

LABORATORY

INDUSTRY REPORT®



Dennis W. Weissman, Publisher

Vol. X, No. 10/October 2001

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NYC Area Hospitals Aid Victims Of Terrorist Attacks

The terrorist attacks on the World Trade Center and the Pentagon on Sept. 11 triggered unprecedented challenges for the Nation's health-care system. In many cases extraordinary efforts were made to assist victims and ensure continuity of care for all patients nationwide.

No medical facilities were closer or more directly involved with helping victims of the disaster than the hospitals located in Manhattan, including New York University's Downtown Hospital and St. Vincent's Hospital—both in downtown Manhattan. These and another 140 hospitals in New York and New Jersey treated more than 6,000 victims on the day of the tragedy, according to the Greater New York Hospital Association and the New Jersey Hospital Association. Hospitals in the Arlington, VA area (including Virginia Hospital Center Arlington and Inova Alexandria Hospital) treated some 100 victims of the attack on the Pentagon.

Hospitals in New York City had braced for hundreds or thousands more victims, but no survivors had been pulled from the wreckage since Sept. 12. "There have not been a lot of people to take care of, and it's unfortunate that the majority of people are missing," noted William McCann, a spokesman for St. Vincent's Hospital.

For details on the effects the attacks had on local and national labs, see *Inside The Laboratory Industry*, pp. 5-7. 🏠

New Yorkers Answer Call For Blood Donations

Bracing for an influx of trauma patients, New York City area hospitals and blood banks called for blood donations in the hours immediately after the destruction of the twin towers at the World Trade Center on Sept. 11. In response, donations to New York Blood Centers increased threefold—from 1,500 pints on Monday, Sept. 10, to 5,000 pints on the following Tuesday and Wednesday. At several locations, donor lines stretched around city blocks.

But by Thursday New Yorkers were heeding calls to slow down. Across the country, the response has been just as overwhelming. In the two weeks after Sept. 11, the American Red Cross reported it had collected more than 330,000 pints of blood and received phone calls for more than 700,000 appointments to donate. 🏠



Visible Genetics HIV-1 Genotyping Test Gets FDA Approval

Visible Genetics Inc. (VGI-Toronto, Canada) has received clearance from the U.S. Food & Drug Administration to market its TruGene HIV-1 test kit and Open Gene DNA Sequencing System for routine clinical use. Richard Daly, president of VGI, notes that the TruGene HIV-1 test has become the first DNA sequencing technology to be approved by FDA in kit form.

Genotype tests, such as VGI's TruGene HIV-1, sequence genes of the HIV virus. Physicians use this information to better understand a specific patient's resistance profile. Decisions can then be made as to which antiretroviral drug therapy is likely to work best against a patient's infection. Because HIV mutates so rapidly, it can develop resistance to a drug treatment in a matter of 3-6 months. Consequently, HIV patients often get genotype tests several times a year to determine if their drug therapy needs to be modified.

Today, most physician offices and labs refer their genotype testing needs to larger reference labs operated by the likes of Quest Diagnostics, LabCorp, and Specialty Labs. These mega-labs use proprietary "home brew" tests that do not require FDA approval. HIV-1 genotyping has been a lucrative market for the big labs. The Medicare program covers genotype analysis of HIV-1 under CPT code 87901 at a maximum allowable rate of \$355.78 per test. Commercial health plans reimburse HIV-1 genotyping at between \$350-550 per test, according to Daly. He says VGI will charge labs \$225 per test kit.

In anticipation of FDA approval, VGI has installed its OpenGene DNA sequencing system at 130 labs in the U.S. and has trained 300 lab technicians to use the system at one-week training sessions held at its office in Atlanta, GA. In addition, Bio-Reference Laboratories (Elmwood Park, NJ) recently agreed to co-market the test in the greater New York City and Philadelphia areas. There are roughly 350,000 to 400,000 AIDS patients in active treatment in North America, including about 100,000 in the greater New York City area. VGI will begin shipping TruGene HIV-1 test kits in November. 🏠

Medtox Re-Examines Biological Test Kit Business

Medtox Scientific (St. Paul, MN), which specializes in drugs-of-abuse testing, says it may restart its inactive business to make test kits to detect biological agents and toxins. Under a contract with the U.S. Department of Defense between 1991 and 1996, Medtox developed 14 rapid, on-site tests for detection of certain biological materials.

