

LABORATORY INDUSTRY REPORT®

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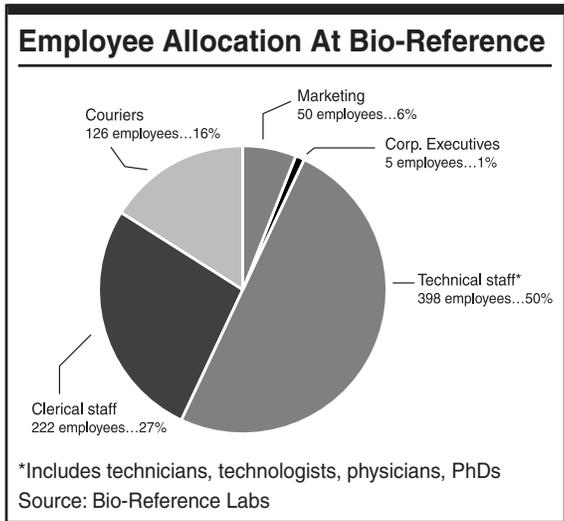
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Hospital Labs Under-Invest In Sales & Marketing

Over the past five years, hospital labs have gained share in the outreach market relative to commercial labs. Data from the Centers for Medicare & Medicaid Services (formerly HCFA) show that the hospital share of Medicare Part B spending on lab services rose to 43% in 2000 from 34% in 1995. The gain has come despite the fact that hospital outreach programs generally don't invest as heavily in their sales and marketing programs as commercial labs. For example, Bio-Reference Labs (Elmwood Park, NJ), a large regional lab covering the New York City area, employs 50 full- and part-time employees for sales and account maintenance. In contrast, consultants tell *Laboratory Industry Report* that most hospital outreach programs employ only about 1-5 individuals (per hospital) on their sales and service teams. For pointers on building and motivating a hospital outreach salesforce, see *Inside The Lab Industry*, pp. 5-7.



Hooking Up With Docs Via The Internet: Labtest.com Reveals Its Pricing Plan

It's not easy sifting through the myriad pricing plans that e-health vendors charge to connect laboratories with their physician office clients via the Internet. The variables can be confusing and keep changing. To get some perspective, *LIR* contacted Bill Seay, president of Labtest.com (Midland Park, NJ), who lifted the veil on his company's standard price schedule.

In a nutshell, initial installation and license fees for Labtest.com's Web-based order entry and results reporting service come in at around \$55,000. Recurring fees for interface and license maintenance run about \$833 per month.

Continued on page 2



■ **HOOING UP WITH DOCS**, *from page 1*

And subscription fees are based on the number of physician users or a minimum of \$5,000 monthly.

The Labtest.com system does not require installation of any proprietary software or hardware. Under its application service provider (ASP) arrangement, a doctor with access to the Internet and a standard Web browser can order lab tests and receive results using a password-protected log-in.

Labtest.com was founded in October 1999 by Seay and the company's chief technology officer, Jim Hutchinson, as well as John Herring, a board member and president of Seacoast Lab Data Systems (Portsmouth, NH). It currently has four commercial lab customers using its test results reporting service. They include Clinical Diagnostic Services (Englewood, NJ), Diagnostic Lab Services (Honolulu, HI), Dianon (Stratford, CT), and Path Lab (Portsmouth, NH), which was recently acquired by Laboratory Corp. of America. Seay says that a combined 800 physician clients at these four labs are using the Labtest.com system. The majority log on to Labtest.com at least once per week, and roughly half use it daily to get one or more test results, according to Seay.

The transition of labs and physicians to the Internet is occurring much slower than many industry observers had predicted, he notes. "I used to think we had started our company too late. Now I worry that we started too early."

Seay says several factors account for the slow adoption of Internet technologies by laboratories and physician offices. These include the simple fact that physicians are not interested in making a change in their pattern of practice unless it results in a major increase in productivity (*i.e.*, 50+%). He also notes that while the typical 56K phone modem is fast enough for results reporting, broadband services such as digital subscriber lines (DSLs) are strongly recommended for entering lab orders via the Internet. However, DSL service is not available in many parts of the country.

Seay also points out that problems at e-health companies—like the former AHT Corp. (declared Chapter 11 bankruptcy late last year), the former Abaton.com (had been part of the now-defunct iMcKesson group), and WebMD (still unclear if it ever really had a functioning Internet lab service product)—have caused potential

hospital and lab customers to put off making a purchase decision.

