

LABORATORY

INDUSTRY REPORT®



Dennis W. Weissman, Publisher

Vol. XIII, No. 1/January 2004

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Outlook For 2004: Few If Any Blockbuster Acquisitions, As Big Labs Turn Focus On Internal Growth

Over the last few years the biggest news in the lab industry has been the acquisition spree that Quest and LabCorp each undertook. But in the New Year, the two giant commercial labs are expected to focus on digesting what they've acquired and raising their internal growth rates because: 1) there aren't many big independent labs left to buy; 2) any new big acquisition is likely to face increased scrutiny from the FTC; and 3) Wall Street is now demanding that Quest and LabCorp prove they have the wherewithal to gain market share (excluding acquisitions).

Numerous independent labs, hospital outreach programs, and lab networks around the country have had success over the past few years in gaining share from the big commercial labs. But as Quest and LabCorp sharpen their focus on adding new business, smaller competitors are likely to find gains more difficult to come by.

The increased emphasis on internal growth has led to a mini-boom in the openings of new patient service centers and hiring of sales reps and phlebotomists by the big labs. And *LIR* hears that Quest and LabCorp have each become more willing to lower prices to win business. For a closer look at what's in store for the lab industry in the New Year, we spoke with Quest's Ken Freeman and LabCorp's Tom Mac Mahon as well as the executives at eight other independent and hospital labs. For details, see *Inside The Lab Industry*, pp. 5-10. 🏠

Ex-Dynacare Exec Starts New Lab In Alabama

A new lab company has been formed in Birmingham, Alabama called Southern Diagnostics Labs. The president is Steven Boyd, age 37, who was formerly vice president of business development at Dynacare for the southeastern region of the United States. Boyd has 13 years of experience competing for lab business in Alabama. He started in 1989 with a sales position at LabSouth, which merged with Alabama Reference Labs in 1994 and was then acquired by Dynacare in 2000. LabCorp acquired Dynacare in July 2002. Boyd says all the consolidation has left LabCorp as the single dominant commercial lab in Alabama. "Physicians in Alabama have always had at least two lab choices. I think we have an opportunity to 'outservice' the bigger labs," says Boyd.



Steven Boyd

■ **EX-DYNACARE EXEC**, *from page 1*

Dynacare's 35,000-square-foot laboratory in Birmingham was shut down and consolidated into LabCorp's 100,000-square-foot facility down the street shortly after the acquisition was finalized in 2002, according to Boyd. He and a significant number of the 170 employees that had worked at the Dynacare lab lost their jobs as a result. Boyd took a one-year vacation to wait out the terms of his non-compete agreement and then began plans to start a new lab.

Southern Diagnostics Labs received its CLIA certificate and state license in August 2003. The lab is located in a 15,000 square-foot freestanding facility and has a total of 21 employees, including 18 people formerly with Dynacare. The medical director is Ted Fendley, Ph.D., who had previously served more than 15 years as an associate vice president at LabCorp. Boyd says he raised the money necessary to start his lab from a combination of personal investment, a small group of private investors, and bank loans.

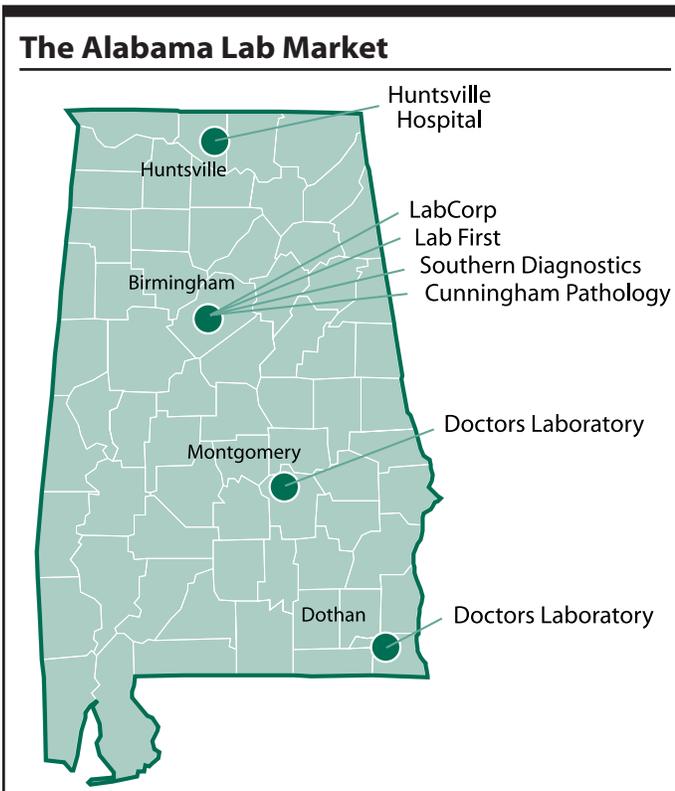
After a couple of months in operation, Boyd says his lab is currently taking in roughly 200 accessions per day. He says the biggest challenges include: 1) keeping up with expensive new information technologies, including Internet-based systems (his lab is using Labtest.com); 2) gaining access to the exclusive managed care contracts held by the two big commercial labs; and 3) getting the right to use some of the new DNA-based tests that the big labs are increasingly licensing on exclusive terms.

