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LABORATORY INDUSTRY REPORT®

Stephanie Murg, Managing Editor

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HIGHLIGHTS

WASHINGTON G-2 REPORTS

Quest Shutters Troubled Test Kit Manufacturer NID

Along with its first quarter results, Quest Diagnostics (Lyndhurst, NJ) announced on April 20 that it has decided to cease operations of its test-kit manufacturing subsidiary Nichols Institute Diagnostics (NID; San Clemente, CA), which has been the focus of ongoing investigations by the Department of Justice and the FDA. After Quest and NID received subpoenas last October for various business records, including documents related to NID's tests for parathyroid hormone (PTH), the product was put on hold due to quality problems, costing the company $16 million before taxes. For more details, see pp. 7-8.

Universal Diagnostic Labs Folds

Universal Diagnostic Laboratories (UDL; Brooklyn, NY) ceased operations suddenly on April 10. The lab was owned by National Laboratory Partners (NLP), a holding company that was backed by venture capital firm Kline Hawkes & Co. (Los Angeles, CA) and led by three lab industry veterans.

Founded in 1964, UDL was a full-service medical laboratory specializing in clinical and anatomic pathology. It operated a reference laboratory and 10 patient service centers in the region. UDL was also the largest provider of laboratory home-care services in the New York metropolitan area and generated an estimated $20 million in revenue in 2004. NLP acquired UDL in December of 2004.

On April 10, UDL employees were gathered and told simply to go home. "They told us that we were not going to receive pay for the previous three weeks and that UDL was no more," former UDL employee John Joseph Bruno tells *LIR*. Bruno, who worked in UDL's medical billing department, said that employees had no warning that the company was in trouble. Employees did not receive their scheduled paychecks for the two weeks that ended March 31, but Bruno says that a memo was circulated to staff telling them the checks were delayed due to a clerical error.

According to one highly placed industry source, bank representatives were brought in to liquidate UDL's assets. The company owed about $6 million in bank debts. Kline Hawkes lost an estimated $12 million on the deal, which the industry source believes was doomed by negligent due diligence and a "mind-bogglingly bad business plan." ➥ *p. 2*

UNIVERSAL DIAGNOSTIC LABS FOLDS, *from page 1*

UDL's owner, NLP, was formed in 2004 after Kline Hawkes board member Stephen D. Weinroth introduced to the firm Craig Dawson and Len Poikey, Ph.D., lab industry veterans who were left jobless by merger and acquisition activity. Dawson, 54, served as chief operating officer at American Medical Laboratories (AML) from July 2001 through mid-2002 when AML was acquired by Quest Diagnostics. Poikey, 52, was formerly executive vice president of operations at AML. Dawson served as CEO of NLP, and Poikey was chief scientific officer. In April 2005, Hal Rose, the former CEO of Quentin Medical Laboratory, was hired as NLP's chief operating officer.

In a newsletter sent to Kline Hawkes's investors earlier this year, Managing Partner Frank Kline said that NLP "is on target to achieve its numbers this year and most importantly has met its loan covenants." He went on to say that "the big test in the near term" would be moving UDL to the Brooklyn Army Terminal, a deal that NLP was said to be negotiating. The Kline Hawkes Web site no longer lists NDL in its portfolio of companies. Cameron Wood, Kline Hawkes's director of operations, was unavailable for comment.

Lab Outreach Conference Focuses On Culture And Competition

Know thyself. That was the overarching message of *"Succeeding in the Outreach Market: It's All About the Culture,"* a conference sponsored by Washington G-2 Reports and Chi Solutions held last month in Atlanta, Georgia. Speakers from various segments of the lab industry emphasized the importance of taking control of outreach billing and collections; getting a handle on volume, revenue, and growth numbers; understanding competitive advantages over larger players; and knowing the needs of current and prospective clients.

Featured presentations included lessons from labs that have mastered the cultural challenges of the outreach business in order to compete with the national labs—and win. For the first in a series of three articles reporting on the conference, see *Inside the Laboratory Industry*, pp. 5-6.

