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LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

Reference Lab Test Expenses Growing By 10%

Historically, send-out testing expenses paid by hospital and independent labs to the national reference labs (*i.e.*, Quest, LabCorp, ARUP, Mayo, and Specialty) remained a small operating cost (generally less than 8%) in the budgets of most hospital and independent labs that grew in line with inflation.

In the past, reference lab expenses were kept in check by a general equilibrium between the number of tests that hospital and independent labs were bringing in-house and the number of new tests that the national reference labs were introducing to the market.

However, today the equilibrium has gotten out of whack and most labs now report that their reference lab expenses are rising by 10% or more per year. "Costs are not going up because of pricing; costs are going up because the volume and repertoire of new and complex tests being introduced is accelerating," observes Peter Jatlow, M.D., chief of laboratory medicine at Yale-New Haven Hospital (New Haven, CT).

In the last issue of *LIR*, we focused on the effect that direct marketing of high-priced esoteric tests is having on the lab industry. In this issue we take a broader look at how hospital and independent labs are coping with accelerated growth in their reference lab expenses. For details, see *Inside The Laboratory Industry*, pp. 5-7.

Former MEDex CEO Charged In $8.5M Loan Fraud

Michael Eugene Ladd, 50, former chief executive of MEDex Regional Laboratories LLC (Kingsport, TN), was arrested on May 7 on an eight-count federal court indictment that charges him with fraudulently obtaining $8.5 million in bank loans that recently forced the 30-year-old business to file for Chapter 11 bankruptcy protection (*see LIR, May 2002, p. 1*).

The criminal complaint was filed in U.S. District Court in Greenville, Tennessee, and charges Ladd with submitting falsified loan documents to SunTrust Bank of East Tennessee. Magistrate Judge Dennis Inman has ordered Ladd to remain in custody pending a detention hearing scheduled for May 21. If convicted, he faces a maximum penalty of 30 years in prison and a $1 million fine on each of the eight counts.

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MEDEX CEO CHARGED, *from page 1*

MEDex was founded in 1973 and had grown to become one of the largest independent labs in the South, with nearly 500 employees and an estimated budget of roughly $50 million per year. The company had been owned 50% by Wellmont Health System (Kingsport, TN) and 50% by a group of local physicians and served hospitals associated with Wellmont plus surrounding physician offices and clinics.

According to the complaint, Ladd was hired by MEDex in August 2000 to serve as its chief financial officer; he became the company's chief executive in November 2001. However, MEDex was slow to hire a new chief financial officer, and Ladd acted as both CEO and CFO throughout most of 2002, according to Tim Baylor, a spokesman for Wellmont. Prior to joining MEDex, Ladd had worked as a self-employed healthcare consultant.

Baylor says that as both CEO and CFO of MEDex, Ladd embarked on an aggressive expansion plan outside of the company's core market of northeast Tennessee and southwest Virginia. New labs and offices were opened in Birmingham, Alabama, as well as Nashville, Chattanooga, and Knoxville, Tennessee. All the while, Ladd allegedly misled the board of MEDex to believe that the expansion was being funded by operating profits. In fact, MEDex was hemorrhaging money to the tune of about $3 million per year (although auditors are still trying to figure out the exact amount of the losses).

Sources tell LIR *that Quest and LabCorp have stepped up marketing efforts in Tennessee, Virginia, and Alabama to fill the void left by MEDex's restructuring*

Meanwhile, the complaint alleges that from May 2002 to February 2003, Ladd was obtaining millions of dollars of loans from SunTrust, using forged signatures of the six physician owners of MEDex as well as Eddie George, president and CEO of Wellmont, and Gary Miller, senior vice president of legal affairs at Wellmont.

Ladd's scheme fell apart in March 2003 when a short-term loan from SunTrust came due and created an overdraft in the company's checking account. Ladd was on a vacation cruise at the time, so SunTrust contacted MEDex board members, who then ordered an immediate audit. Ladd resigned shortly thereafter.

Discovery of the true nature of MEDex's financial condition led the company to file for Chapter 11 bankruptcy protection on April 8. Since then, MEDex's physician owners have transferred all ownership over to Wellmont and the company has laid off approximately 100 employees to lower its head count to approximately 350. Baylor says the company will ultimately try to reduce its staff to 300 employees.

