Financial Benchmarks At 10 Major Labs

Quest And LabCorp See Gains In Revenue And Profit Per Billable Test

Wondering what the economics of the average billable test is at the two biggest lab players, Quest Diagnostics and LabCorp? LIR took a close look at Quest and LabCorp’s company reports—as well as those of eight other labs—to find out.

The average revenue per requisition for the two big commercial labs was $39.56. The average revenue per billable test for Quest and LabCorp came to $15.83 (assuming 2.5 billable tests per requisition). Of that $15.83, an average of $9.18, or 58%, is spent to acquire, transport, and test the average billable unit. An additional $3.20 (20.2%) is spent on marketing and administration, which also includes their billing operations. Bad debt and other costs add up to $0.84 (5.3%). The remainder is an average pretax profit of $2.61 (16.5%) per billable test.

These benchmarks indicate that Quest and LabCorp’s pretax profit margin has dropped slightly since 2004, when their average pretax profits were $2.47, or 18% of their average billable test. Bad debt has dropped from the 2004 rate of 5% to 4.3% in 2006, but marketing and administrative costs have increased from 18% to 20.2%, rising from $2.50 per average billable tests to $3.20 per average billable test. The actual costs of performing the tests, transportation, and billing services has remained constant at 58%, although in 2004 that came to $8.22 out of $14.10; in 2006, it represented $9.18 out of an average revenue per billable test value of $15.83. Overall, the average revenue per billable test at Quest and LabCorp has risen by 12.3% since 2004. For more lab benchmarks, see Inside the Laboratory Industry, pp. 5-8.
Aetna’s Lab Is Quest, LabCorp Takes A Hit

The fight for managed care contracts continues, and Quest Diagnostics (Lyndhurst, NJ) has won the latest round. Effective July 1, LabCorp (Burlington, NC) will no longer be a contracted laboratory services provider for Aetna (Hartford, CT). The nation’s second largest commercial laboratory has been a preferred national provider to Aetna’s PPO, POS, and indemnity plans nationwide for nearly a decade. LabCorp estimates that its earnings per share this year will be reduced by $0.04 to $0.12, primarily as a result of the contract termination.

Aetna, one of the nation’s leading healthcare benefits companies, provides medical coverage for approximately 15.5 million people. LIR estimates Aetna’s annual budget for laboratory and pathology services at $1 billion.

So who’s left in Aetna’s network? “In-network laboratories include Quest, regional and hospital labs, and specialty labs, such as Ameripath and Genzyme,” Karin Rush-Monroe of Aetna tells LIR. Lab contracting at Aetna is “an ongoing process,” adds Rush-Monroe.

Quest Diagnostics has also clinched a new contract across the pond, beating out five independent and hospital-based United Kingdom laboratories. The company has been awarded a five-year contract by a 362-bed hospital and large primary care group in London. The agreement covers clinical and anatomic pathology, including biochemistry, hematology, microbiology, and immunology services; staffing and operation of the hospital’s on-site laboratory; and maintenance and calibration of all laboratory equipment, systems, and point-of-care technology devices.

Through the new agreement, Quest will provide West Middlesex University Hospital Trust and the Hounslow Primary Care Trust of London with lab-testing services for approximately 215,000 people. West Middlesex University Hospital, an acute care National Health Service (NHS) hospital in London, serves residents in three London boroughs. The Hounslow Primary Care Trust, also serving London, consists of 700 staff members at 80 sites.

Stella Barnass, M.D., lead clinician for pathology at the hospital, said that Quest was selected for its service, logistics, technological systems, and proximity to the hospital. Quest entered the United Kingdom in 1996 and has laboratories in West London and Central London.
Kennedy To Fast Track New Bill To Regulate Lab Tests

S

enator Ted Kennedy (D-MA) has introduced S.736, a bill to provide for the regulation and oversight of laboratory tests. The bill is co-sponsored by Senator Gordon Smith (R-OR), who chaired last year’s hearing by the Special Committee on Aging on a Government Accountability Office (GAO) report that concerned the growing phenomenon of direct-to-consumer genetic tests. Despite lobbying efforts that have called for more time to deliberate on the legislation, Kennedy intends to “fast-track” the bill, which has been referred to the Senate Committee on Health, Education, Labor, and Pensions.