Novation Contracts With Abbott For OraQuick HIV Test

Last month, Novation (Irving, TX) began offering OraSure Technologies's OraQuick ADVANCE Rapid HIV-1/2 Antibody Test to its healthcare network of about 3,000 members as part of a new single-source technology agreement with Abbott Diagnostics (Abbott Park, IL), which is the exclusive distributor of the test to hospitals in the United States. The contract will run through March of 2009.

The FDA-approved, CLIA-waived OraQuick test is a qualitative immunoassay that can be performed at the point-of-care. Using a simple two-step fluid procedure, the test detects antibodies to HIV-1 and HIV-2 in oral fluid, fingerstick whole blood, venipuncture whole blood, and plasma specimens. Results are available in 20 minutes.

Novation, a healthcare contracting services company, serves VHA, a provider alliance of more than 2,400 not-for-profit healthcare organizations, and the University HealthSystem Consortium (UHC).

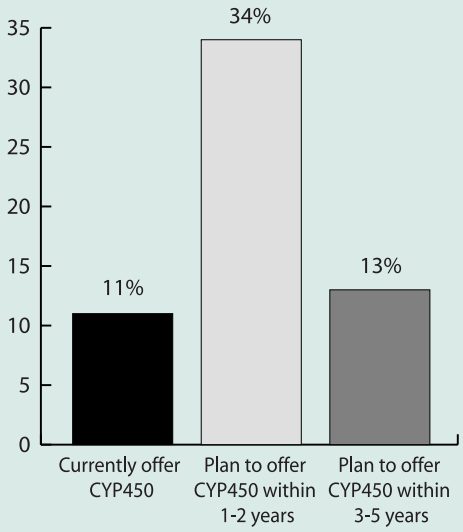
G-2 Lab Survey Suggests Bright Future For CYP450 AmpliChip

Washington G-2 Reports's ongoing molecular diagnostics survey is already yielding valuable insights into how labs of various sizes and types view, plan for, and utilize this rapidly growing field of testing. One component of the G-2 survey, which has garnered 294 responses at press time, asks labs that currently perform molecular testing or have plans to add this capacity in the immediate future to indicate which tests they currently offer and/or which tests they plan to offer. A substantial number of labs in both groups said that they offer or plan to offer AmpliChip CYP450 microarray testing within the next five years.

Pass the chips. Roche's CYP450 AmpliChip, manufactured by Affymetrix.

The CYP450 test detects genetic variations in the Cytochrome P450 2D6 and 2C19 genes, which code for enzymes that play a role in the metabolism of about 25% of all prescription drugs, and provides the associated predictive phenotype (poor, intermediate, extensive, or ultra-rapid metabolizer). Of the labs surveyed that currently perform molecular diagnostic testing, 11% already offer CYP450 testing, while 34% plan to offer it within one to two years and an additional 13% plan to offer it within three to five years. Of those labs that do not currently offer molecular testing but plan to do so in the immediate future, 8% say that they will offer CYP450 testing within one to two years, and 21% plan to offer it within three to five years.

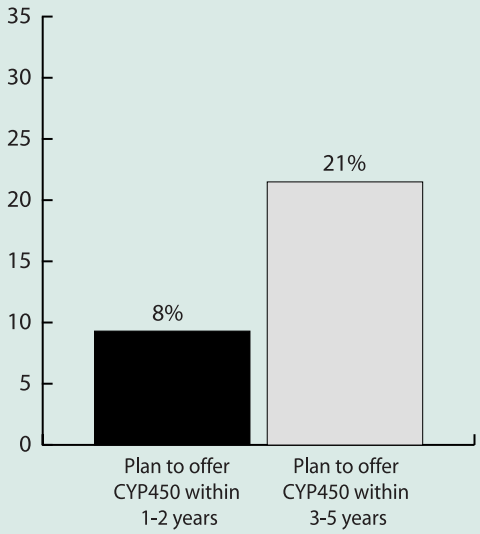
Labs Now Offering MDx*



*Molecular diagnostic testing

Source: 2006 G-2 Washington Reports Survey

Labs Planning to Implement MDx



These results come as somewhat of a surprise, considering the relative novelty of CYP450 testing in the clinical market, the high cost of the test, and the reportedly low testing volumes of labs that have already begun to offer it. The FDA approved Roche's AmpliChip CYP450, the first microarray ever to gain clearance for kit sale in the clinical market, in a two-step process: the CYP2D6 gene variant was cleared in December of 2004 and the CYP2C19 variant was cleared two weeks later (see *LIR*, February 2005, p. 9). Both gene variations as well as the Affymetrix GeneChip System 3000Dx instrumentation that runs that test were cleared under the FDA's "de novo" classification, which was established in 1997 for lower-risk diagnostic products for which there is no predictive device. The test was launched in Europe in the fall of 2004.

