

LABORATORY INDUSTRY REPORT®

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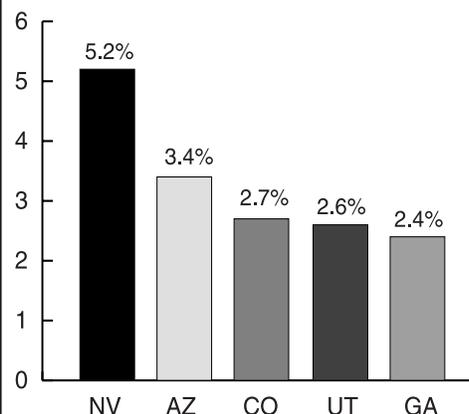


Population Trends Point To Growth Markets

Total laboratory test volume at the Nation's hospital, commercial, and physician office laboratories is growing at approximately 2% per year, according to the latest data from the CLIA provider files (April 2000). *Laboratory Industry Report* estimates that 1-1.5% of this increase is coming from population growth and the rest from greater test utilization.

Of course, populations (and, therefore, test volumes) are growing faster in some areas of the country than in others. In Nevada, for example, the number of residents has grown by 5.2% annually over the past 10 years to reach two million. Pennsylvania's population, in contrast, has grown by only 0.3% annually to reach 12.3 million. For more on population/volume trends, plus an inside look at the fast-growing Arizona and Georgia markets, see *Inside The Lab Industry*, pp. 5-7.

States With High Population Growth*



*Annual rate for 10 years ended April 2000
Source: Census Bureau

Managed Care Companies Record Profitable Year

Double-digit premium increases and exits from unprofitable markets helped the managed care industry achieve another year of multi-billion-dollar profits. Ten publicly traded managed care companies posted combined net income of \$2.868 billion last year, following the \$3.715 billion of profits they booked in 1999, according to a *LIR* analysis of year-end financial reports (see chart, p. 2). Combined revenue rose 12% to \$116.464 billion in 2000. With several years' worth of profits under their belts, managed care companies are finally providing hospitals, physicians and laboratories with some reimbursement relief—but not without a fight.

Continued on page 2

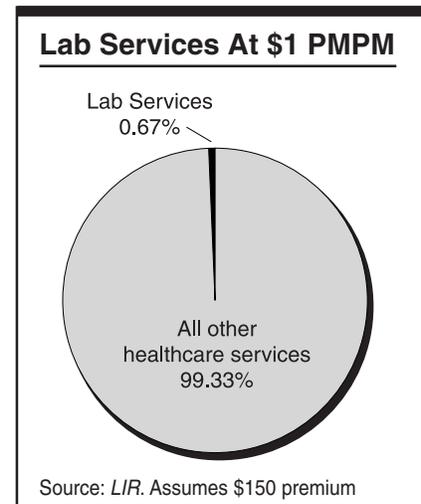
■ MANAGED CARE COMPANIES, from page 1

As first highlighted in our December 2000 issue (p. 9), providers are finding it necessary to play hardball in negotiations for better reimbursement. Sutter Health (Sacramento, CA) recently secured increased rates from Blue Cross of California, a subsidiary of WellPoint Health Networks (Thousand Oaks, CA), but only two months after it had terminated its previous contract. Sutter Health operates 26 hospitals in northern California, while WellPoint covers 2.3 million health plan members state-wide.

Sutter spokesman Bill Gleeson tells *LIR* that the new two-year contract provides Sutter with higher reimbursement and clearer contract language to help avoid disputed claims. "Blue Cross was paying well below what other health plans were paying, and there were several million dollars in disputed claims," he says. The new contract is retroactive to Jan. 1, 2001, when the previous contract ended.

From Sutter's standpoint, WellPoint's stubbornness is curious, given that the company increased its net income by 23% last year to \$342.287 million; revenue was also up 23% to \$9.229 billion. During 2000, WellPoint's cash and investments increased by \$521.4 million to \$3.78 billion.

