

LABORATORY

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Jondavid Klipp, Managing Editor

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Two Unsettling Trends: Mobile Labs And Outsourcing Tests To India

In this issue of *LIR*, we're highlighting two separate groundbreaking situations that could each have a major impact on the lab industry in the years to come. We must emphasize that both are in the very early stages of development and may very well turn out to be "flashes in the pan." On the other hand, forewarned is forearmed.

The first situation involves a small pathology group in Delaware that has broken off its relationship with the local hospital and started providing a full range of pathology services to physicians throughout the state from a van outfitted with a cryostat, microscope, and other tools of the trade. Ray Sukumar, M.D., runs the mobile lab and says he's working on plans to franchise his system, dubbed the Mobile Intraoperative Consultation Service (MICS), throughout the United States.

Situation number two involves recent news that commercial labs in India have begun actively seeking contracts to receive specimens and perform lab tests for hospitals in Europe and the United States. Indian labs contend that their lower labor costs will more than make up for the added specimen transportation costs.

Obviously, if either of these two novelties takes hold, there will be major consequences for labs and pathology groups throughout the country. For more details, turn to *Inside the Laboratory Industry*, pp. 5-8. 🏠

Spectrum Wins Bid To Buy Medex Out Of Bankruptcy

Wellmont Health System has announced that Spectrum Regional Laboratory (Greensboro, NC) is the winning bidder in the auction to purchase Medex Regional Laboratories (Kingsport, TN). Medex is an independent lab owned by Wellmont that had been under Chapter 11 bankruptcy protection since early 2003. The purchase price was not announced, but sources close to the bidding process tell *LIR* that Spectrum won with a final bid of \$13.5 million; Quest Diagnostics was the runner up with an offer of \$10 million plus other considerations. With the addition of Medex, Spectrum will now manage a total of 10 hospital labs and have annual revenue that exceeds \$100 million, making it far and away the largest regional lab in the Southeast.



■ **SPECTRUM WINS BID**, *from page 1*

The \$13.5 million price that Spectrum will pay seems like a bargain for Medex, which is currently operating at slightly above breakeven on annual revenue of \$24.5 million per year (see *LIR*, August 2004, pp. 1-3). *LIR* has learned that the terms of the deal call for a new joint venture to be created that will manage Wellmont's four hospital labs under a five-year agreement (Medex had previously managed these assets). The joint venture will also assume control of Medex's outreach operations; its market area will be limited to northeast Tennessee.

Spectrum will own 80% of the joint venture, and Wellmont will pay Spectrum \$2.7 million for a 20% stake. So, Spectrum's net cash outlay will be \$10.8 million. The deal is expected to close within 60 days.

Nate Headley, chief executive of Spectrum, would not comment on the terms of Spectrum's winning bid, but he did cite Spectrum's past success in managing six hospital labs in North Carolina and its demonstrated ability in growing an outreach business as playing an important role in Wellmont's decision.

He says that Spectrum will build an amplified STAT facility in northeast Tennessee to meet local service requirements outside of the Wellmont hospital labs. Routine work that can be performed at current turnaround times will be sent to Spectrum's main lab in Greensboro. Medex currently has 310 FTEs, and the consolidation process is not expected to result in significant layoffs, according to Headley. 🏠

Genoptix Launches \$1,495 Chemotherapy Response Assay

Genoptix Inc. (San Diego), a privately held esoteric testing lab, has just received its CLIA certificate and California clinical lab license and has begun marketing a proprietary homebrew assay designed to help individualize chemotherapy treatment regimens for leukemia and lymphoma patients. Genoptix will market the test directly to hematologists and oncologists under the brand name CancerTrax at a list price of \$1,495, according to the company's chief executive Tina Nova, Ph.D.

Nova tells *LIR* that Genoptix was founded in late 2000, and for the past four years its scientists have studied cells from several types of cancer, including

leukemia, breast cancer, and lung cancer. They have found that each cancer type has its own cellular signature. By testing each of the 20 available chemotherapy drugs on the diseased cells, Genoptix has been able to match the most effective therapy to each cellular signature, she explains.

