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LABORATORY INDUSTRY REPORT®

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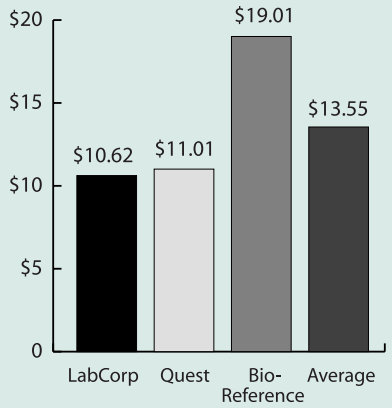
Measuring Up Versus The Commercial Labs

On average, the three largest publicly traded lab companies incur $13.55 of costs for every billable test they process, according to an analysis of year-end 2005 financial results by *Laboratory Industry Report*. These costs include all technical, transportation, marketing, billing, and administrative expenses, but exclude taxes and amortization expenses. Many hospital lab outreach programs have cost structures below $10 per billable test, so it would seem that they should be able to compete with the Quest Diagnostics, LabCorp, and Bio-Reference Labs.

Cost Per Billable Test*



*Assumes 2.7 billable tests per requisition.
Source: *LIR*

But costs are only one side of the equation. The other side is revenue. The big three commercial labs collect an average of $15.91 per billable test. That's probably several dollars higher than most outreach labs collect. The difference is due to the more sophisticated billing and collection operations at the big labs and their growing focus on the two fastest-growing segments in the lab business: molecular diagnostics and cancer testing.

For more insight into the financial benchmarks for Quest, LabCorp, and Bio-Reference, see *Inside the Laboratory Industry*, pp. 5-7.

AmeriPath Completes Acquisition Of Specialty Labs

AmeriPath (Palm Beach Gardens, FL) has completed its acquisition of Specialty Laboratories (Valencia, CA), which was first announced in September 2005 (see *LIR*, November 2005, pp. 1-2). The acquisition price was $13.25 per share, or $285 million (net of $40 million of cash and securities held by Specialty), an amount equal to approximately 1.9 times Specialty's annual revenue of $152.5 million.

AmeriPath plans to keep Specialty's new 200,000 sq. ft. laboratory in Valencia, California, in operation. Keith Laughman, who joined AmeriPath last year as president of esoteric testing services, will oversee AmeriPath's existing esoteric testing business plus Specialty—the combined businesses generate annual revenue of nearly $200 million. ➥ *p. 2*

AMERIPATH COMPLETES ACQUISITION OF SPECIALTY LABS, *from page 1*

James Peter, M.D., Ph.D., founder of Specialty and majority shareholder, and his family exchanged roughly 5.4 million of their shares for $13.25 per share in cash, or $72 million. In addition, the Peter family turned in their remaining nine million shares for a 20% stake worth $120 million in the new combined company. The transaction implied a value of $600 million for AmeriPath. Together, AmeriPath and Specialty now generate more than $700 million of annual revenue.

Meanwhile, 13 of Specialty's top executives and board members received a total of $10 million in change-of-control payments and stock and option cash outs at the close of the acquisition. For example, David Weavil, who became Specialty's chief executive in July 2005, received a cash payment of $414,000 plus $973,250 from stock options. And Richard Whitney, who served as Specialty's chairman for one year, got lump-sum payments of $187,500 for his services on a special board committee plus $794,715 for his stock and options.

In addition, *LIR* notes that, under a three-year agreement, Dr. Peter will act as part-time consultant to AmeriPath in exchange for $225,000 per year.

