

# LABORATORY

# INDUSTRY REPORT®



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## United Names Finalists In RFP Competition

On Friday, December 2, United Healthcare notified a group of labs in approximately 15 to 25 geographic markets around the country that they had made the first cut in the managed care company's bidding process for lab services, *LIR* has learned. In a letter to selected labs, United said it would contract with those labs that "meet our requirements at the most competitive price." United said it will announce the winners on Feb. 26, 2006, for contracts that will become effective on Jan. 1, 2007.

In addition to Quest Diagnostics and/or LabCorp, *LIR* hears that United also picked a hospital lab outreach program, lab network, or independent lab in many markets to continue contract discussions. Among the labs that have begun negotiating more specific contracting terms with United are Bio-Reference Labs, Clinical Pathology Labs (CPL), Spectrum Laboratory, Sunrise Medical Laboratory, and Joint Venture Hospital Laboratories (JVHL)—more details on page 10.

*LIR* speculates that United is seeking to contract with two or three labs in each market it serves, including Quest and/or LabCorp plus a hospital outreach program, lab network, or independent lab.

In early September, approximately 50 labs (out of 250 currently contracted labs) received a request for proposal (RFP) to provide lab services to United (see *LIR*, October 2005, p. 1). United is seeking to achieve a 15% to 20% savings over its current annual lab services budget of \$2 billion. For more details, see *Inside the Laboratory Industry*, pp. 5-10. 🏠

## Why One Physician Office Uses Quest Diagnostics

At the recent G-2 Web-Connectivity Symposium in Phoenix, December 9 to 10, Charmaine Ansari, M.D., an internal medicine specialist practicing at a four-doctor group in St. Louis, offered her views on why a typical physician office chooses a particular laboratory. Financial concerns played a big role in her group's decision to use Quest Diagnostics for lab services rather than a local lab named Network Reference Laboratories that is owned by a regional healthcare system. Ansari said that contrary to popular belief, physicians are not making boatloads of money these days. ➡ p. 2

## ■ Why One Physician Office Uses Quest Diagnostics, *from page 1*

Ansari's group bills health insurance companies for about 50% of the lab tests it orders and keeps the difference between what Quest charges and what the insurance company reimburses. In addition, she said that Quest gave her group a free personal computer for Web-based lab orders and results reporting. "If we can get it for free, then why not?" she asked the audience. After initial installation and training, Ansari says that a Quest representative visits her office once every three months to check the system and answer questions.

Other considerations that affected her group's lab selection included the timeliness and accuracy of test results, location of patient service centers, and access to expertise when ordering esoteric tests, according to Ansari. She said that the one big potential advantage that Network Reference Laboratory may have over Quest is the ability to tap into affiliated hospitals to combine inpatient, outpatient, and outreach lab test results that can be accessed electronically.

Ansari said that her group will be adding a new electronic medical record (EMR) this year, and she'd like to populate it with as much patient data as possible (e.g., lab test results, pharmacy data, radiology reports, and inpatient information). "We'd rather not be involved with paperwork. . . . That's where medicine is going," she predicted. 🏠

## Why Some Docs Embrace The Web And Others Don't

**C**onvincing physicians to input their own lab test orders is far easier in markets where physicians are allowed to mark up lab test prices, explained Chris Riedel, chief executive of Hunter Laboratories (Campbell, CA).

For example, Riedel noted that Spectrum Laboratory operates in the Southeast (North Carolina, Tennessee, Georgia, etc.) where physician lab test mark ups are legal. This helps explain why Spectrum receives more than 70% of its test orders from physician offices over the Web. In contrast, Hunter Labs, which operates in California where lab test mark ups are illegal, gets less than 5% of its orders from physician offices that use the Web. The more financially involved physicians are with lab tests, the more likely they'll use the Web for ordering, according to Riedel.

Meanwhile, Riedel said that Hunter had problems with two Web-based vendors before finally settling on a Web-connectivity solution from Atlas Medical. As a result of his experience, he warns other labs to watch out for vendors that over promise and under deliver. He advises labs to attach their vendor's marketing brochures to the purchase contract and include a clause that states that a failure to deliver on what is advertised will be considered a breach of contract. He also advises labs to sign limitation of liability clauses that don't become effective until after the product is installed and functioning. 🏠

## Wal-Mart's Low-Cost Health Plan Attracts 53,000 Workers

**W**al-Mart's new low-cost consumer-directed health plan has attracted 53,000 employees—or 85,000 people, including dependents—during the company's recent enrollment period for 2006.



