

LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

TOP OF THE NEWS

- Esoteric test pricing is softening 1
- Wages for lab staff continue to rise 1

INSIDE THE LAB INDUSTRY

- New technologies decentralize esoteric testing 5
- Leading esoteric testing companies: Quest, LabCorp, Specialty, ARUP, AML, Mayo, Genzyme Genetics, Esoterix, Myriad, Athena 6-7

FINANCIAL

- Top lab execs get avg. \$1 million each 3-4
- Fourth-quarter profits total \$79M at 16 lab companies 10
- Lab stocks vault 28% 11

SCIENCE/TECHNOLOGY

- New cystic fibrosis guidelines to spur DNA testing 8
- DNA-based colorectal tests coming to market 8

PATHOLOGY

- Use of Digene's HPV test growing rapidly 9

LAB NETWORKS/VENTURES

- Quest to acquire MedPlus 9

INDUSTRY BUZZ

- Roche Diagnostics' Madaus speaks out 12



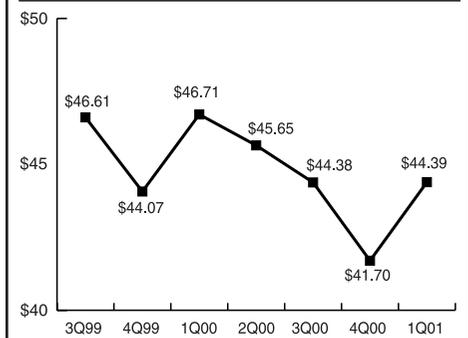
Competition For Esoteric Testing Heats Up

Rivalry to provide esoteric testing services to hospitals is intensifying as all the major national reference labs indicate they aim to increase their market share for this higher-margin work. At the same time, hospital labs are trying to keep more testing on-site. And group purchasing organizations and managed care companies are making the most of these marketplace dynamics to squeeze down pricing.

Evidence of pricing pressure is clear at Specialty Laboratories (Santa Monica, CA), which generated \$153.245 million in revenue from 2.615 million accessions last year for an average of \$58.60 per accession, compared with an average \$60.33 in 1998. Moreover, Specialty expects its average price per accession to fall another 2-4% this year.

Figures from Laboratory Corp. of America also suggest pricing pressure. In the three months ended March 31, 2001, LabCorp's Center for Esoteric Testing had average revenue of \$44.39 per accession, down 5% from \$46.71 a year ago. "Pricing pressure is not going away, and we haven't seen the worst yet," says one marketing executive at a leading reference lab. For the latest on the esoteric testing market, see *Inside The Lab Industry*, pp. 5-7.

**Price Per Accession:
LabCorp Center For Esoteric Testing**



Source: LabCorp

Wages For Lab Staff Rising 4-7% Per Year

Hourly pay rates for key laboratory positions increased in the range of 4.2% to 7.4% annually over the past two years, according to recently released data from the American Society of Clinical Pathologists (ASCP—Chicago, IL). In contrast, data from the U.S. Bureau of Labor Statistics show that pay rates for hourly workers in all industries rose at an annual rate of roughly 4% in each of the past two years. Within the lab industry, hourly rates are rising fastest for staff histotechnologists, up 7.4% annually over the past two years to a median of \$18 an hour. Meanwhile, staff cytotechnologists have seen their pay increase by 5.9% to a median of \$21.30 an hour.

Continued on page 2



■ **WAGES FOR LAB STAFF**, *from page 1*

Over the last two years, the median pay for staff medical technologists rose 5.8% to \$17.90 an hour; for medical laboratory technicians, 4.2% to \$14 an hour; and for phlebotomists, 4.9% to \$9.90.

The ASCP data are based on a survey sent to 2,500 randomly selected laboratory managers registered with the ASCP Board of Registry. Sample returns of 24% were received between August and October 2000, and were fully representative by type and size of facility and geographic region, according to ASCP.

Median Hourly Pay Rates: 1998-2000

Position	1998	2000	2-Yr CAGR*
Medical Technologist—Staff	\$16.00	\$17.90	5.8%
Medical Technologist—Supervisor	19.80	21.50	4.2
Medical Technologist—Manager	24.30	27.00	5.4
Cytotechnologist—Staff	19.00	21.30	5.9
Histotechnologist—Staff	15.60	18.00	7.4
Medical Laboratory Technician	12.90	14.00	4.2
Phlebotomist	9.00	9.90	4.9

*CAGR=Compounded annual growth rate
Source: American Society of Clinical Pathologists

Anecdotal evidence from the “Help Wanted” pages of *Medical Laboratory Observer* and *Advance for Medical Laboratory Professionals* indicates that sign-on bonuses are becoming a common recruitment method. Quest Diagnostics, for example, is offering a \$2,000 sign-on bonus to new MT and MLT recruits for its Wallingford, CT facility; Florida Hospital in Orlando is offering a \$3,000 bonus to attract an histology supervisor; Swedish American Health System (Rockford, IL) is advertising \$4,000 sign-on bonuses for MTs and

cytologists; and Mercy Medical Center (Mt. Shasta, CA) is offering a \$7,500 bonus to get a lab manager. Based on data from a call-in survey conducted at last year’s Lab Institute sponsored by Washington G-2 Reports, *Laboratory Industry Report (LIR)* estimates that approximately 25% of all labs now offer sign-on bonuses to attract medical technologists.

