

LABORATORY INDUSTRY REPORT®

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Database Flexibility Key In LIS Decisions

Meditech (Cambridge, MA) and Sunquest Information Systems (Tucson, AZ) are the market share leaders in terms of installed laboratory information systems (LIS) in North America, according to data from research and consulting firms KLAS Enterprises (Draper, UT) and RL Johnson (Tracy, CA). However, vendors offering relational databases, such as Cerner Corp. (Kansas City, MO), are gaining share from those with less-flexible hierarchical (or “closed”) systems.

Relational databases give laboratories more flexibility in designing and modifying lab reports. They also have the potential to combine data from laboratory, hospital, and outpatient facilities to create comprehensive patient records—an obvious advantage for hospital labs. “The big commercial labs will never be able to provide their physician office clients with such data-rich reports,” notes Julie Hull, product manager for the laboratory enterprise at Cerner.

Early users of relational databases have encountered glitches, plus the need to hire a database administrator—an expensive position that is hard to fill. Despite these drawbacks, relational databases have become the standard for other industries, and many labs are moving to them as well. For pointers on choosing an LIS vendor, see *Inside The Laboratory Industry*, pp. 5-7. 🏠

LIS Leaders By Installation (as of year-end 2000)

LIS Vendors	# of Installed Systems In North America
Meditech*	1,190
Sunquest FlexiLab	1,055
Cerner Citation	314
Cerner Millennium PathNet	33
SCC Softlab	256
Siemens Open Lab	153
McKesson HBOC Pathways Lab	42
Triple G Ultra	17

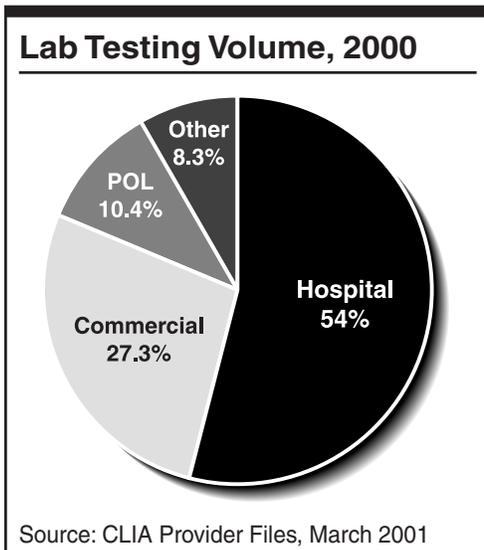
*Includes Meditech Magic and C/S Lab
Source: KLAS Enterprises and RL Johnson

Hospital Labs Are Gaining Market Share

Hospital laboratories are gaining market share, compared to rival commercial, physician office, and other labs, according to an analysis by *Laboratory Industry Report* of the latest available data from the CLIA Provider Files. Last year, hospital labs (including blood banks) performed a total of 3.036 billion waived and non-waived tests, or 54%, of an industry-wide total of 5.621 billion.

Continued on page 2

This represents an increase from the 52% market share that hospital labs held in 1996. The CLIA Provider File figures are in line with the latest data for Medicare Part B spending on laboratory services, which show that hospital labs have been gaining share for the past five years (see *LIR*, April '01, p. 3).

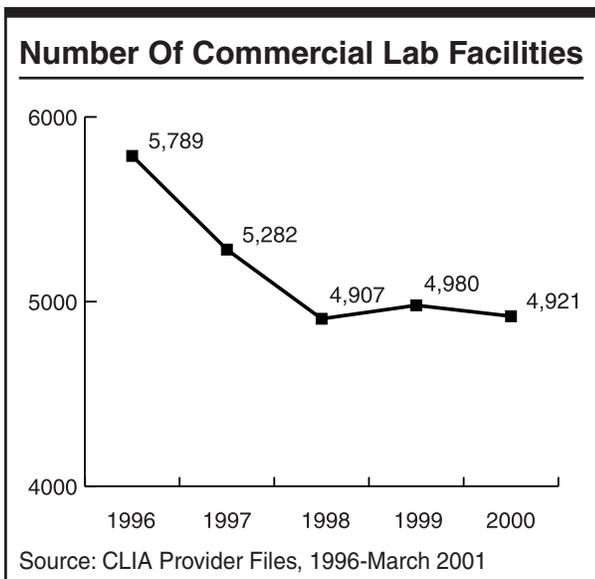


It should be noted that hospitals also own many physician groups, ambulatory surgical centers, nursing homes, and other facilities that operate their own labs. If lab testing volume for these other facilities is added to the total performed strictly at hospital labs, *LIR* estimates that hospitals' share of the overall market is roughly 60%.