Wal-Mart tailored the new plan, dubbed the “Value Plan,” for healthy employees who want low premiums. The plan basically links a health savings account (HSA) with a high-deductible indemnity plan. Wal-Mart now has about 13% of its 638,000 employees with health insurance in the new plan. The company has a total of 1.3 million U.S. employees, and about half are covered by Medicaid or are uninsured.

The rise of HSAs and consumer-directed healthcare was highlighted in the December issue of *LIR*. HSAs have no gatekeepers or networks and give consumers the choice of which hospitals, physicians, and laboratories to use. 🏠

## MDS Sells Last U.S. Lab Venture; Canadian Lab Business Up For Sale

**M**DS Inc. (Toronto, Canada) has sold its stake in Integrated Regional Laboratories (IRL-Fort Lauderdale, FL) to its hospital partner HCA Inc. (Nashville, TN). MDS had provided management services to IRL since 1998 under a joint-venture arrangement.

IRL is the last laboratory asset that MDS owned in the United States. In March 2004, MDS sold its New York and Atlanta labs to LabCorp, and its Memphis lab joint venture was sold to American Esoteric Labs in November 2004. In addition, in early 2005, MDS ended a management services agreement it had with Duke University Health System. MDS’s lab business had generated more than \$100 million in annual revenue in the United States. An MDS spokesman says the company was never able to gain the scale necessary to compete effectively in the United States.

Now MDS says it’s getting out of its Canadian lab operations as well. The company has hired investment bankers to evaluate either a sale or spin off of this division. MDS owns the largest lab business in Canada, with labs in Edmonton, Winnipeg, Montreal, and Calgary, and annual revenue of about \$300 million.

The sale of MDS’s lab operations is part of the restructuring plan under the company’s new chief executive officer, Stephen DeFalco. His plan is to exit the lab-testing sector and focus on MDS’s more-profitable and faster-growing life sciences businesses, including contract drug research, medical isotopes, and high-tech scientific instruments. 🏠

## Genomic Health Nets \$56 Million From IPO

**G**enomic Health (Redwood City, CA), which markets a proprietary breast cancer test called Oncotype Dx, has completed the sale of 5.02 million shares at \$12 each through an initial public offering (IPO). After expenses, Genomic Health raised net proceeds of \$55.8 million from the IPO, which it says will be used for marketing, research and development, and capital expenditures. The company now has a total of \$73 million of cash on its balance sheet.

Genomic Health launched its Oncotype Dx test, which uses PCR to analyze 21 genes associated with breast cancer, as a laboratory developed test (or home



brew) in January 2004. The test, which sells at a list price of \$3,460, provides a quantitative result that physicians can use to make cancer-patient therapies more individualized.

Oncotype Dx is currently Genomic Health's only commercially available test and all testing is performed at the company's 25,000-square-foot laboratory in Redwood City, California.

## Genomic Health Financials (\$000)

|                      | 9 months to<br>9/30/2005 | 9 months to<br>9/30/2004 |
|----------------------|--------------------------|--------------------------|
| Revenue .....        | \$3,276                  | \$200                    |
| Operating loss ..... | -23,531                  | -18,117                  |
| Net loss .....       | -23,144                  | -17,936                  |
| Loss per share ..... | -1.23                    | -1.18                    |
| Cash & equivalents*  | 73,002                   | NA                       |

\*includes net proceeds from IPO on Oct. 4, 2005

Source: LIR from Genomic Health

In the nine months ended Sept. 30, 2005, Genomic Health recorded a net loss of \$23.1 million versus a net loss of \$17.9 million in the same period a year earlier; revenue was \$3.3 million versus \$200,000. The company reports that more than 600 Oncotype Dx tests are currently being ordered each month by physicians.

Since completing its IPO on October 4, shares of Genomic Health have fallen by 18% to \$9.87 (as of the market's close on December 19). With a total of 19 million shares outstanding, the company has a current market value of \$188 million. 🏠

## Florida Judge Finds Quest Unfairly Billed Patient

**A** Palm Beach County Court judge has found that Quest Diagnostics unfairly billed a patient, Kirk Friedland, for lab testing done as part of his annual physical. "Instead of sending [the claim] to my insurer, they charged me the top rate," Kirkland told the *Palm Beach Post*.