Average Vacancy Rates

Position	1996	1998	2000
Medical Technologist—Staff	8.2%	10.2%	11.1%
Medical Technologist—Supervisor	8.6	9.3	12.5
Medical Technologist—Manager	7.7	15.4	13.3
Cytotechnologist—Staff	7.1	10.5	20.6
Histotechnologist—Staff	5.3	10.3	22.3
Medical Laboratory Technician	9.4	11.1	14.3
Phlebotomist	12.5	12.3	18.1

Source: American Society of Clinical Pathologists

Despite rising wage rates and use of sign-on bonuses (not to mention soaring employee health insurance premiums), total employee costs remain fairly stable at many labs. For example, the expense for salaries, wages, and benefits at Unilab Corp. (Tarzana, CA) has been roughly flat over the past two years at 30% of revenue. One possible explanation: total employee costs may be under control simply because labs are unable to hire all the employees they

need. This is borne out by ASCP survey data showing that average vacancy rates at labs in 2000 ranged from 11.1% for staff medical technologists to 22.3% for staff histotechnologists. Perverse though it may sound, the inability to fill vacancies may be resulting in savings for many labs. 🏠

Top Lab Execs Got Nearly \$1M Each On Average Last Year

Sixteen top laboratory industry executives received a total of \$15.063 million in compensation in 2000 for an average of \$941,406 per executive, according to a *LIR* analysis of data filed with the Securities & Exchange Commission. The average salary was \$387,277; the average bonus, \$247,749; and the average other compensation, \$306,381. Excluding the two largest U.S. independent lab companies (Quest Diagnostics and Laboratory Corp. of America), the average compensation for the remaining 14 executives totaled \$526,832, including a salary of \$336,260; bonuses of \$115,312; and other compensation of \$75,259.

LabCorp chairman Thomas Mac Mahon was the highest-paid lab executive (excluding stock options), earning a total of \$4.93 million, including \$741,667 in salary, a \$726,311 bonus, plus 47,600 shares of restricted stock (six-year vesting) worth \$3.462 million. Mac Mahon also received 90,000 10-year options to purchase LabCorp common stock with a grant-date present value of \$3.634 million. Including the value of these stock options, Mac Mahon's grand total compensation was \$8.564 million last year. LabCorp reported net income of \$77.5 million in 2000, up from \$15 million in 1999. The company's stock price rose 377% last year.

Quest Diagnostics chairman Kenneth Freeman earned \$2.757 million last year in salary, bonus, and other compensation. He also received stock options with a potential value of \$8.539 million (*LIR*, April '01, p. 4).

Harvey Shapiro, chairman of Dynacare (Dallas, TX and Toronto, Canada) was the only other lab executive whose total compensation topped \$1 million last year. Shapiro earned \$1.25 million, including a salary of \$418,436 and other compensation of \$831,750. His "other compensation" included \$781,384 to repay outstanding loans made to him by Dynacare. Under U.S. accounting standards, Dynacare reported net income of \$722,000 in 2000, down from \$5.717 million in 1999. From its initial public offering on Nov. 16, 2000 through Dec. 31, 2000, Dynacare's stock price rose 9%.

Dynacare's shareholder proxy statement also revealed that Shapiro secured a new three-year employment agreement, effective Nov. 22, 2000. He now receives a salary of \$600,000 per year, plus a target bonus of \$600,000. Other benefits include \$3,000 per month for automobile expenses and four weeks' paid vacation each year.

Total compensation in 2000 for other noteworthy executives (not shown in the table on p. 4) includes \$3.324 million earned by Miles White, chairman of Abbott Laboratories (Abbott Park, IL). White's compensation included a salary of \$1.391 million, a bonus of \$1.8 million, and \$132,827 in other compensation. He also received 10-year options to purchase 450,000 shares of Abbott stock with a potential value of \$24.886 million.

Sidney Goldblatt, MD, chairman of Sunquest (Tucson, AZ), earned \$238,831 in salary and bonus last year, plus 45,000 10-year stock options potentially worth \$546,853 (assuming an annual stock price appreciation of 10%). Neal Patterson, chairman of Cerner Corp. (Kansas City, MO), earned \$630,374 in salary, bonus, and other compensation, but got no stock options.

