

From the Desk of R. Lewis Dark...

THE R. LEWIS DARK REPORT

RELIABLE BUSINESS INTELLIGENCE, EXCLUSIVELY
FOR MEDICAL LAB CEOs/COOs/CFOs/PATHOLOGISTS

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R Lewis Dark

Founder & Publisher



Looking for Laboratory Leadership

ONE ASPECT OF LABORATORY MANAGEMENT which is seldom discussed is the topic of leadership. Pure and simple, every laboratory organization and pathology group practice needs an effective leader if it is to survive and prosper. This is particularly true as reimbursement for lab services continues to shrink from year to year.

In too many laboratory organizations, leadership as a distinct skill gets short shrift when it's time to pick the new director for the laboratory or a new president for the pathology group practice. Too often, this new top manager is selected on the basis of longevity of service, familiarity with the lab and its employees, a history of consistent execution of job duties, or political favoritism.

Such a selection process overlooks leadership as an essential quality. Leadership represents the ability to develop a vision of what the lab organization can be in the marketplace, combined with the skills to motivate the lab team to pursue that vision. Leadership is that art and science of impelling the organization to do the things necessary to convert its strategic business plan into successful reality.

Each year, THE DARK REPORT assembles a list of the lab industry Movers & Shakers. This is our attempt to identify those exceptional individuals in the lab and pathology professions whose track record indicates they have true leadership skills. Each year's list of lab industry Movers & Shakers serves as a reminder that every lab organization in the United States is capable of achieving spectacular goals—but only if motivated and guided by a true leader!

That is why it is imperative for lab managers at all levels to gain a better appreciation of what makes a leader, and why it's essential that their lab organization have a capable leader. In today's healthcare marketplace, laboratory medicine must be supported by superior management skills if it is to maintain its vital role in the clinical environment.

Laboratories and pathology practices need leadership to help their organizations adapt to the changing market, incorporate new technology, and motivate employees to improve their personal talents and their productivity. Leadership is the necessary quality that insures success. **TDR**

2000's Movers & Shakers Represent Strong Leaders

Once again, our selections demonstrate that strong management skills make a difference

By Robert Michel

CEO SUMMARY: It's time again for THE DARK REPORT to make its yearly selection of the lab industry's Movers & Shakers. Individuals chosen for 2000 represent a cross section of laboratory companies. Their successes demonstrate that leadership and vision continue to make a difference, despite the financial challenges of today's healthcare marketplace.

IT IS ALWAYS A CHALLENGING TASK for THE DARK REPORT to select its annual list of the laboratory industry's Movers & Shakers.

That's because many of the most effective management leaders in clinical laboratories and pathology group practices labor in relative anonymity. Since most laboratories and pathology groups are "hidden" within the larger organization of the hospital, their management leaders get much less recognition than those of publicly-traded companies.

As public firms, it is certainly easy to track the business performance of **Quest Diagnostics Incorporated** and **AmeriPath, Inc.** Every quarter these companies are required to make detailed financial disclosures.

It is much more difficult to track the management performance of hospital laboratories and pathology group practices, since they seldom make public any details about their overall financial performance.

That is why THE DARK REPORT's annual selection of the lab industry's Movers & Shakers is important. It often brings unrecognized management leaders into the public eye. These exceptional individuals demonstrate that a well-managed laboratory can still grow, make money, and be a good place to work.

The popular conception of the clinical laboratory industry today is that it's in a general state of financial depression. Sustained erosion in the levels of reimbursement for lab testing

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R. Lewis Dark, Founder & Publisher.

Robert L. Michel, Editor.

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Movers & Shakers Earn Recognition

This beautiful award recognizes the achievements of our 2000 Movers & Shakers!

have caused operating profit margins to fall to levels which are inadequate to sustain viable laboratory operations.

This popular conception of the lab industry is not totally true. There are regions of the United States where most laboratories continue to operate with a reasonable degree of financial comfort.

These regions stand in stark contrast to those areas of the country where virtually all laboratories find themselves in a constant struggle for financial survival. California is probably the most prominent example.

THE DARK REPORT's Movers & Shakers for 2000 come from all regions of the United States. The successes of their laboratory organizations demonstrates that it is still feasible to create a dynamic, growing laboratory organization.

As in past years, we expect some of the individuals on this year's Movers

& Shakers list to be controversial. Like the Academy Awards, every fan has an opinion on why their favorite candidate should win. That also applies to THE DARK REPORT's Movers & Shakers selections.

Individual Accomplishments

Yet we believe that each of our selections have unquestionable merit for recognition as a Mover & Shaker. When their individual accomplishments are matched against other peers in the lab industry, they compare favorably. The sustained performance of their laboratory organizations offers further validation that each individual's leadership skills made important contributions to its success.

For example, take regional laboratory networks. They became a common industry business model starting in 1995. Yet the measurable impact and success of some 40 to 50 regional lab networks across the country during the past five years has been negligible.

Major Population Centers

Judged from this perspective, the accomplishments of Detroit's **Joint Venture Hospital Laboratory Network (JVHLN)** are considerable and impressive. Since its operational launch in 1993, it has grown to encompass all the major population centers in Michigan.

It's infrastructure of patient access points and stat labs is unmatched by any commercial lab competitor in Michigan. During its seven years of operation, it has generated positive cash flows and funded the costs of its own operations.

