

LABORATORY INDUSTRY REPORT®

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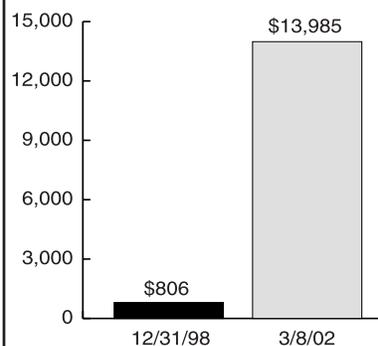
Lab Stocks Now Darlings On Wall Street, But The Smart Money Is Selling

Throughout the mid-1990s, stock prices for the publicly traded laboratory testing companies languished as Medicare fraud investigations, declining test volume and price competition scared investors away from the industry. In mid-1998, lab stocks had hit bottom. Shares of Laboratory Corp. of America, for example, were trading at less than \$1 per share (or \$10 after split adjustments), and most labs could be purchased for less than one times annual revenue. During the late 1990s, shrewd investment groups such as GTCR (Chicago, IL) and Kelso & Co. (New York City) swooped in to purchase lab companies at bargain prices.

Since then, lab stocks have done an about-face and have garnered rich valuations from investors. For example, the combined market capitalization of the three largest U.S. labs (Quest, LabCorp and Unilab) now totals nearly \$14 billion, up more than tenfold from only three years ago.

The same investment groups with the foresight to invest in the lab industry at its bottom are now cashing out. For a closer look at current lab stock valuations, see pp. 5-7.

Combined Stock Market Capitalization* For The Big 3: Quest, LabCorp, Unilab



*\$MM Source: Laboratory Industry Report (LIR)

Myriad Genetics To Begin Direct-To-Consumer Ads

Myriad Genetics (Salt Lake City, UT) plans to launch a direct-to-consumer marketing campaign for its genetic tests by year's end. Myriad executives say the company will devote "several million dollars" to the campaign, which will include advertisements in print, radio and television. To date, Myriad's 100-person sales force has targeted the nation's 300 largest oncology practices.

Announcement of plans for direct-to-consumer advertising follows Myriad's recent marketing agreement with Laboratory Corp. of America (Burlington, NC), under which LabCorp's 600-person sales force will market Myriad's tests to primary care physicians (*LIR*, Dec. '01, p. 4).

Continued on page 2

■ MYRIAD GENETICS, *from page 1*

Separately, Myriad has announced that the list price for its newest genetic test, Melaris, is \$745 per test. The test is used to assess an individual's risk of developing malignant melanoma, a deadly form of skin cancer.

Myriad also markets BRACAnalysis (\$2,580-for hereditary risk of breast and ovarian cancer); Colaris (\$1,950-for risk of colorectal cancer); and CardiaRisk (\$295-for cardiovascular disease). Myriad says it typically receives 94% of list price. In the six months ended Dec. 31, 2001, Myriad generated \$11.886 million from predictive testing services, up 69% from \$7.016 million in the same period a year earlier.

Despite Myriad's growing sales, the company has been criticized for its high prices and for patents which give it exclusive rights to perform diagnostic testing on the BRCA1 and BRCA2 genes. In addition, some physicians and scientists have questioned the clinical usefulness of Myriad's tests. For example, a Myriad spokesman tells *LIR* that patients who test positive for high risk of developing malignant melanoma (based on the Melaris test) should avoid the sun and have any suspicious skin growths removed. That's standard advice for almost any fair-skinned person, pathologists tell *LIR*. It should also be noted that there are no specific preventive drug treatments currently on the market for melanoma. 🏠

A Quick Look At Kimball Genetics

Four of Kimball's 11 employees are genetic counselors who offer their services free to both patients and physicians

In our February issue (p. 7) we mentioned Kimball Genetics (Denver, CO), a privately held laboratory that has offered hereditary hemochromatosis gene analysis directly to consumers since 1997. After publication, we got in touch with Kimball's owner, Annette Taylor, MS, PhD, who filled us in on some more details about her lab, which she founded in May 1994.

Kimball Genetics is focused on testing for common genetic disorders that are preventable or treatable. In addition to hereditary hemochromatosis gene analysis, Kimball's menu includes tests for inherited hypercoagulability (including factor V Leiden, factor V R2, the prothrombin [factor II] mutation and MTHFR) and ApoE genotyping for lipid disorders. Kimball also provides fragile X testing and research, offering both DNA testing and protein (FMRP) expression testing. Taylor says Kimball will be launching genetic testing for cystic fibrosis this summer in response to demand and in recognition of the guidelines recently issued by the American College of Obstetricians and Gynecologists (*LIR*, Nov.'01, p. 3).