Even more curious are reports that some laboratories continue to compete for capitated lab contracts at less than \$1 per-member per-month. A *LIR* analysis of data from each Department of Insurance in seven states (California, Florida, Illinois, Michigan, New Jersey, Pennsylvania, and Texas) shows that HMOs collect an average of roughly \$150 in premiums per month for each commercial member they serve. This means that a laboratory getting \$1 per month in capitation is only collecting 0.67% of the total premium pie. Even a doubling of capitated rates for lab services to \$2 PMPM gives labs only 1.33% of the premium dollar. 🏠



Managed Care Company Financials (\$MM)

Company	Revenue			Net Income		
	2000	1999	%Chg	2000	1999	%Chg
Aetna Inc.	\$26,859	\$22,047	22%	\$127	\$717	-82%
Cigna Corp.	19,994	18,726	7%	987	1,774	-44%
Coventry	2,605	2,162	20%	61	43	41%
Health Net	9,077	8,648	5%	164	142	15%
Humana	10,514	10,113	4%	90	-382	NA
Mid Atlantic Medical	1,484	1,317	13%	39	26	50%
Oxford	4,112	4,198	-2%	191	274	-30%
PacifiCare	11,468	9,989	15%	161	279	-42%
UnitedHealth Group	21,122	19,562	8%	705	563	25%
WellPoint	9,229	7,485	23%	342	279	23%
Total	116,464	104,248	12%	2,868	3,715	-23%

Source: *LIR* from companies



LabCorp Posts Profit Of \$20.9M In 4th Quarter

Laboratory Corp. of America (Burlington, NC) reported net income of \$20.9 million for fourth-quarter 2000 vs. \$800,000 in fourth-quarter 1999; revenue rose 15% to \$486.1 million. The 15% rise in revenue was comprised of increases of 8% in volume and 7% in average price per accession.

For full-year 2000, LabCorp earned a profit of \$77.5 million vs. \$15 million in 1999; revenue was up 13% to \$1.919 billion. The company handled 66.2 million accessions in 2000, up from 62.1 million in 1999; average revenue per accession was \$28.98, up 6% from \$27.35. In a conference call discussing the year-end results,

LabCorp chairman Tom Mac Mahon said he expects the company's revenue to increase by 10-11% this year, including 7% from volume growth and 3-4% from a higher average price per accession.

LabCorp At A Glance (\$MM)

	2000	1999
Revenue	\$1,919.3	\$1,698.7
Net income	77.5	15.0
Total bank debt	478.5	573.4
Cash holdings	48.8	40.3

Source: LabCorp

Revenue from LabCorp's Center for Esoteric Testing in the Powell Lab Complex in Burlington and its Center for Molecular Biology and Pathology in Research Triangle Park totaled \$311.7 million last year, up 20% from \$259.7 million in 1999. 🏠

Specialty Earns \$2.1M In 4th Quarter; Acquires BBI Clinical Labs

Specialty Laboratories (Santa Monica, CA) reported net income of \$2.062 million for fourth-quarter 2000 vs. \$1.231 million in fourth-quarter 1999; revenue increased 18% to \$39.531 million. For full-year 2000, Specialty earned a profit of \$8.673 million vs. a net loss of \$1.142 million in 1999; revenue was up 18% to \$153.245 million.

The company handled 2.6 million accessions in 2000, indicating average revenue per accession of \$58.94. In a conference call, Specialty chairman James Peter, MD, PhD, said he expects the company's revenue to increase to \$174-\$178 million this year. Frank Spina, chief financial officer, noted that competitive pressures could push esoteric test pricing down by 3-5% per year.

Specialty Labs At A Glance (\$MM)

	2000	1999
Revenue	\$153.2	\$130.1
Net income	8.7	(1.1)
Long-term debt	0	9.2
Cash holdings	75.6	0.7

Source: Specialty Labs

Separately, Specialty purchased BBI Clinical Laboratories (BBICL-New Britain, CT), a subsidiary of Boston Biomedica Inc. (West Bridgewater, MA), for \$9.5 million in cash. BBICL is an esoteric lab specializing in infectious disease. Plans call for it to be integrated into Specialty's Santa Monica lab.

In the nine months ended Sept. 30, 2000, BBICL generated an operating loss of \$344,000 vs. an operating profit of \$237,000 in the same period a year earlier;

revenue declined by 10% to \$6.613 million. The company attributed the softer results to lower volume as several customers took tests in-house, plus competitive pricing pressure. 🏠

UroCor Reaches Tentative Accord On False Claim Charges

UroCor Inc. (Oklahoma City) has reached a tentative agreement with the U.S. Department of Justice to settle false claim allegations and refund \$8.5 million to Medicare and other federal and state health insurance programs. UroCor, which specializes in pathology services to urologists, has been under investigation since July 1998.