Recent Laboratory/Pathology Acquisitions *($ millions)*

Date	*Buyer*	*Target*	*Purchase Price*	*Acquired Revenue*	*Price/ Revenue*
Jan-05	Adventist Health Corp.	Cytology Services of Maryland	NA	NA	NA
Jan-05	Quest Diagnostics	Omega Medical Labs	NA	NA	NA
Feb-05	LabCorp	US Labs	$155	$73	2.12
May-05	Caris Ltd.	Pathology Partners	120	55	2.18
May-05	LabCorp	Esoterix	150	120	1.25
Aug-05	HCA	Integrated Regional Labs	NA	NA	NA
Nov-05	Quest Diagnostics	LabOne	947	506	1.87
Nov-05	Bio-Reference	Pathco Medical	2	3	0.73
Dec-05	Pathologists Associated	Midwest Hemostasis & Coag	NA	2	NA
Dec-05	Pathologists Associated	Follas Laboratories	NA	5	NA
Jan-06	Apax Partners	Spectrum Laboratory	NA	120	NA
Jan-06	AmeriPath	Specialty Labs	285	153	1.86
Unweighted average					1.67

NA=not available Source: *LIR*

Former Impath Executives Going To Jail

Anu Saad, Ph.D., age 49, former chief executive of Impath Inc., has been sentenced to three months in prison in connection with improperly charging personal expenses to the company. At a hearing in Manhattan on January 23, U.S. District Judge Jed Rakoff also sentenced Saad to two years supervised release and ordered her to pay a $6,900 fine and a special assessment of $300. "I just want to say how sorry I am for my conduct," Saad said before her sentencing.

When then-U.S. Attorney David Kelley announced the case against Impath last year, he said the prosecution showed that the government was not just targeting large company frauds. "They will not be able to fly under the radar just because their companies are small," he said.

In September 2005, Saad pleaded guilty to filing false shareholder statements and of knowingly failing to implement a system of internal accounting controls. Prosecutors say she improperly charged about $120,000 in personal expenses to her corporate credit card, including purchases of furniture, artwork, and beauty products, and didn't report them as compensation in Impath's proxy statements.

Meanwhile, Richard Adelson, 40, the former president and chief operating officer of Impath, has been found guilty of conspiracy, securities fraud, and three counts of false filings with the Security and Exchange Commission. The conviction on the top two counts in the indictment means Adelson, who is currently free on $1 million bail, could face up to 20 years in prison. Sentencing by Judge Rakoff is set for May 30.

Four other former Impath executives have already pleaded guilty to criminal charges in the matter.

According to court documents, between 2000 and 2002, Impath executives overstated the company's revenue by inflating accounts receivables, even though they knew the revenue was uncollectible.

The false statements made it look like the company had met its financial goals and allowed Adelson and others to keep their jobs, draw higher salaries, collect bonuses, and profit from their stock options, prosecutors said.

As a result of the fraud, Impath falsely reported multimillion-dollar profits when it had actually suffered huge losses. The company filed for bankruptcy protection in September 2003, and Genzyme purchased its cancer testing business in May 2004 for $215 million.

Quest's Maryland Lab Avoids Medicare Ban

Quest Diagnostics' Baltimore laboratory is back in compliance with quality requirements of the Maryland Department of Health and Mental Hygiene (DHMH) and Centers for Medicare and Medicaid Services (CMS), Quest spokesman Gary Samuels tells *LIR*.

The Baltimore lab had been under scrutiny from the DHMH's Office of Health Care Quality after the agency received four complaints over the course of one year from patients that had received inaccurate test results and were frustrated by Quest's inability to respond to their complaints.

The complaints triggered inspections from state health officials on Oct. 22, 2004, and on April 18 and September 19 last year. After the September inspection, the state found that Quest had still failed to revise its system for responding to patient complaints and threatened to drop the lab facility from the Medicare program. Quest's Baltimore lab employs 1,400 people and services Maryland, Washington, D.C., and northern Virginia.

The risk of losing the right to bill Medicare plus a *Baltimore Sun* article on the situation got Quest's attention. By the state's next inspection in late January, Samuels says Quest had: 1) put in place a new quality department to deal specifically with patient issues; 2) created a hot line for patient inquiries (800-532-5932); and 3) retrained all 1,400 Baltimore employees on how to handle patient complaints. As a

result, state inspectors found the Baltimore lab to be in compliance with the conditions necessary to participate in the Medicare program and a crisis was averted.

