

# LABORATORY INDUSTRY REPORT®

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## HIGHLIGHTS

### TOP OF THE NEWS

- Labs increasingly eye consumer walk-in trade ..... 1
- Dianon to buy UroCor ..... 1

### INSIDE THE LAB INDUSTRY

- Direct-to-consumer testing programs examined at Quest, SED, and HealthScreen America ..... 5-7

### LAB NETWORKS/VENTURES

- Philadelphia hospital to expand ..... 3
- Inpatient revenue up at HCA, Tenet ..... 3
- UnitedHealth to send more business to big labs ..... 8

### WORKFORCE ISSUES

- Compensating sales directors ..... 4
- Healthcare worker shortage widespread ..... 4

### FINANCIAL

- Premiums rise 16% for New York State ..... 8
- 1Q01 profits total \$102 million at 16 labs ..... 10
- Lab stocks rise another 11% ..... 11

### INDUSTRY BUZZ

- Feds issue warning on business consultants ..... 12



## More Labs Target Direct-To-Consumer Market

Quest Diagnostics (Teterboro, NJ) has officially launched its “QuestDirect” program under which consumers can walk into one of 23 outlets that Quest has opened in Midwestern and Mountain States and directly order laboratory tests without first getting a physician’s authorization. Quest began offering the service earlier this year in Colorado, Kansas, and Montana (*LIR, Jan. ’01, p. 1*) and recently expanded it to Missouri and Utah.

Though this market has yet to prove itself on a wide scale, the financial rewards to labs could be enormous. Take privately held HealthScreen America (Jacksonville, FL). It opened a direct-to-consumer facility in Jacksonville in January 2000 and has provided testing services to 10,000 consumers. The company’s testing programs are priced from \$189 (for 12 tests) up to \$2,295 (for 30 tests); average revenue per customer is \$1,000, says CEO Christopher Fey.

For insight on direct-to-consumer programs at Quest, HealthScreen America, and SED Medical Laboratories (Albuquerque, NM), see *Inside The Lab Industry*, pp. 5-7.

### HealthScreen’s Consumer Choices

Bronze (12 tests) .....	\$189
Silver (17 tests) .....	\$279
Gold (22 tests) .....	\$549
Platinum (25 tests) .....	\$749
Diamond (29 tests) <sup>1</sup> .....	\$1,299
Diamond-Plus (30 tests) <sup>1,2</sup> .....	\$2,295

<sup>1</sup>Includes CAT scan of heart and lungs

<sup>2</sup>Includes CAT scan for colon cancer

Source: HealthScreen America

## Dianon To Buy UroCor For \$180 Million

Dianon Systems Inc. (Stratford, CT) has agreed to buy UroCor Inc. (Oklahoma City, OK) for \$180 million in stock in a deal expected to close in early October. The transaction values UroCor at approximately three times its annual revenue of \$61.9 million and 22 times its annual pretax profit of \$8.1 million (based on annualized first-quarter results). Assuming completion, the deal will create a pathology company with nearly \$170 million in annual revenue that tests 1.1 million tissue specimens per year. The combined company will have a substantial presence in testing for urological disorders, providing service to roughly two-thirds of the Nation’s 7,000 urologists.

In a June 28 conference call, Kevin Johnson, president and chief executive of Dianon, said UroCor’s primary testing facility *Continued on page 2*



## ■ Dianon To Buy UroCor, from page 1

The national labs must make acquisitions to keep up with Wall Street expectations, notes David Nichols of the Nichols Management Group (York Harbor, ME)

will continue to operate after the merger. However, corporate and administrative functions will be centralized at Dianon headquarters in Stratford. Johnson will continue as president and chief executive of the combined company. Michael George, chief executive of UroCor, is expected to retire after the close. The consolidation of administrative functions should result in significant cost savings, given that UroCor has about \$32 million per year in selling and general & administrative expenses.

Johnson said the two companies form a good geographic fit, with Dianon strongest on the East Coast and UroCor strongest in the Midwest. "Dianon has been successful in managed care contracting and I expect [the merger] to accelerate our ability to contract with managed care companies," noted Johnson.

Dianon, which has been speculated to be up for sale itself (*LIR, Feb. '01, p. 2*), has had its eye on UroCor for a long time. In the summer of 1998, after months of failed negotiations, Dianon made an unsolicited offer to acquire UroCor for \$7.50 per

share in cash, or about \$80 million. However, that offer was rejected by UroCor management as too low. At \$80 million, Dianon would have paid 1.7 times UroCor's 1998 revenue.