Known as the Laboratory Test Improvement Act, S.736 has the goal of ensuring the quality of clinical laboratory tests and would vastly expand the Food & Drug Administration’s oversight of laboratory-developed (or “homebrew”) tests.

In its current form, the bill proposes a number of new regulations. First, it would require laboratory-developed tests to be labeled with their intended use and regulatory status. In addition to the labeling guidelines, the bill proposes mandatory registration of manufacturers and a listing of laboratory-developed tests, as well as adverse advent reporting for laboratory-developed tests.

The bill also aims to create a public database of information on laboratory-developed tests, including details on their analytical and clinical validity. FDA would be responsible for this database.

S.736 also proposes a novel scheme for the classification and review of laboratory-developed tests. This section of the bill creates a new category of test, “Class III,” which would be reserved for tests intended for the diagnosis of a contagious disease or condition likely to result in a fatal outcome, those that would enable the mitigation of the public impact of a disease, or those intended for use in donor screening of particular conditions.

As part of this classification and review process, the bill proposes the issuance of a rule (first proposed and then final) to establish a specialty area “for laboratory-developed tests to acquire genetic information, including mutations, genotypes, gene expression, and chromosomal structure.” The final rule would also include standards for proficiency testing of the lab-developed tests that fall under this specialty area.

The bill ends on a positive note. Its penultimate section calls for the development of “a mechanism to provide enhanced reimbursement under federal health programs for in vitro diagnostic products and laboratory-developed tests.”

Industry groups such as the American Clinical Laboratory Association (ACLA) are concerned that if enacted into law, S.736 would create an overwhelming workload for FDA as well as laboratories, which would have to comply with new premarket review requirements for laboratory-developed tests and submit applications verifying the clinical and analytical validity of these tests.
Decatur Memorial Hospital Laboratory Enters the Molecular World

Last summer, Decatur Memorial Hospital (DMH), a 340-bed community hospital in central Illinois, opened their molecular diagnostic laboratory. Recognizing that the industry is headed in this direction, they wanted to get in on the ground floor. “Basically our pathologist was driving this,” says John Little, laboratory administrative director. “He felt that molecular was going to be a large entity in the laboratory in general, the up-and-coming thing. His thought was we’d rather get in now at the ground level and start getting experience, start doing some testing and preparing for the future, getting staff trained and interested.”

Like many laboratories, DMH began testing by switching a traditional test method over to a molecular test method, in this case, CT/NG, or Chlamydia/gonorrhea. Their original test method utilized Gen-Probe. “It’s a fairly high-volume test for us, and when we looked at the cost breakdown on the molecular side, it was actually cheaper to do the molecular assay with a higher sensitivity than what we were currently performing,” says Little. “Then we looked at reimbursement, and reimbursement was better than with the Gen-Probe method also.”

According to Little, DMH was running the Gen-Probe CT/NG test for approximately $51 per test. When they switched to molecular, it saved about $5 per test, coming in at around $46 per test. DMH is currently performing about 150 molecular tests a month, and of the total annual laboratory budget of $7 million, molecular accounts for $65,000. DMH’s laboratory employs 67 FTEs, of which only 0.5 FTE is involved in molecular tests.

In addition to CT/NG, the DMH molecular diagnostic laboratory offers Factor V Leiden testing. They are looking to create their first “homebrew” test within the next year, either viral load for hepatitis, HIV, or herpes testing on spinal fluid. DMH pathologists have also expressed an interest in developing testing on tissue samples.