When Friedland discovered the mistake he contacted Quest and requested a refund. When Quest refused, Friedland filed suit. He says he got his refund check for \$260 from Quest, 10 months after his initial request and four months after he filed his lawsuit.

Quest spokesman Gary Samuels tells *LIR* that Friedland was billed because of a data-entry error and that the company reimbursed him after becoming aware of the mistake through the lawsuit. Samuels says the judge's decision involved no monetary penalties for Quest and that the company will appeal the judge's decision.

In her 10-page ruling, Judge Laura Johnson found that Quest engaged in "unfair and deceptive" billing practices and violated a state statute governing collection practices by demanding that Friedland pay money that was not owed.

Meanwhile, a class action suit was filed against Quest in West Palm Beach County federal court in August 2005. The Boca Raton office of the law firm of Lerach Coughlin is handling the suit on behalf of Richard Goldman, who alleges that Quest has balance billed patients. Balance billing is an illegal process where labs charge patients for the difference between the rate it negotiated with a managed care provider and the amount it would normally charge. 🏠

## Expert Opinion On The United Healthcare RFP

United's lab expenditures are equal to approximately one-third the \$6 billion that the Medicare Part B program spends on clinical lab services each year.



Michael Snyder



Paul Knoll

A special G-2 audio conference on December 6—*Surviving the Next Generation of Managed Care Contracting: How to Ensure Your Lab Is Not Left Behind*—provided listeners with some invaluable insight into the United contract and managed care contracting in general. Here are some highlights on what the two speakers, Michael Snyder, principal at Clinical Lab Business Solutions (Readington, NJ), and Paul Knoll, director of business development at Chi Solutions Inc. (Ann Arbor, MI and Roanoke, VA), had to say:

### Why did United Healthcare issue its RFP?

Snyder cited a number of reasons:

1. United's current contracts with LabCorp and Quest will complete their term at the end of 2006.
2. Both LabCorp's and Quest's reimbursement from United has been trending up for the last three years.
3. United is spending an estimated 35% of its current lab budget on outpatient/outreach hospital lab tests, but these same hospital labs represent only 15% of the total United lab utilization.
4. United has acquired a number of other managed care companies that have lower-cost lab contracts. Therefore, United's lab costs will rise if these acquisitions are integrated at the current UHC lab payment structure.
5. United is seeking to winnow down its number of contracted labs for simplification.

Knoll noted that the RFP afforded United the opportunity to go on a "fishing expedition" to gain ideas on how to lower its lab costs by using the bidding labs as a think tank. In addition, he said United may be seeking to weaken the growing competitive position and resulting pricing increases that Quest and LabCorp have negotiated in previous contracts by introducing a third lab service choice (hospital outreach, network, or independent lab) to its markets.

### Does United's RFP signal a major shift in how managed care companies will contract with labs in the future?

"Yes," answered Snyder. "The health plan industry is compressing through acquisition and consolidation as is occurring with labs. At the same time, the trend is moving away from HMO to PPO and POS structured plans. These types of plans, especially with the larger insurers, require a more comprehensive lab network and therefore the exclusive deals will no longer work. At the same time, it is largely impossible for the health plans to manage separate contracts for 100 to 200 labs. The health plans need to maintain open access, but they also need a means to consolidate labs into more manageable networks," he explained.

Knoll said that United's contract(s), once finalized, could become a template for future managed care contracts. He believes the current situation will lead to the creation of more hospital-based lab networks like JVHL that give managed care companies broad access to laboratories with the simplicity of sole source claims processing.

***Should labs participate in lab networks managed by one of the national labs?***

“If a national lab is the ‘gatekeeper’ (e.g., QuestNet) for a given health plan and participation in this health plan is necessary for your lab’s success, then yes, participate. But if the national lab is merely putting together a network to enhance their position with a given health plan, why not instead form your own network of independent labs and hospitals?” said Snyder. “Keep in mind, networks managed by a commercial lab are set up for the commercial lab to win, not the participant,” warned Knoll.

***What do hospital lab outreach programs and independent labs need to do to effectively compete for big managed care contracts?***

According to both Snyder and Knoll, managed care companies want to simplify lab contracting; therefore labs, and especially lab networks, need to enhance their capabilities. A short list of desired capabilities includes:

- A broad-based testing menu
- A large network of PSCs
- Affiliations with area hospitals
- The ability to handle claims for the entire network, including the administration of a multi-level fee schedule
- The ability to manage the data produced by the network
- Methods and systems to control utilization

***Could a non-lab, third-party network administrator win the United contract?***

Snyder said that managed care companies have already contracted with third-party network administrators like CareCore (Wappingers Falls, NY) and HealthHelp (Houston, TX) to manage their radiology benefits, but there currently aren’t any similar companies focused on managing laboratory expenses. “If such an option were available today, then most managed care companies, including United, would consider it,” said Snyder.