It's accomplishments in managed care contracting are equally impressive. It now holds contracts with Michigan payers to service 1.6 million lives. It is a lab services provider to all

major Michigan payers, including, as of early this year, Michigan's largest health insurer.

Compared to all other regional lab networks in the United States, JVHLN's accomplishments are truly exceptional. That is why THE DARK REPORT selected JVHLN's Executive Director, Jack Shaw, as one of this year's Movers & Shakers. In seven years of leading JVHLN, Shaw has helped his network achieve business outcomes that are unmatched by any other regional lab network.

Another good example is **AmeriPath, Inc.**, the pathology physician practice management (PPM) company based in Riviera Beach, Florida. AmeriPath has grown to become a quarter billion-dollar pathology business in just a few years. Many did not believe that pathologists would buy into the PPM concept.

But today, AmeriPath has almost 300 pathologists working in 30 states.

It is posting healthy profits, despite the reimbursement squeeze on lab testing. Credit for this business growth must go to its management leader, James New, one of THE DARK REPORT's Movers & Shakers for 2000.

Hopefully the accomplishments and successes of our Movers & Shakers will inspire other laboratory executives and pathologists to energize their own laboratory organizations. The lab industry needs more leaders with confidence, vision, and energy.

This year's group of Movers & Shakers, along with the individuals selected in past years, provides ample proof that skillful management does make an important difference in the success or failure of a lab organization.

THE DARK REPORT encourages all levels of lab managers to study and master the tools and techniques of management and leadership. The rewards from such effort are fulfilling and worthwhile.

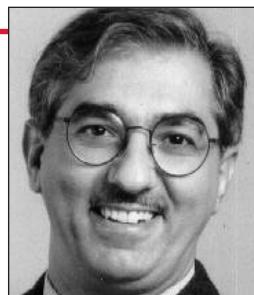
GOOD THINGS ARE HAPPENING to clinical pathology at **Massachusetts General Hospital** in Boston. Michael Laposata, M.D., Ph.D. is actively making lab data more useful and relevant to clinicians and HMOs.

As Director of Clinical Laboratories, Dr. Laposata developed a way to make clinicians recognize and use enhanced clinical pathology professional services in an added-value manner. The goal was to directly help physicians practice better medicine at less cost.

Dr. Laposata used a "close to the customer" philosophy to identify the unmet needs physicians had concerning the lab tests they ordered. He then developed a customized series of clinical pathology professional opinions which are added to lab test reports.

These enhanced clinical pathology professional services are a hit with doctors, who encourage HMOs to reimburse Dr. Laposata and his team for such professional services.

Although still unrecognized by much of the clinical pathology profession, Dr. Laposata's successes did not go unnoticed by several large, market-responsive commercial laboratories. Dr. Laposata's innovations at adding value to clinical pathology will be a transforming force all across the country.



**Michael Laposata,
M.D., Ph.D.**

*Director of Clinical
Laboratories
Massachusetts
General Hospital
Boston, MA*



Dixie McFadden

*Director of
Laboratories
Kaiser Permanente
Portland, OR*



James New
*Chairman & Chief
Executive Officer
AmeriPath, Inc.
Riviera Beach, FL*

FULL INTEGRATION of clinical care is the next challenge for lab executives. At **Kaiser Permanente Northwest** in Portland, Oregon, Administrative Director of Laboratories Dixie McFadden is already positioning her laboratory organization to meet these challenges.

During the past five years, McFadden conducted rigorous evaluations of different lab strategies required to service a clinically-integrated healthcare system. Under her leadership, the lab developed a cost-effective business plan which mixes the practical with the visionary.

The end result is a laboratory organization that incorporates today's latest automation solutions with the flexibility—and willingness—to adopt even newer technology in the near future. In one sense, McFadden has created a "modular business strategy" for her lab organization.

McFadden represents the next generation of laboratory administrator. She can impart vision, understands how to manage people resources, and will go outside the lab industry to find management tools that she can use in the laboratory.

McFadden's leadership skills make the lab organization at Kaiser Permanente Northwest a good business model to watch for innovation in serving the integrated clinical environment.

PROBABLY NO SINGLE FORCE IS doing more to reshape the traditional practice of anatomic pathology than **AmeriPath, Inc.**, led by Chairman and CEO James C. New.

Under New's leadership, Ameri-Path was the only pathology physician practice management (PPM) firm to go public (October 1997).

In the 31 months since that date, New has built AmeriPath into a national pathology company with a quarter billion dollars in revenue and 297 pathologists practicing in 30 states. Unlike national AP companies such as **DIANON Systems, Inc.** and **IMPATH, INC.**, AmeriPath actively owns and operates locally-based pathology practices which primarily service hospitals.

New and his executive team should be given full credit for creating a pathology-driven business entity which many independent-minded pathologists believed would never work in today's healthcare market.

New cut his management teeth at **Textron, Inc.** and **Emerson Electric, Inc.**, both companies respected as rigorous developers of skilled managers. James C. New is definitely bringing modern corporate management principles to anatomic pathology. So far, his track record demonstrates that corporate management has a place in pathology.

DETROIT'S Joint Venture Regional Laboratory Network (JVHL) has always been an ambitious undertaking since its formation in 1992.