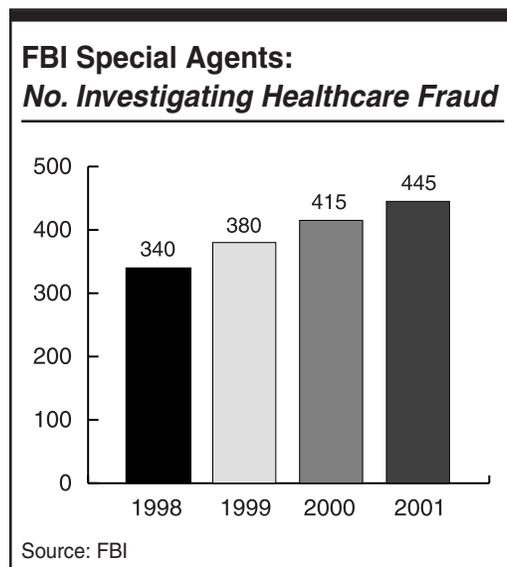
The Justice Department had alleged that UroCor submitted false claims related to the unbundling of laboratory tests, billing for medically unnecessary tests, and upcoding between 1992 and 1998. Justice also had charged the company with submitting false statements in support of false claims. The proposed settlement would cover UroCor's liabilities to the Federal Government and state insurance programs with respect to investigations through Dec. 31, 2000.

In addition, the company would operate under a corporate integrity agreement for a period of time to be determined as part of the final settlement agreement. It will not be required to admit any wrongdoing. 🏠

FBI's Healthcare Fraud Budget To Grow 16% To \$88M

The Federal Bureau of Investigation says its healthcare anti-fraud enforcement budget will grow 16% to \$88 million this fiscal year (ends Sept. 30, 2001). This amount is \$12 million above the level for FY 2000 and will be used to add 30 new special agents (for a total of 445) and 18 new support personnel (for a total of 331).

The FBI receives funding for most of its healthcare anti-fraud investigations under provisions of the 1996 Health Insurance Portability & Accountability Act (HIPAA). Under HIPAA, this funding will continue to grow, with annual increases in special agents assigned to healthcare fraud until the budget reaches a permanent level of \$114 million per year in 2003.



At a Feb. 22 press conference in Washington, DC, Dennis Lormel, section chief of the FBI's Financial Crimes Section, said that in FY 2000 the FBI assisted in obtaining 560 federal convictions on healthcare fraud charges and \$290 million in fines and recovered payments. He cited a General Accounting Office report estimating that about 10% of healthcare spending or \$100 billion is lost to fraud each year. "We continue to prioritize healthcare fraud as the #1 white collar crime," Lormel said.

Clyde Langley, supervisory special agent for the FBI, tells *LIR* that the healthcare anti-fraud unit is seeing noticeably fewer new cases related to false laboratory claims than it did a few years ago. In contrast, he says, investigations related to patient transportation, home health, durable medical equipment, and auto accident fraud are on the rise. 🏠

INSIDE THE LAB INDUSTRY

Which U.S. Regions Promise Expanding Lab Test Markets?

Among the 20 largest states, Arizona (5.1 million) has had the highest average annual percentage growth in population, climbing 3.4% per year since April 1990, followed by Georgia (8.2 million) with 2.4% growth. For an overview of laboratory markets in these two fast-growing states, see pp. 6-7

Where there are people, there are lab tests. And where there are more people, there are more lab tests. With these verities in mind, *Laboratory Industry Report* turned to newly released data from the U.S. Census Bureau and examined population trends for clues as to which areas of the country hold the greatest promise for hospitals and laboratory testing companies.

The total U.S. resident population on April 1, 2000 was 281.4 million, an increase of 32.7 million since April 1, 1990 or an average annual growth rate of 1.2%. The fastest-growing region is the South. Over the past 10 years, it added 14.8 million to reach a total of 100.2 million. The region includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North and South Carolina, Oklahoma, Tennessee, Texas, West Virginia, and Virginia, plus the District of Columbia. The West (including Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming) picked up 10.4 million to reach 63.2 million. The remaining 21 states in the Northeast and Midwest only gained 7.5 million to reach 118 million.

The most populous state is California (33.9 million)—it has gained 4.1 million persons over the past 10 years for an average annual growth rate of 1.3%. Texas (20.9 million) is the second most populous state—it has added 3.9 million for a 2.1% annual growth rate. New York (19 million) has slipped to third place after adding only 986,002 for a 0.5% annual growth rate.

