

LABORATORY

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How Does Your Outreach Billing Measure Up?

Billing, collecting and maintaining laboratory accounts receivable (A/R) at optimal levels remains an enormous challenge for all labs, especially hospital outreach programs. Statistics from the Centers for Medicare & Medicaid Services show that 15% of all Medicare outpatient lab claims are denied and 50% of denied claims are never resubmitted. Another indicator of the problem is the time it takes for labs to collect payment: more than 100 days on average for hospital outreach programs, according to data from Cerner Corp. and Quadax Inc.

The bottom-line result is bad debt expense somewhere north of 20% for third-party billings at the average hospital outreach program, according to Lale White, chief executive of Xifin (Carlsbad, CA), which provides lab claims and financial management services. With an average bill of \$25-30 per accession, a bad debt expense of 20% equates to \$5-6 of lost revenue per accession, making it nearly impossible to maintain a profitable outreach program.

Though these are sobering statistics, they indicate the enormous benefits that billing and collection improvements can provide to outreach programs. For more on A/R management, see pp. 5-7. 🏠

Outreach Billing Statistics*

- 15% of Medicare claims denied
- 50% of denied claims never resubmitted
- Average days in A/R: 100+
- Average bad debt expense: more than 20%

* Billing for third-party claims only (excluding capitated payments, direct-to-patient billing)

Sources: *Laboratory Industry Report* based on data from Xifin, Quadax, Cerner Corp. and the Centers for Medicare & Medicaid Services

HHS Funds Could Go Toward Hospital Information Technology, Thompson Says

With most hospitals struggling to maintain razor-thin margins (or stem losses), finding capital to invest in new information technologies (such as electronic medical records or Internet-based lab test ordering/results reporting) has been difficult. But a growing chorus of high-ranking government officials has begun touting the potential for government funding of information technology (IT) improvements within the nation's healthcare system. Tommy Thompson, Secretary of the U.S. Department of Health & Human Services, recently announced that he is "thinking seriously" about proposing a special fund to support technology pilot programs in hospitals and physician clinics. *Continued on page 2*



■ HHS FUNDS, *from page 1*

Thompson's comments came in a keynote speech presented over the Internet at the recent Bear Stearns virtual healthcare conference on Sept. 24-28. He said the public sector must help hospitals and clinics pay for the huge infrastructure investment required to install paperless clinical and administrative information systems. With federal budgetary pressures increasing, however, funds for a technology pilot program might need to come from money collected from provider fraud and abuse fines, he noted.

Hospitals devote far less of their capital budgets to information technology than most other service industries

Thompson said information technology has the potential to reduce medical errors and costs. He envisioned a system for nationwide electronic access to patient medical records and admissions information, so that patients can be admitted to a hospital anywhere in the nation along with their complete medical history. "The technology is there. We just need to get it into the medical system."

Separately, Thomas Scully, administrator of the Centers for Medicare & Medicaid Services, recently suggested that one way to foster development of healthcare information technology might be to offer providers incentives for capturing data on quality of care and making such data available to patients. Scully made the comments at the first annual Emerging Technologies Healthcare Conference, held on Nov. 16 in New York City by Corporate Research Group (New Rochelle, NY) and the healthcare law firm of Kalkines, Arky, Zall & Bernstein (New York City). He indicated that such an incentive program might, for example, offer providers higher reimbursement if they have invested in certain information technologies.

Scully cautioned providers and health plans not to expect increased Medicare and Medicaid reimbursement from CMS. "We can't afford as an economy to get back to double-digit growth in Medicare and Medicaid spending," he asserted, adding that annual Medicare costs "should be growing at CPI [the Consumer Price Index] plus growth in beneficiaries, which is [a combined] 5%, period."

Kenneth Gibbs, director of public finance at investment bank First Albany Corp. (Albany, NY), told conference attendees that healthcare information technology represents an infrastructure investment, and there is a strong legacy of government funding of infrastructure development. He cited federal and state loan programs for development of clean water, sewage treatment and transportation projects as models, but acknowledged tremendous competition for resources and uneven creditworthiness among hospitals. The challenge is to convince government that healthcare information technology spending should be a priority, said Gibbs.