As a result, CancerTrax can show whether expensive and promising chemotherapy drugs, such as Rituxan or Gleevec, will work

Genoptix in Brief

Headquarters/lab: San Diego, CA
 Chief executive: Tina Nova, Ph.D.
 Laboratory Director: Michael Nerenberg, M.D.
 Employees: 35
 Venture capital: \$35 million
 Venture backers: Enterprise Partners,
 Tullis-Dickerson & Co.,
 Alliance Technology Ventures

Source: *LIR* from Genoptix



on a specific patient or whether a doctor should instead prescribe another, less expensive course of treatment, says Nova. She adds that studies have shown that if the primary round of chemotherapy is toxic to a patient without providing any benefit, that person becomes less receptive to drugs that otherwise might have worked.

But isn't CancerTrax too expensive? Nova says CancerTrax is cost effective because it will help avoid the medical and financial cost of ineffective chemotherapy treatments, which typically cost \$15,000 to \$20,000 per cycle. 🏠

DCL Medical Labs Raises \$1.5M In Venture Funds

DCL Medical Laboratories (Indianapolis) has raised \$1.5 million in venture capital from Centerfield Capital Partners (Indianapolis) to help finance growth opportunities. DCL is an independent lab that specializes in cytopathology. It has 165 employees, including 11 pathologists, and performs a total of roughly 260,000 Pap tests and more than 3,000 fine needle biopsies per year at main labs in Indianapolis and Belleville, Illinois (just south of St. Louis).

Last year, DCL posted \$11 million in revenue, and this year, it is on track to grow by 60% to reach \$18 million, according to Jim Snyder, sales and marketing director. He says that DCL is adding so many new clients that the company was in need of operating funds to help bridge the 60- to 90-day gap between performing tests for a new customer and getting paid.

Snyder notes that DCL is a Roche Molecular Center of Excellence and will soon be adding a number of new tests to its menu, including DNA-based herpes testing and NT-proBNP for detecting congestive heart failure. In addition, Snyder says DCL's clinical trials testing business is growing rapidly.

Other growth plans for DCL include an expansion into the Columbus and Cincinnati, Ohio, markets. Snyder believes LabOne's recent purchase of Alliance Lab Services may result in some opportunities to pick up business. He claims that one big advantage that smaller specialized labs like DCL have over the big commercial labs is a more knowledgeable sales team. "The salespeople at the big labs

drop brochures off at physician offices, while our salespeople have a more consultative selling style," says Snyder.

DCL was founded by its chief executive, Roger Wall, and chief medical officer, Michael Glant, M.D., in 1984. Wall is a medical technologist who had previously served as program director for the Indiana University Cytotechnology Program, while Glant was the program's medical director. 🏠

DCL Medical Labs in Brief

Headquarters/lab:.....	Indianapolis, IN
Chief executive:	Roger Wall
Chief medical officer	Michael Glant, M.D.
Employees:	165
Estimated revenue, 2004	\$18 million
Venture capital:	\$1.5 million
Venture backer:	Centerfield Capital Partners
Source: LIR from DCL	



Venture Capital Flowing Into Independent Labs

Over the past five years, *LIR* estimates that more than \$1 billion of venture capital has flowed into the independent lab market. Venture capital firms are either buying out independent labs completely or taking minority ownership stakes to help labs fund growth.

Active investors have included Welsh Carson Anderson Stowe (New York City), which bought out AmeriPath in March 2003 for \$800 million and also holds a big stake in LabOne. Behrman Capital (New York City) bought Athena Diagnostics in December 2002 for \$122 million and also holds a majority stake in Esoterix. In addition, ABS Capital, Piper Jaffray Ventures, and Sprout Group hold stakes in two labs each.