Meanwhile, *LIR* estimates that the Alabama lab market (excluding inpatient tests) totals roughly \$146 million. This estimate is based on a population of 4.5 million

that uses an estimated 2.5 billable tests per person, per year at \$13 per test. The far and away leader is LabCorp, which nearly doubled its revenues in Alabama to more than \$100 million with the acquisition of Dynacare. Quest is in second place with an estimated 10% to 15% market share.

After LabCorp and Quest, the Alabama lab market starts to become very fragmented. Among those competing is a pathology group named Cunningham Pathology (Birmingham). Although the top executive at Cunningham did not return calls from *LIR*, the word on the street in Birmingham is that the 18-pathologist group, which had once been a key supplier of anatomic pathology services to LabCorp, is now considering starting up its own clinical laboratory.

Within the past year or so, Doctors Laboratory (Valdosta, GA) has expanded into Alabama by opening up testing facilities in Montgomery and Dothan.



The biggest hospital-based outreach program is LabFirst, which is part of the Baptist Health System (Birmingham). Huntsville Hospital (Huntsville) also operates an active outreach program. In each case, the hospitals are working with their primary reference lab, Mayo Medical Laboratories, to expand outreach services. 🏠

Quest Signs Lab Outsourcing Deal With Adventist

Quest Diagnostics (Teterboro, NJ) has finalized an agreement with Adventist HealthCare Inc. to manage the labs at Shady Grove Adventist Hospital (274 beds—Rockville, MD) and Washington Adventist Hospital (315 beds—Takoma Park, MD). Terms call for Quest to purchase the hospital lab assets and manage the labs under a long-term agreement. Reference testing services will be provided by Quest's Nichols Institute East (formerly AML) in Chantilly, VA. Gary Samuels, spokesman for Quest, says all of the roughly 200 lab employees at the two Adventist hospitals have been offered jobs at Quest.

Separately, Ken Freeman, chief executive at Quest, tells *LIR* that Quest continues to seek ways to partner with hospitals to provide more than just reference testing services. He says Quest tailors its approach to each potential hospital partner, but adds that there is no new blockbuster approach that will dramatically change the various existing models that commercial labs and hospitals have used to structure deals in the past. 🏠

Lab InterLink Struggling To Survive

Lab InterLink (Omaha, NE), which sells lab automation systems, has dismissed all but eight of its employees and is racing to either raise \$10 million from investors or sell the company outright to a larger healthcare/diagnostics firm, Rodney Markin, M.D., Ph.D., company founder and chairman, tells *LIR*. He says that failure to complete a deal could force Lab InterLink to file for Chapter 11 bankruptcy reorganization.

Lab InterLink grew out of a research project headed by Markin at the University of Nebraska Medical Center between 1989 and 1993. Markin spun off Lab InterLink as a private company in 1993. Markin says the company has raised and spent about \$17 million of investor funds during its lifetime.

Markin says several issues led to the Lab InterLink's cash flow problems: 1) the company was undercapitalized from the start and then burned through its limited cash when it tried to expand too quickly; 2) a contract manufacturer supplied it with malfunctioning integrated circuits that cost Lab InterLink a lot of time and money to correct; and 3) the company never created a middle management team to oversee its workforce, which totaled 145 employees a year ago.

Over the past 12 months, Lab InterLink has laid off nearly all of its employees, including the dismissal of 42 workers the day before Thanksgiving. A skeleton crew of 8 employees is now struggling to maintain service at the 27 labs (including 23 in the United States) that have installed a Lab InterLink system. Lab InterLink's primary distributor has been Ortho-Clinical Diagnostics, which markets the system under the enGen trademark. 🏠

TriCore Opens New 95,000 Sq. Ft. Core Lab Facility



Russell W. Duke,
Ph.D.