One thing that is a little different about how DMH got started on their molecular lab was the funding. “You’re looking at a lot of equipment to purchase and space to be renovated or created,” says Little. “We had that problem, but fortunately we have a very active auxiliary here in the hospital. We pitched them the idea of helping us fund this, and they gave us the money to purchase the equipment and renovate the space. They were instrumental in really getting us up and off the ground with the whole project.”

DMH at a Glance

Decatur Memorial Hospital Molecular Diagnostic Laboratory
Administrative Director of the Laboratory: John Little, MBA, MT (ASCP)
Annual Budget (Total Laboratory): $7 million
Annual Budget (Molecular Diagnostic Laboratory): $65,000
Laboratory FTEs: 67
Molecular Diagnostic Laboratory FTEs: 0.5
Molecular Diagnostic Volumes: ~150/month; ~1,800/year
Source: DMH
As the price war for managed care contracts rages, the two major commercial labs continue to raise both their staff productivity and revenue per FTE, according to LIR’s review of benchmarking statistics. From 2005 to 2006, Quest Diagnostics (Lyndhurst, NJ) raised their annual revenue per FTE a whopping 13.9%, from $132,600 per FTE (2005) to $151,000 (2006). Similarly, LabCorp (Burlington, NC) raised their annual revenue per FTE 3.6%, from $138,600 (2005) to $143,600 (2006).

Full-time employees (FTEs) at Quest performed 14.6 requisitions per workday in 2006, up slightly from 14.4 in 2004. LabCorp’s dropped slightly from 15.5 reqs/FTE in 2004 to 15.3 reqs/FTE in 2006, although 15.3 was their recorded reqs/FTE in 2003.

Quest’s revenue per major laboratory has jumped 32.5% from 2004 ($147.8 million/laboratory) to 2006 ($195.9 million/laboratory). Quest’s patient service centers averaged $1 million per PSC, up 17.5% from 2004. LabCorp generated $99.7 million per major laboratory in 2006, up 3.4% from 2004. LabCorp’s PSCs averaged $703,000, down 19.9% from 2004 ($878,000 per PSC).

These 2006 numbers are important benchmarks because of the shift in business caused when United Healthcare jumped from Quest to LabCorp. In response to the 10-year contract, LabCorp opened a significant number of PSCs to handle the influx of tests. The contract was initiated in January 2007.

LIR reviewed the 2006 annual reports of the three largest commercial labs to get a picture of their overall productivity. Here are details of our analysis:

**Commercial Labs Average $162K In Revenue Per Employee**

Revenue per full-time employee averaged $162,881 for 10 major commercial laboratories in 2006. This is up 9.4% from 2004, although this number is a reflection of the industry as a whole and has variability due to changes in the makeup of the list of 10 laboratories. However, it indicates a healthy growth averaging approximately 4.5% to 5% per year in the industry as a whole.
Clarient (Aliso Viejo, CA) reported the highest revenue per employee in 2006, of $241,726, followed closely by Psychemedics (Acton, MA) at $241,237 per employee. A distant third was the laboratory division of Genzyme Genetics (Cambridge, MA) at $160,600 per employee. Quest ranks fourth at $151,053 followed by Monogram Biosciences (South San Francisco, CA) with $147,692. Most of the remaining labs are clumped in a similar range as Monogram, with LabCorp appearing fifth at $143,632, Bio-Reference (Elmwood Park, NJ) reporting $142,745, Orchid Cellmark (Princeton, NJ) reporting $142,964 and Enzo Clinical Labs (Farmingdale, NJ) at $141,778. Medtox Scientific (St. Paul, MN) is a distant tenth at $115,384.

Pre-tax income is a different story with Psychemedics rating a skyrocketing $81,443 pretax income per employee, followed by LabCorp at $28,836, and Quest Diagnostics at $24,899. Clarient, which showed very high revenue per employee, however, indicates it has lost -$144,388 per employee in pre-taxed income. Orchid and Monogram also reported losses in pretax income per employee of -$28,392 and -$119,076, respectively.