Census Data For 20 Largest States

	Population		10-Year Net Change	CAGR (%)*
	April 2000	April 1990		
California	33,871,648	29,760,021	4,111,627	1.3
Texas	20,851,820	16,986,510	3,865,310	2.1
New York	18,976,457	17,990,455	986,002	0.5
Florida	15,982,378	12,937,926	3,044,452	2.1
Illinois	12,419,293	11,430,602	988,691	0.8
Pennsylvania	12,281,054	11,881,643	399,411	0.3
Ohio	11,353,140	10,847,115	506,025	0.5
Michigan	9,938,444	9,295,297	643,147	0.7
New Jersey	8,414,350	7,730,188	684,162	0.9
Georgia	8,186,453	6,478,216	1,708,237	2.4
North Carolina	8,049,313	6,628,637	1,420,676	2.0
Virginia	7,078,515	6,187,358	891,157	1.4
Massachusetts	6,349,097	6,016,425	332,672	0.5
Indiana	6,080,485	5,544,159	536,326	0.9
Washington	5,894,121	4,866,692	1,027,429	1.9
Tennessee	5,689,283	4,877,185	812,098	1.6
Missouri	5,595,211	5,117,073	478,138	0.9
Wisconsin	5,363,675	4,891,769	471,906	0.9
Maryland	5,296,486	4,781,468	515,018	1.0
Arizona	5,130,632	3,665,228	1,465,404	3.4
Total U.S.A.	281,421,906	248,709,873	32,712,033	1.2

*CAGR=Compound annual growth rate. Source: LIR from Census Bureau.



Sonora Quest, LabCorp, Banner Health Lead In Arizona

The largest laboratory testing facility in Arizona is operated by Sonora Quest Laboratories LLC in Tempe, about 10 miles south and east of Phoenix. It performs 22 million tests per year, according to data from the April 2000 CLIA Provider Files. Sonora Quest is a joint venture between Samaritan Health System (Phoenix) and Quest Diagnostics, formed in July 1997 to consolidate the commercial lab operations of each company in Arizona. Under the joint venture, Samaritan and Quest merged their commercial labs in Phoenix into a newly constructed lab in Tempe, which opened in August 1998.

LabCorp runs a major lab testing facility in Phoenix that performs about 11.8 million tests annually. In addition, the company operates 19 patient service centers throughout the Phoenix area.

The Treatment Assessment Screening Center Inc. (TASC—Phoenix), a private not-for-profit company, performs approximately one million drugs-of-abuse tests for individuals, government agencies, and employers. Barbara Zugar, chief executive, says TASC is growing by roughly 20% per year, primarily because of strong population growth in the Phoenix area.

Bradshaw Mountain Diagnostic Laboratories (Prescott) is a privately held lab with 60 employees and \$4.25 million in annual revenue, according to its president, Tom Fellows. Bradshaw operates a main laboratory in Prescott (about 75 miles north of Phoenix), plus patient service centers in Chino Valley and Prescott Valley. Fellows says the 650 square-foot patient service center in Prescott Valley is being expanded to a 3,000 square-foot stat-testing lab to accommodate growth.

The privately held Kronos Group (Phoenix) runs a three-physician clinic and a 14-employee lab in Phoenix—*details in separate story, p. 10.*

Large hospital labs in Arizona include TMCHE Laboratory (3.288 million tests per year) at Tucson Medical Center (433 beds). The largest health system in the state is Banner Health System, which includes five hospitals in the Phoenix area—Desert Samaritan, Good Samaritan, Mesa Lutheran, Thunderbird Samaritan, and Valley Lutheran Medical Center—as well as Page Hospital (Page) and Wickenburg Community Hospital (Wickenburg). In total, these seven hospitals perform an estimated 10+ million tests per year.

In northern Arizona, Kim Jordan, who is laboratory manager at Alliance Medical Laboratory (500,000 tests per year), notes that Alliance has been able to attract about 90% of the physician office work in greater Flagstaff (some 125 miles north of Phoenix) because Sonora Quest and LabCorp are focused on the Phoenix and Tucson areas. Alliance is owned by Flagstaff Medical Center.

Top 10 Commercial Lab Facilities In Arizona

<i>Name (City)</i>	<i>Test Volume (in thousands)</i>
Sonora Quest (Tempe)	21,990
LabCorp (Phoenix)	11,829
Treatment Assessment Screening Ctr. (Phoenix)	1,000
Bradshaw Mountain Lab (Prescott)	536
J2 Laboratories Inc. (Tucson)	302
Accutrace Laboratories (Phoenix)	280
Advanced Medical Laboratory (Yuma)	259
Northwest Valley Health Associates (Sun City)	244
Norchem Drug Testing Lab (Flagstaff)	218
Kronos Science Laboratory (Phoenix)	184

Source: LIR from CLIA Provider Files (April 2000). Note: Test volume figures include quality control testing, and panel tests are exploded.