Baylor says MEDex has put in place a broader management structure. At the top is Edward Bush, who has been promoted to system director from his previous position of laboratory director. Dick Ray, who was hired by MEDex as an accounting consultant in late 2002, has been named full-time CFO. Other members include Gail Price, director of clinical testing; Stephanie Dolsen, director of clinical support; and Brenda Mosberg, director of compliance.

Dean Farmer, a lawyer at Hodges, Doughty, and Carson (Knoxville, TN), which is handling MEDex's bankruptcy, says it appears that the unauthorized loans made by Ladd were only used to fund the company's operating losses. He adds that there is currently no evidence that suggests that Ladd pocketed any of the money for himself, although audits and investigations into the matter continue.

Village Voice Articles Rattle Bio-Reference Labs

Two articles published earlier this year in the *Village Voice*, a weekly New York City newspaper with a long history of stirring up controversy, have sent executives at Bio-Reference Laboratories (Elmwood Park, NJ) scrambling to do damage control.

The articles suggest that Vincent Nasso, a former part-time salesman at Bio-Reference, may have used his alleged connections with organized crime to help Bio-Reference and its chairman and chief executive, Marc Grodman, M.D., win or maintain lab testing contracts with certain New York municipalities and unions, including the Fire Department of New York City.

In June 2002, Nasso was indicted by federal prosecutors for allegedly intimidating representatives of the International Longshoremen's Association into awarding a prescription benefit management contract to company called GPP/VIP, which was jointly owned by Nasso and Marc Grodman's brother Joel Grodman, who has not been charged with any illegal activity. Nasso's trial is set to begin this September.

Regarding the *Village Voice* articles, Marc Grodman told *LIR* in a prepared statement, "The *Village Voice* articles concerning Bio-Reference and Marc Grodman are replete with lies, distortions, and false innuendoes used to advance the political objectives of its author. The story is being promulgated primarily by local laboratory competitors who seek to use these lies and misrepresentations as a means to seek a competitive advantage which otherwise eludes them."

Publication of the Village Voice *articles does not appear to have hurt Bio-Reference's stock price, which has risen 15% since mid-March to $5.35 per share as of May 16*

Sources close to Bio-Reference tell *LIR* that Nasso's indictment "came as a shock to everyone at the company" and that Nasso was suspended without pay immediately following the news. Bio-Reference involvement with Nasso began in 1989 when Bio-Reference purchased a small lab owned by Nasso called BioDynamics (Brooklyn, NY). Following the purchase, Nasso stayed on at Bio-Reference as a part-time salesman, focused on gaining union and large employer accounts, up until his indictment in June 2002.

Meanwhile, Wayne Barrett, author of the *Village Voice* articles, tells *LIR* that he has not been contacted by Bio-Reference concerning any errors and that he "stands by" his articles. Our sources close to Bio-Reference say the company chose not to challenge the articles, despite their alleged inaccuracies, because it was hoping the news would die quietly. However, they say that competitors of Bio-Reference have kept the story alive and that the company is now contemplating legal action against the *Village Voice*.

Pediatrix Acquires Neo Gen Screening For $34 Million

Pediatrix Medical Group (Fort Lauderdale, FL), a physician practice management company that employs 625 neonatal and perinatal physicians in 30 states, has acquired Neo Gen Screening Inc. (Bridgeville, PA) for $34 million in cash. The price works out to be approximately 2.3 times Neo Gen's estimated annual revenue of $15 million and 6.5 times its EBITDA (i.e., earnings before interest, taxes, depreciation, and amortization expense).

Neo Gen began independent operations on October 1, 1994 as a spinoff from Magee-Womens Hospital and the University of Pittsburgh. The company was founded by its president and laboratory director, Edwin Taylor, Ph.D., to provide metabolic screening to newborns for conditions not included in mandated state screening programs. Neo Gen is based in suburban Pittsburgh and has 60 employees.

Newborn screening has been ongoing in the U.S. since 1965 and, at the present time, all states routinely screen every newborn for phenylketonuria (PKU), congenital hypothyroidism, and galactosemia (GALT). These tests are generally performed by state public health labs.

