

LABORATORY

INDUSTRY REPORT®



Dennis W. Weissman, Publisher

Vol. XIII, No. 5/May 2004

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Ex-AmeriPath Execs Raise \$70M For New Lab Company

Former AmeriPath executives Brian Carr, age 42, and Jim Billington, 41, have raised an astonishing \$70 million in venture capital funds and formed American Esoteric Laboratories (AEL—Nashville). Carr and Billington tell *LIR* that they aim to build AEL into a full-service, national, esoteric-testing lab that will compete with the likes of Quest Diagnostics, LabCorp, Mayo, ARUP Labs, etc. for send-out business from hospitals, independent labs, and specialist physicians.

“The lab market may be over-consolidated right now. We see an opportunity to enhance the service levels that some reference labs provide. A lot of hospitals don’t like the fact that their reference lab is competing with them in the outreach market,” notes Carr.

Billington says AEL has already acquired two small esoteric labs in Texas—ThromboCare Laboratories and Viral Diagnostics—and will consolidate them into a new 27,000-square-foot facility that the company is building in Irving (a few miles west of Dallas). He says AEL plans to acquire four more niche labs by the end of the year.

The formation of AEL, combined with a reinvigorated Specialty Laboratories, and Esoterix’s plans to go public suggest that the \$3.7 billion esoteric-testing market is about to get a lot more competitive. For more on AEL, Specialty, and Esoterix, see *Inside the Lab Industry*, pp. 5-7. 🏠

Lab Industry Veteran Starts Northern California Lab

After being away from the lab business for a decade, Chris Riedel, former chairman and chief executive of Meris Laboratories, is back. Last summer, Riedel, age 57, acquired a small independent lab in San Francisco named Chinatown Medical Lab and then moved it to a new 12,000-square-foot facility in Campbell (just outside of San Jose). The company has been renamed Hunter Laboratories and Reidel says he has already hired 50 employees and opened up 10 patient service centers (PSCs) in northern California. His goal is to reach \$50 million in annual revenue within the next five years. ➡ p. 2



■ **LAB INDUSTRY VETERAN**, *from page 1*

Riedel was a founder, chairman, and chief executive of Meris Laboratories, a publicly traded lab company that had been based in San Jose. After a bitter dispute with the board, Riedel broke all ties with Meris in mid-1992. Four and a half years later, Meris filed for Chapter 11 bankruptcy protection and in November 1998, the company was acquired by Unilab for \$16.5 million.

During the last 10 years, Reidel was semi-retired and, for a few years, he served as chairman of the consulting firm Chi Laboratory Systems (now part of Park City Solutions) and later worked at a small investment banking firm in New York City.

Riedel says he made up his mind to re-enter the lab business after Quest Diagnostics completed its acquisition of Unilab in February 2003. In order to close the

deal, Quest was required by the Federal Trade Commission to sell a group of rapid labs, PSCs, and IPA contracts in northern California to LabCorp. Riedel says the FTC's decision set off a light bulb in his head. Namely, that there are almost no local labs in northern California to compete with Quest/Unilab.

Physician offices in northern California have welcomed Hunter Laboratories as an alternative to the big commercial labs,

according to Riedel. He plans to keep his new lab focused on the greater San Francisco/San Jose area. "We're not going to expand into any market that's not within driving distance. When you start putting specimens on airplanes, bad things happen. Specimens get lost, and next-day turnaround becomes difficult," says Riedel.

What about being excluded from managed care contracts? Reidel says that only about 20% of the typical physician office's patients in northern California are in capitated health plans that restrict lab choice, so there's plenty of fee-for-service business open to competition. "In order to run a high-service lab, you can't be running after deeply discounted managed care contracts," he adds.

What about competition from hospital outreach programs. "Hospitals can be successful in the outreach market, but more fail than succeed," he answers. One of the biggest mistakes they make is requiring outreach patients to register through the inpatient LIS system. This can lead to wait times of up to an hour or more, notes Riedel. "Inpatients are prisoners of the hospital. A far higher service level must be provided to outreach patients," he adds.