Roche charges about $500 per AmpliChip, which analyzes DNA from a standard blood sample after it has been amplified via PCR and can only be used once. The Affymetrix platform that reads the chips costs approximately $220,000. The test can be completed within eight hours of receiving the blood sample.

Recently, LabCorp CEO Thomas Mac Mahon said that volumes from CYP450 testing have remained low and emphasized the importance of education in testing of this kind. "Pharmacogenomics will arrive, but it won't happen overnight," he said. "At some point drug companies will realize that they need to educate doctors on pharmacogenomics. We don't have the experience as a sales force to discuss those kinds of issues with physicians."

G-2 first brought CYP450 testing to the attention of the laboratory community two years ago in its *Lab Industry Strategic Outlook*, published in 2004, when CYP450 microarrays were being marketed on a research-use-only or analyte-specific-reagent basis. Look for further results of G-2's broad-reaching molecular diagnostic survey in future issues of *LIR*, *Diagnostic Testing and Technology Report*, and G-2's forthcoming research report, *Building and Managing a Molecular Diagnostic Laboratory*.

Myriad, Abbott Collaborate To Identify New Therapeutic Targets

Myriad Genetics (Salt Lake City, UT) has entered into a five-year research agreement with global healthcare company Abbott (Abbott Park, IL) to identify novel drug targets by combining the proprietary technologies of both companies. Financial terms of the agreement were not disclosed.

Myriad develops and markets predictive medicine products such as BRAC*Analysis*, a genetic test that assesses a woman's risk of developing breast or ovarian cancer based on detection of mutations in the BRCA1 and BRCA2 genes. Under the agreement with Abbott, Myriad will use RNA expression profiling and other tools of genetic analysis to identify human genes and regulatory networks associated with a variety of diseases. Abbott will further analyze the identified genes through its chemical genomics platform to identify drug targets.

Each company will have exclusive rights to therapeutic targets, biomarkers, and drug lead compounds developed through the collaboration: approximately 40% of the identified targets will go to Myriad and about 60% to Abbott.

Lab Outreach Conference: Culture And Competition

Among the opening sessions at the Succeeding in the Lab Outreach Conference, presented by G-2 and Chi Solutions on April 5-7 in Atlanta, Georgia, was a review of the results of Chi Solutions's fifth annual National Outreach Survey presented by Chi's Kathleen Murphy, Ph.D. Of the survey's 173 respondents (all of them nongovernment hospitals with at least 150 licensed beds), 80% (138) had laboratory outreach programs, up 5% from last year. Of the 20% of survey respondents without an outreach program, over one-third (38%) plan on developing one within two years.

The survey asked those with an outreach program to characterize the strengths and weaknesses of their programs, as well as competitive success strategies and competitive problems. Among the most commonly cited strengths were faster turnaround time, a reputation for excellent quality, and strong customer service. These strengths were tied to what respondents felt were their competitive strategies: 35% named rapid turnaround time as a competitive success strategy, while 27% identified dedicated customer service.