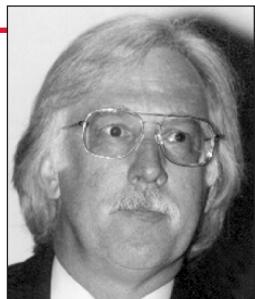
One constant in this lab network's growth has been its Executive Director, Jack Shaw. During the 1990s, Shaw successfully led JVHL through the same obstacles which derailed most other lab networks.

Originally organized by the lab divisions of four competing health systems in Detroit, JVHL has expanded and now has 20 hospital labs as participating members.

As a managed care contracting entity, JVHL has no peer among the nation's regional lab networks. It holds contracts covering 1.6 million lives and recently gained provider status with Michigan's largest insurer.

With this newest contract, JVHL is a full-fledged, credible competitor in Michigan against the two national laboratories. In so doing, JVHL fulfills the potential expected of the regional lab network concept.

Jack Shaw's nine years of leadership at the helm of JVHL amply demonstrate his skills in diplomacy, team-building, and strategic market positioning. JVHL is a great example of how successful a regional lab network can be in its local market.



Jack Shaw

Executive Director

Joint Venture Hospital

Lab Network

Detroit, MI



**Thomas Tiffany,
Ph.D.**

*Chief Executive
Officer*

Pathology Associates

Medical Labs
Spokane, WA

FLABORATORY REGIONALIZATION is a defining trend this decade, then the example of Spokane's **Pathology Associates Medical Laboratories** (PAML), led by CEO Thomas Tiffany, Ph.D., is worth studying.

During the second half of the 1990s, Dr. Tiffany deftly positioned PAML to be a major laboratory player in western Washington and Idaho, its prime service area. Using a focused business strategy of acquisitions, affiliations, and strategic partnerships, Dr. Tiffany has built PAML's market presence throughout the state, from Seattle to Boise.

In particular, PAML's involvement as a full participant in the **PacLab Laboratory Network**, with eight hospital labs, demonstrates that an independent commercial lab company can work cooperatively with a network of hospital laboratories.

Certainly PAML faces daunting financial challenges, particularly given the needs of its hospital system owner. But Dr. Tiffany's accomplishments in building PAML's presence in local markets throughout Washington and Idaho demonstrate that the age of the independent commercial laboratory has not quite ended.

What are they doing now?

Movers & Shakers Continue Making Big Contributions

Michael Becich, M.D., Ph.D.

Director, Pathology Informatics
University of Pittsburgh
Medical Center
Pittsburgh, PA

Few pathologists bridge the worlds of academics, clinical practice, and business as well as Dr. Becich. Since his 1998 recognition as a Mover & Shaker, he has moved forward on several fronts. Dr. Becich is successfully obtaining a sizable amount of grant money to develop digital and electronic pathology capabilities. He is working with venture capitalists to fund pathology-based start-ups. THE DARK REPORT was not the only organization which recognized Dr. Becich's exceptional accomplishments. **Intel Corporation** declared Dr. Becich to be one of its Healthcare Heroes. (See website: www.Intel.com/intel/e-health/heroes.htm.)

Jack Finn

Chief Executive Officer
Centrex Clinical Laboratories
New Hartford, New York

This 1998 Mover & Shaker became one of the first hospital-owned laboratory organizations to implement a Web-based test requisition and results

reporting system. Since December, Centrex has been connecting clients and lab users with the Abaton.com solution. With this accomplishment, Finn places Centrex at the forefront of the Internet informatics trend while giving his lab a competitive advantage in the marketplace.

Bruce Friedman, M.D.

Professor of Pathology Informatics
University of Michigan
Medical Center
Ann Arbor, MI

Dr. Friedman is another Mover & Shaker actively involved in laboratory informatics and the Internet. He is developing wireless connections between his laboratory and physicians to provide clinicians with remote access test results. He is also working on ASP (application service provider) lab information services at the University of Michigan Medical Center.

Timothy J. Brodnik

President & CEO
American Medical Laboratories
Chantilly, VA

In keeping with his reputation for moving at light speed, Brodnik is implementing multiple business initiatives at American Medical Laboratories (AML). During the past year, AML added Pathologists Medical Laboratories of Las Vegas to its corporate structure, won the national reference testing contract for Kaiser Permanente, and inked a strategic affiliation with Park City Solutions of Park City, Utah. Revenues and operating profits at AML are climbing steadily.

Lots of Talent Among Movers & Shakers

Here's a complete list of past honorees of THE DARK REPORT's annual Movers & Shakers awards. These individuals represent an impressive cross section of the laboratory industry's brightest and best management leaders.

1999

Timothy J. Brodnik, President & CEO

American Medical Laboratories, Chantilly, VA

Phillips I. Gausewitz M.D.

Pathology Medical Laboratories, La Jolla, CA

Jerry Goldsmith, Vice President Marketing Programs

American Association for Clinical Chemistry, Washington, DC

Gene Pawlick, M.D., Regional Director of Laboratories

Kaiser Permanente-Northern California, Berkeley, CA

Al Sirmon, Chief Financial Officer

Pathology Service Associates, LLC, Florence, SC

1998

Bill Hagestrom, Chief Executive Officer

UroCor, Inc., Oklahoma City, OK

Jack Finn, Chief Executive Officer

Centrex Clinical Laboratories, New Hartford, NY

Michael Becich, M.D., Ph.D., Director

Pathology Informatics, University of Pittsburgh Medical Center, Pittsburgh, PA

Michael Snyder, M.D.