Medtox says that while it has de-emphasized work in this market segment in recent years, current events may cause it to review that decision. Following the terrorist attacks on Sept. 11, Medtox says it received purchase orders to supply companies with components for use in test kits to detect biological agents and toxins.

Separately, Medtox announced that it continues to increase sales of its Verdict-II point-of-care screening test for drugs of abuse. In the period from Jan. 1, 2001 to July 31, 2001, the company reports it sold 864,000 Verdict-II kits, an increase of more than 200% from 284,000 kits sold in the same period a year ago. 🏠

Alliance Lab Expands In-House Testing

Since completing consolidation of five hospital labs in June 1997, Alliance Laboratory Services (ALS-Cincinnati, OH) has brought more than 20 specialty tests in-house so far, reducing its send-out volume from more than 3% of total volume to less than half of one percent, according to Wendell O'Neal, PhD, vice president of ALS. Recent additions to the ALS menu include Sensitive D-Dimer, Insulin, and the Lamellar Body Count.

According to O'Neal, method committees (comprised of MDs, PhDs, and medical technologists) for each technical discipline (*i.e.*, chemistry, hematology, immunology, and microbiology) do the legwork for determining new additions to the ALS menu. Factors considered include turnaround time for time-sensitive tests, existing technical knowledge and capabilities of ALS technical and professional staff, and the current volume and trends for send-out tests. Members of each method committee are encouraged to keep abreast of the latest scientific literature, so they can spot potential new testing techniques that can be brought to ALS.

Once a certain test has been identified by a method committee for possible addition, the ALS management team weighs the economics (*i.e.*, potential revenue minus costs) vs. the medical/client service needs and makes a decision.

ALS, which operates as a distinct unit of The Health Alliance (Cincinnati), runs a core laboratory at the former Jewish Hospital in downtown Cincinnati that serves the new Jewish Hospital in suburban Cincinnati, plus Christ Hospital and University Hospital (both in Cincinnati), St Luke East (Fort Thomas, KY), and St. Luke West (Florence, KY). In the 12 months ended last June 30, ALS performed a total of 7.4 million billable tests, including 3.4 million at the core lab and another 3.4 million at rapid response labs at the five hospitals. Below is a sample list of 12 specialty tests that ALS has brought in-house over the past four years (note: listed Medicare fees are based on carrier reimbursement in Cincinnati). 🏠

Code	Test Description	Medicare Fee
87536	HIV-1 Quantification	\$117.59
87621 x 2	Human Papillomavirus, Amplified Probe	97.00
87522	HCV Quantification	59.20
83661	Amniotic Fluid, Lecithin Sphingomyelin Ratio	30.38
84681	C-Peptide, Serum	28.75
87495	CMV DNA Qualitative	27.71
86304	CA-125 (Cancer Antigen)	19.76
83090	Homocystine	23.31
80101	Tricyclics via HPLC	19.03
87328	Giardia/Cryptosporidium Antigen	16.58
87449	Legionella Urine Antigen	16.58
80299	Methotrexate	14.63

Source: Alliance Laboratory Services.

CPT Codes © AMA.

Labtest.com Is Centrex Clinical Labs' Choice For Internet Work

Centrex Clinical Laboratories Inc. (New Hartford, NY) has selected Labtest.com (Midland Park, NJ) as its new vendor for Internet-based lab test ordering and test results reporting.

Centrex currently uses a system from iMcKesson/Abaton.com, a unit of McKessonHBOC (San Francisco, CA). However, McKessonHBOC has chosen to shut down that unit and stop offering Internet services to labs (*LIR, July '01, p. 9*). As a result, Centrex has been forced to find a new Internet vendor.

Jack Finn, president of Centrex, says that approximately 40 of Centrex's total 600 physician clients are currently using the iMcKesson/Abaton.com system. Centrex will transition these users to Labtest.com over the next six months. Finn says Centrex had considered backing off from its Internet strategy, given the slow adoption of the service by physician clients. But about one of every three new physician clients that Centrex signs, he notes, are basing their decision (at least in part) on Centrex's Internet capabilities. Finn also says Centrex has worked out a deal with Labtest.com that requires Centrex to make a minimal initial cash outlay, thereby lowering risk.