President's Budget Seeks National Medicare Lab Competitive Bidding

President Bush's budget request for fiscal 2007 (begins Oct. 1, 2006) proposes a national competitive bidding program for Medicare Part B clinical lab services, with the assumption that payments would decrease by 5%.

Medicare Part B spending on lab services totaled $6 billion in 2004 and increased by an average of 8.8% per year between 1998 and 2004. The anticipated 5% savings would result in annual savings of about $300 million. However, *LIR* believes that competitive bidding would be more likely to trim 15% to 20%, or $900 million to $1.2 billion per year, from Part B lab spending.

Movement toward competitive bidding for lab services is already under way. As directed by the Medicare Modernization Act of 2003, CMS is now working to design and implement a demonstration project for lab competitive bidding. The president's proposal, if enacted, would be in lieu of this process and at an accelerated and expanded pace.

CPT 88305 To Stay Flat In 2006, But Daily Limits Loom

Physicians have dodged a 4.4% reduction in their Medicare fees that took effect January 1, now that the House has passed the budget reconciliation bill that rescinds the cut and grants a 0% update instead. For pathologists, this means that the global reimbursement level for CPT 88305 (the most commonly billed anatomic pathology procedure) will remain at $103.46, including $61.39 for the technical component and $42.07 for professional services.

But pathologists aren't out of the woods yet. Under its Correct Coding Initiative, CMS has proposed restricting the use of CPT 88305 to two units of service per patient per day. Claims in excess of this limit would be deemed "medically unbelievable" and would be automatically denied. CMS says that the edits are intended to catch "typographical and unbelievable cases" submitted to Medicare for payment.

A 60-day comment period ending March 20 has been set for the proposal, which would affect CPT 88305 plus some 1,000 other lab and pathology codes as well, and CMS is aiming to have it in place by July 1.

The College of American Pathologists (CAP) has urged CMS to withdraw the proposed edits and establish a formal process, working in close concert with the medical community, to address the concerns about the current proposal.

Medicare Reimbursement for CPT Code 88305*

	1999	2000	2001	2002	2003	2004	2005	2006	7-Year CAGR**
Global	64.95	$76.15	$88.38	$93.39	$94.54	$95.21	$103.46	103.46	6.9
Technical	19.80	31.12	44.00	52.85	53.71	53.77	61.39	61.39	17.5
Professional	45.15	45.03	44.38	40.54	40.83	41.44	42.07	42.07	-1.0

*Unadjusted for geographic practice cost differences. **Compound annual growth rate, 1999-2006.

Source: Medicare physician fee schedules, 1999 to 2006. CPT codes © American Medical Assn.

Quest, LabCorp, and Bio-Reference Report 2005 Results

Quest Diagnostics, LabCorp, and Bio-Reference Laboratories each recently released their financial results for 2005. Below we have provided a summary of these results plus comments from each company's chief executive excerpted from conference calls with Wall Street analysts and investors.

Quest Diagnostics (Teterboro, NJ) reported net income of $546 million for 2005 versus $499 million in 2004; revenue increased by 7.4% to $5.5 billion. Excluding the acquisitions of Omega Medical Laboratories (completed January 2005) and LabOne (November 2005), *LIR* estimates that Quest's internal revenue growth rate was 5.3%, including roughly half coming from volume growth and half from increased average revenue per requisition.

Overall, Quest processed a total of approximately 144 million requisitions in 2005 and generated an average of $36.25 of revenue per requisition.

This year Quest expects revenue to grow by 12.5% to 13.5%, with approximately 8% coming from the acquisition of LabOne.

LabCorp (Burlington, NC) reported net income of $386 million for 2005 versus $363 million in 2004; revenue was up 7.9% to $3.3 billion, including a 1.1% increase in volume and a 6.8% hike in average price.

Revenue growth was driven by the purchase of US Labs (February 2005), Esoterix (May 2005), and smaller acquisitions. After accounting for the effects of these acquisitions, *LIR* estimates that LabCorp's revenue growth was 3.6%.

Overall, LabCorp processed an estimated 92.1 million requisitions in 2005, with an average revenue per requisition of $36.12.