The market share gains being achieved by hospitals are coming at the expense of physician office labs (POLs) and commercial labs. Over the past four years, total test volume performed at CLIA-certified POLs has declined from 687 million tests, or a 12% market share, to 584 million, or a 10% market share. Over the same time period, total test volume performed at commercial labs has dropped from 1.634 billion (a 28% market share) to 1.533 billion (a 27% market share).

Within the commercial lab sector, smaller independent labs performing mainly routine testing (*i.e.*, \$20 million or less in annual revenue) are probably taking the brunt of the volume losses. There were a total of 5,789 CLIA-licensed commercial lab facilities in 1996, and that figure had declined to 4,921 as of year-end 2000. The data suggest that smaller independents are increasingly being shut down or acquired by larger competitors such as Quest Diagnostics, Laboratory Corp. of America, Unilab, or some hospitals. The near 25% decline in commercial lab facilities has translated into more volume for labs that continue to operate.

Jan Steiner, MD, senior principal at Park City Solutions/Lab Services Group (Ann Arbor, MI), believes hospital labs will continue to gain market share. In particular,



Steiner thinks the large academic medical centers have the potential to expand their outreach and reference testing services. "Academic institutions have not entered esoteric testing or outreach in any big way. For the most part, they have focused on providing services only to their owned physician practices. They are sleeping giants."

Steiner says academic medical centers have become inspired by the success of ARUP Laboratories (Salt Lake City, UT). ARUP is owned by the Department of Pathology at the University of Utah Health Sciences Center and has increased its revenue by better than 17% annually over the past three years to reach approximately \$145 million for the fiscal year to end June 30, 2001. "ARUP is a very well-run organization. It has become the model that other academic



institutions are trying to follow,” notes Steiner.

“There are approximately 130 academic and many more teaching hospitals across the Nation and they are strategically located ... Each has the potential to become a dominant lab provider in its region,” says Steiner. He cites Ohio State University Medical Center (Columbus), New York Hospital-Cornell Medical Center (New York City), Cedars-Sinai Medical Center (Los Angeles, CA) and the University of Michigan Medical Center (Ann Arbor) as academic institutions that are successfully developing regional outreach and esoteric testing services. Academic hospitals with plans to launch or expand their lab services include the University of Texas Medical Branch Hospitals (Galveston) and the University of Texas-Houston Medical School.

“The major hospitals are not aloof to the new and expensive DNA and molecular-based tests that are entering the market ... The idea that they will roll over and hand this profitable business to the commercial labs is misguided,” Steiner concludes.

CLIA-Certified Facilities & Test Volume By Laboratory Type

Type of Facility	# (2000)	# Tests (millions)*			CAGR* 1996-00
		1996	1998	2000	
Hospital ¹	8,583	3,095.6	3,060.3	3,036.1	-0.5%
Commercial ²	4,921	1,634.3	1,484.7	1,532.9	-1.6%
POL	105,499	687.1	612.8	583.7	-4.0%
Other ³	51,451	501.0	455.3	468.4	-1.7%
Total	170,454	5,918.0	5,613.1	5,621.1	-1.3%

*Volume figures include billable and non-billable (quality control, research, etc.) testing; panel tests are exploded.

¹Includes blood bank testing.

²Includes lab testing done for life insurance companies.

³Includes ESRD dialysis centers, nursing homes, home health agencies, ambulatory surgical centers, pharmacy, health fair, and facilities otherwise not specified.

Source: CLIA Provider Files, 1996-March 2001 🏠

LabCorp Acquires ViroMed

Laboratory Corp. of America (Burlington, NC) has acquired ViroMed Inc. (Minneapolis, MN) for an undisclosed amount. ViroMed performs specialty testing in

virology, molecular biology, serology, microbiology, mycology, and mycobacteriology, as well as tissue/eye bank testing. ViroMed also provides testing for clinical trials and is a leading supplier of cell culture products.