UMASS Memorial Health Systems Labs, Worcester, MA

Charles J. Miller, COO & Executive Director

Peconic Regional Laboratories, Southampton, NY

1997

David Beckwith, Ph.D.

Clinical Director, Health Network Laboratories, Allentown, PA

Richard Brooks, Chief Financial Officer

Physicians Clinical Laboratories, Inc., Stockton, CA

Robin Felder, Ph.D., Professor of Pathology and Director

Medical Automation Research Center, University of Virginia Hospital, Charlottesville, VA

Ken Freeman, Chief Executive Officer

Quest Diagnostics Incorporated, Teterboro, NJ

Bruce Friedman, M.D., Professor of Pathology Informatics

University of Michigan Medical Center, Ann Arbor, MI

Robert Hamon, Directory of Laboratory Services

Presbyterian Laboratory Services, Charlotte, NC (now with Premier, Inc.)

James Neeley, M.D., Consultant

Meris Laboratories, San Jose, CA (now with Incline Software Consultants)

Pap Technology Wars Expected to Intensify

Digene's blood-based HPV assay produces more favorable data with latest trial results

CEO SUMMARY: *With patience and persistence, Digene, Inc. is developing the effectiveness of its DNA-based HPV assay. Publication of recently-completed clinical trials provides evidence that Digene's Hybrid Capture II® HPV test, with further improvement, might become a relevant tool in the diagnostic pathway for cervical cancer. It's another new technology with the potential to change how Pap smear testing is conducted.*

EXPECT THE PAP SMEAR technology wars to heat up shortly. The new competitor is **Digene, Inc.**, based in Gaithersburg, Maryland.

Digene joins **Cytac Corporation** and **TriPath Imaging, Inc.** in the battle to replace the traditional Pap smear. Each company is developing a different technology it hopes will demonstrate superior performance in clinical use over the traditional Pap smear.

In the case of Cytac and TriPath Imaging, each company offers products which change the way a Pap smear specimen is prepared and/or screened. Digene, in contrast, offers its Hybrid Capture II® HPV Test as a blood-based test to determine whether human papillomavirus (HPV) is present.

Pap Smear Technology War
This Pap smear technology war represents two important developments in the clinical laboratory industry. First, there will be a huge impact on the economics of laboratory medicine should any or all of these competing new technologies achieve clinical acceptance.

After all, approximately 55 million Pap smears are currently performed yearly just in the United States. Any change away from traditional Pap testing would be a huge shift in lab practices.

Learning Opportunity

Second, the struggle to introduce enhanced Pap smear technology provides an opportunity to learn how the new, cost-driven managed care marketplace evaluates, accepts, and implements new medical technology.

As THE DARK REPORT has noted in past years, the struggles of Pap smear innovators demonstrate how difficult it is to introduce new technology in today's healthcare market. Regulators, clinicians, and payers no longer automatically accept new technology for widespread clinical use that may be more expensive and only marginally better than current clinical practices.

Efforts by Cytac and TriPath Imaging (formed from the merger of **AutoCyte, Inc.** and **NeoPath, Inc.**) to introduce their thin layer Pap smear preparation and automated screening

technologies have been well-chronicled by THE DARK REPORT since the companies earned FDA approval in the mid-1990s.

The new player on the scene is Digene. Its HPV test uses blood, not cervical cells, to detect the presence of HPV. Clinical trials indicate a high correlation between cervical cancer and the presence of HPV.

HPV/Cervical Cancer Link?

Some researchers believe that clinical studies now point to HPV as a cause of cervical cancer. The **Kaiser Family Foundation** held a briefing for journalists on February 17. The briefing showcased a number of physicians and researchers who publicly declared that "HPV testing is a more effective screening method for cervical cancer than the traditional Pap smear."

Just two weeks ago, on March 17, researchers involved in the **National Cancer Institute's** (NCI) ALTS (ASCUS/LSIL Triage Study, and Alternatives in Women's Health Care) trial reported that, for the patients tracked in this study, Digene's HPV test demonstrated better sensitivity and specificity than the Pap smear. ALTS is a \$20 million, five-year trial involving about 7,200 women with mild Pap smear abnormalities.

Merit In Further Evaluation

Obviously, these developments are too recent for the pathology community to develop any consensus about their meaning. But from a strategic market perspective, they are signs that a growing volume of clinical studies indicate there is merit in further evaluating the relationship between HPV and cervical cancer.

That evaluation is about to commence in Great Britain. Late in February, it was disclosed that the United Kingdom would launch a pilot study involving Digene's HPV test.

Digene's Technology Approved in Europe

Recently both France and Switzerland approved Digene Corporation's Hybrid Capture® II HBV test for marketing in their countries.

Digene uses the same DNA technology in this hepatitis test as it does in its human papillomavirus test. The company has high hopes that Europe will develop into a lucrative market for its test products.

Within the United States, Digene announced that the **Food and Drug Administration** (FDA) granted marketing clearance to Digene's Hybrid Capture II Chlamydia/Gonorrhea test. It is used to test women, with or without symptoms, to identify or confirm the presence of both chlamydia and gonorrhea. The test can simultaneously identify both organisms.

Abbott Laboratories, Inc. distributes these tests for Digene in Europe, Africa and the Middle East. Abbott will also handle distribution of these tests in the United States.

The one-year test, starting this summer, will test women for HPV if they have a mild or borderline Pap smear result. Women testing positive for HPV will be referred immediately for further treatment.