Neo Gen provides additional screening for other potentially treatable disorders. For example, the company's supplemental newborn screening panel tests for 55 disorders including biotinidase deficiency, cystic fibrosis, and glucose-6-phosphate dehydrogenase deficiency (G-6PD), and is priced at $59.50.

Neo Gen provides supplemental newborn screenings through contracts with state health departments, hospitals, and directly to patients. Last year the company screened 250,000 babies and this year it expects to screen 300,000.

Lanzolatta Named CEO Of Alfigen

Jeff Lanzolatta, former president of Unilab's southern California operations, has become chief executive of Alfigen, Inc. (Pasadena, CA), a privately held company that specializes in genetic and esoteric testing. Lanzolatta succeeds Ahmed Alfi, who will remain as chairman and focus his efforts on new business development and strategic planning.

Other new hires at Alfigen include Richard Garcia, vice president of national sales, who joined the company late last year. Previously, Garcia was a sales executive at Specialty Laboratories.

Ahmed Alfi tells *LIR* that Alfigen, which has 125 employees, increased its revenue by 30% last year to reach $15 million. He says the company is seeking to grow its salesforce so that it can expand its geographic presence, currently focused in California and Florida. The company is also weighing acquisition opportunities.

Alfigen was founded in 1981 by Omar Alfi, M.D. (the father of Ahmed), and currently offers a broad range of genetic and esoteric testing services, including cytogenetics, fluorescence in situ hybridization (FISH), molecular diagnostics, and flow cytometry. New testing services offered by Alfigen include preimplantation genetic diagnosis of embryos to improve the success rate of in vitro fertilization.

New Technologies Driving Up Reference Lab Testing Costs

Look for more details of a new industry report by Washington G-2 Reports' ***U.S. Laboratory Reference Testing: Market Profile And Pricing Trends,*** *in the next issue of* LIR

The overall market for tests sent out by the nation's 5,800 hospitals (including veteran's hospitals) to the national reference labs was about $2 billion in 2002, according to estimates formulated by Washington G-2 Reports based on a recent survey completed by 171 labs and contained in the forthcoming report, U.S. Laboratory Reference Testing: Market Profile And Pricing Trends. Reference lab expense for the nation's 1,000 active independent lab companies totaled approximately $556 million. (*Note*: Washington G-2 Reports defines an "active laboratory" as any lab that performs more than 50,000 tests per year.)

Thus, the total market for reference lab services provided to hospitals and independent labs is about $2.5 billion. Survey results indicate that reference lab expenses are growing at roughly 10% per year. Growth in the send-out market is being driven by the development and increased utilization of expensive genetic testing techniques, including new cancer diagnostics for lymphoma and leukemia, tests for human papillomavirus, cystic fibrosis (genetic mutation analysis), and viral load and genotyping for HIV and HCV. "The molecular biology revolution is here and we're seeing more tests that are more expensive and more specialized," notes Herbert Auerbach, D.O., chairman of the department of pathology at Abington Memorial Hospital (Abington, PA).

Of course, reference lab expenses vary widely depending on the size of the laboratory. For example, our survey showed that high-volume labs (those performing more than 1 million total billable tests per year) spend an average of $1.1 million per year on reference lab services. Their most common send-out tests include parathyroid hormone, HIV viral load, and AFP triple test.

Low-volume labs (those performing fewer than 500,000 total billable tests annually) spend an average of $174,000 per year on reference lab services. Their most common send-out tests include Vitamin B12 and HIV Antibody.

Most Frequent Send-Out Tests By Lab Size

*High-Volume Labs**	*Low-Volume Labs***
1) Parathyroid Hormone	1) Vitamin B12
2) HIV Viral Load	2) HIV Antibody
3) AFP Triple Test	3) Chlamydia/GC DNA Probe
4) Hepatitis C Viral Load	4) Hepatitis Panel
5) Vitamin B12	5) Antinuclear Antibody Test (ANA)
6) Cystic Fibrosis (genetic mutations)	6) Hepatitis B Surface Antigen
7) Folate	7) PSA Total

*Labs perform more than 1 million total billable tests annually
**Labs perform fewer than 500,000 total billable tests annually
Source: Washington G-2 Reports' *U.S. Laboratory Reference Testing: Market Profile And Pricing Trends*

For a closer perspective on what labs are doing to help curb the rate of growth in their reference lab expenses, *LIR* talked with several experts. We asked them four key questions, and here's what they had to say:

When is it time to add a send-out test to your in-house menu? Barry Portugal, president of Health Care Development Services (Northbrook, IL), notes that the biggest barrier to bringing more tests in-house is vol-

ume. Without enough volume, labs face the risk of having to throw out reagent mixes for specialty tests because the shelf life expired. But the biggest barrier to bringing low volume tests in-house are the associated expenses incurred when running standards and controls, notes Portugal.