In 2000, the company recorded EBITDA (earnings before interest, taxes, depreciation, and amortization) of approximately \$5.1 million on revenue of \$25.2 million. Bonita Baskin, PhD, who will remain chief scientific officer for the facility, founded ViroMed in 1982. 🏠

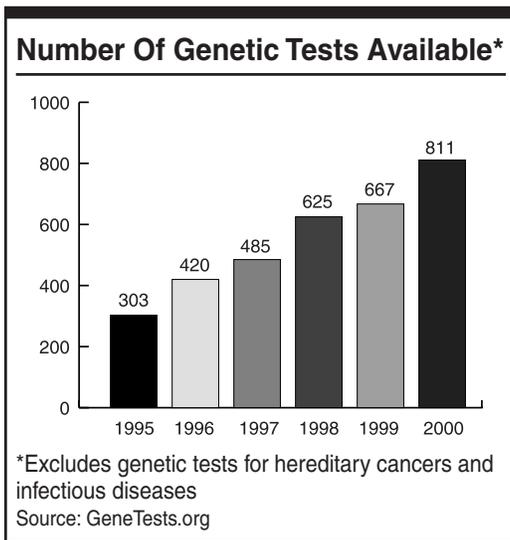
Recent LabCorp Acquisitions

	Date
PoisonLab (San Diego, CA)	Mar-00
Bio-Diagnostics Lab (Torrance, CA)	Apr-00
Pathology Medical Labs (San Diego, CA)	Jun-00
Carroll Medical Labs (Carrollton, GA)	Jun-00
National Genetics Institute (Los Angeles, CA)	Jul-00
Northern Medical Lab (Syracuse, NY)	Oct-00
Path Lab Holdings (Portsmouth, NH)	May-01
ViroMed (Minneapolis, MN)	Jun-01

Source: LabCorp

Demand For Genetic Counselors Is Booming

“The demand for genetic counselors is amazingly up,” says Bea Leopold, executive director of the National Society of Genetic Counselors (NSGC—Wallingford, PA). There are approximately 2,000 genetic counselors in the U.S. and Canada, and another 175 to 200 will graduate this year from the required two-year master’s-level programs offered at 28 universities and colleges accredited by the American Board of Medical Genetics (Bethesda, MD). Last year, genetic counselors earned an average annual salary of \$46,436. Those employed by HMOs were the best-paid (\$53,626 per year), according to NSGC’s biennial survey, *Perspectives In Genetic Counseling*.



Genetic counselors act as a liaison between genetic testing laboratories and physicians and patients. They help physicians determine whether a specific genetic test should be performed and how the test results should be interpreted. They also provide information and support to patients and families concerned about birth defects or genetic disorders and to families who may be at risk for a variety of inherited conditions.

Leopold notes that the increase in new genetic tests available to physicians is outpacing their knowledge of when to order them and how to interpret the results, hence the growing need for genetic counselors. In 2000, there were genetic tests available for 811 hereditary diseases (excluding tests for hereditary cancers and infectious diseases), according to GeneTests.org, a not-for-profit research organization based at Children’s Hospital and Regional Medical Center in

Seattle, WA. Of the 811 genetic tests, clinical testing is available for 455 and research-use-only (RUO) testing for 356. This represents an increase of 22% from the total of 667 genetic tests in 1999 (344 for clinical testing, 323 for RUO).

At a Laboratory Corp. of America conference on May 17 at the company’s Center for Molecular Biology and Pathology (Burlington, NC), Trisha Brown, a certified genetic counselor and director of genetic services for LabCorp, said that primary care physicians today rarely order genetic tests. She noted, however, that new screening guidelines for hereditary conditions such as hemochromatosis (excess iron accumulation) and cystic fibrosis (leads to respiratory and digestive problems) will require these physicians to gain a better understanding of genetics. 🏠

Salaries For Genetic Counselors, 2000

Setting	#	Average	Min.	Max.
Public health	53	\$42,292	\$27,617	\$64,000
University medical center	322	44,219	23,575	85,000
MD private practice	28	45,196	32,200	64,000
Private hospital	130	46,901	30,000	80,300
Univ. non-medical center	14	48,891	35,000	73,000
Federal/state/county	17	50,688	30,000	84,500
Commercial lab	37	51,525	33,990	73,600
HMO	37	53,626	40,000	68,000

Source: NSGC’s biennial survey, *Perspectives In Genetic Counseling—Winter 2000/01*

Pointers For Choosing A Laboratory Information System

Key functions of a laboratory information system include tracking specimens; generating test result reports; analyzing orders, billings, and payment; and maintaining large volumes of clinical data

Selecting a laboratory information system (LIS) can be one of the most confusing decisions a lab director will ever make. "Lab computer software is incredibly complex and there is little in the way of standards among vendors," notes Gary Braley, president of Braley Consulting Services in Minneapolis, MN.