Women testing negative for HPV will, at six months, be offered a second HPV test with their Pap smear. If they test HPV-negative at this time, and if their cervical abnormality has not progressed to high-grade disease, they will return to a normal screening cycle.

Obviously, the UK's **National Health Service** believes enough credible clinical trial data about Digene's HPV test exists to justify moving forward with this pilot study.

Other combatants in the Pap smear war are Cyttec and TriPath Imaging. Recently, each company has its own victory to report. For Cyttec, it was the announcement that the **Family Planning Association of Hong Kong** would begin using Cyttec's ThinPrep® System for all its Pap smear testing. This involves about 100,000 Pap smears per year.

The interesting question is whether further clinical trials and studies will demonstrate that HPV undisputedly causes cervical cancer. If that were to occur, DNA-based blood tests for HPV could supplant Pap smears as the clinical gold standard.

At TriPath Imaging, a total of six clinical trials were reported during the recent **International Academy of Cytology** (IAC) conference in Chicago, Illinois. Three trials reported favorable results from the use of TriPath's Prep® automated thin layer preparation system.

Of particular interest, one of the AutoPap studies involved the routine screening of 100,000 Pap smears at **Unilab Corporation** in Tarzana, California. This study involved large numbers of patients and provides comprehensive data on how automated primary screening actually works in high-volume commercial laboratories.

THE DARK REPORT expects the pace of innovation in Pap smear testing will speed up during the next 24 months. This is because five years of efforts by Cyttec and TriPath have laid a foundation for accelerated change.

First, CPT codes are now established for most of the new Pap smear

technologies. Both Medicare and private payers are becoming familiar with new Pap smear technology and making decisions on how to reimburse for such procedures.

Greater Understanding

Second, the sales forces of Cyttec and TriPath Imaging have been hammering at prospective laboratory buyers for five years. It's been a slow process to educate pathologists and cytotechs about these new technologies. But there is now greater understanding about these technologies than there was five years ago. This will support faster decisionmaking by pathologists and lab executives during the next two years.

Third, Digene's DNA-based blood test for HPV represents a potentially new method to screen for cervical cancer. Like the enhanced Pap smear technologies, it is reasonable to expect that Digene will continue to improve its HPV assay. This fact, combined with more detailed data from an ever-increasing use of this test in clinical studies, will change the way Digene's HPV test currently performs against the traditional Pap smear.

Adopt New Products

THE DARK REPORT predicts that the Pap smear marketplace is about to undergo an unpredictable transformation. Growing evidence that at least some of the enhanced Pap technologies generate better results than a traditional Pap smear will cause some clinicians and payers to adopt these new products.

The interesting question is whether further clinical trials and studies will demonstrate that HPV undisputedly causes cervical cancer. If that were to occur, DNA-based blood tests for HPV could eventually supplant Pap smears as the clinical gold standard.

TDR

For more information, contact Robert Michel at 503-699-0616.

Honolulu Lab Pursuing Pacific Rim Business

Laboratory sees good market opportunity in serving the Greater Pacific Basin area

CEO SUMMARY: With one laboratory already operating in Guam, Diagnostic Laboratory Services, Inc. (DLS) is poised to expand its services in the Pacific Rim area. Now a major competitor within Hawaii, DLS sees the island archipelagos of the Pacific Ocean as a natural extension of its existing service area. It's a business strategy that matches DLS's core competencies with the unique needs of tropical populations.

PROVIDING CLINICAL LABORATORY services to the the island nations of the Pacific Ocean creates unusual business challenges for **Diagnostic Laboratory Services, Inc.** (DLS) of Honolulu, Hawaii.

"We are probably the largest island-based laboratory organization in the United States," stated John Edwards, M.D., President of DLS. "Within Hawaii itself, we operate a core lab in Honolulu and satellite labs on the islands of Oahu, Hawaii, Molokai, and Kauai.

Complicated Logistics

"As you can imagine, our logistics between the different Hawaiian Islands can be complicated," noted Dr. Edwards. "To the west, we now operate a laboratory on Guam, which is 3,700 miles from Honolulu and on the other side of the international date line."

Diagnostic Laboratory Systems is a good example of how a hospital-based lab organization can expand to fill unmet needs in its marketplace. DLS is owned by two healthcare systems. The Queen's

Development Corporation, a subsidiary of the Queen's Health System, holds 90% ownership. The balance is held by **Kuakini Health Systems**.

DLS was founded in 1985 to serve the needs of the Queens Medical Center. Like many hospital-based laboratories on the mainland, it's a stand-alone business unit which provides inpatient testing to three hospitals and provides outreach lab testing to 67% of Hawaii's physicians. It recently relocated to a brand new core lab and corporate office near downtown Honolulu.

Within Hawaii, the last national laboratory competitor was **SmithKline Beecham Clinical Laboratories** (SBCL). SBCL sold its lab operations to DLS in 1994. A strong local competitor is **Clinical Laboratories of Hawaii** (CLH). Rivalry between DLS and CLH is intense, so neither lab gets a free pass in the Aloha State marketplace.

THE DARK REPORT recently toured Diagnostic Laboratory Services to learn more about the Hawaiian market and

how it differs from that on the mainland. Besides the unusual requirements for developing an island-based courier system, DLS's focus on developing new business from the Pacific Ocean area sets it apart from other integrated health system lab organizations.