This year LabCorp expects revenue to grow by 6.5% to 7.5%, including the effect of acquisitions.

Bio-Reference Laboratories (Elmwood Park, NJ) reported net income of $7.6 million for the fiscal year ended Oct. 31, 2005, down from $8.5 million the previous year. Chief executive Marc Grodman, M.D., said Medicare reimbursement cuts for flow cytometry lowered Bio-Reference's profits in 2005 by between $5 million and $6 million.

Despite the cuts in flow cytometry, revenue at Bio-Reference increased by 20% in 2005 to $164 million. This growth was due to a 15% increase in requisitions serviced and a 5% increase in net revenue per patient.

Bio-Reference processed 2.9 million requisitions in fiscal year 2005, with an average revenue per requisition of $56.48.

Bio-Reference recently acquired a pathology practice based in Poughkeepsie, New York, named Pathco Medical. The purchase price was $2.2 million, or 0.7 times the group's annual revenue of $3 million. Pathco serves three hospitals in the Hudson Valley: Vassar Brothers Medical Center, Northern Dutchess Hospital, and Putnam Hospital Center.

United HealthCare's RFP

Surya Mohapatra, Ph.D., chief executive at Quest, said Quest was working with United to figure out how the QuestNet laboratory network model, now being used for United/Oxford members in the New York City area, could be expanded to other markets with the goal of reducing leakage to out-of-network hospital labs.

LabCorp CEO Tom Mac Mahon said the big four managed care companies—Wellpoint, United, Aetna, and Cigna—have all expressed their concerns about leakage. "They are all encouraging labs to ensure they have appropriate coverage so they can exclude nonparticipating providers," he said.

Mac Mahon also noted LabCorp has been trying to get a foothold in the New York City area for several years, but has been unsuccessful because it hasn't won a managed care contract in that market yet. "If we had that opportunity, we would build our share quickly," he said. "We would be delighted to have the opportunity to have everyone on this call [mostly New York City-based investors and analysts] see a LabCorp milk box outside of their doctor's office," he added.

Meanwhile, Mac Mahon noted that LabCorp had been making progress in securing new contracts with Wellpoint over the past year, including contracts in Georgia, Nevada, and most recently Colorado (effective March 1). "We expect additional exclusive arrangements with Wellpoint," he added.

Meanwhile, Bio-Reference is collaborating with United Laboratory Network, a hospital lab network in upstate New York, on its

Full-Year 2005 Financial Stats for Quest, LabCorp and Bio-Reference

	Quest Diagnostics	*LabCorp*	*Bio-Reference*
Total revenue	$5,503,700,000	$3,327,600,000	$163,896,000
Clinical lab & pathology revenue	5,228,520,000	—	161,856,000
Other revenue	275,190,000	—	2,040,000
Pretax income	910,400,000	640,700,000	11,489,000
Net income	546,300,000	386,200,000	7,621,000
Pretax margin	16.4%	19.3%	7.0%
Net income margin	9.7%	11.6%	4.7%
Requisitions	144,250,000	92,100,000	2,865,000
Billable tests*	389,475,000	248,670,000	7,735,500
Revenue per requisition	$36.25	$36.12	$56.48
Revenue per billable test	$13.42	$13.38	$20.92
Cost per requisition**	$29.74	$28.68	$51.34
Cost per billable test**	$11.01	$10.62	$19.01
Days in accounts receivable	46	54	111
Bad-debt expense	4.2%	5.4%	13.3%

*Assumes 2.7 billable tests per requisition.

**Cost per requisition and billable tests includes all technical, transportation, marketing, and administrative costs, but excludes taxes and amortization expenses

Source: *LIR* from company financial reports

bid for the United contract in the New York City Region and has made it to the final round of negotiations.

Richard Faherty, chief information officer at Bio-Reference, says the company is encourage by its progress in the RFP process, but waiting to see if United is serious about making a an improvement to the delivery of lab services, or just looking to cut prices. He notes that Bio-Reference is already a contracted lab provider with United, but not with Oxford Health (acquired by United in July 2004).