Michael Dowling, chief operating officer of North Shore-LIJ Health System (Great Neck, NY), summarized some of the frustration that many hospitals are feeling toward information technology investment when he said, "We can spend a lot of money and not necessarily get anything in return." He added that he was tired of vendors who over-promise and under-deliver. "I have yet to have an [information technology] investment where I get money back. I'm always writing the check." Even so, Dowling said, North Shore-LIJ is expanding its information technology funding and cited the tremendous potential it has to improve management capabilities and quality of care. 🏠

Big Commercial Labs Perform 29 Billable Tests Per FTE/Day

Employees at the three largest commercial labs in the U.S. perform an average of approximately 29 billable tests per day, according to data compiled by *Laboratory Industry Report*. These three companies account for more than 60% of testing volume at all commercial labs in the country.

In total, Quest Diagnostics, Laboratory Corp. of America and Unilab employ 48,350 full-time employees (FTEs) and received a combined 145.3 million accessions for the nine months ended last Sept. 30. The group performed an estimated 382.6 million billable tests (based on an average 2.6 billable tests per accession) over the nine-month period. This equates to an average 29 billable tests performed per FTE per day (382.6 million billable tests/48,350 FTEs/273 days).

In terms of revenue, the three labs generated a combined \$4.647 billion over the nine-month period. This equates to an average \$352.03 in revenue per FTE per day (\$4.647 billion/48,350 FTEs/273 days).

Average revenue is \$12.14 per billable test. This compares to an average allowed charge of \$10.52 per billable test under Medicare Part B for routine clinical lab tests (*LIR, Nov. '01, p. 7*). The higher revenue per billable test for the three commercial labs can be attributed to the revenue they obtain from higher-paying pathology and esoteric testing services. 🏠

Comparing Efficiency At Three Big Commercial Labs

	<i>Quest</i>	<i>LabCorp</i>	<i>Unilab</i>	<i>Totals</i>
Revenue (9 mos. ended 9/30/01)	\$2,717,331,000	\$1,636,000,000	\$293,258,000	\$4,646,589,000
Cost of service (9 mos. ended 9/30/01) ¹	\$1,614,020,000	\$935,500,000	\$194,346,000	\$2,743,866,000
Cost of service %	59.4%	57.2%	66.3%	59.1%
Full-time employees ²	26,000	18,850	3,500	48,350
Accessions (9 mos. ended 9/30/01)	80,900,000	53,500,000	10,900,000	145,300,000
Est'd billable tests per accession ³	2.7	2.6	2.3	2.6
Est'd billable tests (9 mos. ended 9/30/01) ³	218,430,000	139,100,000	25,070,000	382,600,000
Avg daily revenue per FTE	\$382.83	\$317.91	\$306.92	\$352.03
Avg daily accessions per FTE	11.40	10.40	11.41	11.01
Avg daily billable tests per FTE	30.77	27.03	26.24	28.99
Avg revenue per accession	\$33.59	\$30.58	\$26.90	\$31.98
Avg cost of service per accession	\$19.95	\$17.49	\$17.83	\$18.88
Avg revenue per billable test	\$12.44	\$11.76	\$11.70	\$12.14
Average cost of service per billable test	\$7.39	\$6.73	\$7.75	\$7.17

¹Includes cost of obtaining, transporting and testing specimens, but excludes selling, general & administrative expenses and bad debt.

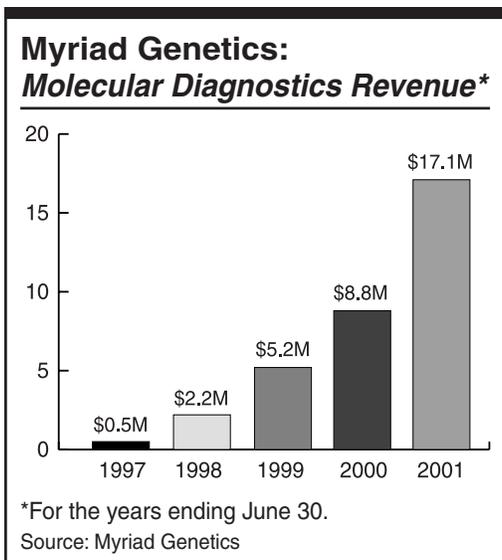
²Based on data from latest annual reports, with each part-time employee counted as 1/2 FTE.

³Based on partial data from companies.