### Productivity at Three Commercial Labs (2006)

<table>
<thead>
<tr>
<th></th>
<th>Quest</th>
<th>LabCorp</th>
<th>Bio-Reference</th>
<th>Unweighted Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 Requisitions</td>
<td>151,000,000</td>
<td>95,500,000</td>
<td>3,100,000</td>
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<tr>
<td>2006 Billable Tests(^1)</td>
<td>377,500,000</td>
<td>238,750,000</td>
<td>7,750,000</td>
<td></td>
</tr>
<tr>
<td>Full-Time Employees(^2)</td>
<td>41,500</td>
<td>25,000</td>
<td>1,353</td>
<td></td>
</tr>
<tr>
<td>Annual reqs per FTE</td>
<td>3,639</td>
<td>3,820</td>
<td>2,291</td>
<td>3,250</td>
</tr>
<tr>
<td>Daily reqs per FTE(^3)</td>
<td>14.6</td>
<td>15.3</td>
<td>9.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Annual billable tests per FTE</td>
<td>9,096</td>
<td>9,550</td>
<td>5,728</td>
<td>8,125</td>
</tr>
<tr>
<td>Daily billable tests per FTE(^3)</td>
<td>36.4</td>
<td>38.2</td>
<td>22.9</td>
<td>32.5</td>
</tr>
<tr>
<td>Avg. revenue per requisition</td>
<td>$41.52</td>
<td>$37.60</td>
<td>$62.29</td>
<td>$41.14</td>
</tr>
<tr>
<td>Avg. revenue per billable test</td>
<td>$16.61</td>
<td>$15.04</td>
<td>$24.92</td>
<td>$18.86</td>
</tr>
<tr>
<td>Major laboratories</td>
<td>32</td>
<td>36</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Revenue per laboratory</td>
<td>$195.9M</td>
<td>$99.7M</td>
<td>$64.4M</td>
<td>$120.0</td>
</tr>
<tr>
<td>Patient service centers</td>
<td>2000</td>
<td>1,700</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Revenue per PSC</td>
<td>$3.1M</td>
<td>$2.1M</td>
<td>$3.4M</td>
<td>$2.9M</td>
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<tr>
<td>Adjusted revenue per PSC(^4)</td>
<td>$1.0M</td>
<td>$703K</td>
<td>$1.1M</td>
<td>$934.3K</td>
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</table>

1 assumes 2.5 billable tests per requisition; 2 includes all administrative and technical staff, part-time employees are counted as 0.5 FTE; 3 assumes 250 workdays per year; 4 assumes that one-third (33.3%) of total revenue is derived from specimens drawn at PSCs (remainder is obtained directly from physician office and hospital clients).

Source: LIR from company reports
The two biggest labs, Quest and LabCorp, derive 44% of their revenue from fee-for-service health insurance plans; Medicare and Medicaid accounts for 20%; client billing to hospitals and physician offices accounts for 25%; direct billing to patients accounts for 5%.

Capitated managed care contracts represent only 6% of revenue at the big labs. Interestingly, this indicates that 94% of their business is open to competition from hospital outreach programs or other independent laboratories. The level of capitation varies by geographic region, and fee-for-service enrollees may be tied to preferred lab status, but it does seem clear that the majority of Quest’s and LabCorp’s business is not committed to contract and thus can be something of a bouncing ball in terms of the competition.

### Sources of Revenue at Quest and LabCorp (2006)

![Pie chart showing sources of revenue at Quest and LabCorp (2006)]

- **Fee-for-service**: 44%
- **Capitated**: 6%
- **Medicare & Medicaid**: 20%
- **Client billing**: 25%
- **Patient**: 5%