John Stobo, general partners at ABS Capital (San Francisco), tells *LIR* that it's currently a good time for independent labs to raise money because there's a lot of interest from venture firms, especially in flow cytometry and esoteric labs. 🏠

Independent Labs With Venture Capital Backing

Laboratory Company	Founded	Lead Venture Capital Backers
AD PathLabs (Newport Beach, CA)	2003	Pacific Venture Group, Blue Chip Ventures, Forrest Binkley & Brown Capital
American Esoteric Laboratories (Nashville)	2003	Oak Investment Partners, ABS Capital,
AmeriPath (Riviera Beach, FL)	1995	Welsh Carson
Athena Diagnostics (Worcester, MA)	1986	Behrman Capital
Atherotech (Birmingham)	1996	Pharos Capital Group, Compass Venture Partners, Greer Capital
Clinical Pathology Labs (Austin, TX)	1990	Summit Partners
DCL Medical Labs (Indianapolis)	1983	Centerfield Capital Partners
Esoterix (Austin, TX)	1995	Behrman Capital
Focus Technologies (Herndon, VA)	1978	CSFB Merchant Bank, Sprout Group
Genomic Health (Redwood City, CA)	2000	BakerTisch Investments, Versant Ventures, Kleiner Perkins
Genoptix (San Diego)	2000	Enterprise Partners, Tullis-Dickerson, Alliance Technology Ventures
Genova Diagnostics (Asheville, NC)	1987	Navis Partners, Ferrer Freeman & Thompson
Home Healthcare Lab (Franklin, TN)	1997	Dauphin Capital Partners, Piper Jaffray Ventures, Solidus, Capitol Health Partners
LabOne (Lenexa, KS)	1972	Welsh Carson
LipoScience (Raleigh, NC)	1994	Three Arch Partners, Piper Jaffray Ventures
Pathology Partners (Irving, TX)	1998	Sprout Group, Salix Ventures, 21 st Century Health Ventures
Precision Therapeutics (Pittsburgh, PA)	1995	Birchmere Ventures, Techno Venture Mgt., Adams Capital Mgt.
Prometheus Labs (San Diego)	1995	CSFB Global Health Care Partners, St. Paul Venture Capital
US Labs (Irvine, CA)	1997	ABS Capital, Highland Capital, Accel Partners, Sage Venture Partners

Source: *LIR*

Two Developing Lab Trends To Keep An Eye On

Will mobile pathology services or the outsourcing of lab tests to India catch on? Read below and decide for yourself:

Mobile Pathology Services

Ray Sukumar, M.D., age 55, formed his pathology group, Doctors Pathology Services (DPS—Dover, DE), in 1993, and his group provided pathology services to Beebe Medical Center (Lewes, DE) under contract for the next 10 years.

But by the late 1990s, Sukumar tells *LIR* that he started noticing the trend of more and more surgical procedures being performed outside of the hospital in places such as physician offices and freestanding ambulatory surgery/endoscopy centers. He notes, for example, that 10 ambulatory surgery/endoscopy centers have been built in Delaware over the last two years alone.

Sukumar was unable to convince hospital administration that this was a trend, not a fad, and that it was better to adapt to the shift toward outpatient services and surgery rather than fight it. So, he began offering mobile pathology services using a portable cryostat machine that he could cart out of his minivan beginning in 2000. Very soon the minivan and related outreach services grew to cover half the state, according to Sukumar.

But Sukumar says the hospital, like most others, viewed ambulatory surgery as a threat to its bread-and-butter operating room and ancillary businesses and was reluctant to render any support to these “competitors” or to further develop his ideas.

So early last year, Sukumar ended his contract with Beebe and began working on a way to improve upon his portable cryostat/minivan system, which was unwieldy and not able to be used for freezing all tissue types under varying conditions.



Doctors Pathology Services' CLIA-certified pathology lab van
Source: *The News Journal*/Scott Nathan

Sukumar's next idea proved more successful. He purchased a Freightliner van [costs \$30,000 to \$35,000] made by DaimlerChrysler and customized it into a mobile pathology lab specifically to provide intraoperative consultation not only to surgeons but also to radiologists and endocrinologists who perform needle aspiration biopsies. He installed a cryostat, microscope, and stainer in the temperature and humidity controlled cabin of the van. The cabin also includes an office space complete with a fax machine, scanner, printer, and wireless Internet access.