Source: *Laboratory Industry Report* from companies

LabCorp, Myriad Genetics Strike Marketing Alliance

Laboratory Corp. of America (Burlington, NC) has signed an agreement to become the exclusive sales and distribution partner of Myriad Genetics (Salt Lake City, UT). Under the agreement, LabCorp's 600-person salesforce will sell Myriad's genetic predisposition tests to primary care physicians throughout the U.S., while Myriad will continue to focus on sales to oncology practices. All of Myriad's existing predisposition tests are covered under the multi-year agreement as well as any new tests it develops. Myriad's current test offerings include three predictive tests for cancer (breast, colorectal and melanoma) and one for hypertension (*LIR, Nov. '01, p. 10*). These four tests range in price from \$295 for CardiaRisk (for hypertension) to \$2,580 for BracAnalysis (for breast cancer).



Myriad will perform these four DNA-based sequence tests at its laboratory in Salt Lake City. LabCorp will get a marketing fee from Myriad on new business that it generates for Myriad from primary care physicians. LabCorp has also secured the right to test, at its own facilities, for single-point DNA mutations discovered by Myriad.

The deal appears to be most beneficial to Myriad, which will now have access to LabCorp's large salesforce and network of patient service centers where patients may have specimens drawn and packaged for shipment to its lab in Salt Lake City. Prior to this agreement, Myriad had marketed its tests primarily to oncologists through its own 85-person salesforce. Despite its limited marketing resources, Myriad nearly doubled revenue derived from its DNA-based sequence tests to \$17.1 million in the fiscal year ended June 30, 2001. 🏠

Quest To Market Genomics-Based Test For Osteoporosis

Quest Diagnostics (Teterboro, NJ) has obtained exclusive rights from diaDexus Inc. (Santa Clara, CA) to commercialize a genomics-based blood test developed by diaDexus for the detection and monitoring of osteoporosis. diaDexus is a privately held biotechnology company formed by SmithKline Beecham and Incyte Genomics in 1997.

Under a previous agreement with diaDexus, Quest has the right of first negotiation to license diagnostic tests developed by diaDexus for use as "home brew" tests at Quest laboratories. diaDexus gets an upfront licensing fee from Quest plus royalties on future sales, and retains the right to develop and market a test kit for its assays.

diaDexus' osteoporosis test detects Calthepsin K, a protein implicated in the resorption of bone matrix, which is important in the dynamic process of bone remodeling. As a result, Cathepsin K may be used as a marker for osteoporosis. Separately, diaDexus says it is also developing a genomics-based test to determine risk of developing coronary heart disease. 🏠

INSIDE THE LAB INDUSTRY

Some Expert Advice On Managing Your Receivables...

More than 1,100 lab facilities in the U.S. use Cerner software—primarily for clinical applications. However, Julie Hull, product manager for the laboratory enterprise at Cerner, says the company is seeking to expand its financial systems offerings. Most recently, Cerner launched its ProFit software system designed for revenue accounting and billing and collections for the entire hospital or individual departments

The key to improving collection rates and speeding payment for hospital outreach laboratory claims is to identify referring sources that consistently send in test orders with missing or inaccurate information. And the key to identifying these “problem” clients is to have outreach billing and collections managed by the lab and not intermingled with the hospital’s overall patient billing system. So advises John Leskiw, executive vice president with Quadax Inc. (Cleveland, OH), which provides accounts receivable (A/R) management services to 40 hospital labs across the country.

Yet, only some 25-30% of hospital outreach programs have separated billing for their department from the hospital, estimates Tom Cooke, senior sales manager for the laboratory enterprise at Cerner Corp. (Kansas City, MO). And most of these programs have outsourced billing and collections, a trend he notes among an increasing number of labs.

According to Leskiw, 10% of a lab’s clients typically generate 90% of the billing problems. Once these problem clients have been identified, the lab’s marketing staff or billing and collections staff should contact them and make them aware of the situation. Lab staff must then try to work with these clients to help them improve the accuracy and completeness of their lab orders, says Leskiw.

Cooke suggests that labs establish electronic connections to their highest-volume outreach clients to collect patient demographic and diagnosis code data. “Physician offices manage to bill successfully for office visits, and labs need to gain access to the same data they use on their claims in order to improve billing.”

If a problem client resists help and continues to send in a high volume of lab orders with missing or inaccurate information, the lab must make a business decision as to whether or not this client is worth the trouble, says Leskiw. Once again, the key to making a rational decision is to have detailed information on

the dollar volume of billable work coming from each particular client vs. the volume of non-billable work. “I see a lot of decision-making by the seat-of-the-pants in terms of how outreach programs determine when to cut a business line or contract,” notes Leskiw.