Sources: LIR from Quest and LabCorp company reports

### Financial Benchmarks at 10 Commercial Labs (2006)

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue (millions)</th>
<th>Full-Time Employees (FTE)*</th>
<th>Revenue/Employee</th>
<th>Pretax Income</th>
<th>Pretax Income/Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quest Diagnostics</td>
<td>$6,268.7</td>
<td>41,500</td>
<td>$151,053</td>
<td>$1,033.3</td>
<td>$24,899</td>
</tr>
<tr>
<td>LabCorp</td>
<td>3,590.8</td>
<td>25,000</td>
<td>143,632</td>
<td>720.9</td>
<td>28,836</td>
</tr>
<tr>
<td>Genzyme Genetics**</td>
<td>240.9</td>
<td>1500</td>
<td>160,600</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Bio-Reference¹</td>
<td>193.1</td>
<td>1353</td>
<td>142,745</td>
<td>16,742</td>
<td>12,374</td>
</tr>
<tr>
<td>Orchid Cellmark</td>
<td>56.9</td>
<td>398</td>
<td>142,964</td>
<td>(-11.3)</td>
<td>(-28,392)</td>
</tr>
<tr>
<td>Medtox Scientific</td>
<td>54.0</td>
<td>468</td>
<td>115,384</td>
<td>7.2</td>
<td>15,384</td>
</tr>
<tr>
<td>Monogram Biosciences</td>
<td>48.0</td>
<td>325</td>
<td>147,692</td>
<td>(-38.7)</td>
<td>(-119,076)</td>
</tr>
<tr>
<td>Clariant</td>
<td>33.6</td>
<td>139</td>
<td>241,726</td>
<td>(-15.9)</td>
<td>(-144,388)</td>
</tr>
<tr>
<td>Enzo Clinical Labs**</td>
<td>31.9</td>
<td>225</td>
<td>141,778</td>
<td>0.1</td>
<td>444</td>
</tr>
<tr>
<td>Psychomedics</td>
<td>23.4</td>
<td>97</td>
<td>241,237</td>
<td>7.9</td>
<td>81,443</td>
</tr>
</tbody>
</table>

Unweighted average $162,881

* includes all administrative and technical staff; part-time employees are counted as 0.5 FTE.

** calculated for clinical laboratory business only

¹ Fiscal year ends Oct. 31, 2006

Source: LIR from company reports
**Commercial Labs Average 79.3 Days in Accounts Receivable in 2006**

The average days in accounts receivable (DAR) at five commercial labs was 79.3 days in 2006, up slightly from 77.6 days in 2005. However, bad-debt expense dropped from 8.0% in 2005 to 6.8% in 2006. To break that down, in 2006, these five lab companies received payment an average of almost 78 days after sending out their bills and wrote off 6.8% of their net billings (after contractual allowances) as uncollectible.

Quest Diagnostics had the lowest DAR of 48 days, up slightly from 2005 (46 days). LabCorp and Medtox have similar DARs of 54 and 53.6, respectively. Of these five companies, Enzo has the highest DAR of 124 days, down slightly from 127 in 2005. Bio-Reference is also high with 117 days. Their bad-debt expenses are high as a result, with 13% in 2006 for Bio-Reference and 12% for Enzo Clinical Labs.

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### Billing & Collection Management at 5 Commercial Labs (2006 vs. 2005)

<table>
<thead>
<tr>
<th>Company</th>
<th>Average Days in Accounts Receivable 2006</th>
<th>Average Days in Accounts Receivable 2005</th>
<th>Bad-Debt Expense 2006</th>
<th>Bad-Debt Expense 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bio-Reference</td>
<td>117</td>
<td>111</td>
<td>13%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Enzo Clinical Labs</td>
<td>124</td>
<td>127</td>
<td>12.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>LabCorp</td>
<td>54</td>
<td>52</td>
<td>4.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Medtox Scientific</td>
<td>53.6</td>
<td>52</td>
<td>0.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Quest Diagnostics</td>
<td>48</td>
<td>46</td>
<td>3.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Unweighted averages</td>
<td>79.3</td>
<td>77.6</td>
<td>6.8%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

*Source: LIR from company reports*
Genova Diagnostics Buys Texas Reference Lab

Clinical laboratory Genova Diagnostics (Asheville, NC), which focuses on niche diagnostics with specialized test panels, has purchased the operating assets of AAL Reference Laboratories (AAL; Austin, TX), known for its emphasis on hormone testing. The purchase includes testing equipment, clinical test panels, and the customer base of AAL. Beginning March 26, Genova assumed all testing performed by AAL. Financial terms of the deal were not disclosed.

