bottom-line result has been that United's pretax profit has increased from $1.2 billion in 2000 to $4 billion in 2004 and is headed for nearly $5 billion this year (based on annualized results for the six months ended June 30, 2005). And in the five years ended Sept. 19, 2005, United's stock price has increased at an average rate of more than 35% per year.

Of course, the company's chairman and chief executive, William McGuire, M.D., age 56, hasn't done too shabby either. In 2004, he was paid a salary of $2.2 million, bonus and long-term incentives of $7.5 million, and other compensation (401k contributions, use of company car and jets, country club fees, personal security costs, etc.) totaling $596,936. Dr. McGuire also reaped $114.6 million from cashing in some of his stock options last year. Last but not least, United reimbursed Dr. McGuire $66,245 for financial planning costs he paid to help manage his wealth.

Wall Street analysts attribute United's declining MCR and rising profits to efficiencies gained through its acquisition of other managed care companies and greater use of technology. This very well might be the case, *LIR* observes, but now it looks like United is looking for further improvements to its MCR through price cuts to providers.

At $2 billion per year, outpatient lab spending constitutes roughly 6% of United's current annualized medical expenses of approximately $32 billion per year. A 15% to 20% cut in lab spending (by itself) would lower United's MCR to below 80% and would raise the company's pretax income by more than $300 million to $400 million.

United's Medical Cost Ratio vs. Pretax Profit Margin



*based on six months ended June 30, 2005
Source: United Healthcare financial reports

Medicare Part B Premiums To Go Up 13% Next Year

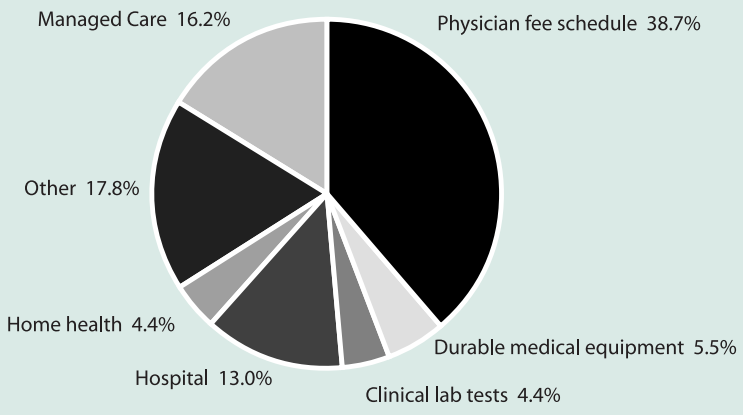
The Centers for Medicare and Medicaid Services (CMS) has announced that Medicare premiums for Part B services will rise by 13% in 2006 to $88.50 per month per beneficiary—the third double-digit increase in a row. And the annual deductible is also increasing by 13% to $124.

The 13% premium increase is comprised of an estimated 9% jump in Part B medical expenditures plus another 4% to help restore Medicare's assets.

Medical costs are increasing mostly because of rapid growth in the use of physician services, lab tests, and other outpatient services, according to CMS.

Herb Kuhn, a senior official at CMS, said, "Medicare needs to move away from a system that pays simply for more services, regardless of their quality or impact on beneficiary health. The current system is not sustainable."

Breakdown of Part B Spending, 2005



Source: *LIR* from *2005 Medicare Trustees Report*

In calendar-year 2005, total Part B spending will increase by 11% to $149.2 billion, according to CMS's *2005 Medicare Trustees Report*. Hospital outpatient procedures, which comprise 13% of the overall Part B budget, will rise an estimated 11.4% to $19.4 billion, and physician payments (38.7% of budget) will increase by an estimated 7.3% to $57.7 billion. Despite a price freeze, Part B spending on clinical lab testing (only 4.4% of budget) is pegged to rise 8.3% to $6.5 billion in 2005.

Medi-Cal Contracting Plans For Lab Testing Cancelled

California's Department of Health Services has cancelled a request for application (RFA) for Medi-Cal clinical lab services. The aim of the RFA was not to lower prices, but to reduce fraud and abuse by limiting the number of labs participating in the Medi-Cal program.

"While the Department has cancelled this procurement, it is looking at modifying processes and procedures that will enable the Department to achieve the contracting goals," stated Donna Martinez, chief of the Office of Medi-Cal Procurement, in a letter to labs that left the door open for future fee cuts or contracting changes.

The Medi-Cal program covers 6.5 million enrollees and spends approximately $190 million per year on lab services. In October 2003, Medi-Cal adjusted reimbursement for all lab tests to 80% of the lowest maximum allowable rate, resulting in net average cuts of 10% to 15%.