"We've seen steady growth in the volume of specimens originating from our Pacific clients," observed Dr. Edwards. "We now have two sales reps working in that market area. The DLS laboratory in Guam anchors that segment of our business.

"Currently the DLS executive team is evaluating our management priorities," he continued. "We have three important business initiatives.

"First, we want to grow the business through effective sales and marketing. Besides the Pacific, we want to explore other markets for expanding revenues and test volume," explained Dr. Edwards.

"Second, we have an RFP process under way to identify a vendor for Web-based lab test ordering and results reporting," said Dr. Edwards. "We want to move expeditiously to develop this service. We will use Web-based information services to deliver enhanced lab services to our physician-clients. We also expect Web-based informatics to help us lower our costs.

ISO-9000 Certification

"Third, DLS will proceed to become ISO-9000 certified," declared Dr. Edwards. "Our goal is to use this management system to reduce errors, lower costs, and provide an enriched menu of services to our physicians and hospitals. In the process, we expect ISO-9000 management principles will make DLS an even more appealing work environment for our staff."

DLS's strategic business priorities are consistent with those seen by THE DARK REPORT at the nation's better-managed hospital-based laboratories.

Diagnostic Lab Services At-A-Glance

- Core lab in Honolulu (40,000 sq. ft.)
- 12 Satellite testing sites.
- 36 Primary phlebotomy sites.
- Manages labs at Queen's, Wilcox, Kuakini, and Molokai hospitals.
- Handling approximately 21,000 specimens per week.
- 540 Employees.
- 8 Marketing/Sales employees.
- 9 Client service representatives.
- Diagnostic Laboratory Services offers clinical laboratory services in Midway, Saipan, American Samoa, Kwajalein, Johnston Island, Yap, Palau, Guam.
- Almost 99% of all testing done locally.
1% of testing is referred out.

There is an emphasis on an external strategy of boosting outreach specimen volumes. This lowers the average cost per test and provides more operating profit for the laboratory.

The move by DLS to implement Web-based lab test ordering and results reporting reflects an awareness that the lab's value-added edge will come from enhanced information services.

Finally, working towards ISO-9000 designation should give DLS a competitive position in the marketplace. Operating from a management system which eliminates errors, lowers costs, improves quality, and meets the needs of lab customers is an advantage in today's healthcare marketplace.

Despite its location in a tropical paradise, Diagnostic Laboratory Services is certainly not taking a "laid back" attitude towards its business. To the contrary, it is working hard to be a lean, tough competitor throughout the Pacific Rim marketplace.

TDR

For more information, contact John Edwards, M.D. at 808-589-5100.

Independent Calif. Lab Decides to Exit Business

More independent labs in California may also decide it's time to sell to a larger lab company

CEO SUMMARY: Market forces in California continue to put independent laboratories under sustained financial stress. One laboratory owner decided it was an auspicious time to sell his lab. That sale, of POISONLAB to Laboratory Corporation of America, was announced earlier this month. There are persistent, but unconfirmed, rumors that another independent lab is negotiating to sell itself.

EVENTS IN CALIFORNIA INDICATE the market environment continues to be tough on modest-sized independent commercial laboratory companies.

During the past 30 days, one independent laboratory was sold to **Laboratory Corporation of America**. Another independent laboratory was rumored to be in the midst of sales negotiations with LabCorp, but no definitive announcement was made as of press time.

POISONLAB, Inc. of San Diego will be acquired by LabCorp. On March 6, the two companies announced that a definitive sales agreement had been signed. A specific closing date for the acquisition was not provided.

POISONLAB is a specialty laboratory which offers drugs of abuse testing. It is SAMSHA-certified. Its primary market focus is on California and the Western United States. Estimates are that POISONLAB's 1999 revenues did not exceed \$5 million.

Indications are that LabCorp will integrate POISONLAB's operations into its San Diego division. As a SAMHSA-certified lab, POISONLAB gives LabCorp a stronger drugs of abuse testing presence along the West Coast. LabCorp currently performs drugs of abuse testing in its laboratories in North Carolina, New Jersey, Tennessee, Florida, and Texas.

Rumors Of Another Sale

Even as the POISONLAB-LabCorp transaction was announced, there were sustained rumors that another independent commercial laboratory was negotiating to sell itself. Calls by THE DARK REPORT to several laboratory owners in Southern California revealed some interesting information about current market conditions, but no confirmation that any of these rumors were true.

Lab owners did confirm, however, that financial times were precarious for the small and mid-size independent laboratories that continue to operate in California. Reimbursement for laboratory testing remains at unsatisfactory

levels. Because of the financial struggles at many managed care plans, California lab owners do not expect that reimbursement for lab testing will increase in the near future.

California's Difficult Market

Clients of THE DARK REPORT are familiar with California's difficult financial marketplace. The 1990s saw continual pressure on lab prices and service levels. It has been a tough environment for all laboratory operators, including the blood brothers.

Currently **Unilab, Inc.** is the dominant player in California, with almost \$300 million per year in annual net revenues. Because it acquired **Smith-Kline Beecham Clinical Laboratories'** California operations, **Quest Diagnostics Incorporated** has a strong position in California.

LabCorp maintains a modest market share in California. Its volume does not quite give it the best economies of scale within the region. Thus, it is not surprising that LabCorp is willing to do selected acquisitions to build its specimen volume.

What Did LabCorp Pay?