In its crudest form, selection of a new LIS involves mailing out a request-for-proposal (RFP) to a dozen vendors with bidding instructions and specifications, then selecting the lowest bidder. At the other extreme, the selection process includes elaborate cost/benefit analyses and seemingly unending meetings of all parties involved. Regardless of the method employed, it usually takes six to 12 months before an LIS vendor is chosen. And major surprises about what a system does or how it performs after being installed are more the rule than the exception.

Consultants and vendors tell *LIR* that much of the pain involved in purchasing and implementing a new LIS can be avoided. Key pointers follow.

Form a Project Management Team

This is the first step toward successfully choosing and implementing a new LIS. The project management team's responsibility is to evaluate potential systems in-depth, make recommendations to a selection committee, and then oversee implementation. Braley suggests a project management team size of 4-8 people, including key individuals from each major lab area and the information systems department. Smaller, dedicated teams work best, he says: "If a team is too large, the process becomes unwieldy and inefficient."

Form an Inclusive Selection Committee

This step involves getting participation from the people who will use and oversee the LIS. In the hospital setting, for example, the committee should draw on lab managers and medical technologists, pathologists, hospital information technology staff, and the ultimate end-users—hospital staff physicians and nurses and key outreach clients.

"The goal is to get a sign-off from everyone, indicating that the best decision possible was made," says Braley. Although scheduling meetings can be difficult, a consensus agreement will lay the foundation for the success or failure of a new LIS. Braley notes that participation by such a large group can be greatly facilitated by using modern technology, such as project Web sites, database recordkeeping, and teleconferencing.

The users of a new LIS who were not involved in the decision-making process will feel cheated, says Braley. Lab managers or physicians left out of the selection process are often slow to implement a new LIS and can always fall back on the excuse, "My staff and I are too busy to learn or install the new system."

It should be noted that all six lab directors, consultants, and LIS vendors that *LIR* interviewed for this article agreed that getting a sign-off from a fully-representa-

tive selection committee is the single most important step toward selecting, then implementing a new LIS.

Screen Vendors Before Sending Out RFPs

Sending out a bunch of RFPs at the beginning of a project may result in a dozen detailed proposals to review and may bog down the selection process. Debbie Rieger, vice president of clinical ancillary services for Park City Solutions (Midway, UT), recommends that labs screen vendors first, based on a short list of requirements and then send RFPs to no more than five finalists.

Lee Green, president of Triple G Corp. (Markham, Ontario), notes that an ill-conceived selection process can drag on for a year or more and impose significant costs on everyone involved. Green adds that vendors might consider reducing pricing for lab customers if an efficient, timely decision can be assured. A short list of potential vendors also allows a more detailed investigation of each one, he says.

Understand the Contract

Once an LIS vendor has been selected, contract negotiations can begin. Braley notes that a contract should not be looked at strictly as the purview of executives and attorneys of the hospital or company. First and foremost it must describe—in user friendly language—exactly what the vendor is proposing to install. Lab managers should understand what's in the contract and know what they are buying. Braley says that too often after an installation, a poorly understood contract results in comments like these: "They never told us we would have to ... I don't like it because it takes a lot more time to ... I thought we would be able to do such and such, but I guess we can't."

Layout a Realistic Project Plan

A good project plan is more than a list of tasks, completion dates, and assigned respon-

sibilities. Too often, simple project schedules are drawn up by one or two people who would like the effort to be conducted in a certain fashion (usually quick and cheap), with little regard for the real problems that are likely to be encountered, says Braley. "This results in a plan that may be completely unrealistic and is therefore abandoned or significantly modified almost every week."

According to Braley, there are two simple but critical criteria for a good plan:

- 1) Key individuals in all affected departments must understand the approach outlined in the plan and believe it is the best way to proceed.
- 2) They must also agree to provide the resources required of their unit to conduct the project in the time frame indicated.

Don't Underestimate Costs

Most hospital labs can expect to pay between \$300,000 and \$1.5 million for a new LIS, with the average system costing roughly \$500,000, according to data from vendors. But the direct out-of-pocket cost of a new LIS is not the only cost involved with installing a new system, notes Jim Sparks, PhD, president of Alverno Clinical Laboratories (Hammond, IN). Alverno is a core laboratory that serves six hospitals in northwest Indiana and Chicago that are owned by the Sisters of St. Francis Health Services (Mishawaka, IN). Alverno is about halfway through the process of moving all seven of its facilities (the core lab, plus the six hospitals) to the SCC Softlab system. Sparks says costs for database construction, employee training time, traveling expenses, re-wiring, etc., can easily match or exceed costs for vendor software and services. "Your preliminary budget will probably be too low. Doubling your initial estimates will probably get you close to what your actual cost will wind up being," says Sparks. 🏠



Sunquest, Cerner, SCC Softlab Rank High In KLAS Surveys

Laboratories rank LIS products and services from Sunquest (Tucson, AZ), Cerner Corp. (Kansas City, MO) and SCC Laboratory Information Services (Palm Harbor, FL) highly, according to various survey data collected by the research and consulting firm, KLAS Enterprises (Draper, UT), in the fall of 2000.