Kimball's most popular direct-to-consumer test is for hereditary hemochromatosis. Consumers can order the test for \$125 through the company's Website or by telephone. Kimball has a good relationship with the American Hemochromatosis Society (Lake Mary, FL), which refers consumers to Kimball for testing. Kimball mails consumers who order the test a cheek cell collection kit, and samples are mailed back to Kimball for testing. Kimball requires consumers to provide their physician's name and contact information along with the sample. Within 24 hours, Kimball faxes the test report to the physician and mails a copy to the patient. 🏠



ProxyMed Launches Online Lab Test Ordering Service

ProxyMed Inc. (Fort Lauderdale, FL) has announced the formal launch of its ProxyLab service for electronic test order entry and results reporting. ProxyLab can be deployed as a Windows application or accessed over the Internet. The service, which uses underlying technology from Atlas Development Corp. (Woodland Hills, CA), is being marketed by ProxyMed's laboratory service division, Key Communications Service (New Albany, IN).

Eric Arnson, vice president of marketing at ProxyMed, tells *LIR* that implementation fees for ProxyLab start at \$33,000 per lab client. This includes development of one bi-directional interface, conversion of a lab's test catalog and other one-time procedures. Ongoing fees are based on the number of "roundtrip" transactions (test order + result report) and are roughly \$0.75-\$1.25 per transaction.

ProxyMed already has 14 lab customers for its Web-based, results reporting only service, which is accessed through proxymed.com and costs roughly \$0.25-\$0.50 per test result. Current customers include Enzo Clinical Labs (Farmingdale, NY), Doctors Laboratory (Valdosta, GA), and Wuesthoff Hospital (Rockledge, FL).

Though physician adoption of Web-based lab services has been slow, Arnson believes labs can accelerate acceptance by getting their sales personnel involved from the very beginning. He recommends that labs offer their sales force a voice in product selection. "Then when it is time for deployment, the sales team is well-equipped and trained to begin offering this new solution with confidence." He also believes labs should

keep in close contact with physician office clients who are using a new Web-based service so that any issues can be resolved before the client gets frustrated. When switching to new electronic methods, keep existing communication methods in place, he advises, so that a gradual transition can be effected with minimal disruption.

Despite all the fanfare the Internet has received, Arnson notes that the biggest change now occurring in connectivity between labs and their customers is the replacement of dot-matrix teleprinters with laser teleprinters, allowing labs to provide enhanced charts and graphics on their results reports to physician clients.

ProxyMed subsidiary Key Communications sells some 10,000 new teleprinters each year, both dot matrix and laser. It has more than 500 lab clients providing test results to over 100,000 physician offices via teleprinters.

In 2001, ProxyMed generated \$26.3 million of revenue from its lab communications business, up 13% from \$23.3 million in 2000. 🏠

Labs Using ProxyMed's Web-Based Results Reporting Service

- Accurate Diagnostic Labs (Old Bridge, NJ)
- Central Ohio Primary Care Physicians (Columbus, OH)
- Doctors Lab (Valdosta, GA)
- Enzo Clinical Labs (Farmingdale, NY)
- Genatom Inc. (Roseland, NJ)
- Hagerstown Medical Laboratory (Hagerstown, PA)
- Health Network Laboratory (Allentown, PA)
- Medical Diagnostics Laboratory (Cinnaminson, NJ)
- Palm Beach Medical Lab (Wellington, FL)
- Professional Clinical Lab (New York City)
- Rice Memorial Hospital (Willmar, MN)
- Sunrise Medical Labs (Hauppauge, NY)
- Thrombocare-Southwest Hemostasis (Dallas, TX)
- Wuesthoff Hospital (Rockledge, FL)

Source: ProxyMed

FDA Clears Abbott Labs' Breast Cancer DNA Test

Abbott Laboratories (Abbott Park, IL) has announced that its Vysis PathVysion HER-2 DNA Probe Kit has been approved by the U.S. Food & Drug Administration for use in identifying women with breast cancer who could benefit from Herceptin therapy. The PathVysion test is designed to detect amplification of the HER-2/neu gene via fluorescence in situ hybridization (FISH) in formalin-fixed, paraffin-embedded breast cancer tissue specimens. Breast cancer patients who over-express HER-2/neu are candidates for Herceptin (made by Genentech), which slows the growth and spread of tumors that have an overabundance of HER-2/neu.