High-Growth Testing Areas

Mohapatra said Quest's strongest growing areas of testing have been bladder cancer testing, HPV testing, ImmunoCap allergy testing, and Insure colorectal cancer screening. In 2005, Quest derived approximately 17.5% of its revenue, or nearly $1 billion, from esoteric testing, including $660 million from gene-based tests.

LabCorp's Mac Mahon said the company was now performing nearly one million HPV tests per year, with year-over-year growth of 77%. He also noted that 31% of the company's liquid-based Pap tests were now being performed using automated imaging systems. And he said LabCorp was getting no pushback from managed care payers on the higher reimbursement for automated imaging. As of yearend 2005, LabCorp was processing 2.3 million image-guided liquid Pap tests versus zero at yearend 2004. "We see this as a key growth driver in 2006," added Mac Mahon.

However, Mac Mahon said that volumes from AmpliChip CYP450 testing have been low. "Pharmacogenomics will arrive, but it won't happen overnight. … At some point drug companies will realize that they need to educate doctors on pharmacogenomics.… We don't have the experience as a sales force to discuss those kinds of issues with physicians," he observed.

In 2005, LabCorp derived 34% of its revenue, or $1.1 billion, from esoteric testing, including $505 billion from gene-based tests.

Recent esoteric testing initiatives at Bio-Reference have included the development of a national sales and marketing staff of 20 people to sell the company's lymphoma/leukemia testing services marketed under the brand name "GenPath." Grodman said Bio-Reference is also in the process of developing a women's health laboratory service that is focused on HPV testing and breast cancer.

In fiscal year 2005, Bio-Reference increased its esoteric testing revenue (including GenPath) by 21% to $57.6 million. Esoteric testing now comprises 35% of the company's overall revenue.

Medicare Competitive Bidding

On the threat of competitive bidding from Medicare, LabCorp's Mac Mahon said: "We don't like it. We think it impacts on the quality of delivering lab testing. We will vigorously oppose this and present to legislators why this makes no sense."

Nichols Institute Diagnostics

In late 2005, Quest instituted its second voluntary product hold within the last six months, due to quality issues at Nichols Institute Diagnostics (NID), which manufactures a variety of specialty tests, including Intact PTH and Bio-Intact PTH. Mohapatra said Quest was evaluating its strategic options for NID, including a potential sale, and would finalize its plans by June 30. Problems at NID reduced Quest's earnings by $50 million in 2005.

Expert Opinion On Lab Networks And Managed Care Contracting

David Nichols

Jeff Danilo

A special G-2 audio conference on February 14—***Is It Time for Your Lab to Join a Network?*—provided listeners with insight into current trends in managed care contracting and things to consider before joining a laboratory network. Here are some highlights on what the two speakers,** David Nichols, president of the Nichols Management Group (York Harbor, ME), and Jeff Danilo, principal at US Healthcare Solutions (Doylestown, PA), had to say:

What are the changes in managed care contracting for lab services over the past five years and does United HealthCare's RFP signal a new trend?
Managed care companies and employers are shifting more decision making and costs to employees, said Danilo. Out-of-pocket expenses for employees have risen by 60% in the past five years due to higher co-pays and coinsurance, he noted.

Danilo believes that more health plans will be instituting lab co-pays as a way to control utilization and direct members to preferred labs. "We've seen co-pays for physical therapy, MRIs, and pharmacy benefits, and now we're seeing it with labs. . . . A co-pay would take the pressure off doctors. Patients would choose which lab to use based on co-pay diferentials," he said.

Nichols said that United RFP for lab services could serve as a bellwether. "It demonstrates that insurance companies and contracted labs are getting more serious about leakage. . . . We are headed into another one of those periods where labs will be seeing less revenue per specimen," he predicted.

In terms of pricing trends for lab services, Nichols said that after several years of cutthroat competition for hospital contracts, reference test pricing was beginning to bottom out. But he said pricing for routine lab services to managed care companies was trending lower. He also noted that he had seen several new capitated lab contracts awarded at less than $1 per-member per-month in California and the Southwest.