**Lab Networks Likely to Rise in Prominence**

Because of its size and prominence in the healthcare industry, United’s lab contracting scheme is likely to act as a trendsetter for other managed care companies and possibly for upcoming Medicare Part B competitive bidding demonstrations. As a result, *LIR* predicts that lab networks will rise in prominence over the next few years. Here’s an update on how some of the largest networks around the country are faring:

**Joint Venture Hospital Laboratories**

Jack Shaw, executive director at JVHL, says his network has made the first cut and will now see if it can negotiate a contract with United for the state of Michigan. Shaw says that United, which covers 209,000 members in Michigan, does not currently contract with JVHL.

Meanwhile, Shaw says that JVHL, a network of 123 hospital labs, now has 16 managed care contracts that cover 1.5 million health plan members—two-thirds of which are exclusive. JVHL’s larger exclusive contracts include Blue Care Network (550,000 members), Health Alliance Plan (500,000 members), and M-Care, a managed care company with 206,000 members that’s owned by the University of Michigan. JVHL also has nonexclusive contracts with Aetna and Cigna. Recent contract wins include an exclusive deal to provide lab services to Molina Healthcare, a Medicaid plan with 140,000 enrollees.

JVHL has an administrative staff of 12 people and processes approximately 600,000 tests each month and collects \$40 million of capitated and fee-for-service revenue from its contracts. Network administration costs are less than 5% of collected revenue, according to Shaw.

Although the managed care contracts are not high-margin business, Shaw says that JVHL-member hospitals with outreach programs are getting \$1 of pull-through business for every dollar of contracted

work. He estimates that the JVHL contracts represent 25% of the outreach business at the typical network-member hospital.

He says the key to creating a successful network includes: 1) the ability of competing hospitals to cooperate to win managed care contracts; 2) the willingness of hospitals to fund the network during the first few years of formation; and 3) the need to hire a full-time administrator to take charge of the network and contracting, rather than relying on part-time efforts from lab managers and directors.

“For a long time JVHL was fighting an uphill battle to win contracts. Now we’re getting more respect from managed care companies,” says Shaw. Given that JVHL has already won nearly every managed care contract it can in Michigan, he says the network has been looking to expand into contiguous states.

### **United Laboratory Network**

United Laboratory Network (ULN-Albany, NY) in collaboration with Bio-Reference Laboratories (Elmwood, NJ) has also made it to the next round of contracting negotiations with United Healthcare, according to ULN’s chief executive, Eric Bettinger. United Healthcare covers a total of 2.8 million members in New York State—mostly concentrated in the New York City area.

The ULN network includes approximately 25 hospitals and commercial laboratories that cover the Northeastern, Central, and Hudson Valley regions of New York State. Among its owner-members are Centrex Laboratories, Columbia Memorial Hospital, Ellis Hospital, Nathan Littauer Hospital, St. Clare’s Hospital, St. Mary’s Hospital, and St. Peter’s Hospital. Both Quest Diagnostics and LabCorp participate in the network, although they do not hold ownership stakes.

ULN currently has two managed care contracts: one contract covers roughly

150,000 members of MVP Health Plan (Schenectady, NY); the other covers about 75,000 enrollees of GHI HMO plan in upstate New York. Combined, the two contracts represent roughly \$5 million of annual lab revenue to ULN network members. Bettinger says ULN is funded by an administration fee equal to between 5% and 10% of collected revenue.

In addition to securing a favorable contract with United Healthcare, Bettinger says goals for 2006 include pursuit of additional contracts as well as the creation of a data repository that collects lab test results from network members and can be shared with payers.

### **PacLab Network Laboratories**

Stewart Adelman, general manager of PacLab (Seattle, WA), says that since PAML had signed a three-year contract with United in October 2005, UHC was not planning on including the state of Washington in their RFP list (Oregon and Idaho have also been excluded). “UHC realizes that PAML and its entities have a majority of the market in Washington and want to continue to work with us,” says Adelman. He estimates that Quest, LabCorp, and PacLab each have about one-third of the lab market in Washington.