According to the American Cancer Society (Washington, DC), breast cancer is the most common form of cancer among women ages 35-54. About 192,000 new cases are diagnosed each year in the U.S. Some 1.7 million American women are currently living with the disease. Therapy for breast cancer, while potentially life-saving, does carry many potential side effects and risks. For this reason, doctors are interested in administering the most appropriate therapy. 🏠

The PathVysion test is reimbursable under the following CPT codes:

88271 x 2	Molecular cytogenetics; DNA probe	\$59.20
88274 x 1	Interphase in situ hybridization, analyze 25-99 cells	48.10
88365 x 1	Tissue in situ hybridization, interpretation and report	108.96
Total		\$216.26

Source: *LIR* from Abbott Laboratories and Medicare's lab fee schedule

Athena Diagnostics Earns Net Profit Margin Of 19%

Athena Diagnostics (Worcester, MA), which specializes in esoteric tests in neurology, earned net income of \$6.907 million in 2001 vs. \$5.001 million in 2000; revenue was up 18% to \$36.284 million. These figures indicate a net profit margin of 19% and are an example of just how profitable esoteric testing can be. The figures were disclosed in a recent filing with the Securities & Exchange Commission. Athena has filed for an initial public offering (*LIR, Nov. '01, p. 10*).

Another indication of Athena's profitability is the company's high revenue per employee. For its 134 employees, the average annual revenue per employee is \$270,776 (\$36.284 million/134). That's more than double the average revenue per employee figures for Quest Diagnostics and Laboratory Corp. of America. 🏠

Athena Diagnostics At A Glance (\$000)

	2001	2000	% Chg
Revenue	\$36,284	\$30,711	18
EBITDA	13,753	10,420	32
Net income	6,907	5,001	38

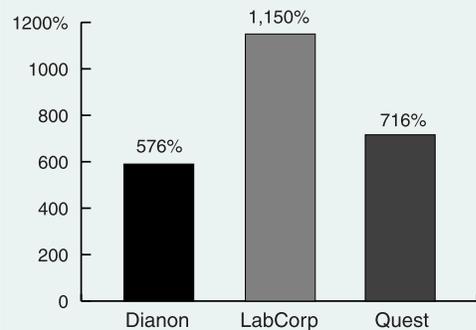
Source: Athena Diagnostics

INSIDE THE LAB INDUSTRY

How Much Higher Can Laboratory Stocks Rise?

Stock prices for most publicly traded laboratory companies have gone through the roof over the past three years. Shares of Laboratory Corp. of America, for example, have skyrocketed by 1,150% since the end of 1998, and shares of Quest Diagnostics have soared by 716%. The stock gains can largely be attributed to improved earnings performance. Consider Quest, which has boosted its net income from \$26.9 million in 1998 to \$162.3 million in 2001. Similarly, LabCorp has raised its net income from \$24.4 million in 1998 to \$179.5 million in 2001.

Stock Price Gains For Selected Labs 12/31/98 to 3/8/02



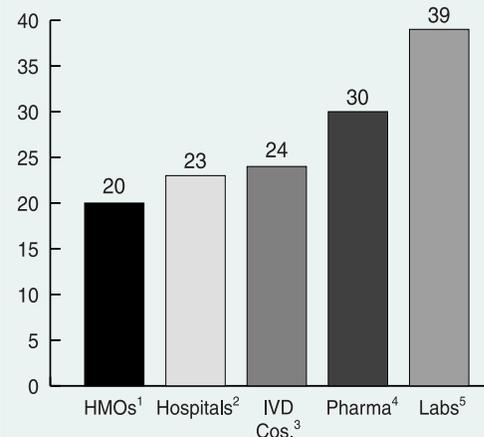
Source: LIR

Lab stock investors appear to be factoring in continued improvement in bottom-line profits for the next several years as well. This supposition is illustrated by the high price-to-earnings (P/E) multiples that lab stocks now command relative to other healthcare sectors. For example, based on reported net income for 2001, Quest and LabCorp currently trade at an average P/E ratio of 39. That's nearly double the average P/E ratio for the big publicly traded HMOs, which trade at an average of 20 times earnings.

P/E ratios for the big lab stocks are also significantly higher than those for the for-profit hospital chains as well as IVD manufacturing companies such as Beckman Coulter, Diagnostic Products and Becton Dickinson.

Earnings from lab stocks are even more highly valued than the country's largest pharmaceutical companies, which currently trade at an average of 30 times reported earnings.