CLIA certification for the van was obtained in July 2003 and Sukumar has been providing mobile pathology services six days a week (Monday through Saturday) across the state of Delaware ever since.

From inside the van at a parking lot at a physician's office's or surgery/endoscopy center, Sukumar says he is able to perform frozen sections on nearly every tissue type, including skin, bone, breast, and soft tissue. In a typical week, Sukumar says he will visit five or six different centers [1 each day] and travel about 300 miles.

Being a fully equipped office, Sukumar says he has no downtime; except for the travel time. Mobile pathology is just like any other hospital pathology laboratory, but without most of the hassles, according to Sukumar. Unlike the hospital environment where it is nearly impossible to gain physician cooperation for scheduling frozen sections, surgeons willingly schedule their cases at each surgery center based upon the day his van is scheduled for their site. "The service brings hospital-like capabilities to surgery centers at a far lower cost to the patient," he says.

Sukumar says that Medicare and Medicaid each reimburse for frozen sections he performs from his van. Most commercial insurers also reimburse, but at lower rates than they pay for traditional hospital-based pathology services. He says that he is typically reimbursed \$150 to \$180 by commercial insurers for the professional and technical services he provides on the typical small skin lesion (frozen section and permanents). That's about 50% of what hospital-based labs and pathologists are reimbursed for the same service.

But commercial insurers see the greatest savings from the reduced general facilities fees they pay for outpatient surgeries, according to Sukumar. "I get paid less

today, although I'm saving them [commercial insurers] money by providing services on an outpatient basis," he says.

In addition to his mobile pathology service, Sukumar and DPS operate a traditional bricks and mortar lab facility that provides the full spectrum of anatomic pathology services, including Pap smears, molecular pathology, and immunohistochemistry. The lab has a total of 20 employees, including Sukumar and three other pathologists.

Sukumar is the owner and medical director of DPS as well as medical director for the state of Delaware for Fairfax Medical Laboratories (Fairfax, VA), which is owned by Clinical Pathology Labs (Austin, TX). He notes that the face-to-face contact he has with his clients through mobile pathology allows him numerous opportunities to market DPS's cytology services and Fairfax's clinical laboratory.

Sukumar says he is working with local universities and pharmaceutical companies to provide research and

development services on frozen tissue using his van. The histotechnology programs are also interested in using mobile pathology in their teaching curriculum so they do not have to depend on the hospital labs, according to Sukumar.

Sukumar says that office-based physicians in Delaware have responded enthusiastically to his mobile pathology services because it gives them greater flexibility in scheduling surgeries. He cites one physician who was only able to schedule the use



Dr. Ray Sukumar of Doctors Pathology Services working in his mobile lab
Source: *The News Journal*/Scott Nathan

of a hospital operating room for one afternoon per week. The limited time combined with inefficiencies at the hospital meant the physician could perform only three surgeries per day. But with the scheduling flexibility and efficiency afforded by mobile pathology, the same physician is now performing up to 11 surgeries per day, according to Sukumar.

Meanwhile, some traditional hospital-based pathologists have questioned the quality of service that can be provided from a van. "Some hospital-based pathologists are very angry at us, and hospitals are upset because we're a threat to their operating room income," he notes.

But Sukumar says that his mobile van has met all OSHA regulations and CLIA-certification criteria, including a cryostat for immediate freezing at -20 degrees Fahrenheit, non-skid floor, and an immovable microscope. Furthermore, he says that the van's design prevents vibration and has an air conditioner on backup battery that maintains a constant temperature.

Sukumar is in the process of getting a second mobile lab van on the road and, after obtaining patents and trademarks, he hopes to franchise his system, which he calls Mobile Intraoperative Consultation Service (MICS), to other pathology groups and labs. "More and more hospitals are asking pathologists to take a reduction in pay. Pathologists need a van like mine so they can get their own business and become more independent," he concludes.