PacLab includes 10 hospitals and 3 large service centers in the Puget Sound region of Washington plus the reference lab Pathology Associates Medical Laboratories (PAML-Spokane, WA), which has approximately a 40% ownership stake. PAML also serves as the managing partner of PacLab. Most recently, PacLab added Stevens Hospital (Edmonds, WA) to the network.

PacLab administered over \$50 million of net revenue for its members in 2005 and is projected to grow by roughly 15% in 2006, according to Adelman. He says the network has averaged 15% to 20% annual growth for the past five years.

Adelman attributes PacLabs growth and success to the high level of trust between network members and the belief that “we must work together to survive.” He also points to strong disincentives to dissolve membership and equitable partnership agreements that provide fair distribution of profits.

## Mayo Lab Networks

Two hospital lab networks that receive management services from Mayo Collaborative Services (Rochester, MN) have had mixed results in their contracting efforts with United. **Frontline Laboratory Network** (Boulder, CO) did not make it to the next round, but Kansas City-based **Regional Laboratory Alliance** did, *LIR* has learned.

Frontline has nine hospital members plus Mayo Labs and covers northeast Colorado. Over the past few years, Frontline has won several managed care contracts, including United Healthcare and a regional contract with PacifiCare, which is being acquired by United. Obviously, the loss of the United and PacifiCare contracts would be painful for Frontline, notes *LIR*.

Meanwhile, United has officially indicated its interest in further negotiations with Regional Laboratory Alliance. RLA members include eight hospital labs plus Physicians Reference Laboratory, an independent lab, and Mayo Labs.

## United’s Network Management Contracts May Sting Reference Labs

*LIR* notes that midsize reference labs like Mayo, ARUP, Specialty Labs, Genzyme Genetics, etc. could be hurt if Quest and LabCorp wind up becoming the network managers for the bulk of United’s \$2 billion in annual lab spending. As network managers, Quest and LabCorp would be expected to direct most of the lucrative esoteric tests generated within the networks they manage to their own reference lab facilities.

This potential scenario has got the midsize reference labs worried, and *LIR* has heard of several acrimonious telephone and e-mail exchanges between these labs and United’s head lab contracting representative, Jay Erb.

For example, in an October 23 letter to hundreds of hospital lab clients, Mayo Labs medical director, Robert Kisabeth, M.D., warned that United’s lab contracting plans “may result in a significant change in service patterns. The program also may have implications for any existing of future contract your institution has with United.” Kisabeth’s letter advised hospitals to contact Mr. Erb with their questions and gave out his phone number. “The objective of Dr. Kisabeth’s letter was simply to make hospitals aware of the RFP and to give United an opportunity to provide additional information and explain the RFP intent and implications,” a spokeswoman from Mayo told *LIR*.

The letter inundated Erb with calls from concerned hospital lab executives, and he responded with an angry voice-mail message directing calls back to Kisabeth. Then, on November 16, Erb sent out a more subdued letter to hospital labs stating that United’s intentions in issuing its RFP are not to limit or restrict member access to lab services.

“The RFP was sent to many national, regional, and local free-standing laboratories and hospitals . . . We anticipate that any combination of those parties who submitted a proposal may become a preferred laboratory and manage a network of laboratories in any given geographic area. Additional laboratories and hospitals in such an area will be included in the network to ensure adequate access and service availability of all covered tests for our enrollees. We have not stated that we intend to limit our network to one laboratory services provider per region for all products,” Erb stated in his letter. 🏠

## SPECIAL LIR EDITORIAL: A Simple Solution

*United Healthcare wants to trim 15% to 20% off its \$2 billion of annual lab testing expenditures. The company's RFP for this initiative has got hundreds of labs across the country worried that 1) they'll be left out of the regional networks that will be formed; and 2) any resulting pricing cuts will lower reimbursement to below the breakeven point.*

*But United could be shooting themselves in the foot. Although it looks like the networks that will be formed to serve this contract are likely to include many labs per region, some labs will be left out. And limiting access to a vital everyday need (i.e., lab services) is sure to upset United's contracted physicians and health plan members. Potential lab test pricing cuts could also result in a decrease in quality of testing services.*

*So what's the alternative? United has consistently posted earnings increases of 15% to 20% per year, and the company's top brass has guided Wall Street to expect similar profit growth over the next few years. And a \$300 million to \$400 million cut in annual lab expenses will go a long way toward helping United meet these expectations.*