Top 5 Primary Outreach Program Strengths

- ✓ Turnaround time (82%)
- ✓ Excellent quality reputation (59%)
- ✓ Strong customer service (55%)
- ✓ Pathologist services and reputation (47%)
- ✓ Profitability (46%)

Top 5 Primary Outreach Program Weaknesses

- x Ineffective IS connectivity to physicians' offices (48%)
- x Billing and collections (45%)
- x No dedicated sales staff (41%)
- x No marketing plan (31%)
- x Mediocre sales capability (30%)

Source: Chi Solutions 2006 National Outreach Survey

When asked to name the primary weakness of their outreach programs, almost half of respondents (48%) pointed to ineffective information systems connectivity to physicians' offices, followed by billing and collections (45%), and a lack of dedicated sales staff (41%). Likewise, among their biggest competitive problems, respondents cited lack of IT connectivity to clients (18%), limited or inflexible IT connectivity and support (12%), and the absence of sales and marketing staff (10%). Other frequently mentioned competitive problems included managed care contracting with lab "carve-outs" and an inability to offer competitive pricing.

Murphy's presentation also provided a glimpse into the prevailing outreach culture. A little over half (54%) of survey respondents said that they have the autonomy to run their outreach program as a business. Labs were similarly divided when asked whether they have the means to track their revenues and profitability: 52% said that they lacked this ability. This finding corresponds with that of G-2's ongoing outreach survey, in which only 61% of respondents said that their outreach program is profitable and that they have financial reports to back it up (see *LIR*, April 2006, p. 5-6).

Becoming Culturally Competitive

Competing against the national labs was the focus of P. Thomas Hirsch's conference presentation. Hirsch, the co-founder and president of Laboratory Billing Solutions, served as president and chief executive officer of Path Lab from June 1984 through February 2003. Path Lab was sold to LabCorp in April 2001 for more than $100 million. Hirsch discussed the importance of developing a service-oriented culture to compete successfully against larger labs that have economies of scale and greater purchasing power. "Creating a comparable cost model can only be achieved by doing the job right the first time," Hirsch said. Service can be a valuable way to differentiate an outreach program, because "high volumes and corporate bureaucracy usually stymie initiative and personalized service."

Service-Oriented Measures of Lab Outreach Business Quality

- ❑ Traditional lab QC indicators (e.g., lost samples, turnaround time, samples damaged in transit)
- ❑ Error rates on lab and billing order entry
- ❑ Customer service response times, call frequencies
- ❑ Documentation and follow-up on service problems and field service visits
- ❑ Patient satisfaction surveys
- ❑ Periodic audit/inspection of operations

Source: P. Thomas Hirsch, Laboratory Billing Solutions

How do you develop a service-oriented culture? According to Hirsch, it begins with a strong commitment by lab leadership who value front-line employees. This entails focusing on operations as much as sales and marketing. "Labs should also emphasize service as well as financial performance in management reporting," said Hirsch. For example, labs can track and measure the quality of their efforts by metrics such as customer service response times and billing order error rates. This information can then be used to improve systems and training, as well as to hold staff accountable.

Labs that want to compete through service should also refocus on customer care, advised Hirsch. At a time when larger labs have worked through managed care contracts to reduce choices for clinicians and patients, used safe harbors to minimize services provided for physicians, and implemented in-office lab ordering programs to shift work to office staff rather than enhancing clinical products, demonstrating respect for customers and providing value is an increasingly difficult proposition for labs. "Treat every client as if they are important, not just the $30,000 per month group practice," suggests Hirsch. "And don't bring on new business until you can do it right."

"Competing through service requires considerable discipline and committed leadership," cautioned Hirsch, but "developing a defensible service will ultimately make your job easier" by discouraging competition, earning recognition from managed care, and enabling a lab to be more proactive because its base is secure.

This is the first in a series of three articles reporting on Succeeding in the Outreach Market, the conference held in April sponsored by Washington G-2 Reports and Chi Solutions.

Quest Shutters Troubled Test Kit Manufacturer NID, Announces First Quarter Results

"I believe that the testing of the future is a combination of service and products," said Quest CEO Surya N. Mohapatra.

Quest CFO Bob Hagemann told investors and analysts about the decision to discontinue operations at NID on the earnings conference call. "We expect the wind-down to be substantially complete by the end of the year and to include steps to monetize certain NID assets," Hagemann added. The company estimates that this action will result in a second quarter pretax charge of up to $45 million. Problems at NID reduced Quest's earnings by $50 million in 2005.