TriCore Reference Laboratories (Albuquerque) has completed construction of a new 95,000 square-foot corporate headquarters and core laboratory located in downtown Albuquerque. The new facility will be used to consolidate lab testing from three of TriCore's existing labs in Albuquerque. TriCore is an independent reference lab formed by the University of New Mexico (Albuquerque), Presbyterian Hospital (Albuquerque), and St. Vincent's Hospital (Santa Fe) in 1998.

Russell W. Duke, Ph.D., chief executive officer of TriCore, says construction of the new lab began 13 months ago and has been completed on schedule and slightly under the budgeted \$22 million, which includes the cost of lab and office equipment. TriCore operates as a self-funding company, and Duke says existing cash reserves, operating profits, and about \$16 million in bank loans were used to pay for the new facility.

About 450 of TriCore's 700 FTEs will be employed at the new lab, which is expected to perform 3 million billable tests per year. TriCore is preparing to send out an RFP for a front-end automation system with the aim of installing it in 2004, notes Duke. Three hospital rapid-response labs with a combined total of approximately 2 million billable tests per year will continue to be managed by TriCore.

In addition to outreach testing, the new facility will consolidate all laboratory testing areas including microbiology, toxicology, cytology, histology, molecular diagnostics, cytogenetics, and tissue-typing from its three sponsors as well as other hospital clients. Consolidation will allow TriCore to add more send-out tests to its menu. New tests expected to be added in the New Year include Serolimus to complete their immunosuppressant drug offering, and the addition of LCMS technology in combination with GCMS, for therapeutic and drugs-of-abuse confirmations, according to Duke.

TriCore's new microbiology lab will hold a BSL-3 designation allowing for handling and identification of more esoteric organisms and for service as a backup laboratory in the event of bioterrorism.

He says growth at TriCore made the new lab a necessity. Outreach test volumes have grown by 10% to 15% in each of the past three years, he notes. In addition, TriCore has opened up small labs in El Paso, Texas and southeastern Colorado within the past year. Duke says TriCore will continue to expand in neighboring states.

Meanwhile, *LIR* estimates that the New Mexico lab market (excluding inpatient tests) totals roughly \$62 million. This estimate is based on a statewide population of 1.9 million that uses an estimated 2.5 billable tests per person, per year at \$13 per test. TriCore's biggest competitor in the outreach market is SED Medical Laboratories (Albuquerque), an independent lab owned by Ardent Health Services (Nashville) that has 500 employees and performs 3.5 million billable tests per year. Quest and LabCorp each have a limited presence in New Mexico. 🏠

2004 Outlook For Labs: 10 Executive Perspectives



Ken Freeman

Ken Freeman, chief executive of Quest Diagnostics (Teterboro, NJ): “Why am I leaving Quest? I believe it’s the right time. It’s not because I have any concerns about the future of our company. Most CEOs tend to stay too long and then do a crummy job of passing the baton. Nine years is a long time. Quest is getting the right person in Surya Mohapatra and I’m committed to making sure the transition goes smoothly.”

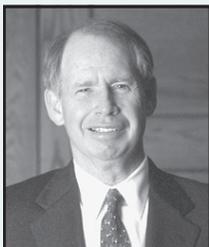
Freeman will step down as chief executive of Quest in May, but remain as chairman for as long as one year. What will he do next? Freeman says he has no formal plans at the moment, but adds, “I’ve got a lot of energy and love a challenge.” *LIR* suspects that Freeman is likely to wind up as the chief executive at a major corporation outside of the lab industry.

LIR asked Freeman what Quest can do to improve its perception in the industry given that because of Quest’s size and dominance it is often viewed (rightly or wrongly) as the big bully by competing independent labs and hospitals. Freeman says that while Quest does have nearly \$5 billion of annual revenue that still represents a small portion of the overall \$37 billion lab industry (including hospital inpatient testing). “We don’t force ourselves on anyone. Customers chose if they want to deal with us. We earn their business,” he adds.

Are managed care organizations ratcheting up the pressure to lower lab test prices given that employer groups are struggling to reign in double-digit hikes in health insurance premiums? “Negotiations are always very tough, but there’s been no significant change in our relationships with managed care payers,” says Freeman.

Freeman anticipates that Quest will increase its revenue by 5% in 2004, including a 1.5% gain from the acquisition of Unilab (completed in February 2003) combined with a continued improvement in average revenue per requisition and a modest step up in test volume.

