

LABORATORY



ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

HOW SHOULD PATHOLOGISTS DEAL WITH IN-OFFICE LABS?

Lobbying efforts by the American Society for Clinical Pathology and other pathology trade groups to outlaw in-office pathology labs have fallen on deaf ears. The 2011 Physician Fee Schedule Proposed Rule released by the Centers for Medicare and Medicaid Services on June 25 was silent on in-office histology labs.

So more urology and gastroenterology groups will build their own histology labs. And it looks like Ob/Gyn and multispecialty practices are jumping on the bandwagon. The trend has infuriated pathologists because it allows other physicians to take a slice of their revenue and profits.

Most pathology groups are acting like a deer caught in headlights, as they watch big chunks of their business vanish inside the walls of their specialty group clients. But some pathology groups are taking a proactive approach to maintain their revenue and relationships with specialty group clients.

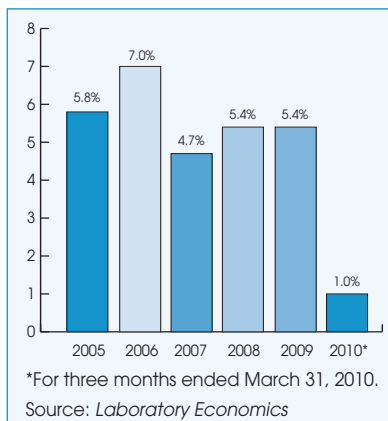
For full details on this new business model, see pages 5-10.

GROWTH SLOWS AT PUBLICLY-TRADED LABS

Sixteen publicly-traded labs grew their revenue by just 1% to \$3.5 billion in the three months ended March 31, 2010 (after adjustments for acquisitions), according to financial reports collected by *Laboratory Economics*. This rate of growth represents a steep drop-off from the 5.4% recorded in 2009.

First-quarter revenue growth was fastest at four cancer-testing labs—HealthTronics/Claripath (up 29%), Bio-Reference Labs (up 27%), and Neogenomics and Genomic Health (each up 22%).

For full details on first-quarter results at the public labs, see page 11.



FTC INTERVENES IN WESTCLIFF DEAL

LabCorp reports that the Federal Trade Commission is looking into its acquisition of Westcliff Medical Labs (Santa Ana, CA). LabCorp acquired Westcliff out of bankruptcy for \$57.5 million on June 16 (see *LE*, June 2010, pp. 1-2). On June 24, the FTC notified LabCorp that it intends to review the acquisition. LabCorp has agreed to hold the Westcliff business as an independent lab, separate and apart from LabCorp while the FTC conducts its review. *Continued on page 2.*

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FTC INTERVENES IN WESTCLIFF DEAL *(cont'd from page 1)*

Undoubtedly, the FTC is looking into antitrust issues in California. Quest Diagnostics is still by far the largest lab company in California. But LabCorp has been gaining ground with acquisitions.

In California, LabCorp bought Stanford's outreach lab business in August 2008, PathNet Esoteric Lab in September 2008 and Diamond Reference Lab this past May.

Major Independent Clinical Labs in California



Westcliff (formerly owned by VC firm Parthenon Capital) had been the third largest clinical lab company in California. Westcliff has a major lab in Santa Ana and 170 patient service centers throughout California.

Although there are more than 400 CLIA-certified independent labs in California, only about a dozen have annual revenue that exceeds \$10 million.

LabCorp says it is working with the FTC to complete the review, but the timetable is uncertain.

The last time the FTC intervened in a lab transaction in California was Quest's \$900 million purchase of Unilab in 2003. As a condition for

FTC clearance, Quest agreed to sell 46 patient service centers plus four associated IPA contracts in northern California to LabCorp.

LABCORP BUYS DCL MEDICAL LABS

LabCorp has acquired DCL Medical Labs (Indianapolis, IN) for an undisclosed sum. DCL had been owned by the private equity firm Thompson Street Capital Partners (St. Louis, MO), which acquired the company in October 2007.

DCL Labs, founded in 1984, operates a main lab in Indianapolis with a smaller lab in St. Louis. It specializes in women's health, including ThinPrep Pap testing, DNA-based HPV testing and Chlamydia and gonorrhea testing. DCL has 15 patient service centers in Indiana, Illinois and Missouri. The company performs roughly 300,000 Pap tests per year. DCL also has a clinical trials service business that, for example, performed all Pap, biopsy and HPV testing for the Gardasil HPV vaccine clinical trials.

DCL has roughly 200 employees, including nine pathologists (seven are board certified in cytopathology). Annual revenue is estimated at more than \$20 million.

M&A TRENDS: DEAL VOLUME PICKING UP IN 2010

This year is shaping to be one of the most active years ever for M&A activity in the lab and pathology business after the somewhat limited dealmaking in 2008 and 2009. Eleven deals have closed this year and another (RedPath) is pending. And the biggest deal is yet to come: Genzyme Corp. is seeking to sell its lab business Genzyme Genetics (Westborough, MA). Chris Jahnle, managing director at Haverford Healthcare Advisors (Paoli, PA), expects increased activity because many sellers are hoping to complete deals before the federal capital gains tax is raised in 2011.