Although UroCor reported a profit in this year's first quarter, the company has struggled. In full-year 2000, for example, UroCor reported a net loss of \$4.819 million on revenue of \$52.622 million. The recent turnaround has been achieved by substantial

price increases (more than 30%) on pathology services to physician clients over the past year, plus higher reimbursement from Medicare. UroCor now generates an average of roughly \$160 in revenue per specimen.

David Schreiber, chief financial officer, credits Michael George (who became UroCor's CEO in August 1998) with turning the company around. He says George cleaned up compliance problems and worked out a \$9 million settlement with the U.S. Department of Justice to resolve whistleblower claims of Medicare overbilling. Schreiber also notes that UroCor has improved its collections, with days in accounts receivable falling to 78 in first-quarter 2001 vs. 122 days in 1998.

Under terms of the deal, each of UroCor's 10.5 million outstanding shares will be exchanged for 0.4064 shares of Dianon stock up to a maximum value of \$18 per share. At Dianon's current price of \$40 per share, each UroCor share is worth \$16.26, or a premium of 32% over UroCor's 90-day average stock price. After the close of the deal, Dianon will have roughly 12 million shares outstanding and a market capitalization, based on its current price, of \$480 million. 🏠

### Dianon Acquisition Summary

Laboratory/Location	Date	Price (\$MM)	Price/Rev
Pathologists Reference Lab ..... (Tampa, FL)	Feb-98	\$0.6	0.33
Kyto Meridien Diagnostics ..... (Woodbury & New City, NY)	May-99	13.0	0.89
John H. Altshuler, MD ..... (Englewood, CO)	Oct-00	1.7	NA
UroCor (Oklahoma City, OK)* ...	Oct-01	180.0	2.91

\*Pending deal Source: LIR

### Dianon & UroCor In Brief

	Dianon	UroCor	Combined
Annual revenue*	\$107.212	\$61.880	\$169.092
Pretax income*	13.780	8.089	21.869
Employed pathologists and MDs	47	10	57
Total employees	699	360	1059

\*Based on annualized first-quarter 2001 financial results; \$ in MM.

Source: Dianon and UroCor



## Children's Hospital Of Philadelphia Begins Major Expansion

The Children's Hospital of Philadelphia (Philadelphia, PA) broke ground on a \$650 million expansion and renovation project last month that will nearly double the size of its main campus over the next five years. Plans include expanding the main inpatient facility from 340 beds to 430-440 beds and construction of a new 450,000 square-foot building for ambulatory care and clinical research.

The hospital's core chemistry and hematology lab will be completely redesigned and expanded, according to Bryan Wolf, MD, PhD, chairman of pathology and laboratory medicine. Wolf says the core lab will have a more open floor plan and possibly a new front-end automation system. The hospital's pathology lab will also be expanded. Overall, laboratory space will increase from 36,000 square feet to more than 50,000.

### Children's Hospital of Philadelphia At A Glance

*Hospital beds:* 340

*Annual inpatient admissions:* 20,000

*Annual outpatient visits:* 700,000

*Annual billable test volume:* 2.3M

*Lab employees:* 200 FTEs + 27 pathologists, MDs & research scientists

*Reference lab:* ARUP Laboratories

Source: Children's Hospital of Philadelphia

Wolf says the cytogenetics, molecular diagnostics, immunogenetics, virology/microbiology, and metabolic labs will be expanded as well. He says Children's is seeking to expand the esoteric testing services it provides to physician offices in the Philadelphia and southern New Jersey region, especially for the 25 "Kids First" pediatric physician offices it owns. As part of the hospital's five-year construction plan, it will build a new specialty

care center in Atlantic County, NJ, and expand centers in Voorhees, NJ; King of Prussia, PA; and Springfield, PA. In addition, several new Kids First offices will be opened throughout the Delaware Valley. 🏠

## Inpatient Revenue Rises 5% At HCA, Up 8% At Tenet

Gains under last year's Medicare "giveback" legislation (the Benefits Improvement & Protection Act of 2000), plus improved pricing on managed care contracts, have helped the two largest U.S. hospital chains report better bottom-line results.

For the first quarter ended March 31, 2001, HCA (Nashville, TN) reported net income of \$326 million vs. \$296 million a year ago; revenue was up 5% to \$4.501 billion. Inpatient revenue per admission increased 5% to \$6,959 from \$6,625 a year earlier, even as average length of stay declined to 5 days from 5.1 days. HCA operates 194 hospitals and 77 ambulatory surgery centers, primarily in Florida and Texas.