Over the longer term, Freeman believes the lab industry will remain highly fragmented with thousands of hospital and independent labs competing for business. He sees little change occurring in the market share held by the big commercial labs, independent labs, hospitals, and physician office labs over the next few years.



Tom Mac Mahon

Tom Mac Mahon, chief executive of LabCorp (Burlington, NC), says that LabCorp has added hundreds of people in North Carolina, including sales reps, account managers, and phlebotomists, to counter competition from Spectrum Laboratory Network (Greensboro, NC). “We’ve gotten back to where we want to be in North Carolina,” says Mac Mahon. He also notes that LabCorp has made similar service enhancements in Texas to strengthen the lab operations it gained through the acquisition of Dynacare in July 2002.

Meanwhile, Mac Mahon says LabCorp expects to sign additional agreements in the New Year that give it exclusive access to promising new testing technologies. Among the agreements already in place are deals to market DNA-based tests developed by Myriad Genetics (Salt Lake City) and Exact Sciences (Marlborough, MA). And Mac Mahon says LabCorp will begin marketing a new DNA-based test for ovarian cancer (made by Correlogic Systems) within the next few weeks.

LabCorp began marketing efforts for Exact's PreGen-Plus test for colorectal cancer screening on Aug. 13, 2003. Mac Mahon says that although orders for the test are increasing every day, there are two challenges: 1) convincing managed care companies to reimburse for the test, which has a list price of \$795; and 2) raising the sensitivity of the test (now at about 63% to 65%) by increasing the DNA yielded from each sample through technological enhancements.

For full-year 2004, Mac Mahon anticipates that LabCorp will increase its revenue by 4% to 7% (assuming no acquisitions), including a 1% to 2% improvement in revenue per requisition and volume growth of roughly 3% to 4%.

Are managed care organizations ratcheting up the pressure to lower lab test prices? "We are seeing a heightening by managed care of their already capable skills for pursuing lowered prices," says Mac Mahon. Although he'd rather avoid capitation contracts for lab services, Mac Mahon says that managed care companies continue to raise the idea of capitation as a tool for managing costs.

David Schultz, president of **Clinical Pathology Laboratories** (CPL—Austin, TX), says his lab continues to look for acquisition opportunities in new and

existing markets. CPL recently entered the Ohio market through the acquisition of Pathology Laboratories Inc. (Toledo), a privately held lab with an estimated \$10 million to \$15 million in annual revenue. "The Toledo market is attractive. We look forward to competing in Ohio," says Schultz. Other new markets that CPL has entered within the last year include Virginia through the acquisition of Fairfax Medical Laboratories (Chantilly).

CPL, which has more than 1,000 employees, is a privately held lab that is partly owned by the venture capital group Summit Partners. CPL increased in revenue by well over 10% last year to roughly \$145 million.

Schultz says he's confident that CPL will continue to gain market share in the New Year. In addition, he believes that hospital outreach programs have the opportunity to gain share over the next few years because of their close ties with local physicians. The thing that's holding some hospital labs back is their unwillingness to separate their outreach businesses from their inpatient labs, according to Schultz.

One of the biggest challenges that both independent and hospital labs face in growing their revenue is gaining access to the national managed care contracts held by Quest and LabCorp, says Schultz. He believes that superior service, not lowered prices, is the best method for gaining access to these contracts. "If you can give unique or special services to the specialty doctors in your area, then that might give you an opening into the [managed care] agreements," advises Schultz.

Finally, Schultz adds, "CPL is only using low pricing to keep consistent with LabCorp and Quest pricing. Their pricing is as low as I've ever seen it."



Robert Stallone, vice president of laboratories, **North Shore Long Island Jewish** (Lake Success, NY), says North Shore LIJ's outreach business grew by 50% over the past year to

approximately \$22 million of collected revenue. Most of the growth came from North Shore's primary market on Long Island, although Stallone says that an expansion into Manhattan about a year ago is adding new clients as well.

North Shore's outreach business operates from a 50,000-square-foot core lab facility that employs 300 FTEs who performed approximately 4 million billable tests last year. Forty-five percent of volume is derived from 12 hospitals that are part of North Shore LIJ; the remaining 55% comes from outreach, including physician office, nursing home, and clinical trials, according to Stallone.

He says that the North Shore LIJ consolidated lab, which opened in 1998, is now just hitting its stride. "Hospitals should not underestimate the time it takes to develop the systems needed to serve the outreach program in terms of IT infrastructure, test menu, sales force, and client services," observes Stallone.