Centrex is an independent for-profit laboratory joint venture owned by Faxton St. Luke's Healthcare (Utica, NY). The company manages a core lab at St. Luke's Hospital as well as stat labs at Faxton Hospital and Little Falls Hospital—all located in upstate New York in the Utica/Syracuse area. Centrex employs roughly 350 FTEs and performs three million billable tests per year, according to Finn. 🏠

Cerner To Acquire Dynamic Healthcare Technologies For \$17.3M

In the six months ended June 30, Dynamic reported a net loss of \$1.556 million vs. a net loss of \$908,844 in the same period a year ago; revenue declined 4% to \$12.552 million

Cerner Corp. (Kansas City, MO) has agreed to purchase Dynamic Healthcare Technologies (Lake Mary, FL) for 363,000 shares of Cerner stock worth \$15.1 million (as of the close on Sept. 20). In addition, Cerner will redeem all outstanding Dynamic preferred stock for approximately \$2.2 million. The total acquisition price is equal to about 0.7 times the \$25 million in annual revenue that Dynamic generates.

Dynamic makes the CoPathPlus anatomic pathology system, which automates specimen accessioning and produces patient and management reports. Sunquest (Tucson, AZ) markets the CoPathPlus system for Dynamic, although this agreement is likely to be revised after rival Cerner completes its acquisition. CoPathPlus is installed at 456 customer sites, including Columbia Presbyterian Medical Center, Memorial Sloan-Kettering Cancer Center, and The Mayo Foundation.

Dynamic also makes the Premier Series Lab Information System, which is installed at 104 laboratories, including Clinical Labs of the Midwest, El Camino Hospital, and St. Mary's Duluth Clinic and Health Systems.

In addition, Dynamic has developed an Internet-based system for lab test ordering and test results reporting, named CoPathPlus. Finally, the company has 66 customers for its radiology information system products. 🏠

Labs Rise To Challenges In Wake Of Terrorist Attacks

The Sept. 11 terrorist attacks on the World Trade Center and the Pentagon strained both local and national laboratories. Below we detail a few of the major challenges that labs had to tackle and overcome.

Michael Snyder, chief operating officer for lab development at Mt. Sinai NYU Health (MSNYU-New York City), says the hospital staff at 300-bed NYU Downtown Hospital (including 35 lab workers) were able to meet patient care needs on the day of the disaster despite huge challenges. NYU Downtown is only several blocks from the former World Trade Center, and when the towers collapsed, its emergency room filled with smoke and dust. Patients and personnel alike had trouble breathing and their eyes burned. Although the hospital lost power and phones, the staff managed under generator power to triage 444 of the most immediate victims of the explosion. Of these, 24 were admitted to the hospital. The pace slowed considerably in the days after the attack since few survivors have been found, notes Snyder.

Longer-term challenges include rebuilding MSNYU's hospital information system (HIS). The hospital had housed its HIS server in a downtown Manhattan office just two blocks from the World Trade Center. The server has been down since the disaster. Snyder says MSNYU's information systems team is now transporting hard drives from the battered downtown office to Mt. Sinai Hospital in uptown Manhattan to rebuild the system. Needless to say, the HIS knockout has greatly hampered MSNYU's billing ability.

Bio-Reference Labs (Elmwood Park, NJ), which is focused on lab services for physician offices throughout the greater New York City area, saw a 15-20% drop in testing volume during the week of the disaster, says Richard Faherty, chief information officer for the company. Bio-Reference operates labs in Elmwood Park, NJ (about 15 miles north of Manhattan) and a smaller lab in Rockland County, NY (about 25 miles north of Manhattan). Faherty notes that all bridges and tunnels into Manhattan were closed in the days immediately following the terrorist attack, but by Monday, Sept. 17, transportation into and out of New York City was almost back to normal (albeit with great delays from security checks of every van or truck entering and exiting the city).

Specimen Transportation Networks Disrupted

The national labs were also impacted by the terrorists' attacks. The Federal Aviation Administration banned nearly all U.S. commercial flights for two days afterward, and the last major restrictions on air traffic were not lifted until Sept. 19. In the interim, the national labs, which rely heavily on commercial airlines for specimen transport, were forced to make due with expanded use of ground couriers and, where possible, chartered jets.