In one survey, employees from KLAS personally interviewed department heads and chief information officers at 499 laboratory facilities and collected 1,419 individual statements. Questions asked included: "What does your vendor do well?" and "In which areas does your vendor need improvement?" Typically there is a balance between positive and negative comments, according to Ralph Reyes, senior vice president at KLAS. However, Reyes notes, there were some outliers, including Cerner Citation, which received a lopsided number of positive comments.

KLAS also monitors laboratories and their experience with LIS vendors on the basis of 39 data points. Overall, Sunquest's FlexiLab system received the highest rank. Specifically, for the all-important question—"Was implementation within budget/cost?"—Sunquest and Cerner Citation tied for first place, each scoring 7.33 on a scale of 1-9 (with 9 being excellent).

SCC's SoftLab received the second-best overall rank and the highest score (6.72) on the specific question: "Was it worth the effort?" Reyes believes SCC is gaining market share largely because of its database solution, which utilizes two live databases (relational and hierarchical) running in tandem. SCC customers include Mt. Sinai Medical

End-User Comments On LIS Vendors, Fall 2000

Vendor	% Positive Comments	% Negative Comments
Cerner Citation	62	38
Sunquest Flexilab	51	49
SCC Softlab	49	51
Cerner Millennium PathNet	42	58
Triple G Ultra	39	61
McKesson HBOC Pathways Lab ...	32	68
Siemens Open Lab	26	74

Note: Other vendors that were considered but did not have sufficient sites rated at the time of the survey included Meditech C/S Lab and Cerner Classic PathNet.

Source: KLAS, Fall Top 20 Report

Center (New York City) and Evanston Northwestern Healthcare (Skokie, IL).

Cerner's Millennium PathNet received the third-best overall rank. At year-end 2000, it had been installed at 33 hospitals and integrated delivery networks. Julie Hull, product manager for the laboratory enterprise at Cerner, expects the number of installed customers to reach 46 by the end of this year. Recent contract wins include Providence Health System (Seattle, WA) and Allegiant Healthcare (Omaha, NE). 🏢

LIS Comparison Report From KLAS

Rating Scale 1-9 (with 9 being excellent)

Company/product	Overall Ranking	Worth the Effort	Implementation on time	Implementation on budget/cost
Sunquest FlexiLab	1	6.71	6.89	7.33
SCC SoftLab	2	6.72	6.90	7.22
Cerner Millennium PathNet	3	6.50	5.68	6.05
Cerner Citation	4	5.82	6.89	7.33
Triple G Ultra	5	6.13	5.85	6.80
McKesson HBOC Pathways Lab ...	6	4.86	5.08	5.69
Siemens (SMS) Open Lab	7	5.75	4.63	5.13

Note: Data are based on survey conducted in fall 2000

Source: KLAS Enterprises

Big Commercial Labs Average \$119K In Revenue/Employee

Six of the largest commercial labs generated an average of \$118,703 in revenue per full-time equivalent (FTE) employee last year, according to data compiled by *Laboratory Industry Report*. In total, the six companies listed in the table below employ 51,110 FTEs and generate \$6.1 billion in annual revenue. These six companies account for more than 60% of testing revenue collected by all commercial labs in the U.S.

The most efficient company, according to this measure, was Specialty Laboratories (Santa Monica, CA). With an estimated 775 FTEs, Specialty generated \$153.2 million in revenue last year for an average of \$197,677 per employee. Contributing to Specialty's high revenue per employee is its focus on high-revenue esoteric testing, plus the fact that it operates a single major testing facility in Santa Monica.

Quest Diagnostics (Teterboro, NJ) was the next most efficient, with \$131,585 of revenue per employee. Quest operates 30 major regional laboratories.