*However, I think I've found another way for United to achieve hundreds of millions of dollars of savings (at least for one year) and keep its lab providers, physicians, and investors happy. The answer: eliminate the \$345 million in executive bonuses that will be paid on the day that United completes its pending acquisition of PacifiCare. For example, Howard Phanstiel, 56, chairman and chief executive of PacifiCare, is due to get an \$8.5 million cash bonus, an \$8.3 million stock grant, plus tens of millions of dollars more from vested stock options, as a result of the merger. Instead of trying to wring more money out of labs, why doesn't United put some pressure on PacifiCare's top execs and their extravagant pay packages?*

*And keep in mind that the \$345 million may be a low estimate of the booty that the HMO executives will reap. The not-for-profit Foundation for Tax and Consumer Rights estimates that the total is \$445 million and says this amount could pay for health insurance for 148,000 Californians for an entire year. But I say put it in the bank to meet earnings expectations and leave labs alone.*

  
Jondavid Klipp,  
managing editor

## Who Has Made It To The Second Round With United Healthcare?

**L**IR has learned that the following nine laboratory companies and networks (see table below) have made it to the second round of negotiations with United and there could be more. We assume that in most markets, Quest and/or LabCorp will also wind up with contracts to manage regional lab networks.

United's RFP gave labs approximately 10 weeks to submit proposals (after two deadline extensions). It incorporated a broad range of requirements and expectations, including: 1) the ability for labs to submit at least 95% of claims electronically; 2) three years of audited financial statements; 3) 24-hour turnaround for routine tests and four-day turnaround for anatomical pathology results; 4) the results of three years of physician/member-satisfactions surveys; and 5) the ability to cover all in- and out-of-network laboratory services for all non-inpatient clinical and anatomic tests for the region bid upon at a cost savings of 15% to 20%.

Because of the RFP's wide-ranging requirements, some large independent labs and hospital lab outreach programs were unable to even submit proposals. 🏠

### Labs Making It To The Next Round With United

| LABORATORY NAME                    | REGIONS                        | COMMENTS  |
|------------------------------------|--------------------------------|---|
| Bio-Reference Labs*                | NYC area                       | 53 PSCs; operates major clinical lab plus large anatomic pathology business 2005 revenue: \$160M;                             |
| Clinical Pathology Labs (CPL)      | TX, VA, OH                     | 150 PSCs; main labs in Austin, TX, Toledo, OH, and Chantilly, VA; estimated 2005 revenue: \$180-190M                          |
| Cognoscenti Health Institute       | central Florida                | young lab company (opened in early 2002) 5 PSCs; main lab in Orlando estimated 2005 revenue: \$10-20M                         |
| Joint Venture Hospital Labs (JVHL) | Michigan                       | statewide lab network with 100+ hospital labs; holds 16 managed care contracts; administers \$40M of net lab revenue per year |
| Pathologists Associated            | Indiana                        | joint venture lab owned by Cardinal Health Partners and local pathologists; 17 PSCs; estimated 2005 revenue: \$30-40M         |
| Regional Lab Alliance              | Kansas City, MO                | Hospital lab network that includes 8 hospitals, an independent lab, and Mayo;   |
| Spectrum Laboratory                | Southeast (NC, SC, VA, GA, TN) | 72 PSCs; 10 managed hospital labs; annual outreach revenue = \$89M  |
| Sunrise Medical Laboratory         | NYC area                       | independent lab; 20+ PSCs; estimated 2005 revenue: \$55M; owns a claims processing/billing service provided to other labs     |
| United Laboratory Network*         | New York State                 | lab network that includes 25 hospitals and independent labs; administers about \$5M of net lab revenue per year               |

\*Bio-Reference and United Laboratory Network are collaborating on the United RFP

Source: LIR



## Lab Stocks Rise 5% Led By Clariant, Medtox, LabCorp, Psychomedics

The G-2 Laboratory Stock Index rose 5% in the four weeks ended December 16, with eight stocks up in price, and three down. Year to date, the G-2 Index is down 2%, while the S&P 500 Index is up 5% and the Nasdaq is up 4%.