Outsourcing the Lab to Bombay

It's not just mundane low-paying jobs like data entry, customer service, and telemarketing that are being transferred to low-wage countries like India and China. Nowadays, skilled positions in software development, tax preparation, and legal services are also moving offshore.

And now Sushil Shah, M.D., chairman of Metropolis Health Services (Bombay), has announced that his lab company is currently negotiating lab service contracts with a "consortium of hospitals in the US and in the UK and are close to finalizing the deal." The announcement was made in an online article published by the Indian Web site rediff.com. Shah did not reveal the name of the hospital group, but did say the potential deal could be worth \$30 million in annual revenue. "Outsourcing of laboratory testing and diagnostic services is set to become big business in India," said Shah.

Shah did not respond to *LIR's* questions to him via e-mail, but we speculate that Metropolis's negotiations are probably with one of the major for-profit hospital chains (e.g., HCA, Tenet, etc.) or commercial insurers (e.g., UnitedHealth, Aetna, etc.).

Metropolis is one of several of India's largest commercial labs that are aggressively seeking contracts to perform long-distance pathology and clinical lab services for hospitals in the United States and Europe. So far, no deals have been completed in the United States, but several private hospitals in Britain have recently begun sending their esoteric tests to SRL Ranbaxy (Bombay), which is the largest commercial lab in India.

Earlier this year, Vidur Kaushik, chief executive of SRL, told *The Economic Times*, "Many of these hospitals used to send their samples to the United States to be tested. But now they are considering doing the tests in India because it is cost-effective and we offer them a better turnaround time without compromising on the quality." He said that SRL is also in early-stage talks for a contract to serve hospitals in Britain's government-managed National Health Service.

Under its contracts, specimens are shipped to SRL's labs in India and tests results are reported back to British hospitals electroni-



Wage Rates: Bombay versus United States

Position	Bombay Average Hourly Wage	United States Average Hourly Wage	Difference
Phlebotomist	\$3.89	\$11.03	-65%
Lab technician	6.32	15.96	-60%
Medical technologist-staff	8.11	20.00	-59%
Medical technologist-manager	10.08	30.00	-66%

Source: LIR calculations based on information from SalaryExpert.com and ASCP

cally within 24 to 48 hours of receipt of the sample. Low wages in India more than make up for the cost of flying specimens across the world, according to Kaushik.

Based on information from SalaryExpert.com, a worldwide job placement firm, and the American Society for Clinical Pathology's 2003 Wage and Vacancy Survey, LIR calculates that wage rates for lab personnel in Bombay average roughly 60% to 65% below those in the United States. For example, a phlebotomist in Bombay with five-years' experience earns an average hourly wage of about \$3.89 versus \$11.03 for the same position in the United States. Medical technologist managers earn \$10.08 per hour in Bombay versus \$30 per hour in the United States. The gap in employee compensation is even more lopsided when benefits like health insurance and retirement plans are factored into the mix. These benefits are standard at every hospital and most independent labs in the United States, but are rarely offered by companies in India.

Mark Newburger, president of Apollo Telemedicine (Falls Church, VA), which sells telemedicine solutions, says that hospitals and radiology groups in the United States are already using radiologists in India to cover night shifts. And he notes

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that new technology for digitizing slides and remotely controlling microscopes makes it possible to have anatomic pathology performed overseas. "There may be some economic pressures that would make shipping specimens to India a consideration," he adds.

But he believes it is unlikely to catch on because of quality control and state licensing issues. "Just look at the controversy that going to Canada for drugs [which has no FDA oversight] has stirred up," says Newburger.

"I'm certainly concerned about this [outsourcing to India]....It should be a concern for both pathologists and clinical labs," says Edward Catalano, M.D., managing member of Professional Pathology Service, P.C. (Columbia, SC), a 15-pathologist group. He believes that high-priced esoteric tests are at the greatest risk of being shipped overseas. As the reimbursement pie shrinks and payers like UnitedHealth and Aetna look to decrease costs, they will look for the cheapest providers. Those determinations won't have quality as the prime determinant," he says.