What's the biggest change in the lab business over the past 10 years? "Physicians have no financial incentive to draw blood in their office anymore. They want patient-service centers nearby. It's become a real estate game," answers Riedel. 🏠

Hunter Laboratories at a Glance

President:	Chris Reidel
Lab director:	Reardon C. West, M.D.
Employees:	50
Main lab:	Campbell, CA
# PSCs:	10
AP services:	Calpath Medical Associates
Reference lab:	Specialty Laboratories
Source: Hunter Laboratories	

LabCorp Protests Competitive Bidding Plan In Florida

Quest, LabCorp and nearly every independent lab in Florida is lobbying against the competitive bid plan. It seems as if ESRD Labs is the only company eager to see it move forward, observes LIR.

LabCorp has filed a protest with Florida Medicaid that has put a halt on the competitive bidding process for statewide contract for independent lab services. A staffer at Florida Medicaid tells *LIR* that the bidding process will not move on until the protest has been resolved.

LabCorp says that the RFP and an addendum are ambiguous as to whether or not hospital-based laboratories, POLs, and end-stage renal dialysis labs are excluded. LabCorp argues that if these types of labs are excluded from the RFP, but are allowed to receive higher reimbursement for the same services provided to Medicaid beneficiaries at a discount under the RFP, then these providers will have an unfair advantage in the marketplace. Florida Medicaid currently reimburses labs on a fee schedule that average about 65% to 70% of Medicare Part B fees.

An earlier protest from Royco ESRD Laboratories (*see LIR, April 2004, p. 5*) was resolved quickly and the RFP process was put temporarily back on track. However, the new LabCorp protest is more complicated, observes *LIR*, and could take a while to sort out.

But opposition to the contract is mounting. The Florida Health Care Coalition (FHCC-Orlando), which represents large employers such as Disney, Siemens Westinghouse, and Lockheed Martin, has voiced its opposition to the contract. "It's one of the worst requests for healthcare proposals that I've ever seen. It lacks quality standards. It lacks performance standards. The thing should be rescinded," Becky Cherney, president of FHCC, told the *Miami Herald* in an April 16 article. She said that the concept would not only endanger healthcare for Medicaid patients, but by driving some labs out of business, would lessen competition among remaining labs and therefore raise prices, which major employers would then have to pay.

In addition, the American Clinical Laboratory Association (ACLA-Washington, DC), which has 17 commercial lab members, has sent a four-page letter to the Florida's Bureau of Medicaid Services urging the agency to reconsider its competitive bidding process. "Unlike most types of medical supplies or equipment, for which competitive bidding is sometimes used, clinical laboratory services are not fungible commodities; they are complex medical services that require significant training, expertise and supervision to perform correctly," according to the ACLA letter.

And *LIR* hears that ACLA's biggest member, Quest Diagnostics, is also opposed to the competitive bid plan and is lobbying Florida legislatures to have it cancelled or modified.

Finally, a group of 26 independent labs in Florida has formed a coalition to fight the RFP. The group includes DSI Laboratories, Meridian Clinical Labs, and Doctors Laboratory, and is headed by Philip Chen, M.D., Ph.D., who is president of Cognoscenti Health Institute (Orlando), an independent lab with 50 employees. Chen tells *LIR* that he and about 30 executives from the new coalition took a



trip to Tallahassee on April 13 to lobby against the competitive bid plan and met with 10 legislatures and Alan Levine, deputy chief of staff for the Governor's office. In addition, Chen says that the coalition has hired a professional lobbyist, John Thrasher, former speaker of Florida's House of Representatives.

Meanwhile, Quest, LabCorp, and eight other labs are preparing to make bids for the contract in case their lobbying efforts fail (see list below). But Jeff Howard, president of Ray Howard & Associates (Jacksonville, FL), believes only Quest and LabCorp have a realistic chance of getting the contract given the dominating

market position they each already have in Florida. If the RFP process moves forward and a contract is awarded, Howard says, "It'll be like feeding an alligator a live chicken."