Hospital lab outreach programs with above-average A/R performance typically devote 10-12% of their operating budgets to billing and collections, Leskiw points out. In terms of staffing levels, above-average outreach programs employ approximately 10-14 full-time employees (FTEs) for every 10,000 patient encounters (equal to approximately 25,000 billable tests) per month.

Approaches To “Problem” Clients

- Provide in-service training to physician office staff
- Require personalized laboratory registration of patients (often presents logistical problems, but presents ABN opportunity)
- Provide high-volume/high-error clients with qualification software
- Transfer non-billable transactions to “client bills”
- Reject work pending correction/completion (not a popular choice)
- Make a business decision regarding the value of a problem client’s business

Source: Quadax

“Improvements in billing and collections are the single biggest thing that labs can do to improve their bottom-line”

—Lale White, CEO of Xifin (Carlsbad, CA)

The largest number of billing and collections employees at above-average outreach programs is focused on edit exception processing (3.5 to 4 FTEs—or 31% of total billing and collections staffing). The more

successful programs have recognized that by investing more resources at the front-end of the billing process, they stand a better chance of identifying and resolving problem claims, thereby improving collection rates.

Some Financial Tips For Pathology Groups

Mick Raich, a marketing executive at APS Medical Billing (Toledo, OH), estimates that days in A/R average about 60-70 days for pathology groups. APS provides billing services to 90 pathology groups, primarily in the Midwest.

Raich notes that the average pathology claim is roughly \$220-250 (with two or three procedures per claim) vs. the average clinical laboratory claim of roughly \$25-30 (with two or three tests per claim). Lower test volume and higher revenue per claim allow pathology groups to spend more time and money editing claims than the typical clinical lab, he notes.

Raich recommends that all billing and collections departments take advantage of new electronic document management technology. His firm recently invested in a document scanning system made by Hyland Software Inc. (Cleveland, OH). APS uses the system to scan claims, pathologists' reports, Explanation of Benefits forms, managed care agreements, etc., into a computerized filing system. The system allows for instant document retrieval and significantly reduces the time spent tracking down paper claims and reports. He estimates that the system will pay for

itself (from reduced employee expenses) within 18 months.

Raich also advises pathology groups to renegotiate their contracts with managed care companies and says there is no need to wait until existing contracts expire. Several of the largest managed care companies, including Aetna, Cigna and United HealthGroup, have recently become more willing to negotiate rates, he says. “By and large, most pathology groups passively accept the reimbursement fees and contract terms offered to them by managed care companies. But there are opportunities to do better. You’ve got to be proactive.”

Managed care contracts for pathology services throughout the Midwest (including Michigan, Wisconsin, Ohio, Illinois and Indiana) vary from 85% of Medicare fees to as much as 130%, Raich says. He advises pathology groups to accept nothing less than 100% of Medicare rates from managed care companies and to demand a 90-day filing limit.

The key to successful negotiation is to get hospital administration involved for greater leverage, says Raich, observing that provider relations staff at managed care companies

Billing & Collections Staffing At Above-Average Outreach Programs

(Presented in FTEs per function for each 10,000 patient encounters per month—values are approximate)

Patient registration	2.25–2.75
Edit exception processing	3.50– 4.00
Billing.....	.25-.33
Patient inquiry75–1.00
Client communications/follow-up25-.50
Payment/remittance processing	1.25–1.75
Claims follow-up	1.25–1.50
A/R management33-.50
Interface operations05–1.25
Other clerical25-.50
Totals	10–14

Source: Quadax, Inc. from a survey of 24 hospital labs determined to have better-than-average A/R performance.

often threaten to go back to hospital administration when a pathology group has asked for higher fees. He suggests that hospital-based pathology groups discuss their plans to renegotiate a third-party contract with hospital administrators before they meet with the provider relations staff at a managed care company. This gives the pathology group more leverage and removes one of the delaying tactics that managed care companies use (“We need to talk this over with your hospital before we can move negotiations further”).