Founded in 1984, NID manufactured and marketed specialty tests and systems, including Intact PTH and Bio-Intact PTH tests. Its products, which were primarily for esoteric testing, were sold principally to hospitals, clinical laboratories, and dialysis centers. In addition to its San Clemente offices, NID had international offices in Bad Vilbel, Germany and Paris.

"I'm not very happy about the NID situation," said Chairman and CEO Surya N. Mohapatra, Ph.D. "It does not mean that we are out of the product business. We'll continue to explore the possibility of how to utilize the intellectual property and seek opportunities to strengthen our position, because I believe that the testing of the future is a combination of service and products."

The news was offset by Quest's strong first quarter performance. Revenues grew 17.9% over the prior year level to $1.6 billion, and net income increased to $145 million from $132 million in the first quarter of 2005. The acquisition of LabOne, which was completed last November, increased consolidated revenues by about 10%. Other factors that positively affected comps were the mild winter and the timing of the Easter holidays.

"It was an exceptionally strong quarter, driven by performance of our clinical testing business," said Mohapatra. Quest has seen recent growth in testing for allergies, cardiovascular and digestive disease, and screening tests for HPV, gonorrhea, and chlamydia. According to Mohapatra, "ImmunoCAP allergy testing has grown steadily and significantly," which the company attributes to its targeting of primary care physicians, who can order allergy blood testing rather than send patients to specialists.

NID (Nichols Advantage) Automated Assays

- **Bone & Mineral Metabolism**
  - Intact PTH
  - 25-Hydroxyvitamin D
  - Bio-Intact PTH (1-84)
  - QuiCk Bio-Intact PTH (1-84)
- **Hypertension**
  - Direct Renin
  - Aldosterone
- **Thyroid**
  - Calcitonin
  - Free T3
  - Free T4
  - TSH-Third Generation
  - Thyroglobulin
  - TgAb
  - TPOAb
- **Adrenal/Pituitary**
  - ACTH
  - Cortisol
  - DHEA-S
  - Urinary Cortisol
- **Anemia**
  - Erythropoietin
  - Ferritin
  - Soluble Transferrin Receptor
- **Growth**
  - hGH
  - IGF-I
  - IGFBP-3
- **Infectious Disease/G.I.**
  - H pylori IgG
- **Available Outside the U.S.**
  - ITA (H-hCG)
  - Osteocalcin
  - Tg with Recovery
- **In Development**
  - 1,25 Dihydroxyvitamin D
  - Total hCG
  - Alpha Fetoprotein
  - Unconjugated Estriol
  - H. pylori IgA
  - C-peptide
  - Insulin

Revenue per requisition also increased, which Hagemann attributes to "a shift to a more esoteric test mix and an increase in the number of tests ordered per requisition." Quest's gene-based testing is growing at about 10% per year and accounts for 11% to 12% of total revenues. Esoteric testing as a whole is growing by about 16%. The company expects total revenues to grow by about 14% this year, with approximately 8% of that growth from LabOne.

Quest is also looking to continue growth through selective acquisitions. "If you look at the laboratory industry, the lion's share of testing is still in the hospital, and we have to make sure that we have products and services to provide to hospitals and increase our market share in hospitals," said Mohapatra. "There are a lot of small laboratories that are still available, and we have a very active pipeline program for evaluating acquisitions."

LabCorp Sees Growth In Cervical Cancer And Cardiovascular Testing

So far this year, more than 34% of LabCorp's revenues have come from its genomic, esoteric, and anatomical pathology categories.

On April 25, LabCorp (Burlington, NC) reported first quarter revenues of $878.5 million, an increase of 9.9% over the first quarter of 2005. Testing volume, measured by accessions, increased by 4.6% while price was up 5.3%. LabCorp continues to forecast revenue growth of approximately 6.5% to 7.5% for this year.

"A significant driver of earnings growth in the future is a continued shift of test mix to more highly valued and highly profitable esoteric testing categories," CEO Thomas Mac Mahon told investors and analysts on a conference call. "At the end of March, more than 34% of our revenues were in the genomic, esoteric, and anatomical pathology categories."