As for Labtest.com, Seay says his company could turn profitable with the addition of only four more lab customers. He believes Labtest.com's low overhead (*e.g.*, only five full-time employees) will enable it to outlast its competitors. 🏠

Pricing For Labtest.com's ASP Order Entry/Results Reporting Service*

Standard license fee	one-time cost of \$35,000
Order/result interface connection, testing	one-time cost of \$20,000-40,000
Ongoing license fee & interface maintenance	approx. \$833 per month
Custom programming fee	\$150/hr or as separately quoted
Minimum monthly subscription fees	\$5,000/month, year 1
.....	\$7,500/month, year 2
.....	\$10,000/month, year 3

*Pricing for test result reporting only is about half of all pricing above

Source: Labtest.com



Quest Wins Empire Healthchoice HMO Contract

Quest Diagnostics (Teterboro, NJ) has won a contract to manage a network of laboratory providers that will serve HMO members of Empire Blue Cross Blue Shield (New York City). Empire's Healthchoice HMO covers approximately 350,000 members in the New York City area. Lab services will be provided through the QuestNet network management service. Under QuestNet, Quest contracts to manage all laboratory services to an HMO and its members in exchange for a monthly fee. Quest then contracts with other labs to fill gaps in its network. Quest keeps an administrative fee, then pays its subcontracted labs a fee based on the volume and complexity of the tests they perform as part of the network. The contract will take effect Nov. 1, 2001.

Quest has also been named as a preferred provider of lab services to Empire's 2.7 million PPO and 1.3 million indemnity members; however, a number of local hospital and commercial labs will be preferred providers as well. Earlier this year, Empire had planned to terminate all of its lab provider agreements and make Quest its exclusive provider for all of its members (*LIR, April '01, p. 1*). But after protests from the New York State Clinical Laboratory Association, Empire broadened its lab network for its PPO and indemnity members. "Empire has been very responsive to our concerns," notes Tom Rafalsky, president of the association. 🏠

MAMSI Signs Lab Contracts With LabCorp, AML

The contracts cover 560,000 HMO/POS members in MAMSI's Optimum Choice and M.D. IPA plans and 1.2 million PPO/indemnity members in the mid-Atlantic states

Following a competitive bid process, Mid Atlantic Medical Services Inc. (MAMSI—Rockville, MD) has announced a new laboratory testing agreement with Laboratory Corp. of America (Burlington, NC) covering MAMSI members in Maryland (except the Eastern Shore), Delaware, North Carolina, Pennsylvania, Virginia (except northern Virginia), and West Virginia. In addition, American Medical Laboratories (Chantilly, VA) has been selected to provide lab services to MAMSI members in the District of Columbia and northern Virginia.

The agreements with LabCorp and AML will replace an existing contract with Quest Diagnostics, effective Aug. 15, 2001. In addition, MAMSI says that Shore Health Laboratories, part of the Shore Health System of Maryland (Chestertown), will continue as the preferred laboratory for MAMSI members residing on Maryland's Eastern Shore. 🏠

Novation Signs New Contracts With Mayo, Specialty, ARUP

Novation (Irving, TX), the group purchasing supplier to VHA hospitals and the University HealthSystem Consortium (UHSC), has signed new reference lab contracts with Mayo Medical Laboratories (Rochester, MN), Specialty Laboratories (Santa Monica, CA), and ARUP Laboratories (Salt Lake City, UT). Sherry Dobis, director of lab programs at Novation, says Novation selected the "best low bids." Previously, VHA had contracted with Mayo and Specialty Labs, while UHSC had a sole-source contract with ARUP. Dobis says Novation was able to get lower prices under

the new contracts. Novation is the country's largest GPO, purchasing \$16 billion annually on behalf of its 2,100 acute care hospital members. 🏠

Sentara Launches Direct-To-Consumer Testing

Sentara Healthcare (Norfolk, VA) launched a direct-to-consumer diagnostic testing service, effective May 14, 2001. The service is dubbed "Sentara Health Check" and is located at an office adjacent to Sentara Virginia Beach General Hospital (SVBGH). Consumers/patients can walk in and order their own radiology and laboratory tests. Specimens are tested on-site or sent to the nearby reference lab at SVBGH. Results are mailed directly to the patient. Patients with critical results get a phone call from Sentara advising them to see a doctor.