What approaches are health plans using to reduce leakage to out-of-network labs?
Nichols said he's seen an increase in the use of threatening letters sent by managed care companies to noncompliant physicians and more letter inserts to patients that emphasize which labs are preferred.

To stop labs from signing capitated contracts and then cherry picking the best physician office accounts and ignoring the rest, some managed care companies are negotiating contracts with adjustable cap rates that rise as a contracted lab serves more members and reduces leakage, according to Nichols.

What do hospital outreach programs and independent labs need to do to effectively compete for big managed care contracts?
Aside from a low cost structure and competitive pricing, both speakers emphasized the need for advanced information technology systems that can provide managed care companies with test result summaries and trend analysis. In addition, Nichols said labs need to have a marketing plan and a trained sales

force in place to take advantage of managed care contracts after they are obtained.

Are hospital lab networks like Joint Venture Hospital Laboratories in Michigan or PacLab in Washington the answer?
"They're not always the answer. Some existing networks are unprofitable. And sometimes the people putting together these networks are merely looking to gain reference work. But if your lab is the leader and primary partner of the network, they can be quite effective," said Nichols.

Why have some lab networks been successful (e.g., JVHL, PacLab, etc.), while others have not (e.g., PLAN in California, NYSCLA, etc.)?
"In a word, some have strong individual leadership and others do not. . . . You can count on one hand the number of individuals who have made these things work," said Nichols.

Creating a strong lab network requires strong individual leadership and adequate funding from hospital partners.

The willingness of hospitals to fund a network for a few years until it becomes self-supporting is also often necessary, said Danilo. "For some networks, the hospitals were under too much pressure to reduce costs, and they [the network] were not funded properly," he added.

Finally, Nichols noted that bringing competing hospitals together to form a network can be difficult. "You need a great deal of patience. I can remember attending 23 meetings with 12 or 14 people to get a joint venture off the ground. And sometimes these meetings were nothing more than a forum for competing hospitals to argue about petty issues like why one hospital took a large account from another or opened a patient service center in their market," he explained.

Should labs participate in lab networks managed by one of the national labs?
It depends, answered both speakers. If your lab can only gain access to a key contract by joining the network, then it should be considered. But Nichols warned that, in his experience, the national labs have always acted with a "take it or leave it" attitude when dealing with smaller labs.

According to Nichols, key questions that need to be asked include: 1) Do you have to use them as your reference lab to participate in the network? and 2) Are there any conditions that would prevent you from negotiating with the managed care payer, so that your lab could someday win the contract?

What about the potential for a non-lab third-party network administrator to contract with United?
"United's RFP is looking for someone to manage their lab benefit, so it's definitely a possibility," answered Danilo.

What about the prospects for labs to contract directly with large employers in their markets?
"It's not something that health plans like, but dental, pharmacy, vision, and DME have each been carved out as benefits, so lab services might also. . . . LabOne had considered this approach a few years ago. It will be interesting to see if Quest—now that it owns LabOne—picks up where LabOne left off," said Nichols.

Company Spotlight: Pathology Partners Inc.

LIR conducted its interview with Stephen Spotts in January. We have since learned that he has resigned from his position at PPI. The company has not yet formally named a replacement.

With 18 gastrointestinal pathologists working full time at its laboratory in Irving, Texas, Pathology Partners Inc. (PPI-Irving, TX) employs the largest collection of GI specialists in the nation, according to the company's president, Stephen Spotts. PPI currently serves more than 1,200 physician clients in more than 30 states.

Last year, PPI grew its revenue by 35% to an estimated $65 million. This year, Spotts says the company is budgeted to grow by 50%. He attributes the growth to several factors, including a doubling of the company's sales staff over the past year to 21 people (including sales managers).

PPI guarantees a 48-hour turnaround time and many times can return the pathology report within 24 hours of specimen pickup, according to Spotts. He says a key to meeting this goal has been the use of the company's proprietary SmarthPath system that enables gastroenterologists to automate several administrative post-surgery steps and to combine them with the pathology reports.