Efficiency At Six Large Commercial Labs			
Company	Revenue (\$MM) Calendar 2000	Estimated FTEs*	Revenue Per Employee
Quest Diagnostics	\$3,421.2	26,000	\$131,585
LabCorp	1,919.3	18,850	101,820
Unilab	337.5	3,500	96,429
LabOne	169.2	1,335	126,742
Specialty Labs	153.2	775	197,677
Bio-Reference	66.5	650	102,308
Total, six companies	\$6,066.9	51,110	
Average, six companies			\$118,703

*LIR estimates of FTEs are based on data from the companies' latest 10-K annual reports
 Source: LIR estimates and company reports

LabOne (Lenexa, KS), which operates a single major testing facility in the Kansas City area, generated an average of \$126,742 in revenue per employee. Bio-Reference Labs (Elmwood Park, NJ), which operates a single major testing facility in northern New Jersey, generated an average of \$102,308 per FTE.

Laboratory Corp. of America (Burlington, NC), which operates 24 major labs, had \$101,820 in revenue per employee last year. Unilab (Tarzana, CA) had the least at \$96,429. Unilab, which operates three major labs in California, is focused on routine testing in a state with high HMO penetration. 🏠

BCBS Of South Carolina Ends Red Tape For Lab Work

Blue Cross & Blue Shield of South Carolina (Columbia) says it will no longer require primary care physicians covering the 46,000 patients enrolled in its HMO Blue product to get prior approval for routine in-network referrals for lab tests, x-ray procedures, and routine referrals to specialists. All out-of-network referrals will still require pre-authorization from HMO Blue administrators.

"This will significantly reduce the administrative burden for physicians and also reaffirm the trust that we have in their ability to provide the most appropriate care," said Stacey Brennan, MD, medical director of HMO Blue. The move follows similar decisions by Aetna Inc. (Hartford, CT) and other HMOs to relax the medical cost management policies contained in their contracts with physicians (*LIR, Jan. '01, p. 2*). 🏠



University Of PA To Provide Samples To Impath’s “GeneBank”

Impath (New York City) has announced that its Predictive Oncology Division has signed a three-year agreement with the University of Pennsylvania Cancer Center in Philadelphia to offer its GeneBank program to 28 community hospital members of the University’s Cancer Network (UPCN).

Impath’s GeneBank program currently contains several thousand cancer tissue samples and corresponding serology. Each sample has fully documented patient consent, history, treatment, and outcomes information. Impath expects to add more than 4,000 fully documented cancer specimens to its GeneBank archive each year from UPCN member hospitals. Financial terms of the contract, such as how much Impath will pay the hospitals for each cancer tissue sample they provide, were not disclosed.

Impath sells its GeneBank program to genomics, biotechnology, and pharmaceutical companies for use in the identification and validation of tumor targets for prospective drug therapies. GeneBank also provides patient recruitment and support services for clinical trials. Last year, Impath signed contracts to provide GeneBank and clinical trial services with Millennium Pharmaceuticals, Bristol-Myers Squibb, and GlaxoSmithKline. Impath’s Predictive Oncology Division generated \$9.539 million in revenue last year (or 8% of the company’s total revenue), up from \$3.838 million (or 5% of the total) in 1999. 🏠

Opportunities For New Pathologists Are Growing

The latest data from the Association of American Medical Colleges (Washington, DC) show that an increasing number of medical school seniors are choosing and getting accepted into first-year residency programs for pathology. This year, the total number of pathology matches increased 27% to 312; first-year matches in all specialty programs increased 4% to 8,653.

In contrast, the total number of primary care residency matches—including family practice, general surgery, internal medicine, and ob-gyn—decreased 4% to 9,701. One reason for the decline is that there appear to be more job opportunities in specialty areas, says Jordan Cohen, MD, president of AAMC. “Managed care also has eased restrictions on patients seeing specialists, and that has made specialties more attractive.”

Medical School Graduates Matching With Residency Programs

Residency Programs	2001	2000	Change
Neurological surgery	34	25	36%
Pathology	312	246	27%
Anesthesiology	332	292	14%
Diagnostic radiology	138	125	10%
Emergency medicine	995	966	3%
Primary care	9,701	10,067	-4%

Source: Association of American Medical Colleges

“The big news is the large increase in U.S. medical students coming back to pathology,” said Barbara McKenna, MD, in an interview with the American Medical Association’s *AMNews*. McKenna is the program director in pathology at Albany (NY) Medical College. She noted: “There was a perception several years ago that you couldn’t find a job as a pathologist. That wasn’t correct. The increase in pathology matches now is showing that the word is getting out.” 🏠



Unilab Completes IPO, Attains \$741 Million Market Cap

Less than 19 months after being taken private by New York City-based Kelso & Co., Unilab Corp. of Tarzana, CA is once again a publicly traded company. Unilab sold 6.7 million shares on June 5 at \$16 per share. Salomon Smith Barney, CS First Boston, and U.S. Bancorp Piper Jaffray managed the offering. Buyers wanting to get in on the deal swamped the number of shares available by 12-to-1, one investment banker tells *LIR*. In the company's first day of trading on June 6, its shares rocketed up 44% to \$23 per share. With a total of 32.2 million shares now outstanding, Unilab has a market capitalization of \$741 million.