An analysis of the top 20 pathology test

codes (ranked by total allowed charges) from Medicare data shows that the average allowed charge is \$48.08 per CPT code. The code generating the most money for pathologists is 88305 (level IV-surgical pathology, gross and microscopic exam), which Medicare reimburses at an average allowed charge of \$52.88. Raich notes that managed care companies in the Midwest reimburse 88305 at a wide range—between \$48 and \$56 per procedure. Once again, he stresses that the key to getting reimbursed at the high end of this range is to secure the support of hospital administration, then initiate negotiations with the managed care company. 🏠

Top 20 Medicare Part B Pathology Procedures, 2000 Nationwide

<i>Code</i>	<i>Procedure Name</i>	<i>Billable Volume</i>	<i>Total Allowed Charges</i>	<i>Avg Allowed Charge</i>
88305	Level IV-surgical pathology	12,079,040	\$638,755,359	\$52.88
88307	Level V-surgical pathology	632,249	59,240,499	93.69
88342	Immunocytochemistry, each antibody	952,500	57,248,629	60.10
88331	Path consult during surgery, first tissue	499,370	33,262,792	66.61
88180	Flow cytometry, each cell surface	965,259	29,788,611	30.86
88309	Level VI-surgical pathology	205,878	26,495,857	128.69
88312	Special stains-group I	792,824	25,207,247	31.79
88304	Level III-surgical pathology	1,217,942	22,823,407	18.73
88313	Special stains-group II	778,460	19,201,651	24.66
88108	Cytopathology interpretation	513,608	17,829,556	34.71
88173	Cytopathology, eval of fine needle aspirate	191,514	14,566,482	76.06
88104	Cytopathology interpretation	404,206	13,706,927	33.91
88164	Cytopathology, manual screening	533,516	7,740,564	14.50
88321	Consultation and report on referred slides	106,886	7,338,912	68.66
88311	Decalcification procedure	497,552	6,825,690	13.71
88358	Morphometric analysis, tumor	36,466	6,172,821	169.27
88142	Cytopathology, thin-layer prep	211,238	5,883,355	27.85
88332	Path consult at surgery, additional tissue	179,542	5,820,280	32.41
88346	Immunofluorescent study, each antibody	110,009	5,727,146	52.06
88170	Fine needle aspiration, superficial tissue	58,926	4,430,898	75.19
Totals and averages		20,966,985	1,008,066,683	\$48.08

Source: 2000 Medicare Part B Extract and Summary System (BESS) file for CPT codes 88000-89999 (excluding cytogenetic tests). BESS includes data from independent and physician office laboratories, but not services paid by fiscal intermediaries to facilities such as hospitals, nursing homes and home health agencies. CPT codes © American Medical Association.

SEC Investigating Vital Living's Home Test For Anthrax

Vital Living Products Inc. (Charlotte, NC), which was preparing to launch an over-the-counter home environmental anthrax test, now says it is under investigation by federal authorities and will stop marketing the test during the probe. Vital Living is a small, publicly traded company with about \$2.5 million in annual revenue. Most of its business is derived from making water testing kits sold in hardware stores.

The company caught national attention soon after the first mail-borne cases of anthrax were detected by announcing that it would sell the first OTC anthrax kit (named PurTest) for between \$19 and \$25 per kit. By early November, Vital Living said it had received more than \$150,000 of orders. The company claimed that the environmental test, which does not require approval from the Food & Drug Administration, was able to detect anthrax in the air and water and on surfaces.

In a Nov. 27 press release, the company said a New Jersey lab, Sani-Pure Food Laboratories, confirmed the reliability of the test kits in a written report. In the report, Sani-Pure stated that it had used actual anthrax bacteria in its testing. In a Nov. 30 press release, Vital Living announced that it is under investigation by the Securities & Exchange Commission and that the FBI had raided its offices and those of Sani-Pure on Nov. 29. The company also said that Sani-Pure's report included inaccurate information and that it did not use anthrax bacteria in its testing. 🏠

Atlas To Offer Lab Transaction Software With Medscape's EMR

Atlas Development Corp. (Woodland Hills, CA) has announced an agreement with Medscape (Hillsborough, OR) to offer its LabWorks software for electronic lab test ordering and results reporting as part of Medscape's Logician electronic medical record (EMR) system. Atlas, a privately held company, says its LabWorks software is currently used by approximately 20 laboratories in the U.S.; customers include Dynacare Inc. (Dallas, TX) and Spectra Renal Management (Fremont, CA).