The North Shore LIJ core lab was one of the first labs in the nation to employ total lab automation (the Roche CLAS robotic system). Stallone says that the robotic system, which handles routine chemistry, hematology, and coagulation, is an integral part of the core lab that allows lab employees to perform an average of more than 100,000 billable tests per FTE per year.

Stallone maintains that the New York City region, which he estimates is a \$600 million outreach market, offers plenty of room for North Shore LIJ to grow. He says a big source of potential new clients is the 6,000

physicians that admit patients to hospitals in the North Shore LIJ system. Today, his core lab only serves about 10% of these doctors.

Stallone says North Shore LIJ has invested roughly \$2 million to install the Cerner ePathLink system for Web-based order entry and results reporting. He notes that 50 physicians are currently using the order-entry and results-reporting functions, while another 300 are using results reporting only. "We've got a waiting line of physicians wanting to hook into this system. It's been a strong driver in our success." He says North Shore LIJ assigns each patient a single lab record index number so that doctors can look up lab tests results on a specific patient and see both inpatient, outpatient, and outreach test results over time.

Initiatives for the New Year include the installation (already under way) of a new billing and accounts receivable management system from Xifin Inc. (San Diego, CA). "The secret to success is having good information to manage your business," notes Stallone.



Judd Jessup, chief executive of **US Labs** (Irvine, CA), says that after going through several flawed business models, including pathology group management, his company hit its

stride in the summer of 2001 after it chose to focus exclusively on providing cancer diagnostics to small hospitals and pathology groups. US Labs, which has 360 employees, grew its revenue by 46% in 2003 to \$54 million, according to Jessup.

Jessup says last year's growth was fueled partly by the expanding market for complex cancer diagnostics, especially difficult-to-diagnose cancers such as lymphoma and leukemia. He estimates that the total U.S. market for complex cancer diagnostics is

roughly \$2.3 billion and growing 15% per year. Jessup says growth at US Labs has also been obtained by market-share gains from competitors like Impath, Quest, and LabCorp.

Jessup contends that US Labs provides faster turnaround times and gives referring physicians greater access to its pathologists than the bigger commercial labs. In addition, he believes that local pathologists view US Labs more as a partner, while the two big commercial labs are viewed more as competitors that could take away their routine anatomic pathology and cytology work.

Jessup notes that US Labs has a service whereby it receives bone marrow samples from local pathologists and then creates histograms using its flow cytometry equipment. US Labs sends the data back to the local pathologists who interpret the information and bill for the professional component.

He says US Labs is aiming to reach \$75 million in annual revenue in 2004. New tests being introduced include gene expression profiling for breast cancer patients using technology from Arcturus Bioscience (Mountain View, CA). Information from the test, which will initially be performed on a research-use-only basis, will ultimately help physicians determine if chemotherapy is appropriate for certain patients and, if so, which type of chemotherapy is likely to be most effective, according to Jessup.

Anne Byrd, administrative director of the department of pathology, **Saint Luke's Hospital** (Kansas City, MO), says Saint Luke's just signed a five-year agreement with Roche Diagnostics to establish a Molecular Center of Excellence at the Saint Luke's lab. The deal makes Roche a preferred, but not exclusive, vendor of molecular tests to Saint Luke's. In return, Saint Luke's gets marketing support from Roche, early access to new technology, and lower

license and reagent pricing.

The lab at Saint Luke's Hospital has 180 employees that perform 2 million billable tests per year (of which 40% is outreach). The lab also provides reference testing services to seven of the eight hospitals that comprise Saint Luke's Health System.

Byrd says that the Roche agreement should help Saint Luke's accelerate its efforts to bring more tests in-house. New menu additions within the past year have included molecular tests for herpes simplex virus (HSV) and cystic fibrosis. New tests likely to be added in the New Year include vancomycin resistant enterococci (VRE) and bcr/abl.

Saint Luke's primary competitors in the Kansas City region include Quest, LabCorp, and LabOne. Byrd says Saint Luke's suffered a setback last year when its largest managed care plan client, Mid America Health (400,000 members) was sold to Coventry Health Care, which has a contract with LabOne. Loss of the contract, which Saint Luke's had served via its membership in the Regional Laboratory Alliance network, had the potential to take away nearly one-quarter of Saint Luke's outreach business. But Byrd says Saint Luke's was able to offset much of the loss by retaining some of the physician office clients and adding new ones over the past 12 months.