Finally, *LIR* notes that although we had initially thought that ESRD Labs had little chance of winning any potential contract, it looks like they are prepared to make an aggressive bid. The company

is building a new 90,000-square-foot laboratory in Fort Lauderdale. And sources in Florida tell *LIR* that the company, which is currently focused on testing for dialysis patients, is getting ready for a major push into the routine clinical lab business. Winning the Medicaid lab contract would give it a major head start. A spokeswoman from ESRD Labs did not return a call for comment. 🏠

Labs Intending to Submit Proposals for Florida Medicaid Lab Contract

Lab Name	Location	Medicaid Revenue*
Cognoscenti Health Institute	Orlando	\$116,009
Doctors Laboratory	Valdosta, GA	594,356
DSI Laboratories	Ft. Myers	611,575
Florida Reference Lab	Miami	194,034
J.E. Vilorio Pathology	Miami	NA
LabCorp	Tampa	13,264,243
PathNet Esoteric Laboratory	Van Nuys, CA	NA
Quest Diagnostics	Auburn Hills, MI	9,218,483
Royco Inc. (ESRD Laboratories)	Ft. Lauderdale	15,975
Specialty Laboratories	Santa Monica, CA	234,804

*Equals lab revenue generated from Florida Medicaid for year ended June 30, 2003. Source: Florida Bureau of Medicaid Services

Lab Utilization Limits Proposed For TennCare Medicaid Program

Tennessee Governor Phil Bredesen has proposed benefit reductions in the TennCare Medicaid program aimed at saving \$1 billion per year. TennCare will spend a projected \$7.1 billion in the fiscal year ending June 30, 2004, representing approximately 25% of the total state budget.

Bredesen's plan, which, if adopted, would go into effect in January 2005, would require co-payments of \$1 to \$40 from about 472,000 people out of the program's 1.3 million beneficiaries. The co-payments would apply to most health services. There currently is no co-pay for lab services under TennCare.

The plan would also restrict the number of lab visits or x-rays to a combined 10 per year. Hospital days would be limited to 45 per year, physician office visits would be limited to 10 per year, and drug prescriptions would be limited to six per month. Children, pregnant women, and people with disabilities, totaling 859,000 beneficiaries, would be exempted from the proposed co-pays and medical visit limits. 🏠

American Esoteric Labs Seeks Slice Of Send-Out Market



Brian Carr



Jim Billington

Though only a few months old, it looks like American Esoteric Laboratories (AEL) has the money and management expertise to make some waves in the esoteric-testing market. The company's chairman and chief executive, Brian Carr, was most recently president of AmeriPath (Riviera Beach, FL). AEL's president and chief operating officer is Jim Billington, who was formerly senior vice president of operations at AmeriPath.

The pair had co-founded Inform Dx (also known as Pathology Consultants of America) in March 1997 and sold the pathology-group-management company to AmeriPath in November 2000 for \$55 million. Previously, both executives had also held management positions at Allied Clinical Labs (now part of LabCorp).

The \$70 million that AEL has raised comes from two venture capital firms: Oak Investment Partners (Westport, CT) and ABS Capital Partners (Baltimore). This is the first laboratory investment for Oak, but ABS was an investor in Inform Dx and also owns a stake in US Labs (Irvine, CA), an anatomic pathology lab.

Carr says that AEL will seek to consolidate niche esoteric testing labs (each with about \$3-\$5 million in annual revenue) into the main laboratory it is building in the Dallas area. He says that these labs typically have proprietary assays, high service, and great technical expertise. But they do a poor job of marketing their services and often have out-of-date information systems—two areas where AEL can add value, according to Carr.

The company's first two acquired labs include Viral Diagnostics (Richardson, TX), a reference lab focused on infectious disease testing, and ThromboCare Laboratories (Dallas), which specializes in coagulation testing. AEL currently has a total of about 30 employees.

Billington says that AEL plans to have all of its acquired laboratories, which is expected to reach six labs by year's end, on a single laboratory information system (LIS). The company also plans to offer a special LIS service to hospital clients that will allow them to report all cumulative test results (inpatient, outpatient, outreach, and reference tests) to their outreach clients.

Carr says that AEL will ultimately offer a full menu of reference tests and then go after GPO contracts. In the meantime, he notes that there is an established market for specialty tests ordered outside GPO contracts.

Will AEL use low prices to win reference testing business? "We plan to compete primarily through high service levels. But our pricing will be competitive. This is a business where pricing can be used to win share," answers Carr.