Lab Stocks Up 6%; Bio-Reference and Specialty Up Again

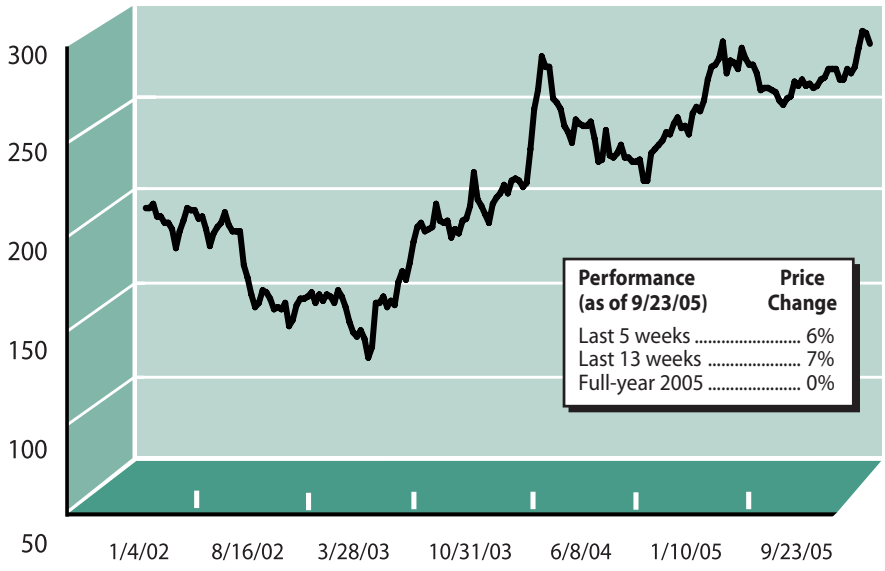
The G-2 Laboratory Stock Index rose 6% in the five weeks ended September 23, with eight stocks up in price and three down. So far this year, the G-2 index is unchanged, while the S&P 500 Index is also unchanged, and the Nasdaq is down 3%.

The shares of two publicly traded clinical labs each recorded their second month of double-digit gains on the news that **Quest Diagnostics** was buying **LabOne** for $934 million (see *LIR*, September 2005, page 1). **Specialty Laboratories** (Valencia, CA) was up 28% to $12.45 per share for a market cap of $296 million, and **Bio-Reference Labs** (Elmwood Park, NJ) was up 14% to $17.23 per share for a market cap of $223 million. Investors view these labs as potential acquisition targets.

Meanwhile, **Myriad Genetics** (Salt Lake City, UT) rose 17% to $19.91 per share for a market capitalization of $615 million. The company recently reported that genetic testing revenues for the fiscal year ended June 30, 2005, increased 65% to $71.3 million from $43.3 million the previous year. Myriad said the increase was due primarily to Myriad's increased sales and marketing efforts, which focused on expanding insurance coverage, eliminating the insurance preauthorization requirement, and educating oncology nurses and physicians regarding the utility of genetic testing.

ViroLogic (South San Francisco, CA), which performs advanced tests for HIV and is developing tests for cancer, was up 12% to $2.55 per share for a market cap of $322 million. The company recently changed its name to **Monogram Biosciences**. The company says the name change reflects its new capabilities in the field of molecular diagnostics for cancer, derived from its merger with Aclara Biosciences in December 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 11 laboratory testing service stocks.

% price change, 5 weeks ended 9/23/05

UP	*Price*	*% Chg*
Bio-Reference	$17.23	14
Enzo Biochem	15.81	4
LabOne	43.47	1
Monogram	2.55	12
Myriad Genetics	19.91	17
Orchid Cellmark	8.88	3
Quest Diagnostics	50.73	2
Specialty Labs	12.45	28
DOWN		
LabCorp	$48.07	-3
Medtox	7.12	-6
Psychemedics	14.00	-7

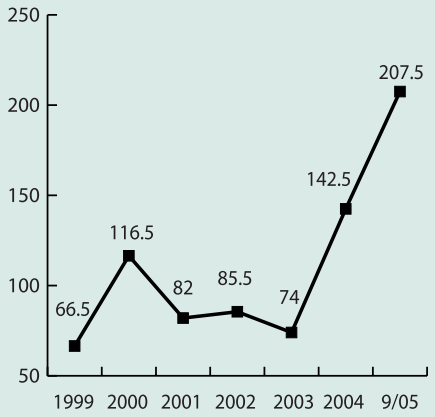
INDUSTRY buzz

Gas Pains, Part Deux: About this time last year, *LIR* ran an article (see *LIR*, November 2004, p. 12) that talked about the climb in oil prices and how it was affecting car and airplane courier fuel costs, especially at the national laboratories.

Back then a spokesman from one of the two big commercial labs said that those fuel price levels wouldn't last long. And boy was he right because prices have skyrocketed since then.

Oil prices have surged to more than $65 per barrel, up 24% from a year ago and the highest in a generation. Meanwhile, unleaded regular gasoline is now hovering around $3 per gallon, up 50% from a year ago. And commercial airlines and package delivery companies are once again hiking fuel surcharges to their fares to help offset the cost of jet fuel, which has increased about 35% to more than $2 per gallon over the past year.

Jet Fuel Prices *(cents per gallon)**



*for Los Angeles area, excluding taxes
Source: Federal Energy Information Admin.

Historically, fuel prices for couriers have been a tiny portion of the overall budgets at hospital outreach businesses and independent labs, but gas prices have now more than doubled in the past two years and are now becoming a more prominent budget concern.

The national labs, which often must transport specimens from coast to coast, have been affected the most. And they have tried to minimize the impact of rising prices through more efficient routing of specimens. But that can only go so far, then the choice becomes to either reduce the frequency of specimen pickups or bite the bullet and let the higher fuel prices cut into profit margins.

References in this issue

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Myriad Genetics 801-584-3600

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