Spotts says PPI has also invested heavily in its billing and collection operations, which includes 47 employees located at a 25,000 sq. ft. office in Garland, Texas. "There are a lot of labs that don't correct denied claims and write them off. We don't. We've increased the headcount in our billing department, but we know the return is worthwhile," he notes.

Spotts says pathology company acquisitions by the national labs over the past few years (i.e., LabCorp buys Dianon, US Labs, and Esoterix; Genzyme buys Alfigen and Impath) have resulted in client attrition that specialty labs like Pathology Partners have benefited from. "The national labs see this [anatomic pathology] as a space they need to invest in. . . . There's a lot of money [from the national labs and venture capital] hunting for places to land," he says.

Spotts believes that United HealthCare's RFP, which is seeking a 15% to 20% cut in lab and pathology costs through regional networks, is more of an exception than the start of a new trend. "A lot of commercial payers are now more receptive to contracting with labs outside of Quest and LabCorp. And there are signs that the Blues may open up to out-of-state lab providers," he notes.

PPI was purchased by an investment partnership named Caris Ltd. (Irving, TX) for $120 million in May 2005. Caris was formed in 2004 as the long-term investment vehicle for David Halbert. Prior to forming Caris, Halbert was chairman and chief executive of the pharmacy benefits manager AdvancePCS, which was acquired by Caremark Rx in 2004 for $5.6 billion.

Pathology Partners at a Glance

Chairman	David Halbert
President/CEO	Stephen Spotts
Estimated Revenue, 2005	$65 million
Revenue growth, 2005	35%
Avg. gross charge per case	$750
Laboratory (Irving, TX)	50,000 sq. ft.
Billing and collection (Garland, TX)	25,000 sq. ft.
Employees	200
GI pathologists	18
Clients	1,200

Source: *LIR*

Lab Stocks Rise 9% Led By Genomic Health And Psychemedics

The G-2 Laboratory Stock Index rose 9% in the seven weeks ended February 17, with seven stocks up in price, two unchanged, and three down. Year to date, the G-2 Index is up 9%, while the S&P 500 Index and the Nasdaq are each up 3%.

Genomic Health (Redwood City, CA) was up 65% to $15 per share for a market capitalization of $367 million. Medicare's California contractor, National Heritage Insurance Company, recently established a positive coverage policy for the company's breast cancer test, Oncotype DX (see *LIR*, February 2006, p. 9).

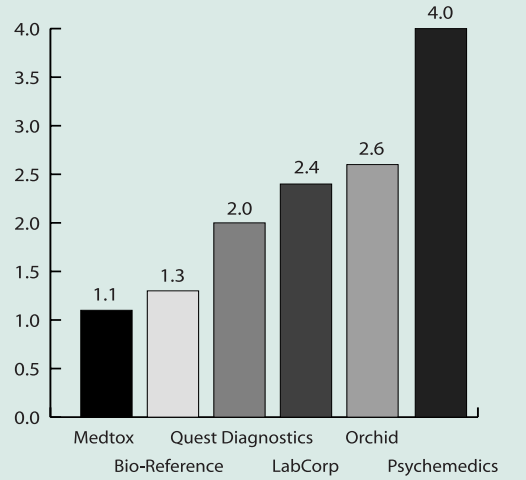
Separately, the company reported that revenue increased to $4.8 million in 2005 from $227,000 in 2004; net loss for the year was $31.4 million compared to $25 million in 2004. Genomic Health delivered over 7,000 test results for Oncotype DX in 2005.

And finally, on a more ominous note, the company says the FDA has invited it to discuss the regulatory status of Oncotype Dx, which is now sold as a laboratory developed (aka, homebrew) test.

Psychemedics (Acton, MA) was up 21% to $16.75 per share for a market cap of $87 million. The hair-testing company reported record revenue for 2005, an increase of 13% over 2004 to $21.4 million; net income was $4 million, up 46% from 2004.