Carr says AEL is being modeled after American Medical Laboratories (AML-Chantilly, VA), which was acquired by Quest Diagnostics in March 2002 for \$500 million. [Note the similarity of names, AEL and AML.] AML offered a

high level of service, did not compete with hospital clients for outreach business, and was able to reach \$300 million in annual revenue even though it was not a preferred reference lab to either of the two major group purchasing organizations (GPO), Premier and Novation.

However, *LIR* notes that AML, which was originally founded by a group of pathologists in 1959, was not built overnight. Nor was it ever highly profitable. In the five years (1997-2001) before being acquired by Quest, the after-tax profit margin at AML averaged only 1.1%.

The Rebound at Specialty Laboratories
 Meanwhile, the esoteric-testing market is seeing more competition from Specialty Laboratories (Santa Monica, CA), which has rebound from a regulatory run-in with the California Department of Health Services and CMS two years ago.

The regulatory problems, which revolved around the use lab personnel without necessary state licenses, caused CMS to revoke Specialty's CLIA certification and

suspended its right to bill Medicare and Medicaid in March 2002. To its credit, Specialty was able to resolve these regulatory problems and regain its CLIA certificate and ability to bill Medicare and Medicaid in June 2002, just three months after the sanctions were first imposed.

But the damage was already done. A loss in confidence caused many clients to stop or reduce the amount of reference work they sent to Specialty. And Specialty's revenue dropped from a record of \$175.2 million in 2001 to \$119.7 billion in 2003—a loss of \$55 million in annual revenue over the two-year period.

The ordeal forced Specialty's founder and chief executive, Jim Peter, M.D., Ph.D., to step down from his position, although he remains on the board and still holds a 63% stake in the company. Specialty's new chief executive, Doug Harrington, M.D., age 50, not only revamped the company's compliance department, but also shifted the whole focus of the company from research and development toward customer service.

To improve turnaround time (TAT), Dan Angress, senior vice president of marketing at Specialty, tells *LIR* that Specialty has added 240 test set-ups to its schedule. For example, apolipoprotein A-1 is now performed six times per week instead of three and TAT has been cut in half. Other changes include the use of new customized specimen transport coolers that have meant a 60% reduction in the number of shipments received with thawed specimens, according to Angress. The company has also established dedicated service representatives for larger accounts so they have a familiar point of contact to get questions answered or problems resolved.

The service improvements seem to be working. Specialty expects its revenue to increase by roughly 11% this year to \$133 million. New clients added in the past 12

Average Revenue per Requisition at Specialty Labs



Source: Specialty Laboratories



months include the University of Maryland Medical System, the Consorta GPO, Sisters of Mercy Health System (St. Louis), Southern Diagnostics (Birmingham), and Hunter Laboratories (*see p. 1*). Angress says Specialty's growth is not coming as a result of lower prices. He attributes the decline in Specialty's average revenue per requisition (see graph) to test mix changes and an increased focus on going after larger hospital system accounts.

Esoterix Moves Closer Toward IPO

It looks like Esoterix (Austin, TX), which has been talking about going public for at least the past three years, may finally actually do it later this year. Jim McClintic, chief executive, tells *LIR* that one sticking point had been getting all 10 of its geographically dispersed specialty testing labs on the same LIS and billing systems. That

was a two-year process completed in December 2003 that cost about \$4 million, according to McClintic. Other moves aimed toward facilitating an IPO include the hiring of Frank Spina, formerly with Specialty Laboratories, as chief financial officer.

Esoterix increased its revenue by 26% to reach \$108 million in 2003. McClintic expects growth of approximately 20% this year for revenue of about \$130 million; earnings before interest, taxes, depreciation, and amortization (EBITDA) should come in at around \$20 million. The company currently has 850 employees.

All of this growth has been internal (Esoterix's last acquisition was made in 1998), McClintic points out. He says pricing for esoteric testing services is flat. The company's growth is coming from increasing demand from existing customers and some market-share gains from competitors.

Recent contract wins include Catholic Healthcare West (San Francisco), a 40-hospital system.