The marketing campaign includes advertisements in local newspapers and direct mail. One interesting marketing ploy is the offering of gift certificates for health screening that consumers can purchase as gifts to loved ones. Sentara Health Check offers a menu of screening tests (*see below*) and individual tests (including HIV for \$20, prostate-specific antigen for \$50, and glucose (quantitative) for \$10).

Sample Screening Services From Sentara Health Check

Ultimate Women's Health Check: \$399

- CA 125 (Cancer Screening)
- Diabetes screening
- Lipid profile
- Mammogram
- Osteoporosis screening
- Transvaginal, pelvic ultrasound
- Thyroid profile (TSH, Free T4)

Ultimate Men's Health Check: \$425

- Abdominal aortic aneurysm screen
- Carotid ultrasound
- Ferritin
- Homocysteine
- PSA
- Lipid profile
- Peripheral arterial screen

Source: Sentara Health Check 🏠

Jeld-Wen Offers Quest Testing To 20,000 Employees/Spouses

Quest Diagnostics (Teterboro, NJ) has announced an agreement to offer its "Blueprint for Wellness" laboratory testing and health assessment services to approximately 20,000 Jeld-Wen employees and their spouses in the U.S. The Quest program will be offered at health fairs at Jeld-Wen facilities throughout the summer. With corporate headquarters in England, Jeld-Wen is one of the world's largest manufacturers of doors, windows, and specialty wood products. Its North American headquarters is in Klamath Falls, OR.

Employees and spouses who choose to take advantage of the Blueprint for Wellness service complete a questionnaire concerning health background, lifestyle, and heredity information. Quest draws blood samples and performs roughly 30 tests for each patient, including tests for cholesterol, thyroid, glucose, PSA, etc. Patients receive confidential health reports at their homes; employers get an aggregate report summarizing results in their employee population. Employers typically pay Quest between \$70 and \$100 for each employee or spouse tested. 🏠

INSIDE THE LAB INDUSTRY

Measuring Performance Crucial To Improving Outreach Sales

Building a successful hospital outreach program requires a sense of urgency within the lab organization, according to Sandra Sullivan, president of the consulting firm Laboratory Strategy and Sales (Winnetka, IL). Sullivan says that one key to sustaining this sense of urgency is to provide all employees with quarterly information describing outreach performance in terms of sales, profitability, quality, and service.

“The for-profit commercial labs have a compelling motivation to meet quarterly goals, and hospitals should create comparable expectations,” says Sullivan, adding that without the proper systems in place to measure performance, goal-setting becomes ineffectual. She also strongly suggests that hospital labs measure their sales performance in terms of net sales (after contractual allowances), which have far greater meaning than the gross sales reporting used by many hospitals.

Examples Of Monthly Indicators For Lab Outreach

Financial/Sales

Net sales
Net revenue per test
Total cost per test
Contribution margin, and profit or loss
Profitability by account
New sales by territory

Lab

Total number of tests
Tests per technical paid hour
Direct cost per test

Source: Laboratory Strategy and Sales

Client Services

Number of calls by category
Wait time and abandon rate
Calls per paid hour

Billing

Cash collections, total and by payer type
Aging receivables
Bad debt, total and by payer type
Denials and unbillables, by reason/payer type
Days sales outstanding

In addition to internally generated statistics, Sullivan recommends that labs regularly conduct mail, telephone, and one-on-one surveys of clients. Satisfaction levels with customer service, courier service, billing, results reporting, and turnaround time should be measured and tracked over time. Survey findings can be tabulated and distributed in sum-

mary form to all employees. Findings also can be used to pinpoint service issues, identify opportunities, and reward exemplary performance.

The salesforce for a hospital outreach program should be rewarded in part on an incentive-based compensation program that includes commissions for new

Showing Employees “How We Measure Up”

Laboratory Industry Report was recently given a tour of the Quest Diagnostics regional laboratory in Teterboro, NJ. The extent of Quest’s prowess in measuring productivity was exhibited on a bulletin board in the company’s customer service area. Posted on the board were the total number of client phone calls to the facility on a particular Friday in July (7,000+ calls), the average time taken to get a Quest representative on the line (17 seconds), the percentage of calls abandoned by waiting customers (1%), and the average length of a conversation between a client and a Quest representative (20 seconds).

accounts or bonuses for sales targets met, according to Sullivan. Although the use of incentive compensation is standard practice at commercial labs, it is not an option at many health systems. Some hospitals may believe that sales incentives will foster resentment among lab employees not on the salesforce. The answer to this potential issue, Sullivan says, is to reward all lab employees with periodic bonuses tied to key measures of lab performance.