Quest, Doctors Lab, Emory Medical Labs Lead In Georgia

The largest laboratory testing facility in Georgia is the Quest Diagnostics lab in Tucker (about 10 miles east of Atlanta), which conducts 27.5 million tests per year, according to data from the April 2000 CLIA Provider Files. Quest also operates 38 patient service centers throughout the state.

Doctors Laboratory Inc. (Valdosta) is the largest privately held lab company in Georgia. It operates 16 testing facilities in the state, plus seven more in Florida. The company has 400 employees and generates approximately \$24 million in net revenue per year, according to chief executive Roy Trucks. He says Doctors Lab is seeking to expand its esoteric testing menu and will soon offer viral load and genotyping tests for HIV and hepatitis C.

LabCorp operates 28 patient service centers throughout Georgia, which are served by the company's regional lab testing facility in Birmingham, AL. Pam Sherry, spokeswoman for LabCorp, says the company is experiencing 10-13% annual volume growth in Georgia.

Last October, LabCorp signed a shared services agreement with St. Joseph Hospital (Augusta) under which LabCorp will send all local routine tests to St. Joseph in exchange for reference work. LabCorp has a similar arrangement with Columbus Regional Medical Center in Columbus, GA.

Other large commercial labs doing business in Georgia include Quintiles Laboratories Ltd. (Smyrna), Carroll Medical Laboratories (Carrollton), and Mullins Pathology & Cytology Lab (Augusta).

The largest market in Georgia is, of course, Atlanta. Including DeKalb, Fulton, and Cobb counties, Atlanta has a population of nearly two million. The largest hospital lab in Atlanta is Emory Medical Laboratories, which operates facilities at Crawford Long Hospital of Emory University (2.878 million tests per year) and Emory University Hospital (2.287 million tests per year). Emory Medical Labs operates an outreach program focused on serving The Emory Clinic, a group practice of 697 physicians who are faculty of the Emory

University School of Medicine.

Grady Memorial Hospital (2.668 million tests per year) operates the second largest hospital lab in Atlanta. Other large hospital labs in the city are located at Northside Hospital, St. Joseph's of Atlanta, and Children's Healthcare of Atlanta. 🏛️

Large Hospital Laboratories In Atlanta

Facility Name	Hospital Beds	Inpatient Days	Test Volume
Emory Medical Labs/ Crawford Long Hospital	423	114,747	2,877,500
Grady Memorial Hospital*	819	193,769	2,668,405
Northside Hospital Laboratory	602	151,800	2,529,076
Emory Medical Labs/ Emory University Hospital	388	116,867	2,287,116
St. Joseph's of Atlanta	322	91,977	2,244,910
Children's Healthcare of Atlanta**	400	NA	2,186,298
Piedmont Hospital Clinical Laboratory	429	116,960	1,724,540

*Includes infectious disease lab at 341 Ponce De Leon Ave., Atlanta

**Includes Children's Hospital at Egleston and Scottish Rite

Source: LIR from Medicare Cost Reports, the American Hospital Association, and CLIA Provider Files (April 2000). Note: Test volume figures include quality control testing, and panel tests are exploded.



Sunquest Earns \$4.5M In 4th Quarter

Sunquest Information Systems Inc. (Tucson, AZ) reported net income of \$4.461 million for fourth-quarter 2000 vs. \$4.266 million in fourth-quarter 1999; revenue edged up to \$32.323 million from \$32.188 million. Company chief executive Sidney Goldblatt, MD, tells *LIR* that hospital spending on information systems declined last year in the aftermath of heavy spending related to Y2K, but is beginning to pick up again.

For full-year 2000, Sunquest earned a profit of \$13.373 million vs. \$15.075 million in 1999; revenue fell 8% to \$120.633 million. The company's core business of laboratory information systems, including FlexiLab and CoPathPlus, generated an operating profit of \$26.324 million on revenue of \$120.476 million in 2000.

Sunquest's e-commerce unit sustained an operating loss of \$9.11 million on revenue of \$157,000 in 2000. The e-commerce losses are related to the expense of developing and marketing both the company's existing e-Suite Application Service Provider (ASP) products and Diagnostix.com Web-based products for lab test ordering and results reporting. According to Goldblatt, Sunquest sold 16 e-Suite ASP systems to 10 customers last year. This represents about 25% of the total number of clinical ASP systems sold in 2000, according to data from R.L. Johnson (Manteca, CA), a healthcare information technology research firm.