Funds raised from a potential IPO would be used to pay off about \$20 million in debt and for acquisitions, says McClintic. He believes there are a number of small esoteric testing labs around the country with annual revenue in the \$2 million to \$15 million range that are attractive acquisition candidates. An IPO would also give Esoterix's majority owner, venture capital firm Behrman Capital, the opportunity to cash in its investment, notes *LIR*. 🏠

Top 10 Esoteric-Testing Labs by Estimated Revenue

LIR estimates that the national market for esoteric testing services, including gene-based tests, cancer diagnostics, and other esoteric tests, grew by roughly 15% to \$3.7 billion in 2003. This includes about \$2.3 billion of esoteric testing business sent out by hospital laboratories and \$1.4 billion from independent labs and physician offices.

Company	2003 Revenue (\$ millions)	Market Share
Quest Diagnostics	\$1,000	27.4%
LabCorp	889	24.3
Mayo Medical Laboratories	200	5.5
ARUP Laboratories	190	5.2
Impath*	125	3.4
Specialty Laboratories	120	3.3
Esoterix	108	3.0
Genzyme Genetics	101	2.8
US Labs	54	1.5
Athena Diagnostics	50	1.4
Total, 10 labs	2,837	77.6
Other labs	818	22.4
Grand total	\$3,655	100.0%

*Impath is being acquired by Genzyme Genetics

NA=not available

Source: Company reports and *LIR* estimates

Bankruptcy Court Approves Genzyme's Bid For Impath

Genzyme Genetics (Westborough, MA), a unit of drug-maker Genzyme Corp., has won bankruptcy court approval to buy Impath Inc.'s cancer-testing business for \$215 million (see *LIR*, April 2004, pp. 1-2). Impath will use money from the sale to repay its creditors in full, says George Davis, the company's bankruptcy lawyer. The purchase is expected to close by the end of April.

The acquisition gives Genzyme Genetics entrée into the fast-growing cancer diagnostics market. Based on financial reports filed with the bankruptcy court, *LIR* estimates that Impath's cancer-testing business is currently generating about \$110-\$120 million in annual revenue. So Genzyme is paying approximately 2x revenue. This compares with the \$605 million, or 3.2x revenue, that LabCorp paid to acquire Dianon in January 2003.

On the downside, *LIR* observes that key medical and marketing talent continue to leave Impath. Among the recent departures are:

- ❑ **Joel Chan, M.D.**, has become vice president and medical director of hematopathology for AD PathLabs (Newport Beach, CA). Chan was previously director of diagnostic hematopathology for the western division of Impath, Inc.
- ❑ **Richard Cote, M.D.**, a founder of Impath and former board member, has become a special consultant to ChromaVision (San Juan Capistrano, CA), which is expanding into the pathology service business. Other former Impath executives recently hired by ChromaVision include **Heather Creran**, who has become chief operating officer of oncology services, and **Horacio Vall**, a medical technologist who has been named vice president of lab operations at ChromaVision.
- ❑ **Gary LaBarge**, a medical technologist and former sales manager for Impath, has joined NeoGenomics Inc. (Fort Myers, FL) as area sales manager for southeast Florida.
- ❑ Late last year, Bio-Reference Labs (Elmwood Park, NJ) announced that **James Weisberger, M.D.**, had joined its hematopathology staff as a vice president and assistant chief medical officer. Weisberger was previously director of hematopathology at Impath. Several other physicians and salespeople from Impath followed Weisberger to Bio-Reference. In January, Impath sued Weisberger claiming that he had misappropriated trade secrets and unlawfully solicited former Impath employees. But Impath withdrew the lawsuit in March.

Separately, bankruptcy court filings show that Ventana Medical Systems (Tucson) has agreed to purchase Impath's GeneBank business for \$1 million in cash. GeneBank is an archive of 50,000 paraffin-embedded tissue blocks and associated reports used by drug developers in their clinical trials. Financial records show that Impath had spent more than \$13 million to develop GeneBank.

Meanwhile, ZeptoMetrix Corp. (Buffalo, NY) has agreed to buy Impath's blood products business in Franklin, MA for \$500,000 in cash. The business sells blood and plasma to pharmaceutical companies for use in new drug development.

Completion of the deals listed above will essentially mark the end of Impath. 🏠



SAMHSA Proposal Could Invigorate Declining Drug Testing Market

The federal Substance Abuse and Mental Health Services Administration (SAMHSA) has proposed a new rule that would allow federal agencies the choice to use sweat, saliva, and hair in federal drug-testing programs that now only test urine. The proposal would also allow for point-of-care testing for drugs.