A well-staffed and motivated sales team can mean the difference between a dead-in-the-water outreach program and a growing one. Below are some details on the sales structure at four vibrant hospital outreach programs.

TriCore Reference Laboratories (Albuquerque, NM) reorganized its salesforce and implemented a commission and bonus structure, effective January 2001. The result has been a 21% increase in outreach testing volume for the first six months of this year vs. the same period last year, according to Terri Stewart, vice president of marketing and business development for TriCore. Stewart notes that the major operational issues faced in forming the TriCore consolidated lab have been resolved (*LIR, Jan. '01, p. 4*).

The salesforce reorganization included redefining and clarifying the roles of TriCore's eight-person sales team. The team now consists of two managers (including Stewart), four account managers, and two salespeople.

Account managers at TriCore are focused on maintaining and selling additional services to existing clients. They receive part of their compensation from commissions. The salespeople get a base salary plus commissions for winning new accounts, which they service for one year before the accounts become the responsibility of the account managers.

Stewart attributes a large part of TriCore's increased volume to the introduction of commissions and bonuses as part of compensation. Prior to the start of this year, TriCore's sales team was compensated on a salary-only basis. Stewart also notes that TriCore is now tracking test volume for each account manager and salesperson and setting specific monthly and quarterly goals. Finally, she notes that TriCore is bringing trainers to conduct on-site seminars for its sales department every three months.

Under the direction of Kathy Foucar, MD, TriCore has begun marketing hematopathology services to physician offices and other labs nationally, using direct mail and faxed advertisements. TriCore has contracted with independent sales representatives (on a commission-only basis) across the county to follow-up on sales leads. TriCore currently generates about \$500,000 per year from hematopathology and is seeking to raise that amount to \$750,000 per year within the next six months, according to Stewart.

TriCore, formed in 1998, is a consolidated lab serving Presbyterian Healthcare Services and the University of New Mexico Hospital (UNMH), both in Albuquerque, and St. Vincent Hospital in Santa Fe. TriCore operates a 30,000 square-foot clinical lab and a 25,000 square-foot anatomic pathology/administrative facility in Albuquerque. It also manages two rapid-response labs at Presbyterian, plus a rapid-response and specialty testing facility at UNMH. St. Vincent manages its own rapid-response lab, but sends non-time sensitive tests to TriCore. Altogether, TriCore employs roughly 600 full-time equivalents (FTEs) and performs more than four million billable tests per year, including 2+ million from outreach. TriCore's primary competitors include SED Medical Laboratories (Albuquerque), Quest Diagnostics, and Laboratory Corp. of America.

Sentara Laboratory Services (SLS—Norfolk, VA) operates a core lab out of Norfolk General Hospital that serves four other hospitals owned by Sentara Healthcare in southeastern Virginia, plus Williamsburg Community Hospital (49% owned by Sentara). The core lab and five other hospital labs employ a total of approximately 400 FTEs and will perform a projected 3.7 million billable tests this year, including 1.5 million from outreach, according to Beth Deaton, business development manager for SLS.

Deaton says outreach volume is growing at 10-12% per year. Large clients include Sentara Health Plan (owned by Sentara Healthcare), an HMO with about 250,000 members in Virginia and northeastern North Carolina. Sentara's primary competitors are Quest Diagnostics and LabCorp.

Sentara's outreach program has a marketing staff of five people (4.5 FTEs), including three employees who get a base salary plus commissions and are dedicated to sales and service. In addition, the entire laboratory staff (and other hospital staff) can receive bonuses, based on the overall profitability of the hospital system.

Deaton says SLS measures outreach volume on a monthly basis, and the profitability of the program is tracked every six months. Revenue, test volume, and new accounts for each salesperson are monitored each month as well. Sentara's outreach program was profitable last year after direct expenses and allocation of hospital overhead, she says.