Tenet Healthcare (Santa Barbara, CA) reported net income of \$198 million in the three months ended Feb. 28, 2001 vs. \$38 million a year earlier; revenue was up 6.5% to \$3.036 billion. Inpatient revenue per admission was up 8.3% to an average \$8,327; average length of stay was flat at 5.3 days. Tenet operates 110 hospitals, primarily in California, Florida, Texas, and Pennsylvania. 🏠



## Labs Tap Many Methods To Compensate Sales Directors

Commercial laboratories use many different methods to compensate their top marketing executives, according to Dave Daniels, director of the medical division at Search West, a Los Angeles-based executive recruiting firm. Daniels provided some compensation figures for the position of Director of Sales at six mid-sized commercial labs (\$20-\$100 million in annual sales) across the country. Salaries averaged approximately \$100,000 per year, but bonus packages varied widely.

One of the more interesting methods in calculating a bonus is employed by a lab in the Southeast. It shares a small percentage of its annual increase in sales with its director of sales. Under this arrangement, a \$5 million addition to annual sales would result in the director of sales getting a \$25,000 bonus (i.e., \$5 million x

.005%=\$25,000). Daniels points out other factors that can be weighed into calculating bonuses, such as staying within budget, retaining old business, the profitability of new accounts, and meeting goals to hire additional salespeople.

Daniels says experienced salespeople are a tremendous asset whose value to a laboratory appreciates over time. He advises labs to make fair offers to

potential new salespeople (and other employees). "If you 'lowball' an applicant, he or she may accept, but be prepared for them to keep looking and leave when a competitor makes a fair offer." ▲

Location	Base Salary	Bonus
Northeast .....	\$95,000 .....	up to 30% of salary
Southeast .....	\$87,000 .....	gets .005% of sales increase
Midwest .....	\$140,000 .....	\$50,000 bonus + stock options
Southwest .....	\$92,000 .....	negotiated each year
West .....	\$78,000 .....	\$90,000 bonus
Northwest .....	\$115,000 .....	\$180,000 bonus

Source: Dave Daniels, Search West

## AHA Survey Shows Widespread Healthcare Worker Shortage

The healthcare worker shortfall, including the shortage of laboratory technologists, is a growing problem for hospitals across the country, according to an American Hospital Association survey released in June. The survey was based on responses from more than 700 urban and rural hospitals. Questions were focused on current healthcare staffing needs—until now, most surveys had focused on future shortages. The survey found that hospitals currently have up to 168,000 open positions—126,000 for registered nurses.

For laboratory technologists, the vacancy rate was 12%, based on the percent of unfilled, budgeted positions. Rural hospitals have a larger percent of these unfilled slots (15%) compared to urban hospitals (10%), and 43% of the hospitals surveyed reported more difficulty recruiting laboratory technologists than in the previous year.

Pharmacists .....	21%
Radiological technologists .....	18%
Laboratory technologists .....	12%
Registered nurses .....	11%

Source: AHA

The survey also showed that many hospitals are experiencing care delivery problems because of the shortfall of workers, including emergency department overcrowding (41%), increased waiting time for surgery (22%), and canceled inpatient and outpatient surgeries (15%). ▲

## Quest, SED & HealthScreen Offer Patient-Directed Testing

California, New York, and Florida are among the 30 states that limit or prohibit an individual's ability to order his/her own lab tests, according to data from the American Society of Clinical Pathologists

**L**aboratory *Industry Report* has identified nine hospitals and commercial laboratories that currently offer patient-directed testing services, and more labs are expected to join the mix soon. The notion that consumers will walk into retail-type locations to order and pay for lab tests on their own is relatively new and unproved. But it's gaining more attention especially now that **Quest Diagnostics** has opened 23 such sites in five states under its new QuestDirect program.

Hughes Bakewell, vice president of consumer health at Quest, tells *LIR* that the target market is baby-boomers who are worried about their health and don't have the patience to deal with their health insurance plan. He believes that some portion of the 77 million people in the U.S. age 50 and older are willing to pay out-of-pocket to get their own lab tests. Another potential market, according to Bakewell: the 43 million individuals in the U.S. who don't have health insurance.

QuestDirect retail sites have opened in eight markets: Billings, MT; Colorado Springs, Denver, Fort Collins, Greeley, and Pueblo, CO; Salt Lake City, UT; and the Kansas City region which includes areas in Missouri and Kansas. Sixteen of the 23 sites are Quest patient service/collection centers that have been modified to accommodate walk-in customers.

Another six sites are new retail locations specifically designed for QuestDirect. These sites average about 2,000 square feet and are located in strip shopping malls, according to Bakewell. They feature carpeted floors, soft lighting, and private consultation rooms where customers can order their tests and have specimens drawn.