A big driver to potential outsourcing overseas is the rising cost of practicing medicine in the United States, especially malpractice insurance costs, says Catalano, who is also chairman of Pathology Service Associates (Florence, SC), which provides business services to more than 75 pathology groups across the nation. "The decision payers will need to make is: 'Will the potential savings be worth the backlash [from patients and physicians]?' " he adds.

American Esoteric Labs Buys Cenetron's Molecular Testing Business

American Esoteric Laboratories (AEL—Nashville, TN) has purchased the molecular testing business of Cenetron Diagnostics (Austin, TX) for an undisclosed sum. Cenetron's clinical drug trials testing business was not acquired and will continue to operate independently. As part of the agreement, Dwight DuBois, M.D., founder and chief executive of Cenetron, will serve as medical director to that part of the business being acquired by AEL.

Cenetron's molecular diagnostics lab specializes in infectious disease testing and provides service throughout Texas, Florida, and other parts of the Southeast; annual revenue is estimated at \$4 million to \$5 million.

AEL was formed late last year and has raised a war chest of \$70 million in venture capital to fund operations and make acquisitions (see *LIR*, May 2004, p. 1). Cenetron is AEL's third acquisition; others include ThromboCare Laboratories (Dallas) and Viral Diagnostics (Richardson, TX).

Jim Billington, president and chief operating officer of AEL, says that all three acquired labs will ultimately be consolidated into a new 27,000-square-foot facility that is being built in Irving (a few miles west of Dallas) and will open by year's end. He says AEL is likely to complete several more acquisitions of niche esoteric testing labs over the course of the next six to 12 months. 🏠

Test Volumes Rebound At Quest And LabCorp; Pricing Gains Cool Off

A greater focus on internal growth rather than acquisitions has helped the two big commercial labs achieve modest test volume growth in the first half of 2004 versus test volume declines last year. On the other hand, Quest Diagnostics and LabCorp are each now finding it harder to post significant gains in average price per requisition due to increased competition in the esoteric testing market. The big labs have also nearly squeezed out the full benefit from converting to higher-priced thin-layer Pap tests. As of June 30, Quest had converted 86% of all their Pap tests to thin-layer and LabCorp had converted 80%. A summary of financial results for each company for the six months ended June 30, 2004, is provided below:

QUEST DIAGNOSTICS (Teterboro, NJ) reported net income of \$243 million for the six months ended June 30, 2004 versus \$208.4 million in the same period a year earlier; revenue increased by 10% to \$2.553 billion. Excluding the acquisition of Unilab (February 2003), Quest posted a revenue gain of 7.3% (comprised of a 2.6% rise in test volume, a 4.2% increase in average revenue per requisition, and a 0.5% increase from its clinical trials, reagent manufacturing, and information systems businesses).

Quest processed approximately 70 million requisitions in the latest six-month period, generating average revenue of \$36.48 per requisition; the company's



average cost of service per requisition was \$21.21. Days in accounts receivable were 48 days and bad-debt-expense was 6.5% of revenue.

LABCORP (Burlington, NC) reported net income of \$185.6 million for first-half 2004 versus \$160.3 million in first-half 2003; revenue was up 5.6% to \$1.5 billion. Revenue growth was augmented by the acquisition of Dianon (January 2003) as well as several smaller acquisitions including the northern California assets of Quest/Unilab (February 2003), Clinical Labs Inc. (July 2003), Redding Pathologists Lab (March 2004), and MDS's labs in New York and Georgia (March 2004). After accounting for the effects of all of these acquisitions, *LIR* estimates that LabCorp's revenue growth was approximately 3% to 4%, comprised mostly of test volume gains.