Avera Laboratory Network (ALN—Sioux Falls, SD) moved its two salespeople from straight salary to base salary plus commissions, effective June 1, 2001. Commissions are generated for maintaining existing accounts and for adding new clients, says Mel Heinz, chief operating officer for ALN. "Our salespeople welcomed the change. It's hard work bringing on new clients."

ALN includes the labs at St. Luke's Midland Regional Medical Center (Aberdeen), Queen of Peace Hospital (Mitchell), Sacred Heart Hospital (Yankton), and McKennan Hospital (Sioux Falls).

Overall, ALN performs more than two million billable tests per year, including about 40% from outreach. Heinz says Avera is on track to grow 15% this year. Primary competitors include Quest Diagnostics, LabCorp, and

Clinical Laboratories of the Midwest in Sioux Falls.

Instrumentation, information systems (from Mediatech), and client test catalogues have been standardized throughout the four labs, according to Heinz.

Gross revenue from each outreach client is monitored monthly, but Heinz says the network is still grappling with how to accurately measure the profitability of outreach.

Laboratory Alliance of Central New York (Liverpool) currently employs one full-time salesperson (base salary plus commissions) and is seeking to hire another, according to Anne Marie Mullin, director of outreach. Effective Jan. 1, 2001, Lab Alliance began a capitated lab contract to serve approximately 19,000 MVP Health Plan members in the Syracuse area. Other recent new business includes the addition of three nursing home clients, bringing the total to five. "We're exceeding our goals," Mullin says.

The for-profit Lab Alliance operates a consolidated lab and manages rapid-response labs for its three hospital owners—Community General Hospital of Greater Syracuse, Crouse Hospital, and St. Joseph's Hospital. Lab Alliance's 320 FTEs perform about two million billable tests per year (25% from outreach). Lab Alliance's network includes 11 patient service centers. Primary competitors include LabCorp, Quest Diagnostics, and Centrex Clinical Laboratories (New Hartford, CT).

Frank Kerns, who formerly ran a consulting firm based in Scottsdale, AZ, became chief executive of Lab Alliance in May. He replaced Gint Taoras who resigned to become manager of a hospital lab in Connecticut. 🏠



Efficiency At Hospital Labs vs. Commercial Labs

Operating costs at hospital laboratories with significant outreach programs are very similar to those at the Nation's largest commercial labs, according to data compiled by Park City Solutions' Laboratory Service Group (formerly Chi Lab Systems) in Ann Arbor, MI.

Of 23 hospital labs analyzed, the median performed an average of 6.85 reportable test results per paid hour with average direct expenses of \$5.05 per test. Of the \$5.05 in direct expense, employee salary and benefits accounted for 59%, supply expenses 20%, and other expenses (such as repair/maintenance, courier service, etc.) 21%.

The 23 hospital labs in the study averaged 2.2 million reportable results per year/per hospital, including 40% from inpatients and 60% from outpatient/outreach. The 23 hospitals had an average of 403 active acute-care beds each.

Efficiency At 23 Hospital Labs With Outreach Programs

	25 th Percentile		50 th Percentile		75 th Percentile	
Performed RRs ¹ / Total Pd Hour	5.64		6.85		7.71	
Total Direct Expense ² / RR	\$6.25	100.0%	\$5.05	100.0%	\$4.59	100.0%
Salary Expense / RR	\$3.80	60.8%	\$2.97	58.7%	\$2.49	54.3%
Supply Expense / RR	\$1.37	21.9%	\$1.03	20.3%	\$0.87	18.9%
Other Expense ³ / RR	\$1.08	17.2%	\$1.06	20.9%	\$1.23	26.8%

¹RRs: Reportable Results (CPT panel codes are exploded into the number of reportable results).

²Total Direct Expense: Does not include blood product expense, overhead, pathology compensation, or bad debt.

³Other Expense: Includes repair/maintenance, reference laboratory expense, depreciation, courier, and miscellaneous expense.