Quest Diagnostics (Teterboro, NJ) was able to gain permission from the government to begin transporting specimens using its own fleet of 15 planes by the end of the day of Sept. 11. The next day, Quest gained use of two rented jets.

At the same time, many of Quest's couriers worked around the clock in the days after the tragedy to compensate for reduced air transport capabilities, notes Gary Samuels, company spokesman. Quest couriers made rounds by foot in Manhattan, which was then accessible only by ferry and train.

Quest's fast reaction may have been prompted by its close proximity to the disaster. Company headquarters and one of its largest regional labs are both in Teterboro--approximately 10 miles north of the World Trade Center. In fact, the company's Teterboro facilities are so close to lower Manhattan that many Quest employees witnessed the unfolding of the tragedy through their office windows on the morning of Sept. 11, notes Samuels.

Quest lost several hundred esoteric specimens that were on board American Airlines Flight 11, the Boeing 767 heading from Boston to Los Angeles. The aircraft was the first of two planes to crash into the World Trade Center on the morning of Sept. 11. The Quest specimens had come from the company's regional lab in Cambridge, MA, and were to have been delivered to its Nichols Institute in San Juan Capistrano, CA. Samuels notes that no Quest employees were on Flight 11 and the company is in the process of drawing new samples from patients and, where possible, retrieving replacement specimens from original samples still held at the Cambridge lab.

Owen Ash, PhD, executive vice president at ARUP Laboratories (Salt Lake City, UT), says that in the week following the terrorist attacks, ARUP assembled a ground courier network covering a 600-mile radius around Salt Lake City. A number of ARUP employees rose above and beyond the call of duty following the attacks, he points out. For example, Donna Johnson, a business development manager at ARUP, rented a truck and,

with the help of her husband, transported a batch of stranded specimens from Dallas to Denver. ARUP couriers completed the last leg between Denver and Salt Lake City.

Rod Forsman, administrator at Mayo Medical Laboratories (Rochester, MN), says Mayo's first reaction was to stabilize all specimens in transit at the time of the attacks with dry ice at local hospitals or courier facilities. Mayo expanded its ground courier service at its labs in Rochester and in Wilmington, MA, immediately after the attacks and gained regional air transportation on Thursday, Sept. 13.

On the following Friday and Saturday mornings, Mayo's main Rochester lab began receiving shipments from national air carriers Fedex and Airborne. By the end of Saturday, Sept. 15, Mayo's transportation network was back to normal, Forsman says, adding that Mayo lost only one specimen (which had become outdated) as a result of the transportation delays.

Ash notes that ARUP, like other national reference labs, has incurred extra expenses and lost business as transportation hurdles forced some of its clients to send time-sensitive specimens to local labs. He says the tragedy has highlighted the need for laboratories to work closer with air carriers to make sure they are aware of the critical nature of the lab specimens they transport.

Financial Toll From Lost Volume

Although all the national labs say their specimen transportation systems are now back to normal, several of the publicly traded commercial labs have quantified the financial losses they have incurred because of lost volume.

Quest, which is the largest U.S. commercial lab, estimates that the decrease in specimen volume (primarily in the New York City metropolitan area) will cut its revenue by approximately \$10 million in the third

quarter. The company operates two patient service centers in downtown Manhattan and has capitated contracts with Empire Blue Cross Blue Shield and Oxford Health Plans, two of the largest health plans in the New York City area. "We expect the impact of the national tragedy to be temporary, and we are seeing a gradual return to normal volume levels," Kenneth Freeman, chairman of Quest, said in a Sept. 24 press release.

Specialty Laboratories (Santa Monica, CA), which operates a single primary facility in Santa Monica, CA, and relies heavily on air transportation, says it lost about \$1 million to \$1.5 million in business in the days after the attacks. Dianon (Stratford, CT), which operates a centralized lab in Stratford (about 60 miles north of Manhattan), says its third-quarter revenue will be negatively impacted by \$1.2-1.5 million.

AmeriPath (Riviera Beach, FL) says its third-quarter revenue will be reduced by some \$1.5-2.5 million. Impath (New York City), whose corporate headquarters and main laboratory are located in midtown Manhattan, says its third-quarter revenue will be lowered by approximately \$1.5-2 million.

Laboratory Corp. of America (Burlington, NC) says air traffic disruption in the days following the terrorist attacks has had minimal effect on its operations. Company spokeswoman Pam Sherry notes that the LabCorp's geographic focus is on the South, and it operates an extensive ground transportation network of about 3,600 courier vehicles.