LabCorp continues to see strong growth in the rate of physician adoption of Cytyc's ThinPrep Pap Test, a liquid-based cytology method. "By the end of the first quarter, the ThinPrep imaging system was being requested for approximately 38% of all liquid-based Pap smears ordered," Mac Mahon said. On an annualized run rate, LabCorp now performs approximately 2.7 million image-guided Pap tests. The company also experienced 80% growth in reflex and primary HPV testing versus the first quarter of 2005. LabCorp performs 1.1 million HPV tests per year.

Where's the Growth at LabCorp?

- ❑ Cytyc ThinPrep Pap test
- ❑ HPV testing
- ❑ Atherotech VAP cholesterol test
- ❑ LipoScience NMR LipoProfile

The company is also seeing growth in cardiovascular testing, namely the Vertical Auto Profile (VAP) cholesterol test from Atherotech and LipoScience's NMR LipoProfile, a lipoprotein blood test that uses nuclear magnetic resonance spectroscopy to determine the risk of developing cardiovascular disease. According to Mac Mahon, "We've experienced growth in both VAP and NMR testing of approximately 65% in the first quarter of 2006 versus the first quarter of 2005."

Redwood Toxicology Laboratory Bought Out By American Capital

"We have a continued interest in growing our market share within the drug testing marketplace, but we're also potentially interested in an East Coast operation, whether that be a startup laboratory or an acquisition of a strategic partner."
—Redwood VP Albert Berger

Redwood Toxicology Laboratory (RTL; Santa Rosa, CA), the largest single location toxicology laboratory in the United States, has been purchased by American Capital Strategies (Bethesda, MD), a publicly traded buyout firm, for $79.5 million. Also included in the purchase were RTL's two subsidiaries: Redwood Biotech and PerMaxim. American Capital now owns 67% of the Redwood companies, with members of Redwood's management team retaining 33%. Redwood's 2005 revenue was $36 million.

"We wanted a partner that would allow us to continue with our growth pattern and also keep the continuity of our laboratory and our personnel," Redwood Vice President Albert Berger tells *LIR*. "We have a continued interest in growing our market share within the drug testing marketplace, but we're also potentially interested in an East Coast operation, whether that be a startup laboratory or an acquisition of a strategic partner." American Capital's resources enable Redwood to pursue such an acquisition, which could significantly expand the company's test offerings. According to Berger, new areas of testing that most appeal to the company include steroids, HIV, and hepatitis.

Founded in 1994 by CEO Robert Mount, RTL provides drugs-of-abuse testing services to 7,000 customers nationwide, primarily prisons, jails, and drug rehabilitation centers. The lab performs approximately 70,000 tests per week in its 57,000-square-foot facility. RTL recently added testing for urine ethyl glucuronide (EtG), an alcohol metabolite, to its menu of services. Because EtG remains in the body up to 80 hours after the elimination of alcohol from the body and is evident only when alcohol is consumed (as opposed to generated as a byproduct of fermentation), the test is more accurate than standard urine alcohol testing.

Redwood Biotech was established in 1998 to market and distribute on-site drug testing kits, including its RediCup and RediTest Cassette test devices. The PerMaxim division develops, distributes, and markets RediScreen rapid point-of-care tests, including those for detecting pregnancy, occult blood, and certain bacterial infections.

"We have a lot of growth built into our on-site diagnostic kits," says Berger. "Our Redwood Biotech division has seen double-digit growth since its inception, and we are forecasting significant growth in the on-site drug testing marketplace." The company plans to continue to capitalize upon this area of the business by adding new test configurations and new diagnostic methods focused on the on-site and point-of-care markets.

AmeriPath Expands In Denver And Cleveland

AmeriPath (Palm Beach Gardens, FL) has announced that it has acquired Rose Pathology Associates (Denver, CO), which will join AmeriPath's two Colorado practices, AmeriPath Denver and DermPath Denver. Financial terms of the deal were not disclosed. The company also recently announced the expansion of its Cleveland, Ohio facility, which supports the local operations of three AmeriPath entities.

The acquisition of Rose Pathology Associates will enhance AmeriPath's hospital and outpatient practices in the region. The group's specialists, qualified in pulmonary pathology, cytopathology, and hematopathology, also include a fellowship-trained breast pathologist.