LABORATORY INDUSTRY REPORT



Patrick Sullivan, president of Cytoc Corp. (Boxborough, MA), earned a total of \$808,177 in salary, bonus, and restricted stock. He also received 110,100 10-year stock options potentially worth \$1.981 million. 🏠

Senior Executive Cash Compensation In 2000

<i>Company/Exec.</i>	<i>Salary</i>	<i>Bonus</i>	<i>Other Comp*</i>	<i>Total Comp</i>	<i>Co. Net Income</i>	<i>Stock % Chg</i>
AmeriPath James New, Chmn	\$375,000	\$225,000	0	\$600,000	\$11,488,000	205%
Bio-Reference¹ Marc Grodman, MD, Chmn	366,921	125,000	0	491,921	105,155	-50
Dianon Kevin Johnson, CEO	303,958	61,366	44,216	409,540	6,599,000	219
Dynacare² Harvey Shapiro, Chmn	418,436	0	831,750	1,250,186	722,000	9
Enzo Biochem³ Elazar Rabbini, PhD, Chmn	301,091	195,000	0	496,091	6,625,000	-46
Impath Anu Saad, PhD, Pres	280,000	237,500	3,400	520,900	12,949,465	422
LabCorp Thomas Mac Mahon, Chmn	741,667	726,311	3,462,344	4,930,322	77,500,000	377
LabOne W. Thomas Grant, Chmn	246,577	0	22,050	268,627	-523,988	-16
Medtox Richard Braun, Chmn	250,000	0	15,060	265,060	-2,561,000	-29
Myriad Genetics⁴ Peter Meldrum, Pres	320,523	100,507	5,072	426,102	-8,722,102	260
PharmChem Joseph Halligan, Pres	316,077	170,000	16,419	502,496	1,361,000	-4
Psychemedics Raymond Kubacki, Pres	221,154	0	5,307	226,461	1,698,598	3
Quest Diagnostics Kenneth Freeman, Chmn	747,116	1,623,300	386,122	2,756,538	102,052,000	365
Specialty Laboratories⁵ James Peter, MD, PhD, Chmn	600,000	300,000	0	900,000	8,676,000	107
Unilab Robert Whalen, Chmn	448,000	200,000	110,353	758,353	45,268,000	NA
UroCor Michael George, Pres	259,904	0	0	259,904	-4,859,000	104
Total, 16 execs	6,196,424	3,963,984	4,902,093	15,062,501		
Avg, 16 execs	\$ 387,277	\$ 247,749	\$ 306,381	\$ 941,406		

*Other compensation includes value of restricted stock awards, but excludes options granted.

(1) Net income is for the fiscal year ended 10/31/00. (2) Stock % change is for 11/16/00-12/31/00. (3) Net income is for the fiscal year ended 7/31/00. (4) Net income is for the fiscal year ended 6/30/00. (5) Stock % change is for 12/7/00-12/31/00.

Source: LIR from Securities & Exchange Commission filings

INSIDE THE LAB INDUSTRY

New Technologies Are Decentralizing Esoteric Testing

The invention in the late 1980s of polymerase chain reaction (PCR), a biochemical procedure that amplifies the number of DNA strands in a patient's sample so they can be analyzed, is credited with essentially creating the field of molecular diagnostics

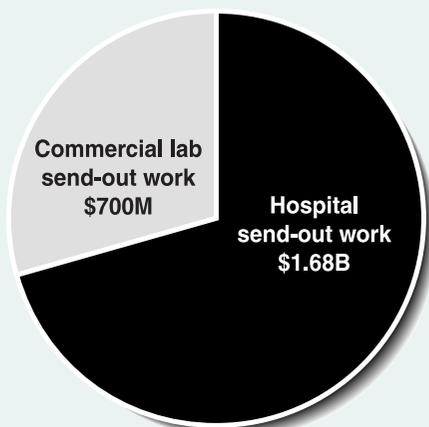
The overall market for esoteric tests sent out by the Nation's 6,000+ hospitals (including veteran's hospitals) to reference labs was about \$1.68 billion in 2000, according to estimates from Park City Solutions' Lab Services Group (Ann Arbor, MI), formerly named Chi Laboratory Systems. Esoteric testing done for the Nation's 5,000+ independent lab facilities totaled approximately \$700 million. The total market is estimated at around \$2.38 billion and is growing at roughly 5-10% per year, according to data from Park City Solutions.

Growth in the send-out market is being driven by the development and increased utilization of expensive genetic testing techniques, including tests for human papillomavirus, cystic fibrosis, and colon cancer (*see pp. 8-9 for details*).

But new technologies are rapidly making their way into hospital labs and small commercial labs as well. For example, in December 1997 when Roche Molecular Diagnostics (Indianapolis, IN) received clearance from the U.S. Food & Drug Administration to market its Amplicor HIV-1 Monitor Test for use as an aid in managing patients on antiretroviral therapy, only a couple of labs had licensed Roche's PCR (polymerase chain reaction) technology for clinical use, according to John McCune, director of marketing for PCR in the U.S. at Roche. Today, McCune says 525 labs in the U.S. are using Roche's PCR technology for clinical testing purposes. Even wider adoption of PCR technology should really take off when certain of Roche's patents on it expire in mid-2004.