DNA Tests For Identification

LabCorp, with its 900 offices nationwide, is collecting cheek swabs of family members of victims to help in the identification of nearly 5,800 people listed as dead or missing in the attack on the World Trade Center. LabCorp is transporting these specimens as well as personal effects of victims that may contain

DNA (e.g., tooth brushes, combs, etc.) to the New York City medical examiner's office. LabCorp is providing the collection service at no charge.

The NYC medical examiner's office has committed to identifying every victim who died in the World Trade Center disaster. Although the office operates the largest forensic DNA facility in the country, it cannot handle the expected volume of tests, says spokeswoman Ellen Borakove. Some experts have predicted that as many as one million DNA tests may be required. Overflow testing is being handled by the New York State Police and several private laboratories.

Two methods of DNA testing are being used to identify the victims. Under the STR-13 technique, DNA from the nucleus of cells taken from preserved tissue of victims is compared with a DNA specimen from a close relative or a personal item. The second method is mitochondria testing, which analyzes tiny structures called mitochondria that lie outside the nucleus of each cell.

Celera Genomics Group (Rockville, MD) has been contracted to help with mitochondria testing. Myriad Genetics (Salt Lake City, UT) is helping with STR-13 testing. Because mitochondria does not deteriorate as quickly as nuclear DNA, many samples of victims found weeks or months from now are likely to be sent to Celera for identification rather than Myriad.

Lost Lives At Empire

Of all the big health insurers in New York City, none felt the pain of the terrorist attacks more than Empire Blue Cross Blue Shield. Empire reports that nine of its 1,914 employees who had worked at the company's headquarters at One World Trade Center are missing. The company has temporarily relocated its main offices to Melville, NY, while it evaluates a new permanent location. 🏢

LabOne To Purchase Osborn Group For \$49 Million

LabOne (Lenexa, KS) has agreed to purchase Osborn Group Inc. (Olathe, KS), a wholly owned subsidiary of ChoicePoint Inc. (Alpharetta, GA), for \$48.65 million in cash. Osborn is a leading provider of risk assessment services to the life insurance industry, with approximately \$37 million in annual revenue. The company has approximately 300 employees and operates a central laboratory in Olathe (located just south of Kansas City).

John McCarty, chief financial officer for LabOne, says that Osborn will be consolidated into LabOne's existing laboratory in Lenexa, which is 10 miles north of Olathe. McCarty expects the consolidation to generate \$5-10 million in annual cost savings.

LabOne will fund the acquisition with \$50 million in preferred equity and subordinated debt from investment firm Welsh, Carson, Anderson & Stowe (WCAS-New York City). As a result, WCAS will own about 29% of LabOne and be allowed to nominate or elect three members to LabOne's board.

Current risk assessment services from LabOne include laboratory testing, investigative services, and paramedical examinations for life insurance applicants. The company currently generates about \$140 million per year from risk assessment. The addition of Osborn will raise this figure to roughly \$177 million per year.

Approximately 6-7 million people in the U.S. apply for life insurance each year, according to McCarty. Life insurance policies of greater than \$100,000 typically require that applicants have laboratory tests for cocaine, nicotine, HIV, and a standard blood chemistry profile. The overall market size for risk assessment services to the life insurance market is roughly \$1 billion per year, according to McCarty. Paramedical services (*i.e.*, the cost of sending a nurse or medical technician to an applicant's home to draw specimens and fill out a medical history questionnaire) comprise about half of the market. Lab testing services represent roughly \$125

million per year. Other services, including investigation of motor vehicle reports and underwriting case management services, account for the remainder of the risk assessment market.

Along with LabOne and Osborn, the two other major players in laboratory testing for life insurance include Clinical Reference Laboratories (also in Lenexa), a privately held company, and Heritage Laboratories (also in Olathe), which is owned by Hooper Holmes (Basking Ridge, NJ).