The remaining QuestDirect site is the Personal Diagnostic Center (Overland Park, KS) which Quest has acquired from its owner John Halsey, PhD. PDC was opened by Halsey in February 1997 and has been offering a limited menu of tests to consumers ever since. Halsey will continue to own and operate his main business, IBT Reference Laboratory (Overland Park), which specializes in immunology and allergy testing. But specimens collected at PDC, as well as other QuestDirect locations, will be shipped to Quest's regional lab in Denver for testing.

Bakewell would not reveal the amount that Quest has invested to launch QuestDirect. However, fixed costs have included the construction of a new Web site (Questtest.com) and the opening of six new retail centers. Operating costs include training and staffing at the 23 locations. But the biggest outlay may be a full-scale advertising program that includes commercials on local TV, radio, billboards, and newspapers.

On the other side of the equation, Quest is charging a high price for its direct-to-consumer test panels. A Women's Health Profile, for example, that includes approximately 50 lab tests as well as an osteoporosis risk test using ultrasound costs consumers \$150; a CBC (complete blood count) \$40; a PSA (prostate

specific antigen) \$45; and a Food Allergy Panel (includes allergy tests for milk, egg white, peanut, codfish, clam, shrimp, etc.) \$150.

QuestDirect does not accept insurance plans for reimbursement. Customers pay by cash, check, or credit card. This, of course, eliminates the administrative costs associated with billing and repeat billing.

QuestDirect is offered only in states that do not prohibit labs from performing laboratory tests, based solely on the request of an individual. Even so, QuestDirect has put some local physicians on retainer in each of its markets to review test orders and results; however, these physicians do not provide customers with medical diagnosis or treatment. Test results are provided to consumers via Quest's Website or mail. Patients with critical test results are advised to contact their doctor.

**SED Medical Laboratories** (Albuquerque, NM), a not-for-profit joint venture lab owned by St. Joseph Healthcare System (Albuquerque) and five local pathologists, launched a direct-to-consumer testing program in November 2000. The program has been dubbed The SED People PLAN (Public Laboratory Access Network) and is targeted at New Mexico's uninsured population—approximately 25% of the state's 1.8 million people.

Nanci George, vice president of marketing for SED, says self-pay customers can walk in and order lab tests at any of SED's patient service/collection centers in Albuquerque, Santa Fe, Las Cruces, Los Lunas, and Rancho Cordova. SED is relying on banners and brochures posted at each location and word-of-mouth advertising, says George. She says the new service is on track to generate roughly \$50,000 in revenue this year, adding "the market for this service is limited."

Because the service is aimed at uninsured self-paying customers, George says test fees have been set in line with the Medicare lab fee schedule. The most common test ordered is for ABO & Rh blood typing at a price of \$12 per test. Other popular tests include a cholesterol panel at \$17; PSA at \$30; and TSH (thyroid stimulating hormone) at \$25.

George says that SED mailed 1,100 letters explaining The SED People PLAN to physicians in New Mexico prior to launching the program. The only concern on the part of physicians was that some patients might call them for free advice on interpretation of test results. This concern has turned out to be unwarranted. SED mails test results to patients; critical results are accompanied by a phone call from an SED pathologist.

**HealthScreen America** (Jacksonville, FL) opened a 9,000 square-foot retail testing location in Jacksonville in January 2000. Based on suggestions from a theme-park designer, the medical office includes a 7-foot red-and-blue fiberglass heart in the entry way. Behind it, water runs in a fake stone "river" with an artificial tree and recorded bird chirps. "We're a destination experience," says Christopher Fey, chairman and chief executive of HealthScreen.

In addition to traditional laboratory tests for glucose, cholesterol, PSA, TSH, etc., HealthScreen offers CAT scans of the heart, lungs, and colon as well as ultrasound screens for osteoporosis. For example, the company's "Gold" package bundles 22 tests, including ultrasound screens of the heart and thyroid, EKG with cardiologist interpretation, along with lab tests for glucose, cholesterol, C-reactive protein, fibrinogen, homocysteine, TSH, PSA, urinalysis, complete blood count, and a chemistry panel. Also included are vision and hearing tests. The Gold package costs \$549; payment plans include a 25% down payment of \$137.25 and 11 monthly

## Labs Offering Direct-To-Consumer Testing

Name	Location
Any Test Inc. ....	Atlanta, GA
Associated Pathologists Laboratories <sup>1</sup> .....	Las Vegas, NV
Clinical Laboratories of the Midwest .....	Sioux Falls, SD
HealthScreen America .....	Jacksonville, FL
Kronos Science Laboratory .....	Phoenix, AZ
Personal Diagnostic Center <sup>2</sup> .....	Overland Park, KS
QuestDirect .....	CO, KS, MO, MT, UT
SED Medical Laboratories .....	Albuquerque, NM
The Lab .....	Folsom, CA

<sup>1</sup>Acquired by American Medical Laboratories in October 1999

<sup>2</sup>Acquired by Quest in October 2000

Source: *LIR*

credit card payments of \$37.43.