AmeriPath's remodeled Cleveland facility, now expanded to 15,000 square feet, supports surgical pathology diagnoses for 62,000 patients annually, including diagnoses of surgical specimens, skin samples, and biopsies from the gastrointestinal tract.

The company operates regional and satellite laboratories nationwide and provides inpatient diagnostic and medical director services at more than 200 hospitals. The company employs 390 board-certified pathologists. In 2005, AmeriPath's net revenue increased by 11.1% to $563.6 million.

AmeriPath has built its business by completing more than 50 acquisitions of pathology laboratories and operations since 1996. On January 31, AmeriPath completed its acquisition of Valencia, California-based Specialty Laboratories, a leading hospital-focused clinical reference laboratory (see *LIR*, March 2006 and November 2005, pp. 1-2). According to AmeriPath Chairman and CEO Donald Steen, "The bicoastal laboratories of AmeriPath and Specialty will retain their individual corporate identities and names but afford us an expanded local presence."

CMS Requests Comments Regarding Competitive Bidding Project

On April 21, the Centers for Medicare & Medicaid (CMS) published a notice in the *Federal Register* requesting comments in conjunction with its clinical laboratory services competitive bidding demonstration project. The project is intended to determine whether competitive bidding can provide quality laboratory services at prices below current Medicare reimbursement rates.

The comment request is specific to the project bidding form (form CMS 10193), an eight-page application currently in draft form. All organizations currently supplying, or planning to supply, demonstration tests to Medicare beneficiaries residing within the project's competitive bidding area (CBA) will be required to complete the application. Comments on the form must be received by June 20.

As reported in the November 2005 issue of *LIR*, CMS plans to run two three-year demonstration projects, with the first beginning in April 2007 and the second beginning in April 2008. After the demonstrations, CMS will decide whether to move forward on a national scale.

In a presentation at last fall's Lab Institute conference, Linda Lebovic, an officer on the project, noted that the competitive bidding demonstrations would involve all labs that generally do not have face-to-face encounters with patients. Bids will be made for each CPT code on the Medicare Part B lab fee schedule. Other factors that will be considered in the selection process include laboratory capacity, service area, and quality.

Research Triangle Institute (RTI), the CMS contractor for the project, has indicated that each demonstration project would cover one or two metropolitan statistical areas (MSA)s. The proposed geographies have not yet been disclosed.

Lab Stocks Fall 3%; Orchid And Monogram Tumble

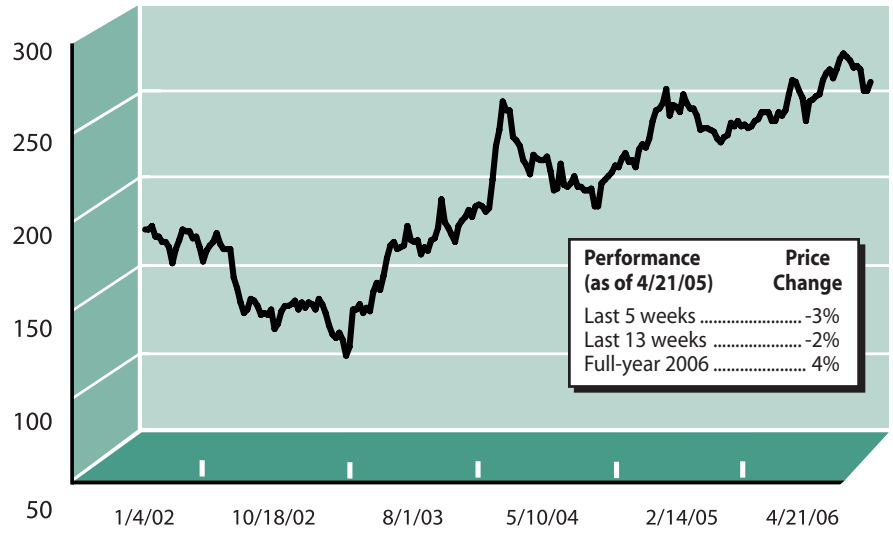
The G-2 Laboratory Stock Index fell 3% in the five weeks ended April 21, with six stocks up in price and five down. Year to date, the G-2 Index is up 4%, while the Nasdaq is up 6% and the S&P 500 is up 5%.