In the three months ended March 31, 2001, Unilab reported net income of \$3.171 million vs. \$1.504 million in the same period a year earlier; revenue was up 20% to \$95.308 million. Based on annualized results from the most recent quarter, Unilab trades at 1.9 times revenue and 58 times net income. Net proceeds from the initial public offering were approximately \$100 million, which Unilab will use to repay part of its debt (totaling \$308.9 million as of March 31).

Following the IPO, Kelso owns 21.339 million shares of Unilab for a 66.3% stake currently worth \$491 million. Kelso took Unilab private in November 1999 with an equity investment of \$139.5 million, plus \$315 million in new debt put on Unilab's balance sheet. Thus, Kelso has achieved a paper gain of \$351.5 million, or 252%, on its initial out-of-pocket equity investment of \$139.5 million.

Unilab At A Glance

Annualized revenue from 1Q01: ...	\$381.2 million
Employees (FTEs):	3,500
Revenue per employee:	\$108,923
Annual specimens:	13.55 million
Specimens per day:	51,000
Specimens per employee per day:	14.6
Tests per employee per day*:	32.1
*LIR estimate based on 2.2 tests per specimen	
Source: Unilab	

Robert Whalen, chairman of Unilab, owns 288,447 shares, or 1%, currently worth \$6.634 million. Brian Urban, executive vice president and chief financial officer, owns 112,541 shares, or 0.4%, worth \$2.588 million.

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 382 stat labs and patient service centers throughout the state. Last year, the company performed approximately 30 million tests on 13.55 million specimens. 🏠

Glaxo Cuts Quest Stake; Roche Sells LabCorp Shares

While mutual funds and individual investors snap up lab shares trading at 50+ times earnings, GlaxoSmithKline (Middlesex, England) and Roche Holdings (Basel, Switzerland) are taking the opportunity to reduce their stakes. On May 2, GlaxoSmithKline sold 1.5 million shares of Quest Diagnostics for \$119.50 per share, reaping \$179.3 million in gross proceeds. The sale reduced GlaxoSmithKline's stake in Quest to 11.1 million shares or 23.7%.

Separately, Roche has announced plans to sell 5.5 million shares of Laboratory Corp. of America at \$137.50 per share. The sale will provide Roche with gross proceeds of \$756.3 million and cuts its ownership in LabCorp by roughly half—to 5.85 million shares or 16.7%. 🏠



Lab Stocks Rise 11% In Latest 4 Weeks

Laboratory stocks were up 11% in the four weeks ended June 1, 2001, according to the G-2 Laboratory Stock Index which tracks 14 lab testing service companies. Ten stocks rose in price during the period, four fell. Year-to-date, the G-2 Lab Index has risen 14%. In comparison, the S&P 500 index is down 5% and the Nasdaq composite index is down 13%.