State laws in Florida prohibit individuals from ordering lab tests on their own. To meet the need for physician authorization, HealthScreen employs two full-time physicians at its Jacksonville office. In total, the office has 50 employees. However, HealthScreen does not maintain a laboratory facility or license. CAT scans and ultrasounds are performed on-site, but specimens drawn for laboratory testing are sent to contracted labs (primarily Laboratory Corp. of America), according to Fey.

He says the Jacksonville site is currently generating about \$500,000 per month in revenue and hopes to reach a \$1 million per month run rate by early next year.

HealthScreen plans to open a second site in Atlanta in October and a third site in Boston early next year, Fey says.

“Our expertise is in sales and marketing ... You can’t just throw up some ads and expect people to flock to your door to get tested ... We’re not selling tests, we’re selling a total lifetime health and preventive medicine package,” he points out.

HealthScreen is majority owned by Chris Fey and his brother Fred. The Feys made a small fortune by creating a Medicaid HMO in Florida, Missouri, and Pennsylvania named HealthAmerica in the early 1990s. They sold it in 1995 to Coventry Health Plan (Bethesda, MD) for \$45.3 million.

Fey says that HealthScreen has raised a total of \$15 million to date from investors, including GE Medical, which is supplying the company with imaging equipment. Fey hopes to raise an additional \$20-25 million so that the company can open dozens of more sites across the country.

Other companies offering direct-to-consumer laboratory testing services include:

- ◆ **Kronos Science Laboratory** (Phoenix, AZ), which sells a physical exam with an extensive laboratory test panel to consumers for \$2,950 (*LIR, March '01, p. 10*).
- ◆ **The Lab** (Folsom, CA) markets individual tests at six retail lab facilities in northern California (*LIR, Jan. '01, p. 3*).
- ◆ **Any Test Inc.** (Atlanta, GA) offers individual lab tests to walk-in customers at eight sites in the Atlanta area.
- ◆ **Associated Pathologists Laboratories** (Las Vegas, NV), which is now part of **American Medical Laboratories** (Chantilly, VA), has provided testing services directly to consumers for more than five years.
- ◆ **Clinical Laboratories of the Midwest** (Sioux Falls, SD), owned by Sioux Valley Hospital, offers consumers a menu of 15 lab tests, ranging from ABO/Rh typing, a comprehensive metabolic panel, a lipid panel, drugs-of-abuse testing, and prothrombin time to PSA, glucose testing, and more. 🏠



## New York State Health Insurance Rates Rise 16% For 2001

Total premiums paid by New York State and its employees for health insurance coverage this year rose by an average 16% to \$232.25 per-member/per-month (PMPM), according to data from the New York State Department of Civil Service. New York State provides health insurance to more than 215,000 employees and their dependents.

The most popular coverage is an indemnity plan that covers 183,720 employees and dependents at a cost of \$275.89 PMPM, up 11% from \$248.36 last year. New York State employees also have the choice of 16 HMOs that charge an average \$229.53 PMPM, up 16% from \$197.40 last year.

Selected Plans	2001	2000	%Chg	Members
Indemnity Plan	\$275.89	\$248.36	11.1	83,720
Capital District PHP	212.81	195.48	8.9	9,916
HIP	222.74	199.00	11.9	4,160
Mohawk Valley PHP	217.82	216.93	0.4	3,209
Independent Health Assn.	178.48	147.54	21.0	2,768
Aetna US Healthcare	245.22	220.92	11.0	1,032
UnitedHealth Group	257.64	223.03	15.5	88
Avg. total for all 17 plans	\$232.25	\$200.40	15.9	215,484

Source: New York State Dept. of Civil Service

### Are Labs Getting Their Fair Share?

Some simple arithmetic shows it's highly unlikely that hospital and commercial labs are getting their fair share of the rising healthcare premium dollar in New York State. For example, the average commercial HMO member gets roughly 2.5 lab tests per

year (excluding inpatient testing). Average reimbursement from Medicare and third-party fee-for-service payers is roughly \$12 per billable test. This means that labs are getting about \$30 per year in payment for lab work per health plan member (2.5 tests x \$12/test=\$30).