The transition in the use of Roche's PCR technology from a handful of the largest reference labs to hundreds of hospital labs and smaller commercial labs is borne out by the experience at Specialty Laboratories (Santa Monica, CA). In 1998, Specialty generated \$19.7 million, or 17.3% of total revenue, from one assay for HIV quantification. In 2000, increased competition lowered Specialty's revenue from that assay to \$16.3 million, or 10.7% of total revenue.

Market For Esoteric Testing, 2000



Source: Park City Solutions/Lab Services Group

Another factor likely to encourage more labs to begin performing PCR-based tests on their own is automation. Sample preparation for PCR-based testing is time-consuming, labor-intensive, and requires the use of hazardous reagents. But Roche plans to launch the Cobas AmpliPrep system for automated PCR sample preparation later this year. Roche says AmpliPrep will reduce the number of manual steps in loading and unloading the system. Meanwhile, Becton Dickinson (Franklin Lakes, NJ) and Qiagen NV (Venlo, The Netherlands) have formed a joint venture named PreAnalytix to develop sample collection tubes for nucleic acid testing. The joint venture recently introduced its first product, the Paxgene Blood RNA System for blood sample collection, stabilization, and purification for RNA analysis.

Here's a look at how leading U.S. reference labs are banking on a wider and deeper revenue stream from esoteric work.

Quest Diagnostics (Teterboro, NJ) garnered an estimated \$425 million in revenue (roughly 12% of overall revenue of \$3.421 billion) from esoteric tests last year. Jorge Leon, PhD, vice president of applied genomics at Quest, says the company's reference testing revenue includes \$225 million from approximately 6.5 million gene-based tests, including 5.5 million tests from DNA probes and 1 million from PCR tests. These figures indicate that Quest is reimbursed an average of roughly \$35 for each gene-based test it conducts.

Quest provides the majority of its esoteric testing services at its Nichols Institute (San Juan Capistrano, CA). As a result of its August 1999 acquisition of SmithKline Beecham Clinical Labs, Quest acquired SBCL's National Esoteric Testing Center (Van Nuys, CA) and has transferred esoteric testing performed at the Van Nuys facility to the Nichols Institute.

Laboratory Corp. of America (Burlington, NC) generated a total of \$132.4 million in revenue last year from its Center for Molecular Biology & Pathology (CMBP—Research Triangle Park, NC) and National Genetics Institute (NGI—Los Angeles, CA), up 29% from \$102.8 million in 1999. CMBP and NGI are each focused on gene-based testing. Average revenue per accession is roughly \$100 at CMBP and approximately \$170 at NGI.

LabCorp handles more traditional esoteric testing services (*e.g.*, endocrinology, special chemistry, etc.) at its Center for Esoteric Testing (CET) in Burlington. CET generated \$179.3 million in revenue last year, up 14% from \$156.9 million in 1999. Pam Sherry, spokeswoman for LabCorp, attributes the mild pricing decline for traditional esoteric

testing services to increased volume from managed care companies. "This business [traditional esoteric testing] remains very profitable to us," she emphasizes. Average price per accession at CET is approximately \$44 (*see related story, p. 1*). The combined revenue from CMBP, NGI, and CET was \$312 million last year.

Specialty Laboratories (Santa Monica, CA), which is focused exclusively on esoteric testing, reported a net profit of \$8.673 million in 2000 vs. a net loss of \$1.142 million in 1999; revenue was up 18% to \$153.245 million. Gene-based tests currently account for roughly 30% of the company's test volume. Specialty, which has internally developed 600 new or improved assays in the past five years, spends \$2-3 million annually on research and development.

ARUP Laboratories (Salt Lake City, UT), which is owned by the Department of Pathology at the University of Utah Health Sciences Center, is on track to increase its revenue by about 25% to \$145 million in the fiscal year ending June 30, 2001 vs. \$116 million for the prior year, according to Owen Ash, PhD, executive vice president and director of business development. New clients signed over the past year include Fairview Health System (Minneapolis, MN), Aurora Consolidated Labs (Milwaukee, WI), and South Bend Medical Foundation (Indianapolis, IN). To accommodate its growth, ARUP recently added 71,000 square feet of office and lab space to its existing 200,000 square-foot facility, Ash says.

American Medical Laboratories (AML—Chantilly, VA) recently canceled plans to raise as much as \$115 million from an initial public offering, blaming poor market conditions. Based on data filed with the Securities & Exchange Commission for the six months ended June 30, 2000, *LIR* esti-



mates that AML generated approximately \$140 million from esoteric testing last year.

Mayo Medical Laboratories (Rochester, MN) generates more than \$100 million per year from esoteric testing services. Keith Laughman, administrative department chair for Mayo Collaborative Services, Inc., says that esoteric testing should not be viewed as a commodity that can be outsourced to the lowest bidder. "This strategy is often more expensive than hospitals think." For example, Laughman notes that an extra few hours in turnaround time can mean an extra (unnecessary) inpatient day.