For example, June Amoroso, vice president of operations for Sunrise Medical Laboratories (Hauppauge, NY), says that a test that is run only once per day will still require a minimum of two levels of controls plus at least one standardization. Thus in this example, one billable test result is being accompanied by three or more non-billable test results

As a general rule of thumb, labs should consider adding a send-out test to their in-house menu when volume reaches 5 to 10 tests per week, advises Portugal. He believes that many multi-hospital systems are missing opportunities to consolidate a good portion of their send-out tests and bring them in-house.

Should you use a Group Purchasing Organization (GPO)?

According to G-2 Reports' survey of labs broken out by size, 56% said they use a GPO to purchase the majority of their reference services. Portugal says that, in general, the pricing structures available through GPOs offer the best value when purchasing reference lab services.

However, several large laboratories tell *LIR* that they have been able to do better by shopping on their own. Auerbach says that Abington periodically requests bids from the national reference labs for its top 20 send-outs ranked by total spending per test (*i.e.*, volume x price). "We didn't see the benefits of using a GPO," adds Auerbach.

Amoroso says that Sunrise buys its reference lab services on its own too. She says Sunrise does not have a long-term contract with any reference lab. Instead, Amoroso reviews Sunrise's send-outs each month and then shops around for the best prices for those that account for the highest percentage of volume. "Test patterns change frequently and often times the prices differences between reference labs for the same test are substantial," observes Amoroso.

For example, Amoroso says that Sunrise recently sought bids for heavy metal analysis testing, which has increased in demand in the New York City area since the destruction of the World Trade Center. She says one reference lab charged $14 to $15, while another charged $50 to $80 for the same test.

Indeed, our survey results indicate that the price ranges for many of the most frequently sent-out tests are all over the map. For example, based on pricing data from 23 labs, the median price they are charged (after discounts) to have a vitamin B12 test done by a reference lab is $8.88, but the high price is $32.00 and low price is $1.95—

Title: Pricing Data For 7 Frequently Sent Out Tests

Test Name	*Observations*	*High*	*Median*	*Low*
Vitamin B12	23	$32.00	$8.88	$1.95
Hepatitis ABC Panel	18	85.00	40.32	15.00
HIV Antibody	17	18.98	8.00	4.31
Chlamydia/GC DNA Probe	22	40.00	15.29	7.00
Antinuclear Antibody Test (ANA)	17	16.00	8.00	3.50
Folate	15	18.22	10.00	3.75
HIV Viral Load	17	200.00	106.00	75.00

Source: Washington G-2 Reports' *U.S. Laboratory Reference Testing: Market Profile And Pricing Trends*

an incredible range. Labs reported wide ranges in the price paid for other frequently sent out tests as well, including hepatitis ABC panel ($85 to $15) and HIV viral load ($200 to $75).

Naturally, one would expect volume discounts to account for some of the price differences, perhaps 10% to 30%. But test price differences of several hundred percent seem to defy logic. The clear conclusion: It pays to shop around!

In regard to the wide price ranges, Joe Plandowski, president of Lakewood Consulting Group (Lake Forest, IL), notes that often times the major reference labs will accommodate a lab customer that wants a very low price for a particular send-out test or group of tests, but pricing for other tests will then usually be adjusted upward. "There is a rhyme and reason to the pricing methods of the national reference labs. They are looking at the profitability of their overall business relationship with customers," he adds.

Should you use a reference lab that competes in the outreach market?

This is a hot topic of debate in the lab testing industry. Larry Siedlick, chief executive at Sunrise, says his lab simply refuses to send any significant reference test volume to Quest or LabCorp because they are competitors for physician office work. "It has nothing to do with their pricing or service levels. It's a competitive issue," according to Siedlick.