LabOne At A Glance (\$000)

	<i>First-Half 2001</i>	<i>First-Half 2000</i>
Total revenue	\$106,060	\$79,742
—Risk assessment	69,446	53,652
—Healthcare/physician office	22,407	15,766
—Substance abuse	14,208	10,323
Cash flow from ops.	6,323	5,511
Net income	1,001	781

Source: LabOne

In the six months ended June 30, 2001, LabOne reported net income of \$1.001 million vs. \$781,237 in the same period a year ago; revenue increased 33% to \$106.06 million. Revenue from the company's risk assessment operations increased 29% to \$69.446 million. ▲



Hospital Labs May Not Be So Efficient After All

Operating costs at hospital laboratories with significant outreach programs may not be as efficient as the largest U.S. commercial labs after all, *Laboratory Industry Report* has learned.

In our August 2001 issue (pp. 8-9) we reported that operating margins at 23 hospital outreach programs monitored by Park City Solutions' Laboratory Service Group (Ann Arbor, MI) were similar to those at Quest Diagnostics and Laboratory Corp. of America. This conclusion was based on a median operating cost per test of \$5.05 at the 23 hospitals and the assumption that average revenue per reportable test result ranged from \$7-9 per test. However, several hospital labs have since told us that a more realistic revenue assumption is \$4-6 per reportable test result.

Assuming an average of \$5 in revenue per reportable result, we find that the median hospital outreach program in the Park City study spends 101% of every revenue dollar on lab operating expenses (*i.e.*, \$5.05 in operating costs/\$5 in revenue per reportable result=101%). Under this assumption, hospital labs with large outreach

programs are operating at a loss and have significantly higher costs than those at the two largest U.S. commercial labs. Furthermore, if you factor in administrative expenses and bad debt expenses, it appears that hospital outreach programs represented in the Park City study are deeply in the red.

In contrast, financial reports filed with the Securities & Exchange Commission show that operating costs at Quest and LabCorp were a combined \$1.691 billion in the six

months ended June 30, 2001, representing 59% of their combined revenue of \$2.889 billion. Pretax profit margins for the first half of 2000 were 8.3% at Quest and 16.2% at LabCorp. 🏠

Big Commercial Labs vs. Hospital Labs			
	<i>First-Half 2001 (Quest + LabCorp) (\$ Millions)</i>	<i>Hospital Labs Per Reportable Result</i>	
Revenue	\$2,889.3	\$4.00	\$5.00
Operating cost*	1,691.2	\$5.05	\$5.05
Operating cost %	59%	126%	101%
			84%

*Includes cost of obtaining, transporting, and testing specimens, but excludes selling, general and administrative expenses, and bad debt expenses.
Source: *Laboratory Industry Report* and Park City Solutions

Impath Expands Its Clinical Trials Network

Impath Inc. (New York City) has acquired the oncology clinical studies business of Innovative Clinical Solutions Ltd. (ICSL-Providence, RI). OCS business includes a network of 20 offices across the U.S. that provide clinical trials support services (Phases I-IV) to biotechnology and pharmaceutical companies. OCS has annualized revenue of approximately \$2 million, with a current backlog of 47 contracted studies for biotech and pharma companies. Terms of the purchase were not disclosed.

With the acquisition of the OCS business, Impath now has more than 30 oncology clinical trials sites. The acquisition will raise revenue at Impath's predictive oncology unit, which provides clinical trials services, to more than \$15 million per year. 🏠

Second-Quarter Profits Total \$99M At 15 Lab Companies

Fifteen publicly traded laboratory testing companies posted combined net income of \$99.333 million in the three months ended June 30, 2001, up 79% from \$55.388 million in the same period a year earlier. Revenue for the group increased 12% to \$2.04 billion vs. \$1.819 billion a year ago. Overall, the second-quarter net profit margin was 4.9%.

Among 11 clinical laboratory testing companies, **Bio-Reference Laboratories** (Elmwood Park, NJ) showed the greatest profit improvement, with net income increasing to \$619,835 from \$44,929; revenue was up 23% to \$21.168 million.

LabOne (Lenexa, KS) grew revenue the fastest. The company's second-quarter revenue was up 43% to \$56.015 million, led by strong growth from its risk assessment division (*see separate story, p. 8*).

Laboratory Corp. of America (Burlington, NC) was the most profitable clinical laboratory, earning \$52.1 million on revenue of \$549.7 million for a profit margin of 9.5%.