New York State and its employees pay an average of \$232.25 PMPM, or \$2,787 per-member/per-year. Thus, by these back-of-the-envelope calculations, New York State laboratories are getting only 1.1% of total healthcare premium dollars (\$30 divided by \$2,787=1.1%).

## UnitedHealth To Send More Business To Big Labs

As noted in a recent research report by CIBC World Markets (New York City), UnitedHealth Group (Minneapolis, MN) recently stated that national laboratories such as Quest Diagnostics and Laboratory Corp. of America offer cost savings of as much as 40% over their smaller competitors. Over the past 12-18 months, UnitedHealth has increased the percentage of lab tests that go to national laboratories from a little over one-third to more than 50%. The company's goal is 70%.

UnitedHealth is the Nation's second-largest health plan (after Aetna Inc.) with 16.5 million members, including 6.4 million HMO enrollees, and annual revenue of more than \$22 billion.



## Misys To Buy Sunquest For \$400 Million

Misys PLC (Worcestershire, England) has agreed to acquire Sunquest Information Systems (Tucson, AZ) for \$24 per share in cash, or about \$400 million. The buyout price represents a 63% premium to Sunquest's stock price prior to announcement of the agreement and is more than three times Sunquest's annual revenue run rate of \$127 million (based on first-quarter results).

In the six months ended Nov. 30, 2000, Misys generated revenue of 413 million British pounds (US \$578 million), up 17% from the same period a year earlier. Misys supplies software products to the banking and investment industries (40% of revenue), insurance companies (37%), and healthcare facilities (23%).

Misys plans to fold Sunquest into its healthcare division, which consists primarily of Medic Computer Systems (Raleigh, NC). Misys acquired Medic in 1997 for \$923 million. Medic provides physician practice management software and electronic medical records systems to approximately 70,000 physicians at 18,000 office sites in the U.S. In the six months ended Nov. 30, 2000, Medic's revenue fell 5% to 95 million British pounds (US \$133 million).

### Sunquest At A Glance (\$MM)

	1Q01	1Q00
Revenue	\$31.801	\$28.671
Operating income	2.956	3.605
Net income	2.278	2.625
Long-term debt	0	0
Cash holdings	67.823	70.431

Source: Sunquest

Sunquest, which has 901 employees, provides laboratory information systems to more than 1,000 hospitals in the U.S. In the three months ended March 31, 2001, the company reported a net profit of \$2.278 million, down from \$2.625 million in the same period a year earlier; revenue was up 11% to \$31.801 million.

Combined, Medic and Sunquest will employ roughly 2,300 employees and generate nearly \$400 million in annual revenue. However, aside from potential administrative efficiencies, the two companies have little else in common. Their customer bases are very different, and cross-selling opportunities appear to be small.

Sidney Goldblatt, MD, chairman and founder of Sunquest, is expected to give up his executive responsibilities after completion of the deal. Goldblatt founded Sunquest in 1979 and currently owns (or controls through trusts) approximately 12 million shares, or 76% of the company. At \$24 per share, Goldblatt's stake is worth \$288 million. 🏠

## Abaton.com Cuts Services In Wake Of iMcKesson Losses

No wonder McKessonHBOC (San Francisco, CA) decided to cease operating its iMcKesson Internet healthcare service unit as a stand-alone company (*LIR, March '01, p. 12*). The company recently reported that iMcKesson posted an operating loss of \$340.4 million on revenue of \$284.1 million in 2000. Undoubtedly a large part of the loss included write-offs associated with McKessonHBOC's \$103 million acquisition of Abaton.com (Minneapolis, MN) in November 1999. Abaton.com sold software for Internet-based lab test ordering and results reporting and had become part of the short-lived iMcKesson. However, iMcKesson has been restructured back into McKessonHBOC. And McKessonHBOC has told the handful of laboratory customers that use Abaton.com that the service will no longer be offered as a stand-alone product for labs. 🏠

## First-Quarter Profits Total \$102M At 16 Lab Companies

Sixteen publicly traded laboratory testing companies posted combined net income of \$102.057 million in the three months ended March 31, 2001, up 66% from \$61.386 million in the same period a year earlier. Revenue for the group increased 11% to \$1.95 billion vs. \$1.759 billion a year earlier. Overall, the first-quarter net profit margin was 5.2%.

Among 12 clinical laboratory testing companies, **LabOne** (Lenexa, KS) and **Specialty Labs** (Santa Monica, CA) grew revenue the fastest. LabOne's first-quarter revenue was up 23% to \$50.045 million led by strong growth from physician-office clients and substance abuse testing. Specialty Labs' revenue was also up 23% to \$43.822 million.