Indeed, many labs in the country think the same way and go out of their way to try to avoid sending their reference work to Quest and LabCorp. Even so, Quest and LabCorp dominate the send-out test market. The Washington G-2 survey indicates that Quest is the primary reference lab for approximately 40% of all the labs in the nation and LabCorp is second with a 24% share.

Several hospital lab directors and chairmen that *LIR* spoke with admitted that either Quest or LabCorp was their primary reference lab, but none wanted to see this information printed. Apparently, for some labs it's better to put forth a good appearance and hide the fact that they are sending their high-margin esoteric work to their fiercest competitors in the outreach market.

How can you reduce your reference lab expenses?

As mentioned earlier, one key to lowering reference lab expenses is to bring tests in-house once volume requirements are met. The cost savings can be substantial. For example, one laboratory director reports that they had paid $8.29 to a reference lab for ferritin testing, but recently brought the test in-house at a reagent cost of $0.70 per test.

In addition, Portugal notes that he recently worked with a multi-hospital system that spends approximately $2 million per year on reference lab services. Send-out test volumes were analyzed throughout the system. It was found that through consolidation of testing it would be possible to bring nearly half of all send-outs in-house at a savings of roughly $400,000 to $500,000 per year. The biggest challenge to send-out test consolidation is establishing an equitable payment method for tests sent between hospitals in the network, notes Portugal.

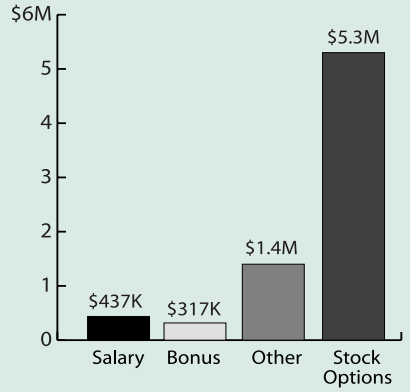
Finally, Peter Jatlow, M.D., chief of laboratory medicine at Yale-New Haven Hospital, says that a pathology resident at the hospital has the job of reviewing samples before they are shipped to a reference lab. The goal is to identify any esoteric testing requests that may not be necessary and then follow up with a phone call to the ordering physician.

Top Commercial Lab Execs Paid An Average $7.5M Each Last Year

The top executives at 11 publicly traded laboratory testing companies received total compensation (including options) of $82.3 million last year for an average of about $7.5 million per executive, according to an *LIR* analysis of proxy reports filed with the Securities & Exchange Commission.

The average salary for the 11 executives in 2002 was $437,496; bonuses averaged $317,412, and "other" compensation (e.g., restricted stock awards, automobile allowances, country club memberships, etc.) was $1.4 million. But, the biggest component of compensation was stock options, which averaged $5.3 million in value per executive. Meanwhile, lab stock shareholders did not fare as well. Stock prices at the 11 companies analyzed plunged by an average of 39% in 2002.

Average Lab Executive Pay



Source: *LIR* from proxy statements

The average total compensation of $7.5 million per year for the 11 executives compares with an average salary of $59,280 for medical technologist managers in 2002, according to the latest survey data from the American Society of Clinical Pathology (see p. 9).

The highest-paid lab executive in 2002 was Tom Mac Mahon, chairman of Laboratory Corp. of America (Burlington, NC), who received total compensation of $28.2 million last year, including a salary of $825,000, bonus of $1.5 million, plus a $14.2 million restricted stock award. Mac Mahon also received options to purchase 491,400 shares of LabCorp stock with a grant date present value of $11.8 million. LabCorp's net income rose to $254.6 million in 2002 from $179.5 million in 2001. LabCorp's stock price fell 43% last year to $23.24 per share.

Ken Freeman, chairman of Quest Diagnostics (Teterboro, NJ), received a total of $25.1 million. Freeman's compensation included salary of $785,200, bonus of $1.4 million, and other compensation of $330,152. Freeman's 2002 compensation also included 10-year options to purchase 200,000 shares of Quest stock at a base price of $71.07 per share. These options have a potential value of $22.7 million if Quest's stock price rises by an average of 10% per year until their expiration date in February 2012. Quest's net income rose to $322.2 million in 2002 from $162.3 million in 2000. Quest's stock price fell 21% last year to $56.90 per share.