Impath Inc. (New York City) was the fastest grower among four publicly traded pathology companies. The company reported a 41% increase in second-quarter revenue to \$47.074 million. Impath also had the highest profit margin at 9.1%. ▲

Laboratory/Pathology Company Financials 2Q01 vs. 2Q00 (in \$000)

Laboratory companies	Revenue			Net Income		
	2Q01	2Q00	% Chg	2Q01	2Q00	% Chg
Bio-Reference Labs*	\$21,168	\$17,172	23%	\$620	\$45	1,280%
Dynacare**	101,873	91,898	11%	5,865	1,885	211%
LabCorp	549,700	482,400	14%	52,100	13,000	301%
LabOne	56,015	39,161	43%	604	364	66%
Medtox	12,561	11,316	11%	960	481	100%
Myriad Genetics	10,822	9,157	18%	-2,187	-2,564	NM
PharmChem	10,789	11,580	-7%	-5,557	374	NM
Psychemedics	4,518	5,473	-17%	328	678	-52%
Quest Diagnostics	931,589	877,113	6%	25,495	30,168	-15%
Specialty Labs	45,158	38,557	17%	3,246	2,406	35%
Unilab	98,932	84,284	17%	1,346	2,047	-34%
Total, 11 lab cos.	1,843,125	1,668,110	10%	82,821	48,883	69%
Pathology companies						
AmeriPath	105,052	\$80,934	30%	9,147	1,402	552%
Dianon	28,762	24,426	18%	2,367	1,576	50%
Impath	47,074	33,364	41%	4,305	3,069	40%
UroCor	15,858	12,320	29%	693	458	51%
Total, 4 pathology cos.	196,746	151,044	30%	16,512	6,505	154%
Grand Total, 15 cos.	\$2,039,872	\$1,819,154	12%	\$99,333	\$55,388	79%

*Results are for quarters ending April 30.

**Results are reported under Canadian accounting standards (not U.S. GAAP)

Source: *Laboratory Industry Report* from companies



Lab Stocks Drop 9% In Latest Five Weeks

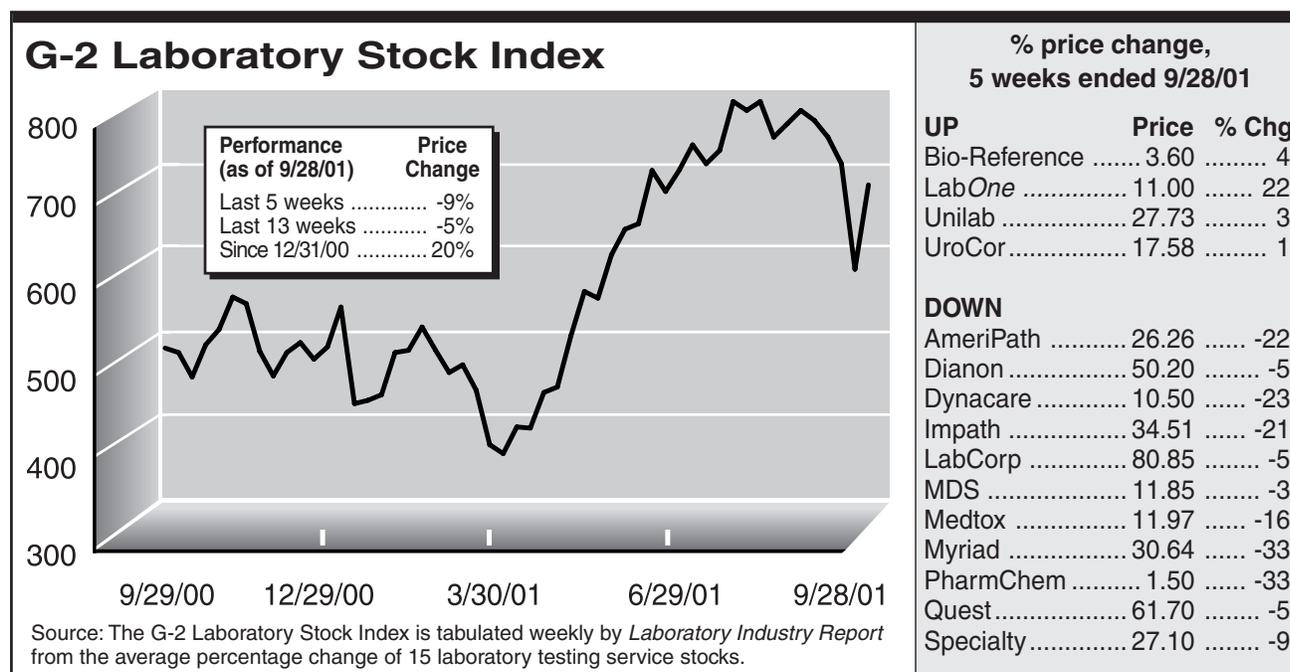
Institut Curie says Myriad's patents jeopardize cancer research and force hospitals to pay three times more for Myriad's technique (\$2,600 per test) vs. cheaper available methods