**Enzo Biochem** (Farmingdale, NY) was the most profitable clinical laboratory, earning \$1.861 million on revenue of \$15.201 million for a profit margin of 12%. Enzo provides laboratory testing services in the New York City area (about 60% of revenue) and also manufactures DNA probe tests (40% of revenue) and is developing drug treatments for HIV-1 and hepatitis.

Among four publicly traded pathology companies, **Impath Inc.** (New York City) grew the fastest. The company reported a 38% increase in first-quarter revenue to \$42.136 million. 🏠

### Laboratory Company Financials 1Q01 vs. 1Q00 (in \$000)

Laboratory Cos.	Revenue			Net Income		
	1Q01	1Q00	% Chg	1Q01	1Q00	% Chg
Bio-Reference Labs*	\$19,831	\$16,286	22%	\$ 503	\$ -122	NA
Dynacare**	95,808	79,935	20%	2,089	2,619	-20%
Enzo Biochem*	15,201	12,579	21%	1,861	2,003	-7%
LabCorp	525,400	462,700	14%	43,500	25,700	69%
LabOne	50,045	40,581	23%	397	418	-5%
Medtox	11,606	9,676	20%	438	297	47%
Myriad Genetics	11,567	9,715	19%	-1,728	-2,090	NA
PharmChem	11,549	10,608	9%	-700	282	NA
Psychemedics	4,064	4,682	-13%	9	555	-98%
Quest Diagnostics	882,553	857,479	3%	35,748	17,809	101%
Specialty Labs	43,822	35,607	23%	3,402	1,826	86%
Unilab	95,308	79,276	20%	3,171	1,504	111%
<b>Total, 12 cos.</b>	<b>1,766,754</b>	<b>1,619,124</b>	<b>9%</b>	<b>88,690</b>	<b>50,801</b>	<b>75%</b>
<b>Pathology Cos.</b>						
AmeriPath	98,745	75,043	32%	3,241	6,098	-47%
Dianon	26,803	22,079	21%	2,050	1,260	63%
Impath	42,136	30,563	38%	4,032	2,821	43%
UroCor	15,470	12,040	28%	4,044	407	894%
<b>Total, 4 cos.</b>	<b>183,154</b>	<b>139,725</b>	<b>31%</b>	<b>13,367</b>	<b>10,585</b>	<b>26%</b>
<b>Grand total, 16 cos.</b>	<b>\$1,949,908</b>	<b>\$1,758,849</b>	<b>11%</b>	<b>\$102,057</b>	<b>\$61,386</b>	<b>66%</b>

\*Results for Bio-Reference Labs and Enzo Biochem are for quarters ending April 30.

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

Source: LIR from companies



## Lab Stocks Add Another 11% In Latest 4 Weeks

Laboratory stocks tacked on another 11% gain in the four weeks ended June 29, 2001, according to the G-2 Laboratory Stock Index, which tracks the average percentage price change of 15 lab testing company stocks. Ten stocks rose in price during the period, five fell. Year-to-date, the G-2 Lab Index has risen 27%. In comparison, the S&P 500 is down 7% and the Nasdaq is down 13%.

### Largest Labs By Market Cap

Company	Market Cap (\$MM)	Annual Rev* (\$MM)	Market Cap/Rev
Quest	\$7,231	\$3,530	2.0
LabCorp	5,414	2,102	2.6
Myriad Genetics	1,440	46	31.3
Specialty Labs	837	175	4.8
Unilab	811	381	2.1