LabCorp processed approximately 45.9 million requisitions in the latest six-month period, generating average revenue of \$33.48 per requisition; the company's average cost of service per requisition was \$19.16. Days in accounts receivable were 52 days and bad-debt-expense was 6.5% of revenue. 🏠

First-Half 2004 Stats at Quest and LabCorp

	<i>Quest Diagnostics</i>	<i>LabCorp</i>	<i>Combined</i>
Revenue	\$2,553,416,000	\$1,536,800,000	\$4,090,216,000
Cost of service*	1,484,858,000	879,500,000	2,364,358,000
Pretax income	408,365,000	314,600,000	722,965,000
Net income	242,928,000	185,600,000	428,528,000
Requisitions	70,000,000	45,900,000	115,900,000
Billable tests**	175,000,000	114,750,000	289,750,000
Avg. revenue per requisition	36.48	33.48	35.29
Avg. cost of service per requisition	21.21	19.16	20.40
Avg. revenue per billable test	14.59	13.37	14.12
Avg. cost of service per billable test	8.48	7.66	8.16
Days in accounts receivable	48	52	50
Bad-debt expense	4.4%	6.5%	5.2%

*Cost of service includes cost of transporting and testing specimens, but excludes selling, general & administrative expenses and bad debt

**Assumes 2.5 billable tests per requisition

Source: *LIR* from company financial reports

Lab Stocks Up 2%; Myriad Jumps 22%

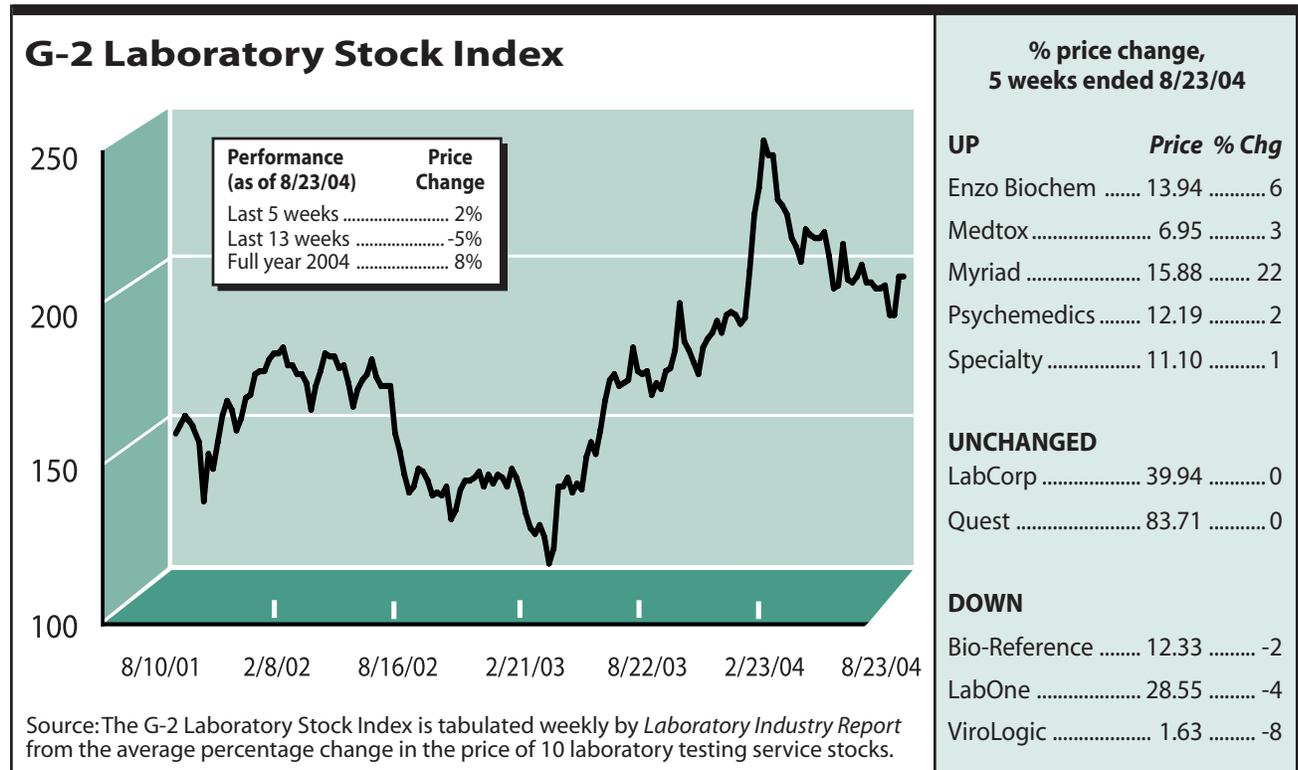
Stock prices for the 10 companies in the G-2 Laboratory Index were up an unweighted average of 2% in the five weeks ended August 23, 2004, with five stocks up in price, two unchanged, and three down. So far this year, lab stocks have risen 8%, while the S&P 500 is down 1% and the Nasdaq is down 8%.