Orchid Cellmark (Princeton, NJ), which performs identity DNA testing for the forensic and paternity markets, dropped 21% to $4.69 per share for a market capitalization of $111 million. In early April, the company received a delisting notice from Nasdaq for delayed filing. It plans to restate second quarter and year-to-date results for 2005 due to errors in escrow claims. Orchid Cellmark has requested a hearing before the Nasdaq Listing Qualifications Panel to appeal the delisting notice. The company recently replaced President and CEO Paul Kelly, M.D., with Thomas Bologna, who previously led Quorex Pharmaceuticals.

Monogram Biosciences (South San Francisco, CA), which performs specialized HIV testing, was off 16% to $1.58 per share for a market cap of $204 million. Some investors are concerned about Monogram's financial obligations pursuant to its December 2004 merger with ACLARA Biosciences. As part of the merger, Monogram (then known as ViroLogic) issued Contingent Value Rights (CVR) worth about $30 million to ACLARA stockholders.

Meanwhile, **Medtox Scientific** (St. Paul, MN) was up 8% to $9.49 per share for a market cap of $77 million. Medtox announced on April 12 that its first quarter revenue increased 11.3% ($1.7 million) to $16.4 million, while its operating income was $1.6 million, an increase of 53.2% over the previous year. During the quarter, the company's new Sure-Screen drugs-of-abuse detection device represented 4% of total device sales and 23% of sales to the government market. Approximately 80% of those sales were to new customers.

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 4/21/06

UP	Price	% Chg
Bio-Reference	$18.44	1%
Clarient	1.16	2
Enzo Biochem	12.76	5
LabCorp	58.50	1
Medtox	9.49	8
Quest	54.81	6

DOWN		
Genomic Health	10.45	-5
Monogram	1.58	-16
Myriad	25.68	-7
Orchid	4.69	-21
Psychemedics	17.26	-6

INDUSTRY buzz

If you fund it, they will come... At least that's the hope of a coalition of California hospitals formed last month to address the state's shortage of laboratory personnel. Spearheaded by the Hospital Council of Northern and Central California, the Healthcare Laboratory Workforce Initiative (HLWI) will work to stabilize and expand clinical laboratory training throughout the state. The HLWI Advisory Group includes most major healthcare systems, regional and statewide hospital associations, independent laboratories, and the California college and state university systems.

California ranks 43rd in the nation for the number of clinical lab workers per capita. It is estimated that the state will need nearly 700 clinical laboratory specialists per year for the next five years as current workers become eligible to retire, but existing educational programs are expected to graduate just 255 students per year.

HLWI hopes to raise $5 million this year to award educational grants through its California Health Foundation & Trust Training Grants Program.

Medical Lab Technologists and Technicians per 100,000 people

Bottom 10 and Top 10 States*

Nevada	62	Washington, DC	214
Idaho	64	**Tennessee**	**164**
Alaska	64	**North Dakota**	**161**
New Hampshire	66	Missouri	142
Montana	**69**	South Dakota	137
California	**76**	Massachusetts	137
Delaware	80	**Rhode Island**	**135**
Michigan	83	Maryland	134
Hawaii	**83**	Kansas	130
Wyoming	85	Nebraska	126

*States that require licensure of MTs are in bold
National average=102 Source: Bureau of Labor Statistics

References in this issue

Abbott 847-937-6100

American Capital 301-951-6122

AmeriPath 800-330-6565

Chi Solutions 734-662-6363

Healthcare Laboratory Workforce Initiative 925-746-1550

LabCorp 336-229-1127

Medtox Scientific 651-636-7466

Monogram Biosciences 650-635-1100

Myriad Genetics 801-584-3600

Orchid Cellmark 800-443-2383

Quest Diagnostics 201-393-5000

Redwood Toxicology Laboratory 800-255-2159

Roche (U.S. Diagnostics) 800-428-5074

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- ❑ I would like to save $170 with a 2-year subscription to *LIR* for $628.*
- ❑ **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).
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