Over the long run, Byrd believes hospital-based labs will wind up serving more and more physician offices because hospitals can provide more comprehensive patient histories that include both inpatient and outpatient test results. The other advantage that hospital labs have is a more personal service level, according to Byrd. She notes, for example, that Saint Luke's provides two-hour turnaround times for Stat testing to physicians in the Kansas City area, and

the hospital pathologists personally telephone physician clients for all anatomic pathology, dermatopathology, and flow cytometry test results.

Byrd says that one of the biggest challenges the outreach program at Saint Luke's faced was getting its arms around billing and collections. She says that Saint Luke's contracted with CSI-Computing Services Inc. (Overland Park, KS) in 1999 to perform outreach billing and manage accounts receivable. In addition, Saint Luke's now screens all claims for missing information before sending them out. As a result, Byrd says Saint Luke's now has a days in accounts receivable of just 45 days; prior to the CSI contract, statistics for days in accounts receivable were not available.



Michael Miller, D.O., director of clinical pathology, **University of Texas Southwestern Medical Center** (Dallas), says UT Southwestern is building a new lab facility for its

esoteric testing business, Veripath Laboratories. Veripath currently performs flow cytometry, molecular diagnostics, cytogenetics, immunohistochemistry, and esoteric anatomic pathology consultative services from a number of different labs on the UT Southwestern campus. All of these specialties will be consolidated into a new 30,000 square-foot laboratory this May, according to Miller. He says a new specialty coagulation testing service will be part of the new laboratory as well.

Miller says Veripath, which performed 37,000 tests and generated \$2.5 million to \$3 million in net revenue in 2003, has been growing by 15% to 20% per year primarily by word of mouth. But he says that Veripath is in the process of building up its customer service and sales staff in conjunction with the move to the new lab space.

Veripath is also installing a new LIS system from Cerner as well as a Web-based component for results reporting and order entry. Other initiatives include plans to have billing and collection for Veripath moved to an outside contractor.

Miller anticipates that Veripath will grow by at least 25% in 2004. He says that while the largest commercial labs generally have lower prices, Veripath has faster turn-around times and provides greater access to its dozen or so pathologists and medical doctors.

Edwin Harned, president of **Affiliated Medical Services Lab** (AMSL—Wichita, KS), says price discounting by the big labs in his market is at an "all-time high." In particular, he cites Pap smear prices that are as low as 50% of the Medicare fee schedule. Over the long term, Harned believes market share gains will be determined by what managed care organization and physician offices value more: the low prices offered by the commercial labs, or the higher service levels provided by local hospitals and independent labs.

AMSL is a for-profit independent lab that is owned by the Via Christi Health System (Wichita), which includes St. Francis, Riverside, and St. Joseph hospitals. It operates from a 20,000 square-foot free-standing lab with about 85 FTEs that handle approximately 2,000 requisitions per day. Collected revenue in 2003 was approximately \$11 million, with 10% coming from testing performed for Via Christi hospitals and 90% from physician office and nursing home business, according to Harned.

Initiatives for the New Year include consolidating more tests from the Via Christi hospitals into the core lab and expansion into Oklahoma and Missouri. AMSL is also seeking to increase the use of its Web-based

order-entry and results reporting system (made by LabPortal.com). "We're selling it hard. It provides savings for us from greater physician compliance with proper coding and use of ABNs. Clients get the benefit of Web access to results and archived patient data," according to Harned.

Tom Fellows, president of **Bradshaw Mountain Diagnostic Laboratories** (Prescott, AZ), says his lab company recently opened its fourth PSC in northern Arizona. Fellows says that because patients often have the choice of which lab they want to use, Bradshaw has focused on making sure waiting times at its PSCs are minimal. He claims that patients are in and out of Bradshaw's PSCs in an average of only 14 minutes.

Fellows says that Bradshaw has issued approximately 40,000 patient ID cards in the last two years. When a lab patient enters a Bradshaw PSC, the card is scanned into a computer that matches the ID number to a databank that contains each patient's insurance and demographic (date of birth, address, etc.) info, thus lowering registration time. Finally, he notes that Bradshaw employs a "greeter" at the front doors of each of its PSCs—an idea he says he got from Wal-Mart.

Bradshaw is a privately held independent lab founded by Fellows in 1981. Bradshaw has 70 employees (including part timers) and \$6 million to \$7 million in annual revenue. Bradshaw operates a main lab and PSC in Prescott (about 75 miles north of Phoenix), plus PSCs in Chino Valley, Prescott Valley, and Cottonwood.