The proposal was published in the Federal Register on April 13 and is subject to a 90-day public comment period. A final plan could be issued by year's end. The planned changes, which have been in the making for several years, reflect SAMHSA's efforts to be more precise in its drug screening and to make it more difficult for workers who try to cheat on urine tests.

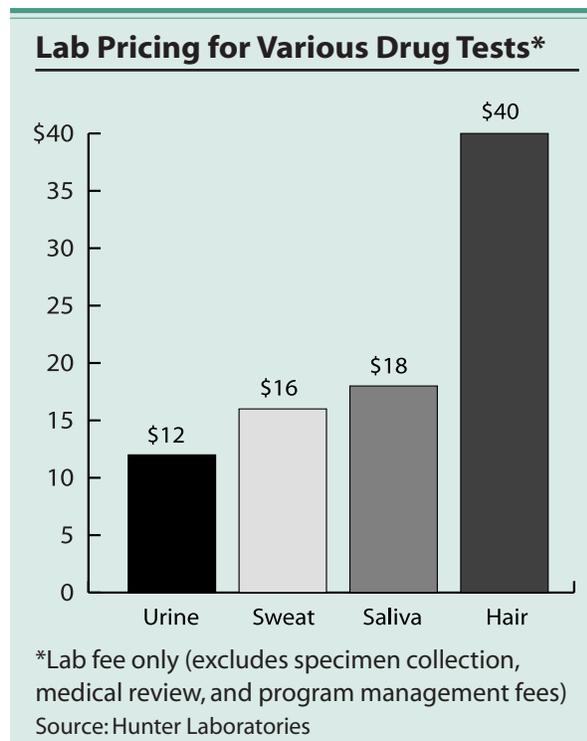
SAMHSA guidelines apply to the nation's 1.6 million federal workers and are also followed by regulatory agencies that conduct drug testing in industries they oversee, such as the airline and trucking industries. In total, SAMHSA is responsible for about 6.5 million of the estimated 33 million workplace drug tests done each year by U.S. employers. The agency's testing standards are also widely followed by thousands of other employers, public and private.

If passed into law, the new guidelines would give a boost to the employee drug testing market. The average selling price of a lab-based urine test for a standard five-drug panel (marijuana, cocaine, amphetamines, opiates, and PCP) is about \$12. In contrast, labs earn about \$15 to \$20 for saliva and sweat tests, and approximately \$40 for hair tests.

David Brill, M.D., chief executive of DrugRisk Solutions (Schuylerville, NY), believes the overall drug testing market, especially for hair testing, will expand greatly as a result of the new guidelines. DrugRisk Solutions is a privately held company in upstate New York that has developed a point-of-care hair test.

There are currently about 600,000 hair tests for drugs of abuse performed each year in the United States. Psychomedics Corp. (Cambridge, MA), which operates a CLIA- and SAMHSA- licensed laboratory in California, has the only FDA-cleared five-drug hair test panel and has the majority of the market. Quest Diagnostics has a homebrew hair test, but is working to gain FDA clearance. The SAMHSA proposal requires all alternative drug tests to be cleared by the FDA.

Brill says DrugRisk is aiming to get its point-of-care hair test cleared by the FDA next year. He says the test provides results within 30 minutes and will be priced significantly below lab-based hair tests. He notes that Patrick Carpenter, former director of Quest Diagnostic's toxicology lab in Las Vegas, recently became DrugRisk's lab director. 🏠



Maryland General Hospital Hires PCS For Recommendations

Timothy Miller has resigned as president of Maryland General Hospital; Philip Whelan, M.D. has resigned as the lab's medical director; and James Stewart, administrative lab director, has also left.

Maryland General Hospital (Baltimore), a 245-bed health facility that is affiliated with the University of Maryland Health System, has hired PCS Laboratory Solutions (Ann Arbor, MI) to provide management support and conduct a comprehensive review of the hospital's lab. The review comes after the hospital admitted it had given unreliable HIV and hepatitis C test results to thousands of patients between June 2002 and August 2003.