The third highest-paid lab executive was Tom Grant, chairman of LabOne (Lenexa, KS), who received a total of $9.4 million, including salary of $249,000, bonus of $103,335, other compensation of $26,510, and options valued at $9.4 million. LabOne's net income rose to $14.8 million in 2002 from a loss of $1 million in 2000; its stock price was up 15% last year.

The lowest-paid lab executive was Joe Halligan, president of PharmChem (Haltom City, TX), who earned a total of $436,501, including a salary of $347,000, bonus of $52,000, and other compensation of $16,781. Halligan also got 20,000 stock options with a potential value of $20,720. PharmChem, which specializes in drugs-of-abuse testing, reported net income of $3.3 million in 2002 vs. a net loss of $8.5 million the prior year; its stock was down 76%.

2002 Laboratory Executive Total Compensation

Company/Executive	Salary	Bonus	Other Comp*	Options Value**	2002 Total Comp	2002 Company Net Income	2002 Stock Price % Chg
AmeriPath							
James New, Chmn.	473,846	0	175,000	3,332,834	3,981,680	44,641,000	-33%
Bio-Reference[1]							
Marc Grodman, MD, Chmn.	470,000	125,000	0	16,600	611,600	4,922,000	2%
Enzo Biochem[2]							
Elazar Rabbani, PhD, Chmn.	367,656	245,000	0	0	612,656	6,923,000	-40%
Impath							
Anu Saad, PhD, Chmn.	365,000	0	73,579	1,835,991	2,274,570	10,497,000	-56%
LabCorp							
Tom Mac Mahon, Chmn.	825,000	1,463,671	14,159,036	11,764,679	28,212,386	254,600,000	-43%
Lab*One*							
Thomas Grant, Chmn.	249,000	103,335	26,510	9,042,905	9,421,750	14,840,273	15%
Medtox							
Richard Braun, Chmn.	265,000	15,000	513,451	180,090	973,541	11,737,000	-42%
Myriad Genetics[3]							
Peter Meldrum, Pres.	385,518	131,015	1,354	1,994,728	2,512,615	-13,989,370	-72%
PharmChem							
Joseph Halligan, Pres.	347,000	52,000	16,781	20,720	436,501	3,342,000	-76%
Quest Diagnostics							
Ken Freeman, Chmn.	785,200	1,356,512	330,152	22,653,455	25,125,319	322,154,000	-21%
Specialty Laboratories							
Douglas Harrington, CEO	279,231	0	27,742	7,873,199	8,180,172	-13,385,000	-65%
Total, 11 execs	4,812,451	3,491,533	15,323,605	58,715,201	82,342,790		
Average, 11 execs	$437,496	$317,412	$1,393,055	$5,337,746	$7,485,708		-39%

*Other compensation includes the value of restricted stock awards, plus company contributions to retirement plans and life insurance policies, forgiven loans, company cars, country club memberships, etc.

**Options value assume 10% annual stock appreciation, except for LabCorp which is based on grant date present value.

1) Bio-Reference executive compensation and net income figures are for fiscal year ended Oct. 31, 2002.
2) Enzo Biochem executive compensation and net income figures are for fiscal year ended July 31, 2002.
3) Myriad Genetics executive compensation and net income figures are for fiscal year ended June 30, 2002.

Source: *LIR* from company proxy statements filed with SEC

Medical Technologist Managers Paid A Median Of $59,280

Medical technologist managers earned a median salary of $59,280 last year, according to the American Society for Clinical Pathology (ASCP) Board of Registry's 2002 Wage and Vacancy Survey. The survey results indicate that wages are increasing at a rate equal to or slightly higher than the national averages for inflation. The median salary for medical technologist supervisors was $47,840 and medical technologists at the staff level earned a median of $40,186. See next issue of *LIR* for more details.