Source: Park City Solutions

Assuming an average of \$8 in revenue per reportable result, the median hospital lab spent 63% of every revenue dollar on lab operating expenses (\$5.05 in operating costs/\$8 in revenue per reportable result). Under this assumption, hospital labs with

large outreach programs have operating costs nearly identical to those at the two largest U.S. commercial labs. At Quest Diagnostics and Laboratory Corp. of America, operating costs were a combined \$1.691 billion in the six months ended June 30, 2001, representing 59% of their combined revenue of \$2.889 billion. But assuming an average of \$7 or \$9 in revenue per reportable result, the picture gets worse or better—the median hospital lab in the

Big Commercial Labs vs. Hospital Labs

	First-Half 2001 (Quest + LabCorp) (\$ Millions)		Hospital Labs Per Reportable Result			
Revenue	\$2,889.3	\$7.00	\$8.00	\$9.00		
Operating cost*	1,691.2	\$5.05	\$5.05	\$5.05		
Operating cost %	59%	72%	63%	56%		

*Includes cost of obtaining, transporting, and testing specimens, but excludes selling, general & administrative expenses, and bad debt.

Source: *Laboratory Industry Report* and Park City Solutions



Poor collection rates
keep many hospital
outreach programs
in the red

Park City Solutions' study would have operating costs of 72% and 56%, respectively.

Although hospitals and commercial labs appear to have similar operating cost structures, the two groups have major differences in their sales and marketing efforts and in billing and collection operations. In general, the commercial labs devote far more resources to selling their lab services—both in terms of average compensation per sales representative and the number of salespeople they employ (even after adjustments for differences in the size of the business), notes Dave Daniels, director of the medical division at Search West (Los Angeles, CA), an executive recruiting firm. Despite hospital labs' under-investment in sales and marketing, their outpatient/outreach testing volume has grown over the past 5-10 years. (For more on hospital sales and marketing efforts, see pp. 1, 5-7.)

That leaves billing and collections as the differentiating factor between hospital labs and commercial labs. "The commercial labs have sophisticated systems for pursuing every nickel owed to them," notes Jan Steiner, MD, senior principal at Park City Solutions/Lab Services Group.

In the three months ended June 30, for example, Quest Diagnostics reports that its average days in accounts receivable was 51, with bad debt expense at 6%. LabCorp reports that its days in A/R averaged 64 in the second quarter, with bad debt expense at 9.4%. The focus of these commercial labs has been in reducing the number of requisitions that arrive with missing information (through increased physician office training and communication) and re-submitting bills that have been denied.

In contrast, hospital labs have far more trouble getting paid for their testing services. For instance, a poll of 265 hospital lab directors and administrators conducted at last year's Lab Institute showed that 31% of hospital labs had bad debt expense of 20% or more. Perhaps even more alarming was the 19% of respondents who did not know and couldn't guess what their bad debt expense was.

A weak system for billing and collections can have a devastating effect on the bottom-line of a hospital outreach program. For example, an outreach program performing one million billable tests per year with a bad debt expense of 25% will miss out on roughly \$3 million per year in collectible revenue, assuming an average bill of \$12 per test.

Steiner notes that billing for outreach testing often falls under the control of a hospital's central billing department. Hospitals are fairly aggressive, he says, at hunting down payments for surgery bills that typically can add up to \$5,000 or more per patient. The same tenacity does not apply, however, to the \$10-25 bills generated by lab testing, despite the fact that these bills can add up to millions of dollars over the course of a year. It is not unusual, Steiner says, for lab billings submitted by the hospital's central billing department to have 30-40% denial rates because of incorrect coding.

Steiner urges hospitals to shift control of lab billing functions to lab managers and directors or outsource it to a billing management company. He says these changes will both improve collection rates and reduce the risk of non-compliance with Medicare regulations on eligibility for payment. 🏠



Quest Earns \$25.5M In 2nd Qtr, Revenue Up 6% To \$931.5M

Quest Diagnostics (Teterboro, NJ) reported net income of \$25.5 million for second-quarter 2001 vs. \$30.2 million in second-quarter 2000. Excluding one-time write-offs, Quest earned \$50.7 million, up from \$31.4 million.

Second-quarter revenue at Quest increased 6% to \$931.5 million. Second-quarter volume was roughly flat at 27.5 million requisitions. The revenue gain was achieved by an increase in average revenue per requisition to about \$32.65, from \$30.25 a

year ago. The increased average revenue was attained by a combination of pure price increases, a shift toward higher-paying business (e.g., from capitation to fee-for-service), and a shift toward more higher-paying esoteric tests.