Laboratory stocks fell 9% in the five weeks ended Sept. 28, 2001, according to the G-2 Laboratory Stock Index which tracks the average percentage price change of stock of 15 lab testing service companies. Eleven stocks declined in price during the period, four rose. Year-to-date, the G-2 Lab Index has risen 20%. In comparison, the S&P 500 is down 21% and the Nasdaq is down 39%.

Shares of **Myriad Genetics** (Salt Lake City, UT) were down 33% to \$30.64 per share, giving the company a market capitalization of \$714 million. On Sept. 12, the Paris-based cancer research group Institut Curie announced that it would fight Myriad's European patents on two breast cancer susceptibility genes, BRCA1 and BRCA2. Myriad discovered the genes in the early 1990s and began marketing a predictive test (named BRACAnalysis) for hereditary breast cancer in late 1996. Myriad got U.S. patents for the genes in 1996 and received patents in Canada and from the European Patent Organization earlier this year.

PharmChem (Haltom City, TX), which specializes in drugs-of-abuse testing, fell 33% to \$1.50 per share, giving the company a market cap of only \$9 million. For the three months ended June 30, 2001, PharmChem reported a net loss of \$5.557 million vs. net income of \$374,000 in the same period a year ago; revenue decreased 7% to \$10.789 million. Included in the recent quarter's results were \$4.474 million in non-recurring costs associated with relocation of the company's headquarters and main laboratory from northern California to the Fort Worth, TX area. PharmChem says its decision to move from California was based on high labor costs, uncertainties about availability of uninterrupted electricity, and a big increase in rent and utility costs.

LabOne (Lenexa, KS) was up 22% to \$11 per share for a market cap of \$118 million. The company recently agreed to purchase Osborn Group (Olathe, KS) for \$48.65 million (see story, p. 8). 🏠





The 19th annual Lab Institute program will take place as scheduled on Oct. 24-27 at the Crystal Gateway Marriott in Arlington, VA. This year's Institute features some of healthcare's most influential business and government leaders, including:

- Kenneth Freeman, chairman of Quest Diagnostics, will offer his views on the mega-trends that will shape the future of the lab industry.
- Thomas Scully, new head of the Centers for Medicare & Medicaid Services (formerly HCFA), will discuss Medicare and CMS reform.
- U.S. Rep. Jim McDermott (D-WA), who serves on the House Ways & Means Committee and its health subcommittee, will address the status of health legislation in Congress, including a bill (HR 1798) that he is co-sponsoring to change the way Medicare pays for lab tests.
- Robert Whalen, president of Unilab Corp., will discuss lab market developments in trend-setting California.

Other noteworthy speakers include James Koziarz, PhD, vice president, diagnostic products R&D at Abbott Laboratories; Christopher Fey, chairman of HealthScreen America; Mara Aspinall, president of Genzyme Genetics; and Richard Flanigan Jr., senior vice president and general manager at Cerner Corp. In all, the Lab Institute conference will feature over 35 presentations and panel discussions from more than 50 laboratory experts and government officials.

See the complete program booklet enclosed with this issue for more details or call Washington G-2 Reports at 202-789-1034. 🏠

References in this issue

- Alliance Lab Services 513-585-9000
- ARUP 801-584-5157
- Bio-Reference Labs 201-791-2600
- Centrex Labs 315-797-0791
- Cerner 816-201-1024
- Dynamic Healthcare 407-333-5300
- Impath 212-698-0300
- LabCorp 336-584-5171
- LabOne 913-888-1770
- Labtest.com 201-447-9991
- Mayo Medical Labs 800-533-1710
- Medtox 651-636-7466
- Myriad Genetics 801-584-3600
- Quest Diagnostics 201-393-5000
- Visible Genetics 416-813-3240

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