Bradshaw's biggest competitor is Sonora Quest Laboratories in Tempe (about 10 miles south of Phoenix), a joint venture between Banner Health System and Quest Diagnostics. "They have deep pockets. You

can't afford to compete with the big labs unless you're working to improve your lab all the time," notes Fellows.

Initiatives at Bradshaw for the New Year include an upgrade of its immunochemistry system, adding improved tests for sexually transmitted diseases and anti-nuclear antibody (ANA) testing, and the addition of the Biosite BNP test to its menu, according to Fellows.



Evans Calas, president of **Regional Toxicology Services (d/b/a Sterling Reference Laboratories—** Tacoma, WA), says the price competition for drugs-of-abuse testing

services remains cut throat. Pricing for next-day results for the pre-employment screening market currently average between \$10 to \$15 for the standard five-drug panel (i.e., marijuana, cocaine, amphetamines, heroin, and PCP), while testing for the criminal justice system averages \$5 to \$7 for one- to three-day turnaround, according to Calas. He says onsite testing devices are selling for as little as \$3.75 per test panel and some drugs-of-abuse labs are beginning to price their lab-based tests near this level.

Sterling Reference Labs began operations in early 2003 after acquiring most of the assets of a financially-troubled drugs-of-abuse lab named Comprehensive Toxicology Services. Sterling is owned by Calas and its medical director, Dan Baker, Ph.D., plus two other partners. Sterling has 40 employees and about \$4 million in annual revenue, according to Calas.

As a result of the poor pricing in drugs-of-abuse testing Calas says his lab is developing a clinical test menu with plans to begin marketing to physician offices and nursing homes in Northwest. 🏠