Comparative P/E Ratios



¹UnitedHealth, Wellpoint, Cigna. ²HCA, Tenet.

³Beckman Coulter, Diagnostic Products, Becton Dickinson. ⁴Merck, Pfizer, Pharmacia. ⁵Quest, LabCorp

Source: LIR from Market Guide data

For help in figuring out whether laboratory stocks are now appropriately priced, *LIR* turned to what the "smart money" investors have been doing with their money. This group includes lab executives and directors along with venture capitalists. In short, the majority have been selling.

Major Transactions

Dianon: Gilbert Beckwith, a board member of Dianon Systems (Stratford, CT), sold 316,400 common shares of Dianon last month, according to documents recently filed with the Securities & Exchange Commission. He sold the shares in late February for \$62.15-\$66.40 apiece, cashing in some \$20 million worth. The transaction came closely on the heels of his sale of 750,000 shares of Dianon in November 2001 for approximately \$45 per share, or \$31 million in total. As a result, Beckwith has lowered his stake in Dianon from more than 20% six months ago to 6.4%, or 762,374 shares.

Beckwith made his initial investment in Dianon in October 1995, paying \$5 per share through his investment firm, Field Point Capital Management (Greenwich, CT). Back then, Dianon had a market capitalization of roughly \$28 million and was trading at roughly 0.5 times its annual sales. Today, the company has a market cap of more than \$600 million and trades at 4.5 times its annual revenue.

Beckwith's investment savvy has paid off handsomely. Over the past six and one-half years, he has turned an initial investment of less than \$10 million into more than \$100 million (including current holdings in Dianon, plus realized gains) for an average annual return in excess of 40%.

LabCorp: Roche Holding (Basel, Switzerland) currently owns 15% of LabCorp and recently announced plans to lower its stake to about 4-5% through the sale of up to 7.7 million shares. The sale will generate roughly \$666 million of gross proceeds to Roche, which has been gradually reducing its stake in the company since late 2000. Roche says it plans to cut its stake to zero by November. Roche originally obtained the shares when its wholly owned subsidiary, Roche Biomedical Labs, merged with National Health Labs to form LabCorp in April 1995.

LabCorp executives and directors have also been fairly active sellers of their company's stock. According to data from Thomson Financial Services (Boston, MA), LabCorp insiders sold 277,782 shares in the company worth approximately \$24 million in the last 12 months, with no significant purchases (excluding option-related purchases).

Quest Diagnostics: Insider selling at lab companies has been the greatest at Quest Diagnostics, according to Thomson Financial. In the 12 months ended Jan. 31, 2002, Quest executives and directors sold a total of approximately 741,000 shares worth more

than \$50 million, with no insider buying (excluding option-related purchases).

Unilab: The smart money has also been selling at Unilab. In October 2001, Kelso Investment Associates (New York City) sold 7.5 million shares of Unilab for \$20.50 each with a total value of \$154 million. The sale reduced Kelso's stake in the company from 64% to 41%. With the transaction, Kelso more than recouped its initial investment of \$139.5 million made in November 1999, but retained a 41% stake worth nearly \$300 million. In conjunction with the Kelso sale, other investors and several Unilab executives cashed in another 1.2 million shares worth some \$25 million.

Bio-Reference Labs: Though the smart money has mostly been selling lab stocks, there have been some buyers. For example, Morton Topfer, former co-CEO and vice chairman of Dell Computer, bought a 14% stake in Bio-Reference Laboratories (Elmwood Park, NJ) in May 2001. Topfer purchased 1.5 million shares for \$1 each. He has followed this initial investment with additional purchases of 89,000 shares at prices between \$3.05 and \$4.60 per share between June and September 2001, raising his stake in Bio-Reference Labs to 15%.

Topfer, who was recently named vice chairman of Bio-Reference, made his investments when the company was trading at roughly 0.25 times its annual revenue. Shares of the company have jumped 510% since his initial buy-in.

LabOne: Another rare example of smart money buying was a \$50 million investment in LabOne (Lenexa, KS) by Welsh, Carson, Anderson & Stowe (WCAS-New York City) in August 2001. WCAS is a multi-billion-dollar private investment firm with a long track record of investing in undervalued companies. The funds were used by LabOne to finance its acquisition of Osborn Group (*LIR*, Oct. '01, p. 8). 🏠

Pathology Companies Richly Valued On Wall Street

A *LIR* analysis of common stock valuation yardsticks reveals that investors have become particularly fond of pathology companies. Based on reported financial results for the year ended Dec. 31, 2001, the three publicly traded pathology companies—AmeriPath, Dianon and Impath—are currently valued at an average of 3.3 times annual revenue and 63 times annual net income.