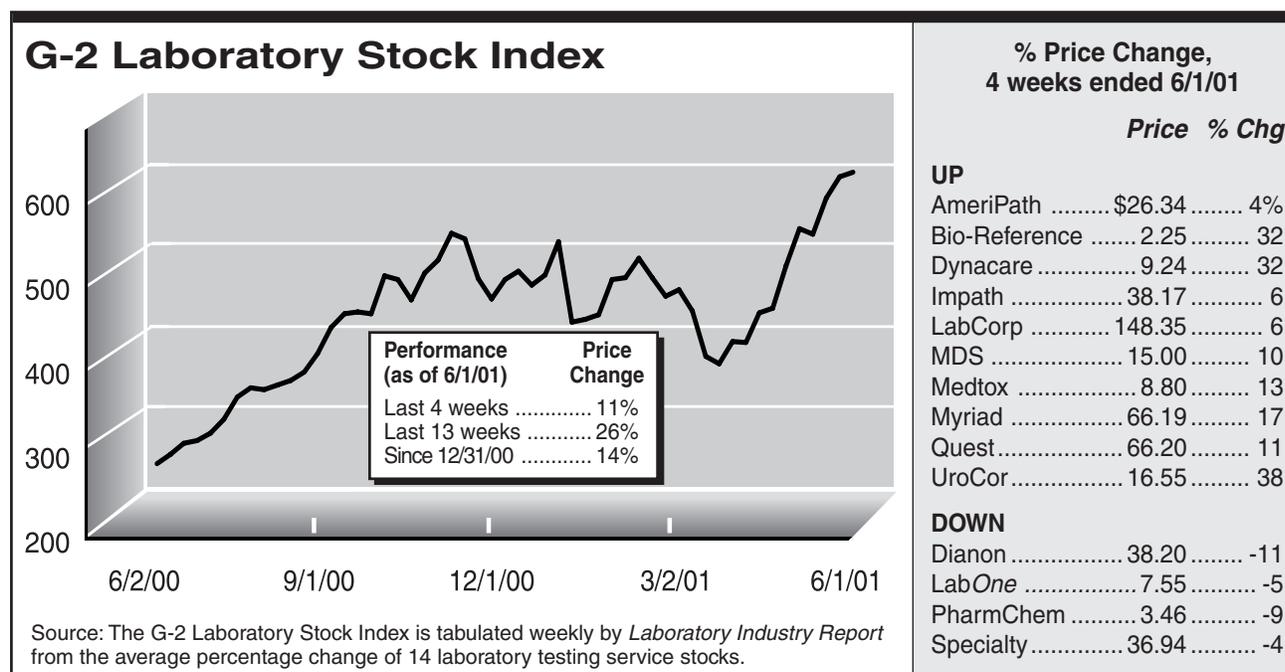
Shares of **UroCor** (Oklahoma City) posted the biggest gain, rising 38% to \$16.55 per share, giving the company a market capitalization (number of shares x share price) of \$174 million. For the three-month period ended March 31, 2001, the company reported a net profit of \$4.044 million, up from \$407,000 in the same period a year earlier; revenue was up 28% to \$15.47 million.

Net income for the latest quarter benefited from a one-time payment of \$7 million from BioChem Pharma (Toronto, Canada) to end a distribution agreement related to BioChem's Pacis BCG drug treatment for bladder cancer patients. The settlement resulted in a pretax gain of \$4.6 million in first-quarter 2001 for UroCor.

UroCor's 28% revenue gain for the latest quarter was largely the result of substantial price increases (more than 30%) put in place last August. These price hikes were offset by a 9% decline in testing volume. As of March 31, 2001, UroCor provided testing services to approximately 2,500 urologists, compared with 2,575 a year earlier.

Other stocks moving sharply higher in the latest four weeks included **Bio-Reference Labs** (Elmwood Park, NJ), up 32% to \$2.25 per share, and **Dynacare** (Dallas, TX and Toronto, Canada), also up 32%, to a share price of \$9.24.

Quest Diagnostics (Teterboro, NJ) was up 11% to \$66.20 per share. The company completed a two-for-one stock split on June 1. 🏠



At Quest Diagnostics' annual meeting of shareholders on May 8, company chairman Kenneth Freeman highlighted the potential for Quest to provide laboratory testing services directly to consumers. Indeed, this month Quest formally launched its "QuestDirect" testing program (*LIR*, Jan. '01, p. 1) in five states: Colorado, Kansas, Missouri, Montana, and Utah. "This is a 'Proof of Concept' year," Freeman told shareholders.

"Our market research indicates there is a market for providing people with confidential laboratory testing and relevant information about their own health, and they are willing to pay for it out of their own pocket," said Freeman.

In the next issue of *LIR*, we will take a closer look at the potential for direct access testing and some of the leading labs that are targeting this fledgling market. Coincidentally, direct access testing was highlighted nationally in a front-page article in the June 8 *Wall Street Journal* Marketplace section.

Lab Institute 2001 Preview: Oct. 24-27

Quest Diagnostics' president & CEO **Kenneth Freeman** and Unilab head **Robert Whalen** present their take on major business trends and where the industry is heading ... Automation guru **Robin Felder** looks at how great leaps in technology have impacted the analytical instruments, automation infrastructure, and management of clinical labs and how anticipating and implementing new technologies will be crucial to future success ... Abbott Labs' vice president of diagnostic products R&D, **James Koziarz**, examines major trends in diagnostic technology ... Plus a host of workshops on key business issues,

including lab outreach (measuring and improving profitability) and how to start a direct access testing program ... Join us Oct. 24-27 at the Crystal Gateway Marriott Hotel, Arlington, VA for this exciting program ... Watch for the full program booklet in July! ▲

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610-872-7608
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