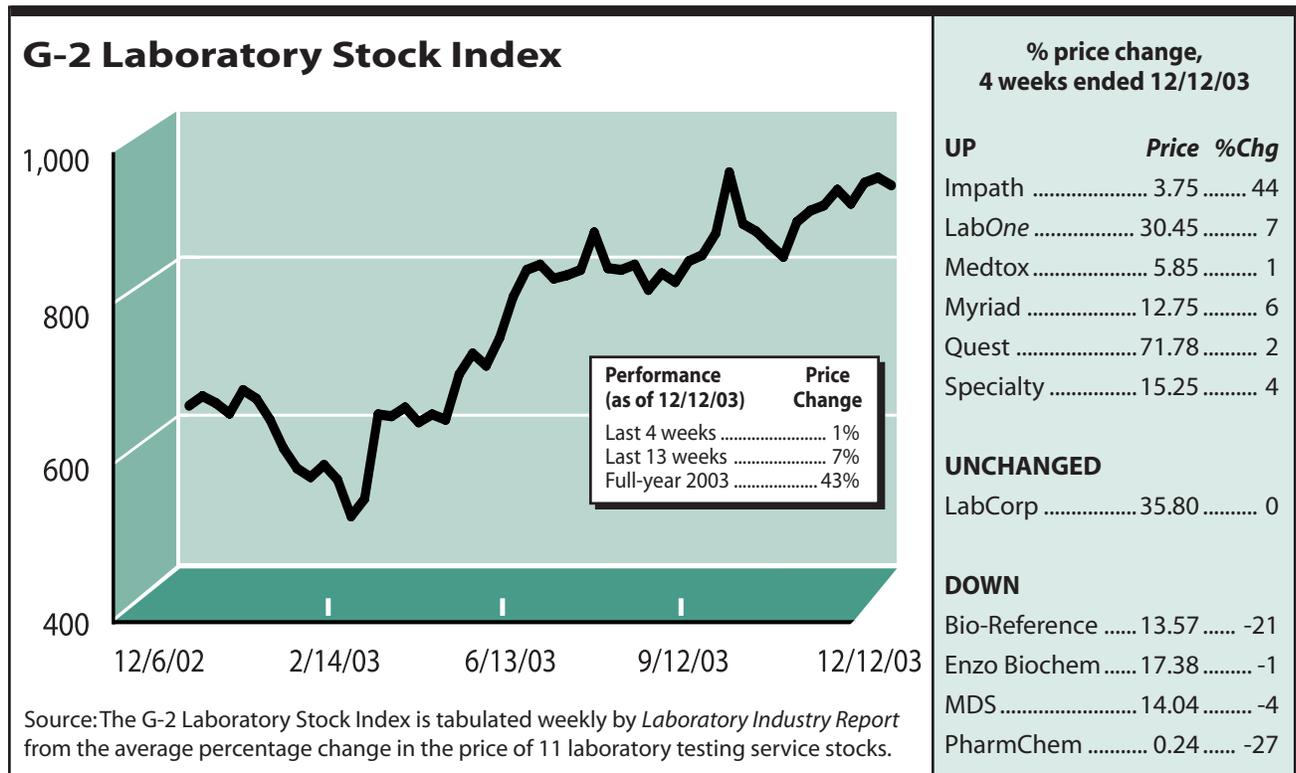
Lab Stocks up 1%; Impath Up 44%

Stock prices for the 11 companies in the G-2 Laboratory Index rose an unweighted average of 1% in the four weeks ended Dec. 12, 2003, with six stocks up in price, one unchanged, and four down. So far this year, lab stocks have risen 43%, while the S&P 500 is up 22%, and the Nasdaq is up 46%.

Impath (New York City), which has filed for Chapter 11 bankruptcy reorganization but still trades on the over-the-counter market, was up 44% to \$3.75 per share for a market cap of \$62 million. The cash-strapped company was bolstered by news that it had signed a definitive agreement to sell its Tamtron and Medical Registry Services subsidiaries to IMPAC Medical Systems (Mountain View, CA) for \$22 million. IMPAC makes clinical and business information systems; its software is installed at 1,700 sites worldwide.

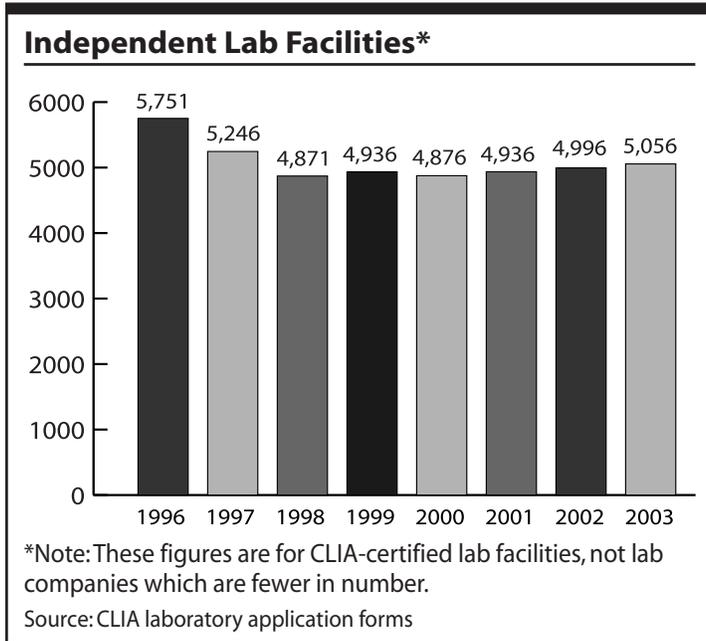
Tamtron sells the pathology information management software, PowerPath, and has approximately 350 hospital and lab customers throughout the U.S. Impath originally acquired Tamtron in January 2002 for a total purchase price of \$29.2 million. Medical Registry Services is a database that includes 380,000 breast cancer profiles, 237,000 complex cancer diagnoses, and 246,000 lymphoma and leukemia classifications; it is used to track outcomes of cancer patients.

Meanwhile, **Quest Diagnostics** (Teterboro, NJ) was up 2% to \$67.46 per share for a market cap of \$7.4 billion, and **LabCorp** (Burlington, NC) was unchanged at \$35.80 per share for a market cap of \$5 billion. 🏠



INDUSTRY *buzz*

New lab formations are on the rise. After declining for most of the past 10 years, the number of CLIA-certified independent lab facilities has begun to increase. Data collected by *LIR* from the Centers for Medicare & Medicaid Services shows that nearly 200 new independent lab facilities have been licensed over the past three years. The total now stands at 5,056 facilities versus 4,936 at year-end 2001.



Where are all these new labs coming from? Well a good portion are coming from Quest and LabCorp, which each have been busy building new patient service centers that are frequently certified by CLIA so they can also perform onsite testing. In addition, it looks like some hospital outreach programs are getting more serious about this endeavor and switching their CLIA certifications to the "independent" category. And finally, it appears that more medical technologists and mid-level lab executives have gotten the entrepreneurial bug and are creating their own new lab companies.

The bottom line is that the competition for physician office, hospital, and nursing home business is heating up. 🏠

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Laboratory Industry Report (ISSN 1060-5118) is published by Washington G-2 Reports, 1111 14th St NW, Ste 500, Washington, DC 20005-5663.

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Publisher: Dennis W. Weissman. Managing Editor: Jondavid Klipp, labreporter@aol.com