A whistleblower's complaint to state inspectors late last year triggered an investigation by the state Office of Health Care Quality, which has found serious problems at the facility. The whistleblower, Kathleen Turner, age 32, a former lab worker at the hospital, contracted HIV and hepatitis C early last year when the lab's blood analyzer malfunctioned and spattered her with infected blood. Turner has filed a lawsuit against Maryland General Hospital and Adaltis USA Inc., the manufacturer of the analyzer.

Turner claims she noticed problems with the analyzer, known as a Labotech, shortly after going to work in the hospital lab in the fall of 2002. She says she got no response to her initial complaints to hospital administration, so she sent a detailed letter to city health officials. They, in turn, passed the information on to state regulators who began an investigation in January. State health officials found the lab was so poorly run that "suspect and possibly erroneous test results" were issued, putting patients at risk. The state has ordered the hospital to take immediate action to fix a lab "rife with equipment failures" and other serious deficiencies or face fines of up to \$10,000 per day. ▲

Identity Thefts Linked To Quest Worker

Darren Rogers had worked for Quest for 18 months. News of his arrest made the front page of the Baltimore Sun newspaper on April 13.

Baltimore County police have arrested five men in connection with what they believe is a large-scale identity-theft ring tied to a worker at Quest Diagnostics' regional lab in Baltimore. Darren Rogers, age 21, a specimen processor at the Quest lab, was arrested on April 9 for stealing patient records from at least five Quest patients. Rogers and four other men used the patients' names, Social Security numbers and other personal information to get credit at stores and car dealerships.

Authorities arrested the four men on April 5 after an off-duty police officer working as a security guard at a Home Depot store in Baltimore saw them try to buy about \$10,000 worth of pipes and windows. "While waiting for credit clearance, they suddenly just took off and this made the officer suspicious," according to Bill Toohey, a spokesman for the Baltimore County Police Department.

The men attempted to leave in a red car and a U-Haul, but police caught up with them. The red Nissan 350Z, which was purchased for \$59,900 using the fraudulently obtained name of a Quest patient, contained medical records from two Quest patients. Further investigation led police to Rogers, who is now in police custody and charged with five counts of identity theft.

Quest spokesmen, Gary Samuels, says Rogers has been fired. He says a background check run on Rogers before he was hired showed no previous criminal record. Quest is cooperating with police on the investigation. "Unfortunately even the best policies cannot protect against a criminal act," says Samuels. ▲



Lab Stocks up 1%; PharmChem Struggling To Survive

Stock prices for the 12 companies in the G-2 Laboratory Index rose an unweighted average of 1% in the four weeks ended April 12, 2004, with 10 stocks up in price and two unchanged. So far this year, lab stocks have risen 14%, while the S&P 500 and the Nasdaq are each up 3%.