Myriad Genetics (Salt Lake City) was up 22% to \$15.88 for a market capitalization of \$431 million. The company recently reported that its genetic testing revenue increased 40% to \$13.1 million for the three months ended June 30, 2004. This increase was due primarily to growth in the company's lead predictive medicine product, BRACAnalysis for breast and ovarian cancer, and its Colaris tests for colorectal cancer.

Medtox (St. Paul, MN) was up 3% to \$6.85 per share for a market cap of \$52 million. Medtox shares split 3-for-2 on August 23.

ViroLogic (South San Francisco), which specializes in esoteric tests for HIV and hepatitis, was off 8% to \$1.63 per share for a market cap of \$86 million. The company recently reported a net loss of \$1.4 million for the three months ended June 30, 2004, versus a net loss of \$2.7 million for the same period a year earlier; revenue increased 16% to \$9.2 million.

Meanwhile, shares of **Quest Diagnostics** were unchanged at \$83.71 for a market cap of \$8.5 billion. LabCorp was also unchanged at \$39.99 for a market cap of \$5.8 billion. 🏠

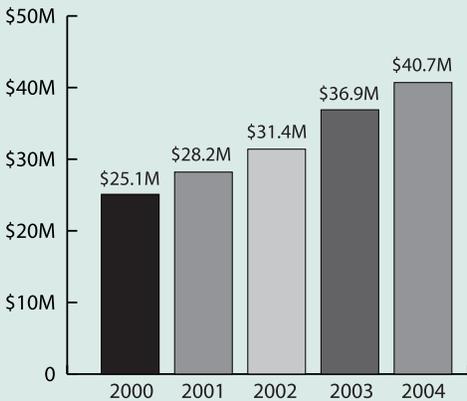




Florida's Agency for Health Care Administration (AHCA) is still determined to issue a statewide capitated Medicaid lab contract to a single independent lab despite protests from both the American Clinical Laboratory Association and a coalition of some 25 smaller independent labs in Florida. The goal of AHCA is to curb the growth of spending on independent lab services, which increased by 10% to \$40.7 million in the fiscal year ended June 30, 2004.

An AHCA official tells *LIR* that the agency is preparing to issue an ITN (invitation to negotiate) to interested labs in the near future. "One of the delays has been the certification of the capitated rates and that's almost complete," says the official.

Florida Medicaid Spending on Independent Lab Services



Source: Florida's Agency for Health Care Administration

Those companies likely to come in with aggressive bids include Quest Diagnostics, LabCorp, and the dialysis testing lab Royco Inc. (Fort Lauderdale). In addition, the aforementioned coalition of small independents is trying to put together a network to bid on this winner-take-all contract.

The loss of Medicaid revenues could lead more than a dozen small independent labs out of business and disrupt lab service to millions of Medicaid beneficiaries. For Florida's Medicaid program it will provide annual savings of perhaps a few million dollars. That's hardly a drop in the bucket, considering Florida Medicaid's overall annual budget tops \$12 billion per year. 🏠

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