Average days in accounts receivable at Quest fell to 51, down from 52 days in second-quarter 2000. Bad debt expense was lowered to 6% from 7.1% a year ago. 🏠

	2Q01	2Q00	% Chg
Revenue	\$931.5	\$877.1	6%
Net income	25.5	30.2	-16%
Total debt.....	1,014.4	1,026.1	-1%
Days in A/R	51	52	-2%

Source: Quest Diagnostics

LabCorp Posts 2nd Qtr Profit Of \$52.1 Million

Laboratory Corp. of America (Burlington, NC) reported net income of \$52.1 million for second-quarter 2001 vs. \$12.9 million in second-quarter 2000; revenue grew 14% to \$549.7 million. The revenue increase was comprised of a 7% rise in volume and a 7% rise in average price per accession. Excluding added revenue from recent acquisitions, LabCorp's internal revenue growth rate for the second quarter was 10%, including 3.5% from increased volume and 6.3% from higher average prices.

LabCorp recently announced an agreement to offer Exact Sciences Corp.'s DNA-based testing technology for the detection of colorectal cancer. Exact (Maynard, MD) will receive an upfront payment and licensing fees on the amount of testing performed. In a July 24 conference call, LabCorp chairman Thomas Mac Mahon said that LabCorp is seeking additional licensing agreements with other developers of molecular testing technologies, particularly in the areas of melanoma, colon, prostate, and breast cancer.

In the six months ended June 30, 2001, LabCorp generated \$179.6 million in revenue, or 17% of total revenue, from esoteric testing at three facilities: its Center for

Molecular Biology and Pathology (Research Triangle Park, NC), National Genetics Institute (Los Angeles, CA), and Center for Esoteric Testing (Burlington). Average price per accession at these three facilities was \$60.91 in first-half 2001 vs. \$60.22 in first-half 2000. Mac Mahon noted that while esoteric testing prices generally are firm, HIV viral load testing is starting to become more of a routine test with some downward pressure on price. 🏠

	2Q01	2Q00	% Chg
Revenue	\$549.7	\$482.4	14%
Net income	52.1	12.9	304%
Total debt.....	\$462.5	\$478.5	-3%
Days in A/R	64 days	70 days	-9%