Dianon has the highest valuation. As of Mar. 8, it had a stock market capitalization of \$600 million, equal to 4.8 times its reported 2001 revenue of \$125.7 million and nearly 100 times its net income of \$6.2 million.

Impath trades at 3.3 times annual revenue and 57 times net income; AmeriPath trades at 1.9 times revenue and 34 times net income.

Meanwhile, eight publicly traded laboratory companies are currently valued at an average of 1.7 times annual revenue and 32 times annual net income. The most richly valued

lab stock is Specialty Laboratories (Santa Monica, CA), which trades at 3.1 times its annual revenue and 41 times net income.

The lab company with the highest absolute market capitalization is Quest Diagnostics, currently valued at \$7.2 billion, or about two times its annual revenue of \$3.6 billion and 44 times reported net income of \$162.3 million. LabCorp has the next highest absolute market capitalization at \$6.1 billion, equal to nearly three times its annual revenue of \$2.2 billion and 34 times reported net income of \$179.5 million.

Lab companies that appear to be relatively cheap include Medtox, which has a market capitalization of \$45.7 million—equal to less than one times annual revenue of \$49.1 million and 18 times net income of \$2.5 million. Other lab companies currently valued at about one times annual revenue or less include Bio-Reference Laboratories, Dynacare and LabOne. ▲

Lab & Pathology Company Valuations (\$000)

Laboratory Cos.	Current Market Value*	2001 Revenue	2001 Net Income	Market Value/Revenue	Market Value/Income
Bio-Reference**	\$69,369	\$80,622	\$2,362	0.86	29.4
Dynacare	306,243	402,359	11,717	0.76	26.1
LabCorp	6,088,800	2,199,800	179,500	2.77	33.9
LabOne	263,397	233,887	-1,043	1.13	NA
Medtox	45,733	49,084	2,498	0.93	18.3
Quest Diagnostics	7,151,100	3,627,700	162,300	1.97	44.1
Specialty Labs	541,419	175,169	13,079	3.09	41.4
Unilab	7361,575	390,205	-2,920	1.89	NA
Unweighted avg.				1.67	32.2
Pathology Cos.					
AmeriPath	798,932	418,732	23,352	1.91	34.2
Dianon	599,965	125,678	6,193	4.77	96.9
Impath	631,239	189,615	10,991	3.33	57.4
Unweighted avg.				3.34	62.8

*Market value is based on fully diluted shares as of Dec. 31, 2001 multiplied by share price as of Mar. 8, 2002

**Financial data are for the fiscal year ended Oct. 31, 2001

Source: *LIR* from company reports

MT Salaries Rising Fastest In The West; Phlebotomist Pay Soars

Annual salaries for bench technologists are rising the fastest in nine Western states—Arizona, New Mexico, Utah, Colorado, Idaho, Wyoming, Montana, Alaska and Hawaii—according to the latest salary survey by *Advance for Medical Laboratory Professionals* and *Advance for Administrators of the Laboratory*, published by Merion Publications. Based on 2,368 responses from readers, the average salary for

	2001	1999	% Chg
Northeast	\$37,362	\$36,071	3.6
Southeast	36,844	34,896	5.6
North Central	36,800	33,775	9.0
South Central	35,990	33,280	8.1
West	39,821	34,808	14.4
Pacific	41,700	39,664	5.1

Source: *Advance*, 2001 Salary Survey

bench technologists in the West rose by 14.4% between 1999 and 2001 to \$39,821. Over the same two-year period, salaries grew the slowest in the Northeast (New York, New Jersey, Pennsylvania, Connecticut, etc.), up 3.6% to \$37,362. Bench technologists in the Pacific region (California, Oregon and Washington) had the highest average salary, \$41,700, up 5.1% from \$39,664 in 1999.

National average salaries for new medical laboratory technicians rose from \$22,925 in 1999 to \$24,286 in 2001, an increase of 5.9%. Salaries for MLTs with 15 or more years of experience jumped 30% to a national average of \$30,660.