Medscape's Logician EMR is currently used by approximately 13,500 clinicians as of Sept. 30, and use of the product is growing by more than 20% annually. Users of the company's Internet-based digital health record products totaled more than 13,900, with annualized growth of better than 10%. However, despite the growing usage, Medscape is floundering financially. In the nine months ended Sept. 30, the company reported a net loss of \$829.375 million vs. \$204.653 million in the same period a year earlier; revenue was up 3% to \$27.809 million. The company's balance sheet showed cash holdings of \$13.636 million as of Sept. 30.

Separately, according to Atlas, Key Communications Service (New Albany, IN), a subsidiary of ProxyMed (Ft. Lauderdale, FL), has agreed to market Atlas' LabWorks software as a private label product to hospital and commercial labs. ProxyMed provides electronic healthcare transaction processing (including prescriptions and lab test results). In the nine months ended Sept. 30, the company reported a net loss of \$14.336 million vs. a net loss of \$35.644 million in the same period a year earlier; revenue increased 23% to \$30.457 million. The company's balance sheet showed cash holdings of \$5.448 million as of Sept. 30. 🏠

Third-Quarter Profits Total \$106M At 15 Lab Companies

Fifteen publicly traded laboratory testing companies posted combined net income of \$106.037 million in the three months ended Sept. 30, 2001, up 31% from \$81.136 million in the same period a year ago. Revenue for the group increased 12% to \$2.027 billion vs. \$1.818 billion a year earlier. Overall, the third-quarter net profit margin was 5.2%.

Bio-Reference Labs and Dynacare posted the greatest profit improvement in 3Q01

Quest Diagnostics (Teterboro, NJ) reported a third-quarter profit of \$50.122 million vs. \$28.712 million in the same period a year ago. Revenue increased 6% to \$903.189 million. Quest's total accession volume in the third quarter was 26.7 million, unchanged from the same period a year earlier. Average revenue per accession increased 6% to \$32.67. Improved payer mix and price increases added 3.5% to Quest's average revenue per accession; improved testing mix added 2.5%. Esoteric testing revenue represented 13% of total revenue for the quarter.

Laboratory Corp. of America (Burlington, NC) reported a third-quarter profit of \$43.1 million vs. \$32.8 million in the same prior-year period. Revenue increased 15% to \$560.9 million. LabCorp's total accession volume in the third quarter was 18.2 million, up 8% from 16.8 million in the same period a year earlier. Approximately 3% of the volume increase was due to the recent acquisitions of Path Lab (Portsmouth, NH) and ViroMed (Minneapolis, MN); 5% came from internal growth. Average revenue per accession increased 6% to \$30.82. Approximately two-thirds of the increase was due to improved payer mix and higher prices, one-third from improved testing mix. Esoteric testing comprised 16.2% of LabCorp's total revenue and is growing by about 16% on a year-over-year basis. 🏠

Laboratory/Pathology Company Financials: 3Q01 vs. 3Q00 (in \$000)

Lab companies	Revenue			Net Income		
	3Q01	3Q00	% Chg	3Q01	3Q00	% Chg
Bio-Reference Labs*	21,168	17,172	23%	620	45	1280%
Dynacare**	101,978	93,906	9%	2,013	962	109%
Enzo Biochem*	15,470	14,274	8%	1,714	1,585	8%
LabCorp	560,900	488,100	15%	43,100	32,800	31%
LabOne	58,234	43,627	33%	-3,489	358	NA
Medtox	12,581	11,573	9%	790	477	66%
Myriad Genetics	13,190	10,819	22%	-1,185	-2,070	NA
PharmChem	11,549	10,608	9%	-700	282	NA
Psychemedics	3,955	5,021	-21%	116	450	-74%
Quest Diagnostics	903,189	850,236	6%	50,122	28,712	75%
Specialty Labs	42,842	39,550	8%	2,912	2,378	22%
Unilab	99,018	87,596	13%	1,008	2,833	-64%
Total, 12 cos.	1,844,075	1,672,482	10%	97,021	68,811	41%
Pathology Companies						
AmeriPath	106,058	86,521	23%	8,868	7,236	23%
Dianon	28,941	23,594	23%	2,307	1,783	29%
Impath	48,426	35,406	37%	-2,159	3,306	-165%
Total, 3 cos.	183,425	145,521	26%	9,016	12,325	-27%
Grand total, 15 cos.	2,027,499	1,818,002	12%	106,037	81,136	31%

*Results are for quarters ending July 31. **Results are reported under Canadian accounting standards (not U.S. GAAP). Source: *Laboratory Industry Report* from companies

American Medical Laboratories To Try Again For IPO

A successful IPO would help AML pay down its sizable debt

American Medical Laboratories Inc. (Chantilly, VA) has re-filed with the Securities & Exchange Commission to raise up to \$115 million from an initial public offering. The share price has not yet been determined. The offering is being managed by Credit Suisse First Boston, Banc of America Securities, U.S. Bancorp Piper Jaffray and Wachovia Securities. AML says it will use the funds to pay down debt; the company had total debt of \$146.357 million as of Sept. 30, 2001.