AAL’s line of hormone tests include serum-, saliva-, and urine-based tests, which Genova CEO Ted Hull expects to augment Genova’s existing product lines in immunology and nutrition testing.

Earlier this year, Genova acquired Individual Wellbeing Diagnostic Laboratory (IWDL; London, England), giving the company its first European laboratory. IWDL provides allergy and nutritional testing, including analysis for amino acids, fatty acids, vitamins, cardiovascular risk, and oxidative stress.

Founded in 1986 as Great Smokies Diagnostic Laboratory, Genova offers over 125 specialized diagnostic assessments, including genetic markers for gastrointestinal, endocrine, metabolic, and immune function. The laboratory changed its name to Genova Diagnostics in April of 2006 to better reflect its technology, services, and geographic reach.

Beckman Coulter To Buy Biosite For $1.55 billion

Biomedical testing company Beckman Coulter (Fullerton, CA) has agreed to acquire Biosite (San Diego, CA), an immunoassay company focused on point-of-care testing (also called near-patient testing). Acquiring Biosite would enable Beckman to gain a strong foothold in the near-patient testing market, both inside and outside of hospitals. Valued at $1.55 billion, with an offer price of $85 per share in cash, the transaction is expected to close within the next 40 to 60 days.

“The combined company becomes the leading immunoassay company,” said Scott Garrett, president and CEO of Beckman Coulter, on a March 26 conference call. “We have the installed base. They will bring new valuable tests.”

In discussing the rationale for the acquisition, Garrett focused on Beckman’s growth in consumables, calling it “the single best indicator of the strength of our business.” Beckman earned $2.53 billion in revenue last year, and revenue from consumables has grown from 4.1% in the fourth quarter of 2002 to 10.5% during the same period last year.

“We expect the Biosite acquisition to improve the overall revenue mix of consumables to instruments and further accelerate the growth of consumables,” said Garrett.

Almost all (99%) of Biosite’s 2006 revenues of $309 million were derived from consumables, namely test kits sold in the United States. Biosite has had a relationship with Beckman since 2003, when the two companies began collaborating on an automated version of Biosite’s Triage BNP test. More than 70% of U.S. hospitals use Biosite’s Triage products.
CMS Continues Rolling Out Medically Unlikely Edits

As the Centers for Medicare & Medicaid Services (CMS) prepares to roll out the second round of “medically unlikely” edits (MUEs) on April 1, pathology groups are advocating the creation of a panel that would guide the complex project. The panel would aim to bring transparency to the process of developing and implementing MUEs while helping to ensure that the edits will be based on appropriate evidence.

MUEs limit the units of service that a provider may bill each day for a particular CPT/HCPCS code per Medicare beneficiary. Claims that exceed these limits are automatically rejected, and providers are prohibited from billing the beneficiary for claims denied due to MUEs.

The first round of MUEs went into effect on January 1 of this year and involved about 2,800 codes, mostly for surgical procedures. The second round is slated to begin on April 1 and will include several hundred edits for pathology and laboratory services, including Pap smear codes.

Two more rounds of MUEs are set for later this year. The July 1 series is to include edits based on criteria, such as CPT code descriptors, CPT coding instructions, and the nature of the analyte. A fourth phase, planned for October 1, will introduce a clinical judgment criterion, which many believe will inject into the process a troubling degree of subjectivity. This phase comprises about 40% of the total number of MUEs that are to be proposed.

MDS Completes $615M Purchase Of Molecular Devices

On March 28, global life sciences company MDS (Toronto, Canada) closed on its $615 million acquisition of Molecular Devices (Sunnyvale, CA), a supplier of high-performance bioanalytical measurement systems. MDS completed the sell-off of its lab business a month earlier with the sale of MDS Diagnostic Services to Borealis Infrastructure Management for CAD$1.325 billion (US$1.142 billion). The company is now focused on analytical instruments, pharmaceutical contract research, medical isotopes for molecular imaging, and radiotherapeutics.