Genzyme Genetics (Framingham, MA), a unit of Genzyme Corp. (Cambridge, MA), saw its revenue from genetic testing increase 7% last year to \$61.3 million from \$57.3 million in 1999. The company currently performs nearly 400,000 genetic tests per year, primarily in the area of DNA-based tests for cystic fibrosis and prenatal diagnosis of chromosome abnormalities. Genzyme Genetics has more than 500 employees, including 60 board-certified genetic counselors and medical geneticists. Its largest laboratories are located in Framingham and Santa Fe, NM.

Esoterix Inc. (Austin, TX) generated about \$60 million in revenue in 2000, up 9% from \$55 million in 1999, according to Jim McClintic, president. Esoterix operates 10 laboratory facilities in the U.S., including a new 10,000 square-foot lab in Eden Prairie, MN, that will focus on molecular testing in the areas of oncology and hematology. Esoterix, which is owned by venture firm Behrman Capital (New York City), is aiming for an initial public offering sometime in the next 12-18 months. The company is now focused on putting its various labs on a common laboratory information and billing system, says McClintic.

Myriad Genetics (Salt Lake City, UT) generated \$12 million from its genetic testing operations in calendar 2000, primarily from its BRCA1 and BRCA2 gene sequence analysis for susceptibility to breast and ovarian cancer. In the six months ended last Dec. 31, Myriad's genetic testing revenue was \$7.016 million vs. \$3.638 million in the same period a year earlier. Late last year, Myriad began marketing Colaris, a gene-based test for hereditary colon and uterine cancer.

Athena Diagnostics (Worcester, MA), a subsidiary of Elan Corp. (Dublin, Ireland), specializes in lab tests for neurological disorders. At present, Athena offers about 70 tests to the Nation's 7,500 practicing neurologists, including tests for Alzheimer's disease, Huntington's disease, and multiple sclerosis. Athena's average price per test is roughly \$200-\$300, with a range of \$50-\$700. Athena employs approximately 100 people and generated an estimated \$10 million in revenue last year. Parent company Elan develops specialty drugs and the delivery systems that control their absorption; examples include Zanaflex (for spasticity) and Skelaxin (a muscle relaxant). 🏢

Leading U.S. Reference Labs

<i>Company</i>	<i>Calendar 2000 Revenue from Esoteric Work (in millions)</i>
Quest Diagnostics	\$425
LabCorp	312
Specialty Labs	153
ARUP Labs*	145
American Medical Labs	140
Mayo Medical Labs	100+
Genzyme Genetics	61
Esoterix	60
Myriad Genetics	12
Athena Diagnostics	10
Total, 10 companies	1,481
Other reference labs	962
Total, all companies	\$2,380

*Revenue is the projected total for the 12 months to end June 30, 2001.

Sources: LIR estimates and company reports



New Cystic Fibrosis Guidelines To Spur DNA Testing

The average life expectancy for a person with CF is 32 years

The American College of Medical Genetics (ACMG—Bethesda, MD) published new guidelines in March on cystic fibrosis (CF) screening, recommending that all Caucasian couples planning a pregnancy or seeking prenatal care be offered DNA testing to screen for common mutations in the CF gene. Previously, the College had recommended offering the test to just those with a family history of the disease. Members of other racial groups are less likely to be carriers, and scientists have not yet identified all the common mutations.

About one in 25 Caucasians of European ancestry carry a CF genetic mutation. Carriers themselves don't have CF, but if both parents are carriers, a child has a 1-in-4 chance of being born with the disease. CF causes sticky mucus to build up in the lungs, pancreas, and other organs, leading to respiratory and digestive problems.

Last year, an estimated 100,000-125,000 CF tests were performed in the U.S. at a price of roughly \$200 per test, indicating a market size of more than \$20 million. However, Mara Aspinall, president of Genzyme Genetics (*see p. 7*), tells *LIR* that the market could more than double over the next 24 months as physicians implement the new guidelines. Genzyme's "home-brew" CF-87 test screens for 87 of the most common CF gene mutations (the most of any laboratory). These include the 25 most common mutations (the recommended standard for CF tests under the new guidelines) and an additional 62 mutations common in various ethnic groups. Aspinall estimates that Genzyme currently performs 40% of all CF tests in the U.S. 🏠

Laboratories Gearing Up For DNA-Based Colorectal Cancer Tests

Late last year, Myriad Genetics began marketing Colaris, a gene-based test that helps determine predisposition to colorectal cancer; the list price is \$1,900

A number of laboratories and test kit manufacturers are gearing up to launch genetic tests for colorectal cancer—the most deadly cancer in the U.S. after lung cancer. The American Cancer Society estimates that in this country last year there were approximately 130,200 new cases of colorectal cancer and approximately 56,300 deaths from the disease. Almost 50% of patients with a new diagnosis will die within five years. Detection of pre-cancerous adenomas and cancer in its earliest stages increases survival rates. As a result, the American Cancer Society and the National Cancer Institute recommend that the 74 million Americans age 50 and older undergo regular colorectal cancer screening.