Median Salaries, 2002

Medical Technologist Staff	$40,186
Medical Technologist Supervisor	47,840
Medical Technologist Manager	59,280

Source: ASCP

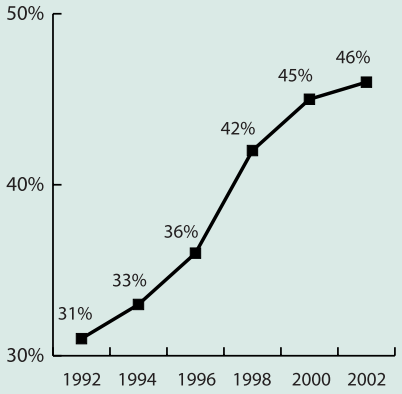
Medicare Part B Lab Spending Jumps 14% To $5.1 Billion

Medicare Part B spending for clinical laboratory services rose by a projected 14% to $5.1 billion in calendar-year 2002, according to data from the 2003 Medicare Trust Fund Report issued on March 17.

The growth in Part B lab outlays ran well ahead of the growth in total Medicare expenditures (including Parts A and B), which rose a projected 8% to $264.1 billion last year from $244.6 billion in 2001. As a result, Part B lab spending represented 1.9% of total Medicare spending in 2002, up from 1.8% in 2001.

The fastest-growing segment of Part B lab spending occurred at intermediary labs (*i.e.*, hospitals), where payments jumped 18% to $2.3 billion; payments to carrier labs (*i.e.*, independent labs and POLs) grew by 11% to $2.8 billion.

Hospital Labs Share Of Part B Lab Expenditures



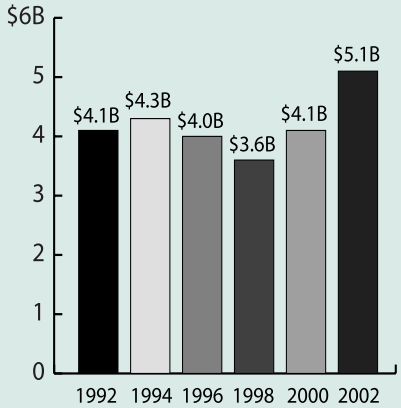
Source: 2003 Medicare Trust Fund Report

The long-term data from the 2003 Medicare Trust Fund Report suggests that hospital-based labs are gaining an increasing share of the market. For example, in 1992, billings from intermediary labs accounted for 31% of all Part B lab spending. This share rose to 36% in 1996 and 46% in 2002.

Meanwhile, the 14% jump in Medicare Part B lab spending marked the second year in a row that it increased at a double-digit rate. In 2001, it rose 10% to $4.5 billion.

Recent increases in Medicare Part B lab spending are probably the result of several factors, including the continuing growth in outpatient care. For example, the number of outpatient hospital visits grew by 4.3% per year between 1999 and 2001, while the number of inpatient admissions grew by only 2.5% per year, according to the latest available data from the American Hospital Association.

Medicare Part B Spending On Clinical Lab Tests



Source: 2003 Medicare Trust Fund Report

Another obvious factor is an overall increase in Medicare recipients. The Medicare program provides health insurance for people 65 years of age and older, certain disabled people and people with kidney failure. Between 1999 and 2002, the total number of Medicare recipients grew by 1.6% per year to 41 million.

Expanded coverage for preventative screening is also contributing to growth. For example, Medicare coverage of colorectal cancer screening became effective Jan. 1, 1998, and coverage for prostate cancer screening, including an annual prostate-specific antigen test, became effective Jan. 1, 2000.

Lab Stocks Up 9% In Latest Four Weeks

Stock prices for the 11 companies in the G-2 Laboratory Index rose an unweighted average of 9% in the four weeks ended May 16, 2003, with nine stocks rising in price and two falling. So far this year, lab stocks have risen 9%, while the S&P 500 is up 7%, and the Nasdaq is up 15%.