One aspect of this impending acquisition is the sales price paid by LabCorp. Independent lab owners will watch with interest to see what multiple of EBDITA LabCorp is willing to pay for this laboratory operation.

It certainly will not approach the price that **Kelso & Company** paid to acquire Unilab last year. Kelso paid about \$420 million to acquire 93% ownership of Unilab. Financial analysts have told THE DARK REPORT that Kelso paid a multiple of 12 times EBDITA to acquire Unilab. If true, that is probably the most aggressive price paid by a buyer for a commercial laboratory company in many years.

Assuming that LabCorp closes on the POISONLAB acquisition, it will

Process of Consolidation Continues in California

Laboratory Corporation of America's acquisition of San Diego-based POISON-LAB, Inc. is a reminder the process of laboratory consolidation continues, although at a slower pace.

California is one of the nation's largest markets for diagnostic testing. For that reason, it still supports a surprising number of independent laboratories. Many are small labs, owned by an immigrant and organized to serve the needs of a specific ethnic market niche. These might be characterized as "affinity labs," since they concentrate almost exclusively on their particular market niche.

Because these affinity labs are so closely connected to specific ethnic markets, they will probably never be good acquisition candidates for the state's largest lab companies.

But there remain a handful of mid-sized independent commercial lab companies which have loyal customers, good reputations, and a long history of quality service. These labs are the most likely candidates for further consolidation.

only mark the beginning of other similar acquisitions. THE DARK REPORT predicts that a number of other small and medium-sized commercial laboratory companies will decide that the time has come to exit the business. They will put their labs up for sale.

Assuming that happens, likely buyers will be UniLab, LabCorp, and Quest Diagnostics, in that order. It is unlikely that any of California's integrated healthcare systems will want to acquire a stand-alone commercial laboratory. That leaves these three companies as the buyers with both motivation and money to make these deals work.

TDR

For more information, contact Robert L. Michel at 503-699-0616.

Lab Industry Briefs

BIO-REFERENCE LABS MOVES TO START PATIENT-DOCTOR MESSAGING

ONE OF THE NATION'S MORE AGGRESSIVE efforts to refocus the clinical laboratory organization can be found at **Bio-Reference Laboratories, Inc.**, located in Elmwood Park, New Jersey.

Bio-Reference wants to use its basic lab testing relationship with physicians as the foundation for a business relationship that involves a host of other value-added services.

Last month it announced its latest strategic partnership. Bio-Reference's connectivity portal, **CareEvolve.com**, signed an agreement with **Healinx Corporation**. CareEvolve.com can now incorporate Healinx's Web-based messaging system into its suite of services. Healinx's sophisticated system allows physicians and patients to communicate using the Internet.

Bio-Reference CEO Mark Grodman, M.D. described his business strategy. "Our vision is to provide a connectivity solution which allows the physician to operate the most reliable, convenient, and cost-efficient Web-enabled medical practice possible," he commented.

"Working together with Healinx, CareEvolve.com will enhance physician-patient and physician-payer electronic communications on a secured basis," Dr. Grodman explained, "including communicating laboratory results, messaging, prescriptions and refills, scheduling, payer verification and eligibility, as well as offering other Internet-based services to the physician members."

Bio-Reference also released its financial performance for its first quar-

ter, ending January 31, 2000. The company posted record quarterly revenues of \$15.0 million, a 19% jump over same quarter last year. Operating income also increased.

For the quarter, Bio-Reference had a net loss of \$95,565, compared to a net loss same quarter the previous year of \$107,741. Patient volume increased over the same quarter last year by 12%, from 279,744 to 312,391.

Bio-Reference expects its investments in diversified, non-laboratory businesses will begin to contribute revenues to the company in the next 24 months. Its operating divisions now include CareEvolve.com, **PSIMedica**, a medical management unit, and a food company, **Right Body Foods**.

CARESIDE RAISES MONEY, BUILDS MANUFACTURING RESOURCES

PROGRESS IS SWIFT at POC instrument manufacturer **Careside, Inc.**, based in Culver City, California.

The company closed a private placement of common stock for \$8.5 million earlier this month. The funds will be used to expand Careside's marketing force and for working capital.

Careside manufactures a proprietary point-of-care system for doing routine chemistry and hematology testing. It has obtained the needed FDA clearances and is now introducing its products in the laboratory marketplace.

The company's CARESIDE Analyzer™ comprehensive blood chemistry instrument was selected as a finalist in the Medical Design Excellence Awards (MDEAO 2000 competition). Only

Careside and one other company from the in vitro diagnostics industry made the cut. Winners will be announced at the Medical Design and Manufacturing East 2000 show, scheduled for June 6-8 in New York City.

Careside also announced that it had passed California's Initial Manufacturing Quality audit. This audit is conducted by the Food and Drug Branch of California's **Department of Health Services**. It is a prerequisite for ongoing product distribution.

THE DARK REPORT predicts that CARESIDE's point-of-care solutions for routine chemistry and hematology testing will stimulate intense market competition in this segment between it and other diagnostics companies. CARESIDE executives will be at this year's *Executive War College* in New Orleans on May 16-17 to present their products and business strategies.

DOCTORS AND AMA SUE MANAGED CARE FIRMS OVER "UNDERPAYMENTS"

HERE'S ANOTHER IMPORTANT development in the running battle over adequate reimbursement between healthcare providers and payers.