Fecal occult blood testing (FOBT, CPT 82270), whose reimbursement is capped at \$3.50 per test by Medicare, is currently the most common test for screening for colon cancer. But it has been criticized for low sensitivity and specificity. If FOBT results are positive, a patient is typically referred for a colonoscopy, which provides a definitive diagnosis, but costs between \$1,000-\$2,000 to perform.

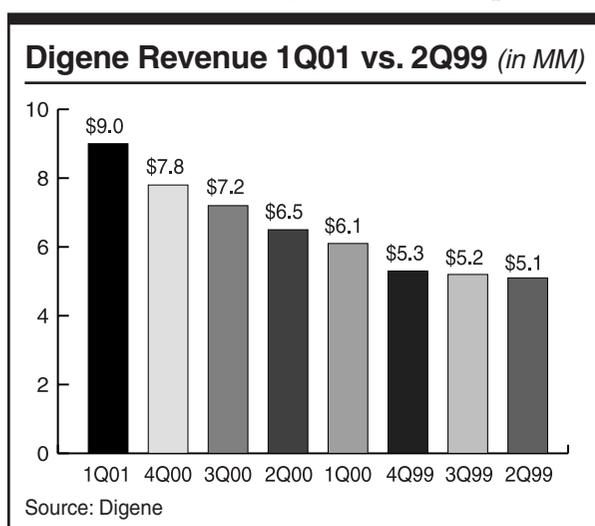
Exact Corp. (Maynard, MA) has developed a colon cancer test in collaboration with the Mayo Clinic (Rochester, MN). Exact's ProGen-26 test isolates human DNA shed from the colon into the stool and identifies mutations associated with colorectal cancer and pre-cancerous lesions. ProGen-26 is expected to be launched later this year as a "home-brew" test with a list price of \$495. 🏠



Digene's High-Priced HPV Test A Boon To Labs

Use of a DNA-based screening test, made by Digene Corp. (Gaithersburg, MD), to detect human papillomavirus (HPV) is booming, providing some labs with another high-margin product for the fight against cervical cancer. Certainly, Digene is benefiting as its revenue has jumped 47% to \$9.01 million in first-quarter 2001 from \$6.123 million in the same period a year ago.

The Digene Hybrid Capture2 HPV test is the only FDA-approved test for HPV, which is associated with more than 90% of cervical cancer cases. Labs such as Quest Diagnostics, LabCorp, and Unilab currently use the Digene test as a reflex test for



inconclusive Pap test results. Of the total 50 million Pap tests performed in the U.S. each year, approximately 5-10% are borderline (low-grade squamous intraepithelial lesions) and require follow-up testing. In addition, Digene is preparing a submission to FDA to expand its labeling claim to primary screening.

Digene's HPV test costs laboratories \$20-25 per test. It is currently reimbursed by Medicare under CPT code 87621 (capped at \$48.50)—HPV Amplified Probe Technology billed x 2 (two tests per patient specimen: includes low risk and high risk)—for a total of \$97 per specimen tested. Managed care companies that reimburse for the test include Aetna, UnitedHealth Group, and Kaiser, plus 30 Blue Cross/Blue Shield plans. 🏠

Quest To Buy Rest Of MedPlus Stake

Quest Diagnostics (Teterboro, NJ) has agreed to acquire the remaining 82% of voting shares of MedPlus (Cincinnati, OH) stock it does not currently own for \$2 per share in cash (equal to about \$17.3 million). The companies expect to close the deal after the MedPlus shareholders meeting in June. In the interim, Quest will provide MedPlus with a secured credit line of up to \$5 million.

MedPlus's electronic-based ChartMaxx patient record system is installed (or being installed) at more than 30 customer sites. The company's Internet-based eMaxx patient record system is being rolled out at over 35 Quest laboratories. eMaxx allows office-based physicians to access patient data via the Web, including laboratory and radiology test results and hospital discharge reports. In addition, MedPlus has installed its OptiMaxx system for electronic records storage and retrieval at 120 hospitals and medical groups.

In the fiscal year ended Jan. 31, 2001, MedPlus reported a net loss of \$6.567 million vs. a net loss of \$5.771 million in the previous year; revenue was \$10.332 million (including more than \$500,000 from Quest), down from \$12.538 million in fiscal 2000. The company has 126 full-time employees and has accumulated \$22.6 million in net losses since its inception in 1991. 🏠

Fourth-Quarter Profits Total \$79M At 16 Lab Companies

Sixteen publicly traded laboratory testing companies posted combined net income of \$79.246 million in the three months ended Dec. 31, 2000, compared with a net loss of \$45.032 million in the same period a year earlier. Revenue for the group increased 11% to \$1.82 billion vs. \$1.639 billion a year earlier. Overall, the fourth-quarter net profit margin was 4.4%.