This will be AML's second attempt at going public. The company had initially filed to go public in September 2000, but withdrew its registration statement with the SEC in April 2001, citing poor stock market conditions.

AML was acquired by Golder, Thoma, Cressey Rauner Fund (GTCR-Chicago, IL) and current management in May 1997 for \$23 million in cash, plus assumed debt. In October 1999, AML purchased Associated Pathologists Laboratories (Las Vegas, NV) for \$107.2 million, or approximately 1.0 times APL's annual revenue. The acquisition roughly doubled AML revenue and established its presence in the West.

AML generated net income of \$896,000 in the nine months ended Sept. 30, 2001 vs. net income of \$790,000 in the same period a year ago; revenue increased 13% to \$221.5 million. The revenue gain was the result of a 9.1% increase in volume and a 3.5% increase in average revenue per accession.

The company is currently conducting 430,000 tests per week (including 164,000 esoteric tests) for 470 hospitals, 150 independent labs and 7,900 physician offices. AML's average revenue per billable test for the nine months ended last Sept. 30 was approximately \$13.21. Key customers include Kaiser Permanente, Consorta Catholic Health Resource Partners, Health Trust Purchasing Group and Massachusetts General Hospital. AML has 2,700 full-time employees and 300 part-time employees.

AML offers Internet-based lab test order entry and results reporting to its clients via technology from LabPortal Inc. (Chantilly, VA). LabPortal is partly owned by AML and is majority-owned by GTCR.

As chairman, president and chief executive, Timothy Brodnik earns an annual salary of \$650,000 and a minimum bonus of \$150,000; he also owns 1.2 million shares, or 5.6%, of the company. Brodnik, who joined AML in May 1997, was previously executive vice president for sales and marketing at Laboratory Corp. of America. GTCR is AML's majority stockholder, with 14.5 million shares for a 65% stake. 🏠

AML At A Glance

	<i>9 mos. to 9/30/01</i>	<i>9 mos. to 9/30/00</i>
Revenue	\$221,500	\$196,329
EBITDA*	27,985	24,195
Net income	896	790
Total debt	146,357	145,888

*EBITDA=earnings before interest, taxes, depreciation, amortization and non-recurring charges.

Source: AML



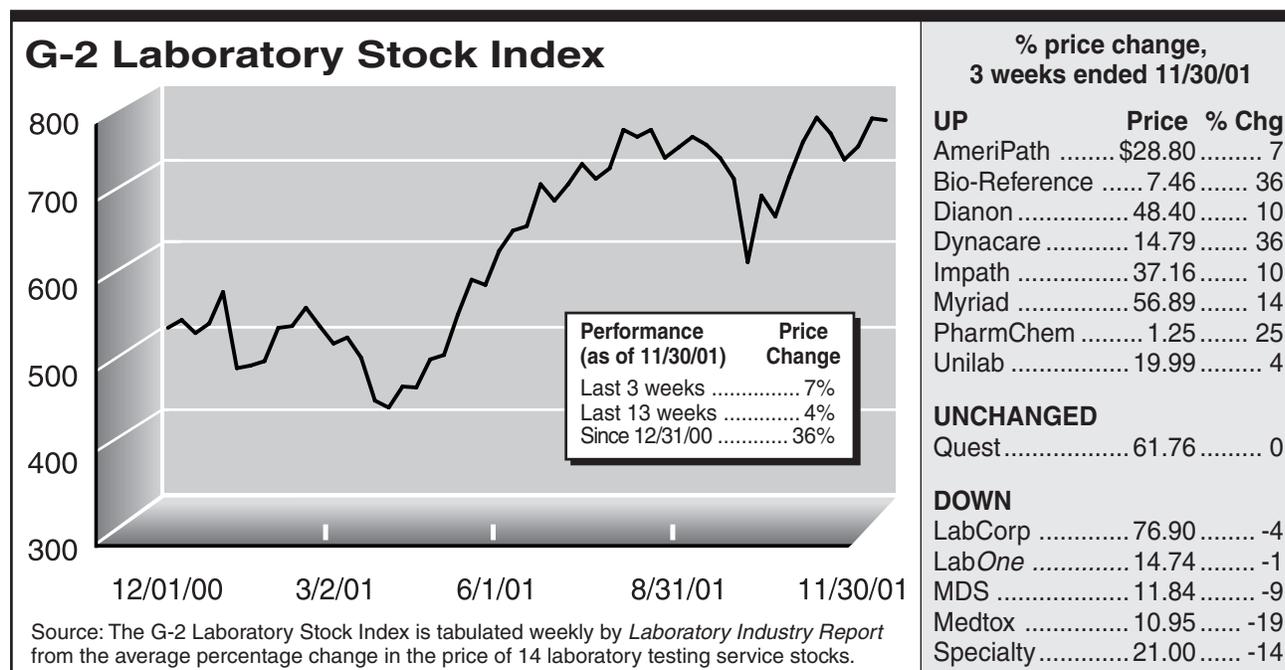
Lab Stocks Rise 7% In Latest Three Weeks