A lawsuit seeking class-action status was filed on March 15 against **United Healthcare Corp.** and **Metropolitan Life Insurance Company** in a New York City state court. Plaintiffs are the **American Medical Association** (AMA), the **Medical Society of the State of New York**, a New York physician, and his patient.

Plaintiffs claim that the insurers used invalid data to determine reimbursement rates and reduce payments to thousands of New York doctors. Insurers used data provided by the **Health Insurance Association of America** (HIAA) to determine "usual" charges for medical services. The suit

asserts that HIAA "doesn't stand behind this data." According to plaintiffs, the lower reimbursement levels established by insurers have forced patients to pay higher doctor bills to make up the difference.

This is the second suit by the AMA against an insurance company. In February, the AMA filed suit in Georgia against **Aetna, Inc.** for failing to pay physicians promptly.

This class action lawsuit represents a new legal strategy by physicians and providers. They want to attack the actuarial soundness and integrity of the data used by insurers to establish "reasonable and customary charges." Many healthcare providers believe that insurers cannot support and justify how they developed the current level of arbitrarily low reimbursements.

MORE HEALTH INSURERS MAY BE RIPE TARGETS FOR ACQUISITION

LOW SHARE PRICES FOR SEVERAL LARGE HMOs may make them attractive targets for acquisition by other insurance companies.

Wall Street analysts speculated that the acquisition offer for **Aetna, Inc.** by **WellPoint Health Systems, Inc.** and **ING Group NV** is a possible precursor to other acquisition offers.

Most likely prospects are **Foundation Health Systems, Inc.** and **Oxford Health Plans, Inc.** Since May, Foundation's share prices are down 38% and Oxford's are down 16%.

One reason that investors are shying away from these companies is a concern that federal legislation and patient-rights litigation may result in crimping the profitability of all managed care companies. Depressed share prices make it attractive for interested buyers to acquire these insurers at an attractive price.

INTELLIGENCE

LATE & LATENT
Items too late to print,
too early to report



Will lab information system services be a value-added selling point for the national reference labs? Developments at **American Medical Laboratories** (AML) and **Specialty Laboratories** would indicate yes. First, AML entered a strategic alliance with **Park City Solutions** to develop e-commerce solutions targeted at healthcare and laboratory services. Now Specialty Labs has recruited Jack Redding and Charles Halfpenny away from **Advanced Health Technologies** (AHT, owner of Dr. Chart). Both companies are making substantial investments to develop Web-based lab services to offer to their hospital lab customers.

MORE ON: LAB INFO

During the past 24 months, both AML and Specialty declared that web-based lab info services will be a strategic business priority. In contrast, not much is known about the plans of competitors **Mayo Medical Laboratories** and **ARUP Laboratories**. Expect all four reference labs to enhance their Internet services and offerings.

AMA LABELS OIG'S STATEMENTS AS "GRANDSTANDING"

Don't think that Medicare compliance will slacken anytime soon. A new audit by the OIG claims that Medicare overpayments to hospitals and other providers rose 7% in 1999, to \$13.5 billion. This exceed the \$12.6 billion of overpayments in 1998 (but was less than \$20.3 billion in 1997). Nancy Dickey, M.D., immediate past president of the **American Medical Association**, issued a written statement that categorized the OIG's audit as "irresponsible grandstanding." She further declared that "Medicare hassles and overly aggressive billing audits are souring physicians on the Medicare program."

ADD TO: OVERRIBLING

Even as one department of the government was announcing that hospitals

INFO WANTED

Insider news and tips about labs are always welcome. Call or email in confidence: 503-699-0616 or labletter@aol.com.

and other providers were overbilling Medicare, another was announcing that hospital profit margins declined during 1999. The Medicare Payment Advisory Commission reported that hospital pretax profit margins declined from 4.3% in 1998 to 2.7% in 1999. Last year was the first time in Medicare's 34-year history that spending declined.

SMITHKLINE DEPARTS FROM PHILADELPHIA

Now that drugmaker **SmithKline Beecham PLC** (SB) is merging with **Glaxo Wellcome PLC**, it no longer needs its Philadelphia headquarters. SB's downtown headquarters building, with 1.1 million square feet, will be sold to a New York investment firm. Including its laboratory division, once based in the suburb of Collegeville, SB has been a major employer in the Philadelphia area. All that has changed in two years with **Quest Diagnostics Incorporated**'s purchase of **SmithKline Beecham Clinical Laboratories** and the SB merger with Glaxo Wellcome.

*That's all the insider intelligence for this report.
Look for the next briefing on Monday, April 17, 2000.*

PREVIEW #4

EXECUTIVE WAR COLLEGE

May 16-17, 2000 • Fairmont Hotel • New Orleans

Topic: Using Lab Data To Influence Outcomes

Only a few ongoing projects now actively use lab data to change clinical practices, but the benefits are immense. In another *War College* exclusive, clinical pathologists from Kaiser Permanente Northern California and St. Luke's Hospital in Kansas City will share how they helped create teamwork between labs and clinicians. It's a rare opportunity to learn how to make lab data more relevant.

***Full program details available by calling 800.560.6363
or visit darkreport.com***

UPCOMING...

- ***Maverick Pathologist Creates Lucrative Added-Value Service Package.***
- ***Reimbursement Surprise Awaits Many Hospital Lab Outreach Programs.***
- ***Regional Laboratory Network Wins Big Managed Care Contract.***
- ***Why Lab Administrators May Be Overlooking Key Compliance Issues.***