Unilab Corp. (Tarzana, CA) recorded the largest fourth-quarter profit, earning \$38.884 million vs. a net loss of \$43.912 million in the same period a year earlier; revenue was up 20% to \$86.352 million. Excluding a one-time tax benefit of \$36.968 million, Unilab's fourth-quarter 2000 profit was \$1.916 million.

The largest net loss was recorded by UroCor Inc. (Oklahoma City, OK), which lost \$6.416 million vs. a net loss of \$13,000 in the same period a year ago; revenue increased 39% to \$15.233 million. Fourth-quarter 2000 earnings were hurt by a special charge of \$9.8 million related to the company's previously announced tentative settlement with the U.S. Department of Justice (*LIR, March '01, p. 4*).

The largest top-line growth was recorded by Impath Inc. (New York City), which saw its fourth-quarter revenue climb 50% to \$38.888 million from \$26.007 million a year ago. Impath specializes in diagnosis and prognosis of cancer tissue, including breast cancer, complex tumors, and lymphoma/leukemia. Last year, the company handled a total of 175,587 cases (up 18%) with an average revenue (excluding cytogenetic and serum analysis) of \$707 per case (up 36%).

Myriad Genetics (Salt Lake City, UT) also posted strong sales growth, with revenue climbing 44% to \$11.954 million, including \$7.988 million from research (up 28%) and \$3.966 million from molecular testing (up 96%). ▲

Laboratory Company Financials 4Q00 vs. 4Q99 (in \$000)

Company	Revenue			Net Income		
	4Q00	4Q99	% Chg	4Q00	4Q99	% Chg
AmeriPath	\$87,596	\$71,981	22%	-\$3,214	\$6,010	NA
Bio-Reference*	18,387	15,030	22%	122	-96	NA
Dianon	25,552	20,778	23%	1,980	1,241	60%
Dynacare**	87,180	72,592	20%	559	828	-32%
Enzo Biochem*	13,876	11,564	20%	1,565	1,520	3%
Impath	38,888	26,007	50%	3,754	1,741	116%
LabCorp	486,100	422,700	15%	20,900	800	2513%
LabOne	45,782	34,952	31%	-1,663	543	-406%
Medtox	10,315	8,942	15%	-3,816	169	NA
Myriad Genetics	11,954	8,280	44%	-1,189	-1,877	NA
PharmChem	12,688	11,294	12%	302	1,082	-72%
Psychemedics	4,044	4,183	-3%	15	201	-92%
Quest Diagnostics	836,400	814,500	3%	25,400	-14,500	-275%
Specialty Labs	39,531	33,467	18%	2,062	1,231	68%
Unilab	86,352	71,667	20%	38,884	-43,912	NA
UroCor	15,233	10,925	39%	-6,416	-13	NA
Total, 16 cos.	\$1,819,878	\$1,638,862	11%	\$79,246	-\$45,032	NA

*Results for Bio-Reference Labs and Enzo Biochem are for quarters ending January 31.

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

Source: *LIR* from companies



Lab Stocks Spring Up 28% In Latest 5 Weeks

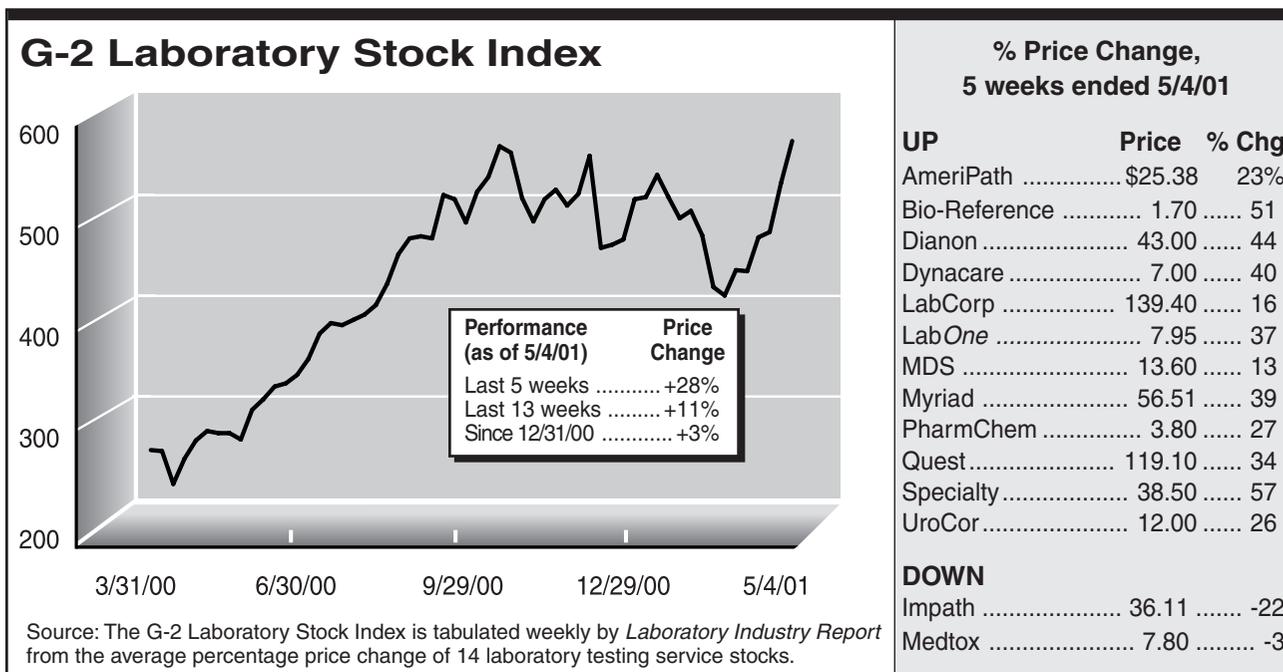
Laboratory stocks jumped 28% in the five weeks ended May 4, 2001, according to the G-2 Laboratory Stock Index. Twelve stocks in the index rose in price during the period, two fell. Year-to-date, the G-2 Lab Index has risen 3%. In comparison, the S&P 500 is down 4% and the Nasdaq is 11% lower.