Phlebotomist pay rates at the entry level and at the higher years-of-experience level have skyrocketed, the *Advance* survey showed. The national average salary for new

Experience	2001	1999	% Change
0-1 years	\$21,875	\$17,250	26.8
2-4 years	19,545	19,434	0.6
5-7 years	20,909	21,111	-1.0
8-10 years	22,500	20,858	8.1
11-14 years	24,605	21,145	16.4
15+ years	22,500	20,004	12.5

*This table does not take into consideration whether the respondents hold full- or part-time positions.
Source: *Advance*, 2001 Salary Survey

phlebotomists (0-1 year of experience) jumped from \$17,250 in 1999 to \$21,875 in 2001, an increase of 26.8%. Salaries for phlebotomists with 15 or more years of experience were up 12.5% to an average of \$22,500.

Sixty-six percent of those responding to the *Advance* survey worked in hospital labs; more than 50% had 15 or more years of experience. Ninety-one percent of all respondents indicated that they had received a salary increase over the past year of anywhere from 1% to 10%.

Ninety percent of respondents did not belong to a union. (For additional survey results, see *Advance for Medical Laboratory Professionals*, Nov. 12, 2001 issue.)

Meanwhile, survey data from Salary.com, a job recruiting and consulting firm based in Wellesley, MA, suggest that medical technologists are paid significantly less than their peers in other industries. While clinical laboratories pay bench technologists average annual salaries of \$36,000-\$42,000, biotechnology firms pay clinical research associates with 2-5 years of experience average annual salaries of about \$50,000-\$52,000 in rural areas and \$58,000-\$60,000 in urban areas. 🏠



Healthcare Worker Shortages Widespread, AHA Survey Shows

A recent survey of 1,092 U.S. hospitals conducted by First Consulting Group (Washington, DC) on behalf of the American Hospital Association, the Association of American Medical Colleges, the Federation of American Hospitals and the National Association of Public Hospitals & Health Systems indicates widespread shortages for many healthcare positions.

According to the January 2002 report, the national average vacancy rates for laboratory technicians is 9.5%. Shortages are most severe in rural areas, where the vacancy rate for lab techs averages 12%; in urban areas, it's 8%.

Hospital Personnel: Sample Vacancy Rates

<i>Positions</i>	<i>Vacancy Rate</i>
Lab technicians	9.5
—Lab techs (rural)	12.0
—Lab techs (urban)	8.0
Registered nurses	13.0
Licensed practical nurses	12.9
Pharmacists	12.7
Radiology technicians	15.3
Billers and coders	8.5

Source: First Consulting Group

Meanwhile, the national vacancy rate averages 13% for registered nurses and 12.9% for licensed practical nurses. One in seven hospitals report RN vacancy rates higher than 20%.

Radiology technicians are the scarcest of all hospital staff, with an average vacancy rate of 15.3%, according to the survey.

The shortages will likely get worse before they get better, the report warns. "There is no 'silver bullet' answer to the workforce shortage problem," said

AHA president Dick Davidson in a news release accompanying the report. "It's going to take all of us—educators, government and community officials, hospital leaders, healthcare workers and the public—working together to meet these challenges." 🏠

Portland Nurses Get 20.5% Pay Hike Following 56-Day Strike

Registered nurses at Oregon Health & Sciences University (OHSU-Portland) have agreed to a new three-year contract that includes wage increases of at least 20.5%. The agreement ends a 56-day walkout of approximately 1,250 nurses at OHSU Hospital and affiliated Doernbecher Children's Hospital.

The deal will boost nurses' salaries by 7% in years one and two of the contract and a minimum of 6.5% in year three. The contract includes payments to full-time nurses to offset increases in out-of-pocket insurance costs. The nurses were represented by the Oregon Nurses Association. The university had initially said it would not offer more than a 14% wage hike over two years. OHSU is the state's largest healthcare employer and sees 147,796 patients annually.

The nurses' strike and subsequent pay hikes are not an isolated incident. Hospitals in all parts of the country are struggling to meet higher salary demands from healthcare staff; however, nurses seem to have the highest visibility and seem to engender the greatest sympathy from the public. And when one group or department in a hospital gets a pay hike that exceeds budget plans, it puts pressure on others (including the laboratory) to make up the difference. 🏠

Top 25 Independent Lab Facilities Have 39% Market Share

The 25 largest commercial laboratory testing facilities in the nation conduct 603.5 million tests annually, accounting for 39% of the total 1.533 billion tests performed by all U.S. independent labs and 11% of the total 5.621 billion tests performed industry-wide, according to an analysis of data from the CLIA Provider Application File/April 2001.

The highest-volume independent lab facility is owned by LabOne (Lenexa, KS), which operates a 100,000 square-foot lab just outside of Kansas City that performs 97.9 million tests per year. LabOne recently acquired Osborn Group in August 2001 and has consolidated this lab into its Lenexa facility. (Test volume for LabOne is based on data submitted to the CLIA Provider Application File after April 2001.)