Laboratory stocks were up 7% in the three weeks ended Nov. 30, 2001, according to the G-2 Laboratory Stock Index, which tracks the average percentage price change in the stock of 14 lab testing service companies. Eight stocks rose in price during the period, five fell, one was unchanged. Year-to-date, the G-2 Lab Index has risen 36%. In comparison, the S&P 500 is down 14% and the Nasdaq is down 22%.

Bio-Reference Labs (Elmwood Park, NJ) rose 36% to \$7.46 per share, giving the company a market capitalization of about \$94 million. Bio-Reference recently signed a new contract with PHS (Prison Health Services Inc.), a subsidiary of America Service Group (Brentwood, TN), to provide lab testing services to Western Pennsylvania State prisons, Maine State prisons, Philadelphia City jails, Albany County and Monroe County jails in New York State, and Montgomery County and York County jails in Pennsylvania. PHS provides healthcare management services to more than 400 jail and prison sites around the country, covering a total of 325,000 inmates in 39 states and the District of Columbia.

Shares of **Dynacare** (Dallas, TX and Toronto, Canada) were up 36% to \$14.79 per share, giving the company a market capitalization of about \$276 million. Dynacare recently completed the sale of 4.0 million shares of common stock: 1.7 million issued and sold by the company, and 2.3 million sold by certain of its shareholders, at a price of \$11 per share. Dynacare says it raised approximately \$16.9 million in net proceeds, which will be used to pay down debt and fund potential acquisitions and joint ventures.

Medtox (St. Paul, MN) fell 19% to \$10.95 per share, giving the company a market capitalization of \$43 million. Specialty Laboratories (Santa Monica, CA) fell 14% to \$21.00 per share for a market cap of \$469 million. 🏠





It's now widely acknowledged that federal, state and local agencies lack the laboratory equipment, expertise and capacity to respond effectively to a bioterrorism crisis. At a recent meeting of the American Medical Association's House of Delegates, U.S. Surgeon General David Satcher, MD, called the condition of CDC labs a "national disgrace." Important computers are covered with plastic to protect them from leaky roofs in Atlanta, and termites have chewed through laboratory floors, he said. "The U.S. should be ashamed of the condition of the laboratories at the Centers for Disease Control & Prevention in Atlanta."

Beyond problems at CDC headquarters, Satcher said all public health labs—state and local—need to be re-tooled and updated. "There are local public health labs that don't have fax machines, that have no computers, so they can not receive e-mail updates," he said. Satcher concluded that the CDC budget, which was \$3.9 billion in 2001, needs to be increased by a "few billion dollars" more.

While politicians and public health officials wrangle over how many billions of dollars will be added to CDC's budget, the potential role that the nation's existing network of thousands of well-equipped hospital and commercial labs can play has not been universally well-defined.

Lab directors from both hospital and commercial labs have expressed frustration over a perceived lack of communication from CDC, which has relied on the public health labs and lab industry professional organizations to convey its anti-bioterrorism expectations. For whatever reason, CDC to date has initiated no direct contact with private labs, even in the face of the nation's campaign against terrorism. 🏠

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