Shares of **Specialty Laboratories** (Santa Monica, CA) posted the biggest gain, soaring 57% to \$38.50 per share, giving the company a market capitalization (number of shares times share price) of \$852 million. For the three-month period ended March 31, 2001, the company reported a net profit of \$3.402 million, up from \$1.826 million in the same period a year ago; revenue was up 23% to \$43.822 million. Specialty handled 750,000 accessions in the first quarter, up 23% from a year ago, including a 21% gain from existing business plus 2% from the acquisition of BBI Clinical Laboratories (BBICL—New Britain, CT). Specialty paid \$9.5 million in cash to acquire BBICL in a deal completed on Feb. 20, 2001.

Other stocks moving sharply higher in the latest five weeks include **Bio-Reference Labs** (Elmwood Park, NJ), up 51% to \$1.70 per share; **Dianon** (Stratford, CT), up 44% to \$43 per share; and **Dynacare** (Dallas, TX and Toronto, Canada), up 40% to \$7 per share.

Impath (New York City) fell 22% to \$36.11 per share for a market capitalization of \$604 million. Impath reported a first-quarter profit of \$4.032 million vs. \$2.821 million in the same period a year ago; revenue was up 38% to \$42.136 million. However, the company's days in accounts receivables remained flat at 123 days.

Meanwhile, **Unilab Corp.** (Tarzana, CA) has filed a registration statement with the Securities & Exchange Commission to raise up to \$115 million from an initial public offering. Conversely, **American Medical Laboratories** (Chantilly, VA) has canceled its plans for an IPO, citing recent market conditions (see *First Monday, May '01*). 🏠





Last year, **Roche Diagnostics** (Indianapolis, IN) posted sales to U.S. customers of \$1.3 billion, up 10% from 1999, thereby becoming the largest IVD manufacturer in America. On May 7, we had the opportunity to interview its president **Martin Madaus**, PhD, on the state of the laboratory and diagnostic equipment industry. Here's some of what he had to say:

On the question of whether Medicare and managed care will open their wallets and pay for new and expensive genetic tests coming to market:
 "They [payers] have to be convinced that a new diagnostic test or device dramatically improves on current methods. For example, HIV viral load monitoring provides such a dramatic benefit and the demand from patients and physicians was so great that Medicare and insurance companies couldn't say no. The same is now happening with DNA-based tests for hepatitis C and human papillomavirus. The acceptance of more expensive tests may not happen as soon as many in the industry would like, but it is happening."

On the potential for more hospitals to bring esoteric tests (including PCR-based tests) in-house:
 "Financial considerations are just one aspect. The bigger question at many hospitals considering bringing PCR in-house is, 'Where do you find the people with the technical expertise needed to run these time-consuming procedures?'"

On pushing through higher reagent pricing:
 "It's still a battle. We have some financially weak companies [IVD manufacturers] in the marketplace that are struggling to compete on price. We haven't seen any turnaround in reagent pricing for chemistry, hematology, or immunoassay yet." 🏠

References in this issue

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703-802-6900
- ARUP Labs 801-584-5157
- Athena Diagnostics 800-394-4493
- Digene 301-944-7000
- Dynacare 416-487-1100
- Esoterix 512-494-3230
- Exact Sciences 978-897-2800
- Genzyme Genetics 508-872-8400
- Impath 212-698-0300
- LabCorp 336-584-5171
- Mayo Medical Labs 800-533-1710
- MedPlus 513-583-0500
- Myriad Genetics 801-584-3600
- Park City Solutions/Chi Labs
734-662-6363
- Quest Diagnostics 201-393-5000
- Roche Diagnostics 317-849-9350
- Specialty Labs 310-826-6543
- Unilab 818-996-7300

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