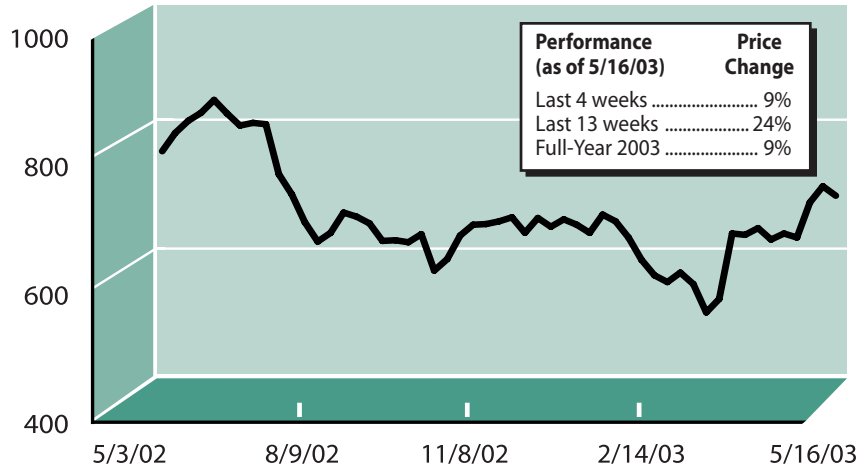
Myriad Genetics (Salt Lake City, UT) was up 30% to $13.55 per share for a market cap of $366 million. The company recently reported a net loss of $5.5 million for the fiscal third quarter ended March 31, 2003 vs. a net loss of $3.5 million in the same period a year earlier; revenue was up 23% to $16.1 million. More specifically, revenue from the company's genetic testing operations were up 28% to $9.3 million. The company reports that a recently completed direct-to-consumer (DTC) advertising campaign for its BRACAnalysis test resulted in a 23% increase in growth in the targeted markets (Denver and Atlanta) as compared with growth in the control markets. The company is currently weighing the potential for a broader regional or national DTC ad campaign.

Enzo Biochem (Farmingdale, NY) was up 21% to $13.96 per share for a market cap of $466 million. The company recently reported net income of $1.4 million for the fiscal second quarter ended Jan. 31, 2003 vs. $822,000 in the same period a year earlier; revenue was up 11% to $13.1 million. More specifically, revenue from the company's laboratory, Enzo Clinical Labs, was up 12% to $7.1 million, largely due to increased volume of more expensive tests.

Meanwhile, **Quest Diagnostics** (Teterboro, NJ) was up 5% to $61.22 per share for a market cap of $6.4 billion. Quest recently announced a $300 million share repurchase plan to help reduce the dilutive effects of the company's stock option awards to executives and employees.

LabCorp (Burlington, NC) was up 17% to $31.45 per share for a market cap of $4.6 billion.

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, 4 weeks ended 5/16/03

UP	*Price*	*% Chg*
Bio-Reference	5.35	16
Enzo Biochem	16.36	21
Impath	14.99	10
LabCorp	31.45	17
Lab*One*	20.80	10
MDS	14.57	16
Myriad	13.55	30
Quest	61.22	5
Specialty	8.50	1
DOWN		
Medtox	5.21	-4
PharmChem	0.20	-23

INDUSTRY buzz

Add Lab*One* (Lenexa, KS) to the list of potential bidders for Alliance Lab Services (ALS—Cincinnati, OH). Lab*One*, which generates the majority of its $350+ million of annual revenue from the life insurance applicant testing market, has been working to diversify its revenue stream by expanding its presence in the clinical lab market.

Most recently, Lab*One* purchased Central Plains Laboratories (CPL—Hays, KS) from Hays Medical Center and Park City Solutions for about $12.6 million. This price was approximately equal to CPL's annual revenue of $13 million. LabOne is now in the process of redirecting CPL's send-out tests to Lab*One*'s mega lab in Lenexa (just outside Kansas City). Some routine tests are expected to be routed to LabOne as well.

A potential acquisition of ALS would be similar to CPL, but would be about five times bigger. Lab*One* executives would not tell *LIR* if they had in fact made a bid for ALS, but on a May 12 conference call Tom Grant, chairman and chief executive of Lab*One*, did say that the company was looking for potential unspecified acquisitions to fill up capacity at its Lenexa laboratory.

Of course, Lab*One* likely faces competition in the bidding for ALS from Quest, LabCorp, MDS, and perhaps even ALS management. Our sources say that the winning bid for ALS is likely to come in at somewhere between $65 million and $85 million. A decision from Health Alliance, the owner of ALS, is expected within a matter of weeks.

References in this issue

Alfigen 800-255-1616

Bio-Reference Labs 201-791-2600

Health Care Development Services 847-498-1122

LabCorp 336-584-5171

LabOne 913-888-1770

Lakewood Consulting Group 847-295-8805

MEDex Labs 423-723-2000

Myriad Genetics 801-584-3600

Neo Gen Screening 412-220-2300

Quest Diagnostics 201-393-5000

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