The second highest-volume commercial lab facility is operated by Unilab in Tarzana, CA (45.8 million tests annually). Other major labs include LabCorp's facilities in Herndon, VA (39.9 million tests) and Louisville, KY (39.2 million tests). Quest Diagnostics' highest-volume facility is in Teterboro, NJ (36.3 million tests). Together, Quest (including American Medical Labs and Sonora Quest) and LabCorp operate 22 of the top 25 independent lab facilities in the U.S.

Top 25 Independent Lab Facilities By Total Annual Test Volume

Facility Name	City	State	Test Volume*
LabOne	Lenexa	KS	97,914,568
Unilab	Tarzana	CA	45,827,985
LabCorp	Herndon	VA	39,927,852
LabCorp	Louisville	KY	39,240,436
Quest Diagnostics	Teterboro	NJ	36,262,225
Quest Diagnostics	Wood Dale	IL	34,226,735
Quest Diagnostics	Irving	TX	29,664,551
Quest Diagnostics	Tucker	GA	27,457,600
LabCorp	Uniondale	NY	27,092,989
Quest Diagnostics	Horsham	PA	24,047,800
LabCorp	Raritan	NJ	22,681,572
Sonora Quest	Tempe	AZ	21,990,000
American Medical Labs	Las Vegas	NV	20,309,368
Quest Diagnostics	Denver	CO	19,675,740
Quest Diagnostics	Wallingford	CT	19,241,782
Gambro Healthcare	Fort Lauderdale	FL	18,742,528
LabCorp	Kansas City	MO	18,093,395
LabCorp	San Diego	CA	17,611,856
Quest Diagnostics	Dublin	CA	17,146,330
LabCorp	Dublin	OH	17,119,900
Quest Diagnostics	Cambridge	MA	16,608,950
LabCorp	Tampa	FL	15,772,484
LabCorp	Houston	TX	15,589,321
Quest Diagnostics	Auburn Hills	MI	15,369,960
Quest Diagnostics	Tampa	FL	14,909,600
Total			603,478,046

*Test volumes figures are for reportable test results (test panels have been exploded into their individual test components)