**Clariant Inc.** (San Juan Capistrano, CA) was up 14% to \$1.29 per share for a market capitalization of \$67 million. Clariant, which specializes in flow cytometry testing, recently won a contract to provide biopharmaceutical research services to drug-maker Eli Lilly. "We look forward to supporting Lilly with our

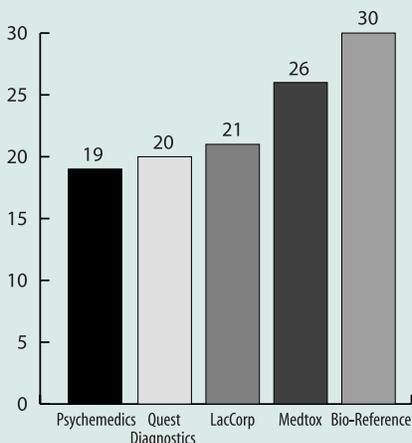
scientific expertise utilizing advanced technology platforms to provide a solution for the development of companion diagnostics for emerging therapies," said Clariant's Medical Director, Kenneth J. Bloom, M.D.

**Medtox Scientific** (St. Paul, MN) was up 12% to \$7.49 per share for a market cap of \$61 million; **LabCorp** (Burlington, NC) was up 11% to \$54.54 per share for a market cap of \$7.25 billion; **Psychomedics** (Acton, MA) was up 10% to \$13.92 per share for a market cap of \$72 million.

Meanwhile, **Monogram Biosciences** (formerly named ViroLogic), which performs specialized HIV testing, was off 15% to \$1.61 per share for a market cap of \$205 million.

Among the five stocks in the index that have positive earnings, Psychomedics has the lowest P/E ratio at 19, followed by Quest Diagnostics at 20, and LabCorp at 21. 🏠

### Lab Stock P/E Ratios



Source: LIR based on trailing earnings

### G-2 Laboratory Stock Index



| Performance (as of 12/16/05) | Price Change |
|------------------------------|--------------|
| Last 5 weeks                 | 5%           |
| Last 13 weeks                | 3%           |
| Full-year 2005               | -2%          |

#### % price change, 4 weeks ended 12/16/05

| Up                | Price   | % Chg |
|-------------------|---------|-------|
| Bio-Reference     | \$19.10 | 7     |
| Clariant          | 1.29    | 14    |
| Medtox            | 7.49    | 12    |
| Myriad            | 20.00   | 5     |
| Orchid Cellmark   | 6.93    | 7     |
| Psychomedics      | 13.92   | 10    |
| Quest Diagnostics | 52.08   | 6     |
| LabCorp           | 54.54   | 11    |
| Down              |         |       |
| Enzo Biochem      | 12.95   | -5    |
| Monogram          | 1.61    | -15   |
| Specialty         | 13.07   | -1    |

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.



**L**ab test pricing disparities remain a concern for the OIG. On Nov. 16, 2005, the HHS Office of the Inspector General (OIG) issued its Work Plan for 2006, and among the areas targeted for audit and investigation in the coming year is lab test pricing. The OIG says it plans to conduct a comparison study of Medicare payment rates for certain lab tests with the rates of other federal and state health programs and private payers.

The planned study is more than likely related to the OIG's concern that some labs are billing Medicare at rates that are more than 120% of their average prices for other payers. In September 2003, the OIG proposed a rule that would give it the discretion to exclude from Medicare or Medicaid any lab that charges these programs "substantially in excess" (or 120% above) its usual charges for the same service.

If made into law, the proposed rule could have a big effect on how some lab companies and hospital outreach programs price their services, requiring either a dramatic cut in prices charged to the Medicare Part B program, or an increase in prices to private payers.

Meanwhile, *LIR* points out that in June 2005, Quest Diagnostics and LabCorp each separately announced that they had been subpoenaed by the U.S. Attorney's Office for New Jersey. The U.S. Attorney asked for records from each company pertaining to capitation and risk-sharing agreements with government and private payers from 1993 through 1999. Other independent lab companies and healthcare providers received similar subpoenas. Although the U.S. Attorney did not reveal the purpose of the investigation, legal insiders in Washington tell *LIR* that it is related to discriminatory billing. 🏠

### References in this issue

- Chi Solutions (Paul Knoll)  
734-662-6363 x489
- Clariant 949-443-3355
- Clinical Lab Business Solutions  
908-237-2807
- Genomic Health 650-556-9300
- Hunter Laboratories 408-341-8600
- Joint Venture Hospital Labs  
313-271-3692
- LabCorp 336-229-1127
- PAML, 509-755-8600
- Quest Diagnostics 201-393-5000
- United Laboratory Network  
518-437-0978

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