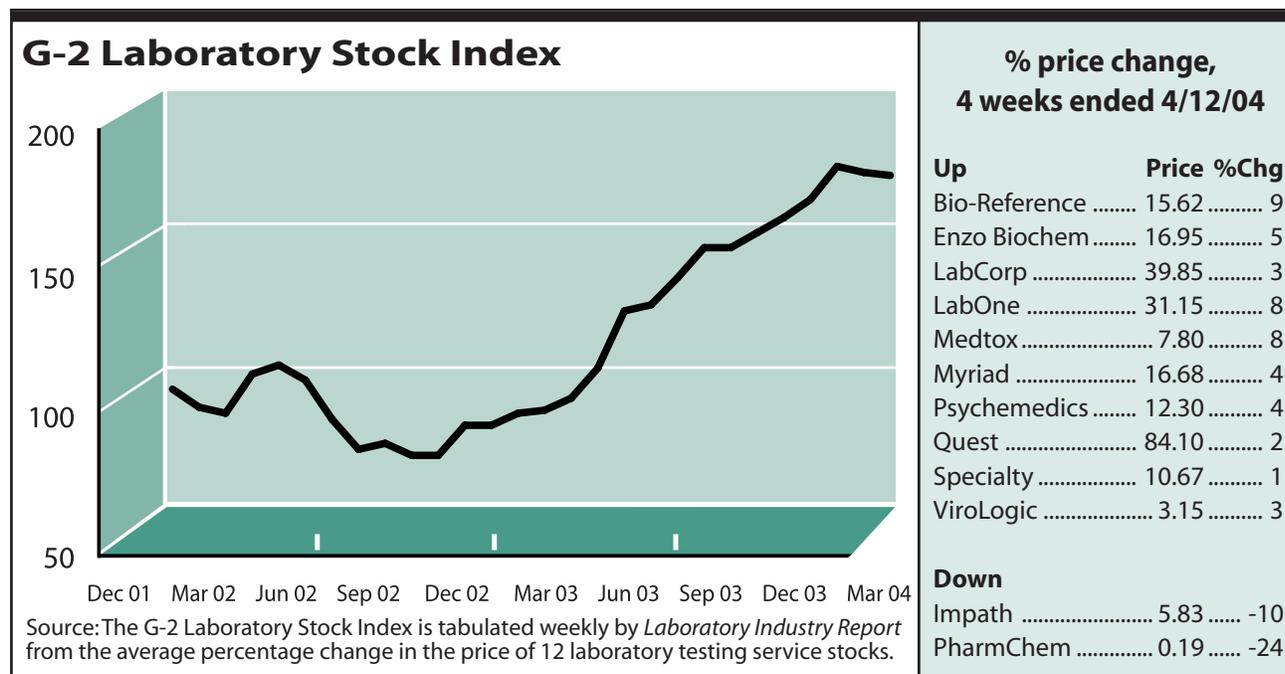
Quest Diagnostics (Teterboro, NJ) was up 2% to \$84.10 per share for a market cap of \$8.7 billion, and **LabCorp** (Burlington, NC) was up 3% at \$39.85 per share for a market cap of \$5.9 billion.

Bio-Reference Labs (Elmwood Park, NJ) was up 9% to \$15.62 per share for a market cap of \$176 million. **Impath** (New York City) was down 10% to \$5.83 per share for a market cap of \$97 million. The company recently got bankruptcy court approval to sell its cancer-testing business to Genzyme Genetics (*see page 9*).

PharmChem (Haltom City, TX) was down 24% to \$0.19 per share for a market cap of only approximately \$1 million. The company recently announced a net loss of \$2.1 million for full-year 2003 versus a net loss of \$3.3 million the previous year; revenue was down 12% to \$26.5 million. PharmChem had \$1.7 million of cash on hand as of Dec. 31, 2003.

PharmChem's independent auditors have notified the company that they intend to include language in their report "raising substantial doubt about the company's ability to continue as a going concern."

To cut expenses, the struggling drug-testing company says it has ended its registration with the U.S. Securities and Exchange Commission and will no longer have to file reports with the agency. In addition, PharmChem says that it laid off 30 workers between September and February, and cut salaries for its officers and highly paid employees by 5% to 25%. 🏠



INDUSTRY *buzz*

The mini-boom in lab company formations. Starting up a new lab seems to be the thing to do these days. On the front page of this issue of *LIR* alone, we've highlighted two new companies—**Hunter Laboratories** and **American Esoteric Laboratories**—that have the money and management expertise needed to grow into formidable competitors. And on page 4, we note that **ESRD Laboratories** is building a gigantic lab in Fort Lauderdale so that it can expand into the routine testing market.

In fact, this publication has highlighted 10 new lab company startups or major hospital outreach program expansions around the country in the past six issues alone. And there are many more we could name, but don't have the time or space to do so. But we'll mention a few here quickly: **Interleukin Genetics** (Waltham, MA), a biotechnology company, has announced plans to build a clinical lab so it can get into the genetic testing business; **DRL Labs**, a wholly owned subsidiary of **East Texas Medical Center** (Tyler, TX), has opened a new 25,000 square-foot freestanding lab to accommodate the 20% annual growth it had for the past five years; and **HealthScreen America**, a privately held company, has opened a new lab in Buckhead, GA.

Data from the CLIA application files back up our assertion that the rate of new lab formations is at its highest in at least 10 years (see *LIR*, January 2004, p. 12).

Consolidation among the major national labs means that in many markets there are now only one or two labs actively competing for physician office business. And lab entrepreneurs are acting on the opportunity to add more choice and competition into the marketplace. 🏠

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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