Source: LabCorp



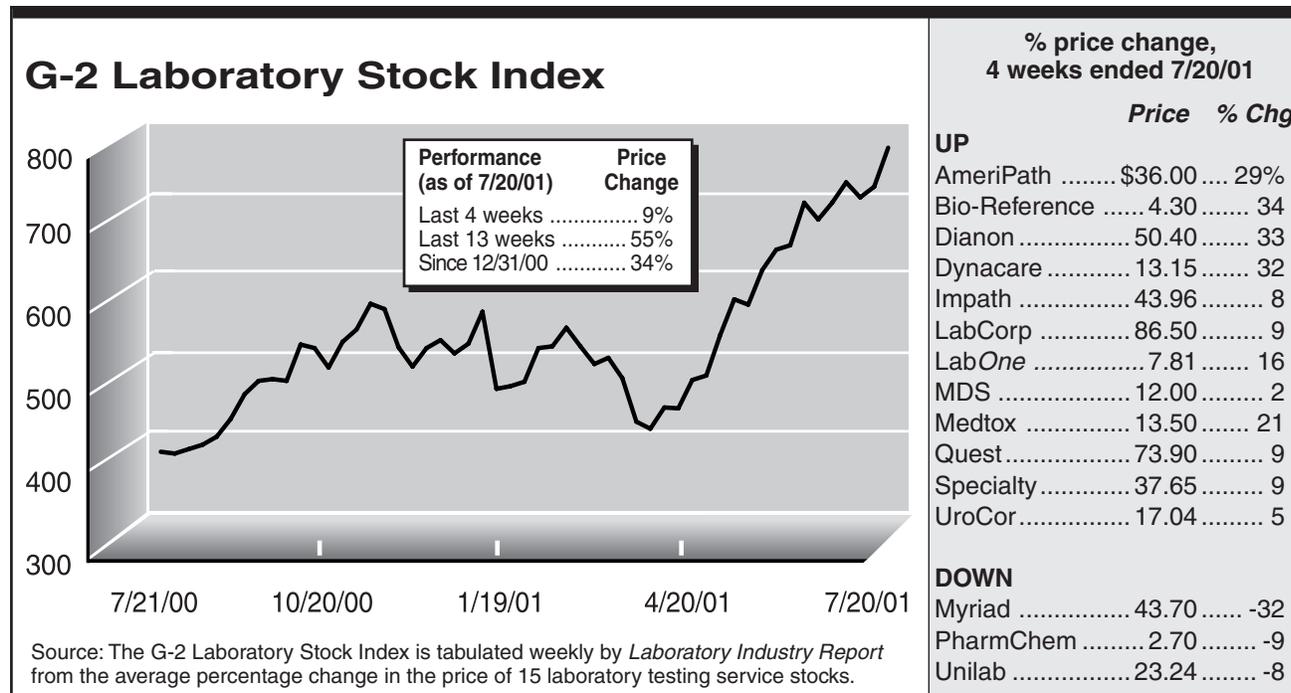
Lab Stocks Rise 9% In Latest 4 Weeks

Laboratory stocks had a 9% gain in the four weeks ended July 20, 2001, according to the G-2 Laboratory Stock Index, which tracks the average percentage price change in the stock of 15 lab testing service companies. Twelve stocks rose in price during the period, three fell. Year-to-date, the G-2 Lab Index has risen 34%. In comparison, the S&P 500 is down 8% and the Nasdaq is 17% lower.

Shares of **Dianon** (Stratford, CT) were up 58% to \$50.40 per share, giving the company a market capitalization of \$405 million. For the three months ended June 30, 2001, Dianon reported net income of \$2.367 million, up 50% from \$1.576 million in the same period a year earlier; revenue was up 18% to \$28.762 million (including 17% internal growth plus 1% from acquisitions). Based on these annualized results, Dianon currently trades at 43 times net income and 3.5 times its revenue.

Other stocks moving sharply higher in the latest four weeks included **Bio-Reference Labs** (Elmwood Park, NJ), up 34% to \$4.30 per share; **Dynacare** (Dallas, TX and Toronto, Canada) up 32% to \$13.15 per share; and **AmeriPath** (Riviera Beach, FL) up 29% to \$36 per share.

Medtox Scientific (St. Paul, MN) was up 21% to \$13.50 per share. Medtox provides testing for drugs of abuse via its SAMSHA-certified laboratory in St. Paul and sells drug testing kits for on-site/point-of-test analysis. For the three months ended June 30, 2001, Medtox reported net income of \$960,000, nearly double the \$481,000 it earned in the same period a year earlier; revenue was up 11% to \$12.561 million. Revenue growth included a 38% gain in the sale of on-site test kits to \$2.57 million; revenue from drug-of-abuse testing at its laboratory was up 6% to \$9.991 million. 🏠



INDUSTRY buzz

The American Society of Clinical Pathologists (ASCP) and the Clinical Laboratory Management Association (CLMA) have announced plans to co-locate their annual educational conferences in New Orleans, LA in June 2002. Louis Apostel, chief operating officer for ASCP, says the combination will create a "super show" for laboratory personnel.

The move should also placate laboratory vendors who for years have been pressuring ASCP, CLMA, and other lab trade groups to seek trade show partnerships.

Separately, laboratory managers and directors can expect the return of Abbott Laboratories' banned immunoassay kits by year's-end. The company was forced to stop selling approximately 60 tests early last year under its consent decree with the Food & Drug Administration. A final FDA inspection of Abbott's Lake County (IL) diagnostics manufacturing facility is expected to conclude by the end of September. Abbott executives expect to begin reintroducing banned tests on a rolling basis by the end of October. 🏠

References in this issue

American Medical Laboratories
703-802-6900

Avera Laboratory Network
605-622-5103

Dianon 203-381-4000

Empire BCBS 212-476-6664

LabCorp 336-584-5171

Lab Alliance 315-453-7200

Laboratory Strategy and Sales
847-441-7870

Labtest.com 201-447-9991

Medtox 651-636-7466

Park City Solutions 734-662-6363

Quest Diagnostics 201-393-5000

Sentara Health Check 757-395-6360

Sentara Lab Services 757-668-4368

TriCore 505-224-7999

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Thomas Scully, the new head of the Centers for Medicare & Medicaid Services, will discuss issues crucial to the healthcare industry—Medicare reform, as well as CMS reform—at this year's Lab Institute to be held Oct. 24-27 in Arlington, VA. The program also features major presentations by prominent lab industry executives, **Kenneth Freeman**, chairman & CEO of Quest Diagnostics, and **Robert Whalen**, president and CEO of Unilab Corp. For details, see the Lab Institute 2001 program booklet enclosed with this issue.

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