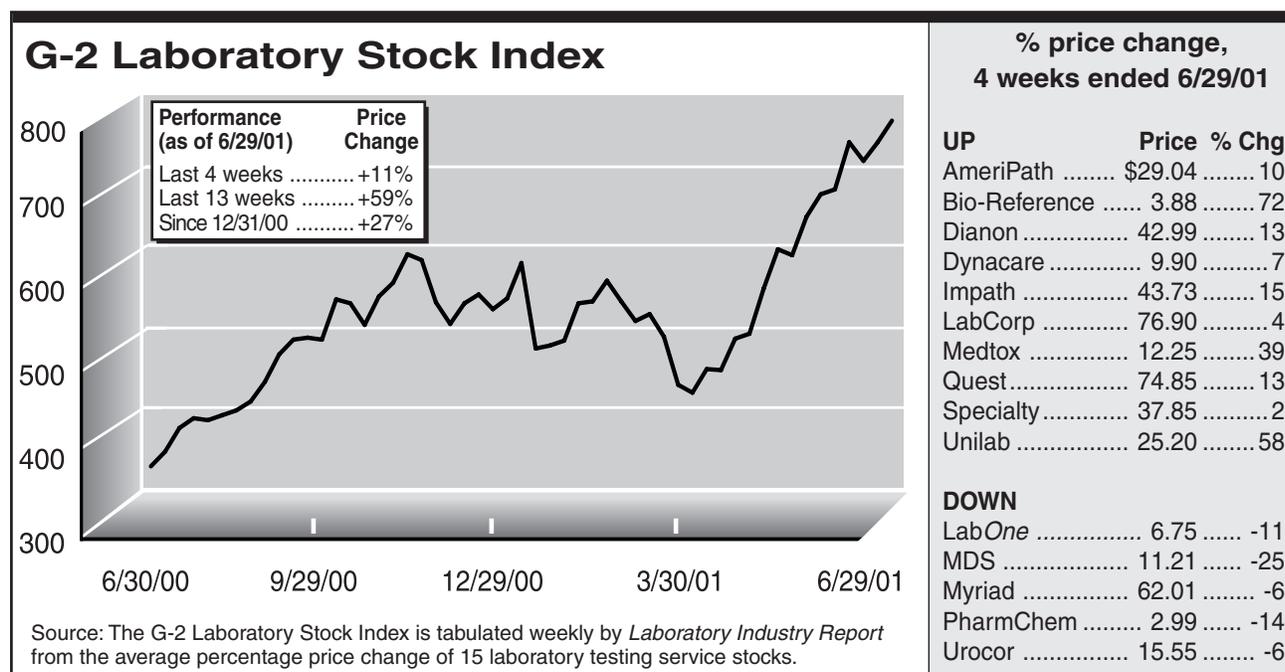
\*Based on annualized first-quarter 2001 results  
Source: LIR

Shares of **Unilab** (Tarzana, CA), which recently went public, jumped 58% to \$25.20 per share, giving the company a market capitalization (number of shares x share price) of \$811 million.

Other stocks moving sharply higher in the latest four weeks included **Bio-Reference Labs** (Elmwood Park, NJ), up 72% to \$3.88 per share, and **Medtox** (St. Paul, MN), up 39% to a share price of \$12.25.

**Quest Diagnostics** (Teterboro, NJ) was up 13% to \$74.85 per share. The company, which completed a two-for-one stock split on June 1, has reached a market capitalization of \$7.2 billion. Quest now trades at more than two times its annual revenue of approximately \$3.5 billion.

**Laboratory Corp. of America** (Burlington, NC), which completed a two-for-one stock split on June 12, was up 4% to \$76.90 per share to reach a market capitalization of \$5.4 billion. LabCorp now trades at more than 2.5 times its annual revenue of approximately \$2.1 billion. 🏠





Medical billing consultants (including those who advise pathologists) should expect more scrutiny now that government agencies are critical of the role some consultants play in encouraging questionable insurance billing techniques. On June 27, the Senate Finance Committee was presented with the results of a 13-month probe of consulting services by investigators from the General Accounting Office, a congressional watchdog agency. GAO secretly taped two private seminars conducted by Conomikes Associates (Costa Mesa, CA) where physicians were given advice on how to raise their revenue while avoiding audits and investigations.

The GAO tapes revealed consultants coaching physicians to conduct tests and medical procedures that were not medically necessary in order to support bills for managing problems more complex than those presented by patients during office visits. Physicians were also advised to neither report nor refund overpayments received from insurance companies after they were discovered. "There's an industry based on milking federal healthcare programs," said Sen. Charles Grassley, the Iowa Republican who requested the GAO probe last year when he was chairman of the Committee on Aging.

### References in this issue

- Children's Hospital of Philadelphia  
215-590-1000
- Dianon 203-381-4000
- HCA 615-344-9551
- HealthScreen 904-346-4400
- McKessonHBOC 415-983-8300
- Nichols Management Group  
207-363-8230
- Quest Diagnostics 201-393-5000
- Search West 310-284-8888
- SED Medical Laboratories  
800-999-5227
- Tenet Healthcare 805-563-7000
- UnitedHealth 612-936-1300
- UroCor 405-290-4000

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GAO says that it has held discussions with the U.S. Department of Health & Human Services' Office of Inspector General on the need to monitor workshops and seminars on billing practices. On June 27, the HHS Inspector General issued a special advisory bulletin, warning providers of questionable consultant practices and the fact that hiring a consultant does not relieve the provider of legal responsibility to deal honestly with Medicare, Medicaid, and other federal healthcare programs. 🏠

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