Diagnostix.com is currently being tested at three alpha sites, including ACL, a jointly owned venture of Advocate Health Care (Oak Brook, IL) and Aurora Healthcare (Milwaukee, WI). Goldblatt says the results reporting component of the product will soon be on the market, with additional services released over time. "Several dozen big clients are pressuring us for this service," he adds.

	2000	1999
Revenue	\$120.6	\$131.7
Net income	13.4	15.1
Long-term debt	0	0
Cash holdings	70.4	46.9

Source: Sunquest

Meanwhile, Goldblatt says Sunquest continues to evaluate "strategic alternatives" (including a potential sale or merger) with Deutsche Banc Alex. Brown. *LIR* has speculated that Sunquest may be up for sale (*Sept. '00, p. 9*). With no long-term debt and \$70.4 million in cash, the company had an enterprise value (market capitalization minus cash holdings) of \$106 million as of late February. Goldblatt, members of his family, and CFO Nina Dmetruk collectively own over 75% of Sunquest. 🏠

Per-Se Technologies Wins E-Health Contract With Dynacare

Per-Se Technologies (Atlanta, GA) has won a contract to provide electronic claims processing via private networks and the Internet to all Dynacare laboratories in the U.S. through its clearinghouse operation, The Per-Se Exchange. Per-Se will also provide Dynacare with Web-based reimbursement optimization reporting and payer contract profitability analysis to assist in improving reimbursement rates. Per-Se, which processes more than 240 million medical transactions annually, recorded a net loss of \$48.202 million in full-year 2000 vs. a net loss of \$33.702 million in 1999; revenue fell 4% to \$310.008 million. 🏠



Unilab Earns \$38.9M In 4th Quarter

Unilab Corp. (Tarzana, CA) earned \$38.884 million in fourth-quarter 2000 vs. a net loss of \$43.912 million in fourth-quarter 1999; revenue was up 20% to \$86.352 million. Excluding acquisitions, Unilab's fourth-quarter testing volume was up 15%, while pricing was flat. The company reported that salaries as a percentage of revenue increased to 31.3% in fourth-quarter 2000 from 29.7% in fourth-quarter 1999. In a Feb. 22 conference call, president Robert Whalen noted that the company is incurring higher employee costs, especially for phlebotomists and cytotechnologists.

For full-year 2000, Unilab earned a profit of \$45.268 million vs. a net loss of \$14.1 million in 1999; revenue was up 18% to \$337.508 million. Excluding acquisitions, testing volume was up 9%, while pricing improved 1%. This year, Whalen expects test

volume (excluding possible acquisitions) to rise by 7-10% and pricing to improve by 2-3%. He also expects Unilab to complete acquisitions that will add \$10-20 million in annual revenue. For full-year 2000, days in accounts receivable at Unilab increased to 68, from 64 in 1999.

Unilab is the largest independent laboratory company in California, with primary testing facilities in Tarzana (just north of Los Angeles), San Jose, and Sacramento, plus more than 300 regional patient service centers and laboratories throughout the state. 🏠

Unilab At A Glance (\$MM)

	2000	1999
Revenue	\$337.5	\$285.2
Net income	45.3	(14.1)
Long-term debt	303.3	310.9
Cash holdings	2.6	12.6

Source: Unilab

Profits Up 60% At Dianon On 23% Revenue Growth

Profits at Dianon Systems (Stratford, CT) increased 60% to \$1.98 million in fourth-quarter 2000 from \$1.241 million in fourth-quarter 1999; revenue was up 23% to \$25.552 million. Anatomic pathology work accounted for 72% of revenue; genetic testing and clinical testing each represented 14%. The company says it has completed construction of a new laboratory in Plano, TX and is recruiting employees for it. Existing facilities are located in New York, Connecticut, Florida, and Colorado.