Source: CLIA Provider Application File/April 2001





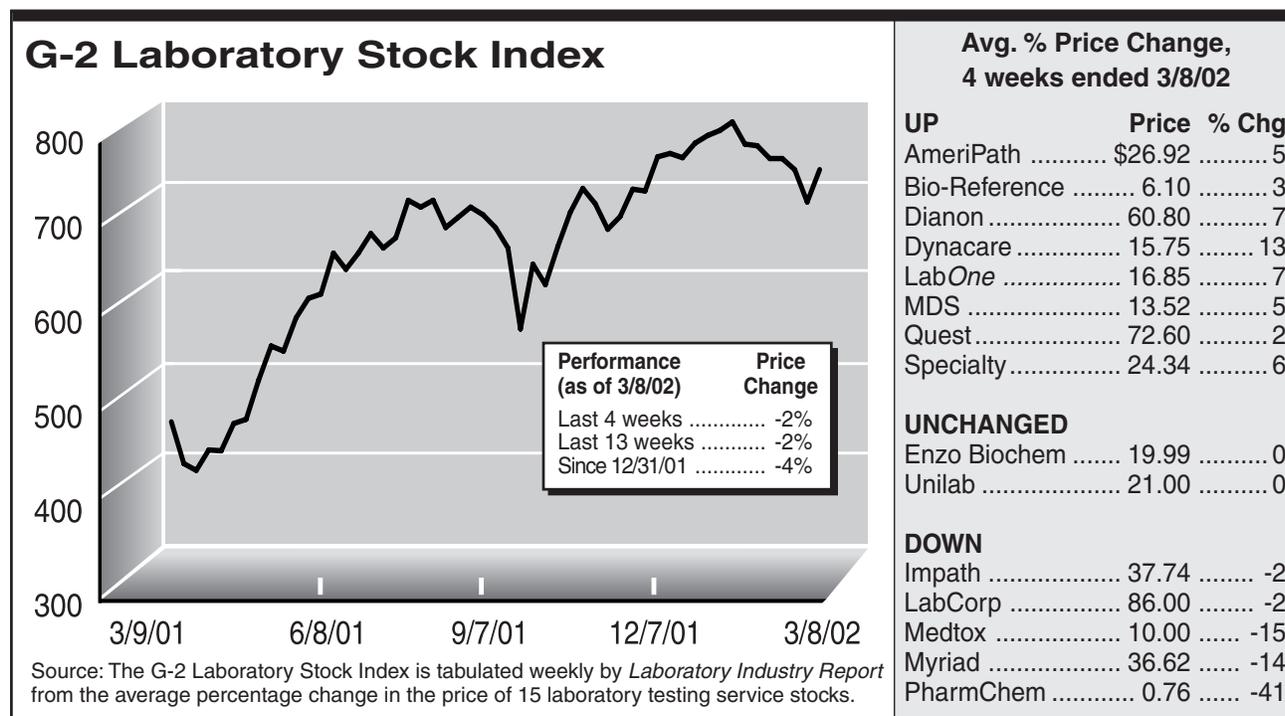
Lab Stocks Fall 2% In Latest Four Weeks

The 15 stocks in the G-2 Laboratory Index fell an unweighted average of 2% in the four weeks ended March 8, 2002, with five stocks declining in price, two unchanged and eight stocks advancing. So far this year, lab stocks have fallen 4%, while the S&P 500 is up 1% and the Nasdaq is down 1%.

Medtox (St. Paul, MN) slipped 15% to \$10 per share for a market capitalization of \$46 million. The company recently reported net income of \$310,000 for the fourth quarter of 2001 compared with a net loss of \$3.816 million for the fourth quarter of 2000; revenue was up 20% to \$12.336 million vs. \$10.315 million. Medtox said that while its drugs-of-abuse testing business declined in 2001, this was more than offset by growth in other specialty laboratory services, including lead screening for pediatric clinics.

Myriad Genetics (Salt Lake City, UT) was down 14% to \$36.62 per share for a market capitalization of \$864 million. Prudential Securities analyst Christopher Raymond recently initiated coverage of Myriad with a rare "sell" rating. Raymond cited "significant commercial, collaborative and clinical risk" at Myriad during the coming quarters, noting that the company's genetic tests may not be the high-growth products that investors are expecting.

Lab stocks rising in price in the latest four weeks included **Dynacare** (Dallas, TX and Toronto, Canada), which was up 13% to \$15.75 per share for a market capitalization of \$306 million. Dynacare recently reported net income of \$1.75 million for the fourth quarter of 2001 compared with \$559,000 for the fourth quarter of 2000; revenue was up 18% to \$102.7 million (including \$76 million from U.S. operations and \$26.7 million from Canada). 🏠





The Pap test has become a source of high revenue for labs within the past year, and average reimbursement is set to zoom higher, given a recent recommendation from the Food & Drug Administration's Microbiology Devices Panel. On March 8, the panel advised that FDA approve Digene Corp.'s submission to market its gene-based Hybrid Capture2 HPV Test (high-risk probe) in conjunction with the Pap test for primary cervical cancer screening in women age 30 and older. Digene expects a final decision from FDA by year's end. Digene's HPV test is currently used only as a follow-up test for inconclusive Pap tests.

If FDA accepts the panel recommendation and if current Medicare reimbursement levels are maintained, it will mean that labs performing the combined thin-layer Pap test and HPV test will be reimbursed a total of \$76.50 per specimen. That would be a tremendous boost from the \$7.15 per Pap test that Medicare was reimbursing labs only two years ago.

More than 50 million Pap tests are performed in the U.S. each year, and this market is now growing by an estimated 5-10% per year. Growth was boosted in July 2001 when Medicare began covering Pap tests once every two years; previously, coverage for most women was limited to once every three years.

Medicare Reimbursement For The Pap Test

Traditional Pap (pre-2000):	\$7.15
Traditional Pap (effective 1/1/00):	\$14.60
Thin-Layer Pap (effective 4/1/01):	\$28.00
DNA HPV test (high-risk probe):	\$48.50
Thin-Layer plus DNA HPV test (high-risk probe)*:	\$76.50

*Assumes FDA approval and current Medicare reimbursement levels

Source: LIR

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- Abbott Labs 847-937-6100
- Advance For Medical Laboratory Professionals 610-278-1400
- Athena Diagnostics 800-394-4493
- Dianon 203-381-4000
- Digene 301-944-7000
- Dynacare 416-487-1100
- Key Communications 812-944-3865
- Kimball Genetics 303-320-1807
- LabCorp 336-584-5171
- Medtox 651-636-7466
- Myriad Genetics 801-584-3600
- Oregon Health & Sciences University 503-494-8311
- ProxyMed 954-473-1001
- Quest Diagnostics 201-393-5000

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