To integrate the Molecular Devices business into its operation, MDS launched MDS Analytical Technologies, a new segment that will combine Molecular Devices with the MDS Sciex business to serve pharmaceutical, biotechnology, government, and academic laboratory customers. In 2006, the two businesses had revenues of approximately $432 million and more than 1,100 employees. The Analytical Technologies segment will be led by former MDS Sciex President Andy Boorn, Ph.D.

Founded in 1983, Molecular Devices’s portfolio includes scanners and analysis software for microarrays, workstations for cell-based screening using high-resolution imaging, microplate readers, and products for electrophysiology.
Lab Stocks Rise 3% Led By Orchid And Clarient

The G-2 Laboratory Stock Index rose 3% in the four weeks ended March 23, with seven stocks up in price and four down. Year to date, the G-2 Index is up 11%, while the Nasdaq is up 2% and the S&P 500 is up 1%.

DNA testing laboratory Orchid Cellmark (Princeton, NJ) was up 28% to $5.50 per share for a market cap of $174 million. The company recently announced its fourth quarter and full-year 2006 financial results. Although 2006 revenues were down slightly to $56.9 million compared to $61.6 million for the full year of 2005, Orchid had a solid fourth quarter, with higher revenues and gross margins, decreased operating expenses, and net income of $885 thousand, or $0.03 per share, compared to a net loss of $3.8 million, or $-0.16 per share, for the fourth quarter of 2005.

The company also announced the success of the new federally funded DNA testing program it is running in collaboration with Washington police. The rapid DNA analysis program recently resulted in the rapid identification and apprehension of a suspected rapist in Olympia, Washington.

Clarient (Aliso Viejo, CA) rose 23% to $2.01 per share for a market capitalization of $138 million. In early March, the cancer diagnostics company agreed to sell its Acis and Trestle instrument systems and related intellectual property to Carl Zeiss MicroImaging (Thornwood, NY) for $12.5 million.

Meanwhile, the price war between Quest Diagnostics (Lyndhurst, NJ) and LabCorp (Burlington, NC) is taking its toll on the stocks of both companies. In the wake of losing the Aetna contract, LabCorp is down 11% to $71.83 per share for a market capitalization of 8.81 billion, and Quest has slipped 6% to $48.98 per share for a market capitalization of 9.64 billion. Last year at this time, the companies’ shares were trading at $58.96 and $51.60, respectively.
Anatomic pathology feels growing pains and reimbursement squeeze... For anatomic pathology (AP) practices, the biggest challenges to growth this year are expanding and developing new client business and reimbursement, according to a new survey from Washington G-2 Reports.

Just under three-fourths (72%) of survey respondents, most of which were from hospital-based AP practices, cited expanding current business and developing new clients as among their biggest challenges, and the same proportion pointed to reimbursement. A third or more of respondents said that competitive pricing (37%), acquiring or using new technology (33%), and competing for managed care contracts (32%) were among the most significant challenges they faced, while 23% are struggling with testing quality and turnaround time.

Among the growth strategies AP practices reported using include adding new tests such as UroVysion, hiring more personnel, aggressive marketing, and improved Web connectivity. “We are developing and implementing a clinical outreach plan to market our services to referral and nonreferral physician groups,” said one lab director. “We will systematically promote each of our clinical specialty areas via print and electronic outreach activities, including the distribution of print collateral materials and a redesigned Web site in concert with an online clinical reference lab.”

For more on trends in the anatomic pathology market, see next month’s issue of Laboratory Industry Report.

See you at Outreach 2007!
April 25-27 in Atlanta, GA
www.g2reports.com/outreach07

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CMS 877-267-2323
Decatur Memorial Hospital 217-876-5000
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