For full-year 2000, Dianon earned a profit of \$6.599 million vs. \$4.131 million in 1999; revenue was up 26% to \$95.651 million. For full-year 2000, Dianon reduced its days in accounts receivable to 82 vs. 93 days in 1999. In a Feb. 16 conference call, president Kevin Johnson said he expects the company to increase revenue by 20-25% this year and earnings by 35%. Johnson noted that Dianon is benefiting from a semi-exclusive capitated contract to provide pathology services to 2.5 million Aetna members in New York, New Jersey, and Connecticut. 🏠

Dianon At A Glance (\$MM)

	2000	1999
Revenue	\$95.7	\$76.1
Net income	6.6	4.1
Long-term debt	2.5	6.0
Cash holdings	12.5	9.8

Source: Dianon

Kronos Markets \$2,950 Physical Exams To Consumers

The Kronos Group (Phoenix) has taken direct-to-consumer marketing to the next level. The company is offering its Optimal Health comprehensive physical exam to out-of-pocket paying customers at a price tag of \$2,950 per exam. Included in the exam is a laboratory test panel of approximately 150 individual tests--among them are measurements for oxidative stress (damage caused by free radicals), hormonal balance (a factor in many of the symptoms of aging), cardiovascular risk, cancer risk, liver function, renal function, and trace metals. The result of these component tests is an individualized biochemical baseline for the patient, says Russell Duke, PhD, laboratory director for Kronos. These baseline figures are compared to what Kronos believes to be optimal levels.

Optimal Health also includes a DEXA Scan (dual-energy x-ray absorptiometry) to determine total body composition, bone density, and fat-to-lean ratios; cognitive tests for memory, hearing, vision, etc.; 15-minute treadmill test; and an EBT (electron beam tomography) heart test to find early heart disease (coronary plaque).

Test results are used to construct personalized nutrition, exercise, and lifestyle plans designed to slow the aging process. The service includes a 60/90-minute consultation with a physician and three follow-up exams. Duke says Kronos has treated over 1,000 patients since opening for business in September 1999. The company plans to open another clinic in Beverly Hills, CA by year's end.

Kronos is owned by its chairman and founder, John Sperling, PhD. Sperling, who received his PhD from Cambridge University in economic history, is also chairman and founder of Apollo Group Inc. (Phoenix, AZ), a publicly traded company that operates the University of Phoenix. Jonathan Thatcher, chief executive at Kronos, previously served as director of business development for HealthCare Dimensions Inc. (Tempe, AZ), which designs preventive benefit packages for health plans with Medicare-eligible members. 🏠

LifeTree Offers DNA Tests At Funeral Homes

LifeTree Technologies (Greensboro, NC), a privately held company, is offering family members of the recently deceased the opportunity to have their loved one's DNA analyzed for hereditary diseases and then stored for future reference. The process starts at a funeral home and involves cutting two quarter-inch skin samples from the heel of the deceased.

LifeTree has contracted with Laboratory Corp. of America (Burlington, NC) which runs genetic tests on one skin sample. The cost to the consumer depends on which tests are ordered. The second skin sample can be stored at LabCorp for 25 years at a cost of \$140. LifeTree has contracted with Genetic Resources Medical Group (Los Angeles, CA) to provide genetic counseling services to customers. More than 100 funeral homes in North Carolina and Georgia are now offering LifeTree's services. 🏠



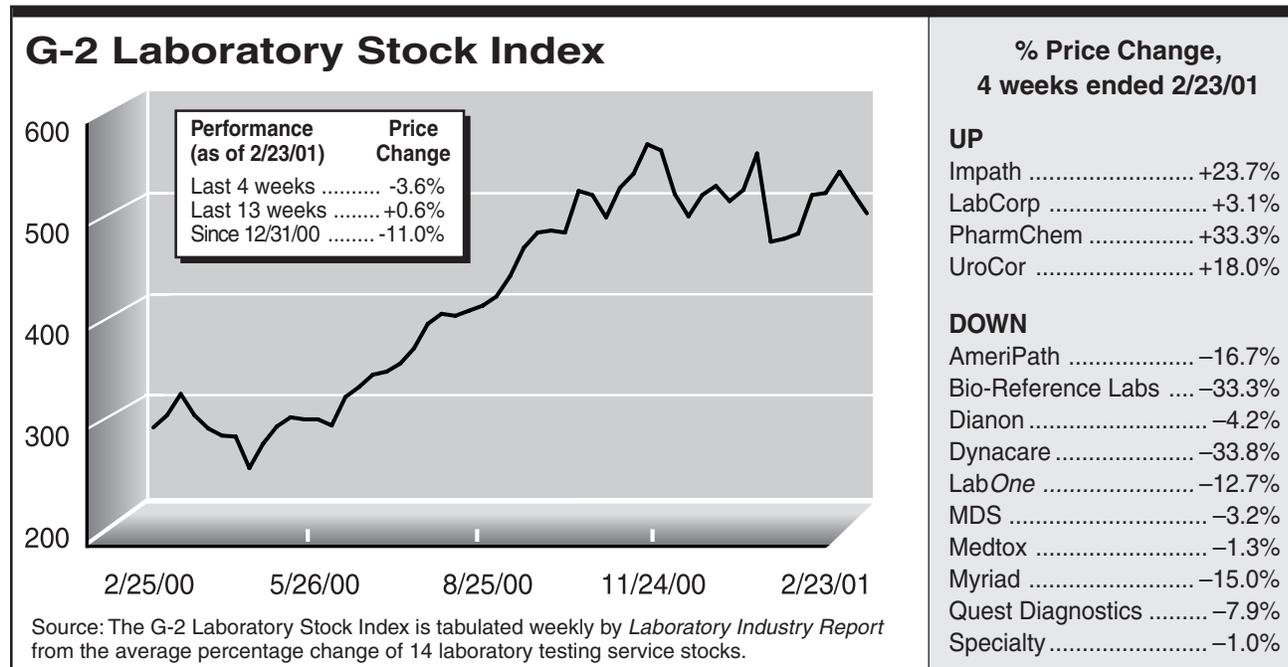
Lab Stocks Fall 4% In Latest 4 Weeks; Dynacare Plunges 34%