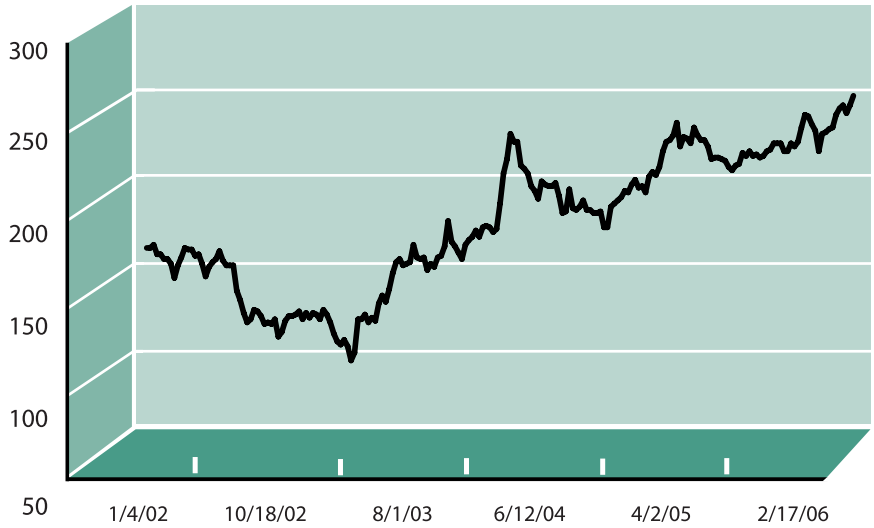
Meanwhile, among six selected lab stocks, **Medtox** has the lowest market price-to-annual revenue ratio at 1.1 times; **Bio-Reference Laboratories** is next lowest at 1.3 times. **Quest Diagnostics** is at 2.0 times and **LabCorp** is priced at 2.4 times its annual revenue.

Price-to-Revenue Ratios for Selected Lab Stocks



Source: *LIR*

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 12 laboratory testing service stocks.

% price change, 7 weeks ended 2/17/06

UP	*Price*	*% Chg*
Genomic Health	$15.00	65%
LabCorp	58.77	9
Medtox	8.85	17
Monogram	1.97	5
Myriad Genetics	24.07	16
Psychemedics	16.75	21
Quest Diagnostics	52.80	3
UNCHANGED		
Enzo Biochem	12.46	0
Specialty Labs	13.25	0
DOWN		
Bio-Reference	16.89	-10
Clarient	1.17	-10
Orchid Cellmark	6.64	-13

INDUSTRY buzz

Fantus Takes Charge At Clinical Laboratory Partners: Jim Fantus, who has made a career out of fixing up troubled hospital outreach programs, has become president and chief executive of Clinical Laboratory Partners (CLP-Newington, CT), an independent lab owned by Hartford Healthcare Corp. CLP, which has 500 employees, operates a freestanding commercial lab that processes 3,000 accessions per day. It also manages three hospital labs—Hartford Hospital, MidState Medical Center, and Natchaug Hospital—that handle about 2,000 accessions per day. Fantus, who was formerly president of SED Medical Laboratories in Albuquerque, New Mexico, says his top projects at CLP include consolidating multiple IT systems and working on accounts receivable issues.

More People News…

Judd Jessup has joined the board of directors at **Xifin** (San Diego, CA), which markets automated accounts receivable and financial management systems to laboratories. Jessup was formerly chief executive at US Labs, which was purchased by LabCorp in February 2005 for $155 million.

Exagen Diagnostics (Albuquerque, NM), which is developing a prognostic breast cancer test, has named **Robert Mignatti** as president and chief operating officer. Mignatti was formerly with Esoterix, which was sold to LabCorp in May 2005 for $150 million.

References in this issue

AmeriPath 800-330-6565

Bio-Reference Labs 201-791-2600

Clinical Laboratory Partners 800-286-9800

College of American Pathologists 800-323-4040

Genomic Health 650-556-9300

LabCorp 336-229-1127

Nichols Management Group 207-363-8230

Pathology Partners Inc. 800-979-8292

Psychemedics 978-206-8220

Quest Diagnostics 201-393-5000

US Healthcare Solutions 215-230-7992

Xifin 858-793-5700

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