Laboratory stocks fell 4% in the four weeks ended Feb. 23, 2001, according to the G-2 Laboratory Stock Index which tracks the average percentage price change of 14 lab testing service companies. Four stocks rose in price during the period and 10 fell. Year-to-date, the Index has dropped 11%; in comparison, the S&P 500 is down 6% and the Nasdaq 8%.

Shares of Dynacare (Dallas, TX and Toronto, Canada) posted the biggest drop in the latest four weeks, with a 34% decline to \$5.63 per share. Since its initial public offering at \$10 per share last Nov. 16, Dynacare's stock has fallen 44%.

PharmChem (Menlo Park, CA) rose 32% to \$3.97 per share. The company reported net income of \$302,000 for the three months ended Dec. 31, 2000, compared with \$1.082 million (including \$787,000 from one-time tax benefits) in the same period in 1999; revenue was up 12% to \$12.688 million. PharmChem operates drugs-of-abuse testing labs in Menlo Park, CA; Fort Worth, TX; and London, England. The company says it is offsetting a decline in volume for traditional lab-based testing with increased sales of its PharmChek and PharmScreen on-site DOA testing kits.

Quest Diagnostics (Teterboro, NJ) recently announced plans for a 2-for-1 stock split to be effective May 31, 2001, assuming shareholder approval at the company's May 8 annual meeting in New York City. In the latest four weeks, Quest slipped 8% to \$101.70 per share. Since closing out the year 2000 at \$142 per share, Quest stock has fallen 28%. Wall Street analysts tell *LIR* that investors are getting skittish over the company's weak revenue growth. Quest increased its fourth-quarter 2000 revenue by 2.7% to \$836.4 million. Average revenue per requisition was up 9%, but test volume declined by 2% from year-ago levels. 🏠



INDUSTRY *buzz*

Which e-health vendor will win the race to connect hospitals, laboratories, and physicians to one another via the Internet? The answer may be "the last company standing."

Although Internet-based lab test ordering and results reporting can reduce errors and lower costs for hospitals and commercial labs, the benefits to physician offices are less compelling. Most doctors are comfortable with their current paper-based methods and too busy to make major adjustments.

Think I'm all wet?
Or have some buzz
to share?

Contact me at
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Jondavid Klipp,
managing editor

With physician usage of the Internet moving at a snail's pace, most e-health vendors are incurring heavy losses. One example is Neoforma.com (San Jose, CA), which sells healthcare supplies online. It recorded a net loss of \$208.8 million on revenue of \$6.9 million in full-year 2000. Another example is WebMD (Elmwood Park, NJ). It managed to lose \$1.74 billion on revenue of \$318.2 million in the nine months ended Sept. 30, 2000.

A lack of business forced AHT Corp (Tarrytown, NY) to declare Chapter 11 bankruptcy last November. Likewise, some information technology companies are nearing the end of their patience about funding e-health losses. In February of this year, McKesson HBOC (San Francisco, CA) announced that its stand-alone iMcKesson business was not performing to expectations and would be "restructured" back into corporate operations.

Over the next 12 months, expect a number of e-health vendors to encounter similar fates. The e-health subsidiaries of many large information technology companies will likely be scaled back, while continued losses at independent e-health firms without deep-pocket parents will force many out of the business altogether. For lab directors considering an investment in new Internet services, the message is clear: Choose your e-health vendor very carefully. 🏠

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520-772-5889
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