Laboratory Acquisition Summary, 2008 - July 2010 (\$ millions)

DATE	BUYER	TARGET	PURCHASE PRICE	ACQUIRED REVENUE	PRICE/REVENUE
Jan-08	Caris Diagnostics	Molecular Profiling Institute	40	NA	NA
Jan-08	LabCorp	Tandem Labs	NA	NA	NA
Mar-08	Aurora Diagnostics	Twin Cities Dermatopathology	27.3*	8.4	3.3
Mar-08	LabCorp	Acadiana Medical Labs	NA	10	NA
Apr-08	LabCorp	Albany Cytopath Labs	NA	5	NA
May-08	LabCorp	IDX Pathology	NA	10	NA
May-08	Manhattan Physicians Lab	Genatom Biomedical Lab	NA	10	NA
Jun-08	Rosetta Genomics	Parkway Clinical Labs	3	3	1.0
Aug-08	CellNetix	Northwest Pathology Services	NA	NA	NA
Aug-08	HealthTronics	UroPath	7.5	4.5	1.7
Aug-08	LabCorp	Stanford Outreach Lab	30	30	1.0
Sep-08	Sonic Healthcare	Clinical Labs of Hawaii	121	110	1.1
Sep-08	LabCorp	PathNet Esoteric Lab	NA	15	NA
Sep-08	LabPartners	Biotech Labs	NA	15	NA
Nov-08	Toxicology Holding Corp.	DrugScan	NA	NA	NA
Dec-08	CBLPath	Laboratory of Podiatric Pathology	NA	NA	NA
Dec-08	Quest Diagnostics	Pathway Diagnostics	NA	6	NA
Dec-08	American Path Partners	Unipath LLC	NA	25	NA
Jan-09	Ssurepath	Annapath Inc.	NA	NA	NA
Mar-09	American Path Partners	Eastern Carolina Pathology	NA	NA	NA
Mar-09	Navigenics	Affymetrix Clinical Lab	NA	NA	NA
May-09	Quest Diagnostics	OralDNA Labs	NA	NA	NA
Jun-09	Sonic Healthcare	Axiom Laboratories (clinical lab only)	NA	5	NA
Jun-09	Water Street Healthcare	ConVerge Diagnostics	NA	NA	NA
Jul-09	LabCorp	Monogram Biosciences	155	62	2.5
Jul-09	Viracor/IBT merger	Viracor/IBT Laboratories	NA	35-40	NA
Jul-09	AIT ESOP	AIT Laboratories	NA	34	NA
Jul-09	Adeona Pharmaceuticals	HartLab LLC	300K	150K	2.0
Aug-09	Sonic Healthcare	Piedmont Medical Labs	NA	12	NA
Sep-09	Quest Diagnostics	Caritas Medical Laboratories	NA	20	NA
Oct-09	ABS Capital	Pathology Inc.	NA	25	NA
Nov-09	Aurora Diagnostics	South Texas Dermatopathology Lab	15.3*	NA	NA
Nov-09	LabCorp	Centrex Clinical Labs	NA	43	NA
Nov-09	Sonic Healthcare	East Side Clinical Lab	NA	NA	NA
Nov-09	Welsh Carson	Spectrum Laboratory	230	182	1.3
Jan-10	Aurora Diagnostics	Pinkus Dermatopathology Lab	NA	NA	NA
Jan-10	Aurora Diagnostics	Bernhardt Laboratories	NA	NA	NA
Jan-10	Predictive Biosciences	OncoDiagnostic Laboratory	NA	NA	NA
Feb-10	Welsh Carson	Carillion Labs	NA	110	NA
Feb-10	Inverness Medical	Kroll Laboratory	110	41	2.7
Mar-10	Aurora Diagnostics	Pathology Solutions	22.5*	16.5	1.4
Apr-10	Bio-Reference Labs	Lenetix Medical Screening Lab	5.5	NA	NA
Apr-10	EndoChoice	Pathworks Anatomic Pathology Lab	NA	NA	NA
Apr-10	LabCorp	Diamond Reference Lab	NA	NA	NA
May-10	PerkinElmer	Signature Genomic Labs	90	30	3.0
Jun-10	LabCorp	Westcliff Medical Labs	57.5	97	0.6
Pending	ExonHit Therapeutics	RedPath Integrated Pathology	32	6	5.3

NA=Not available. *Purchase prices for Aurora Diagnostics are cash only and do not include potential performance payouts. Source: *Laboratory Economics*

PRE-IPO AURORA DX GETS \$335 MILLION LOAN

On May 26, Aurora Diagnostics (Palm Beach Gardens, FL) secured a \$335 million credit facility from Barclays Bank. The loan is designed to retire existing debt and pursue acquisitions ahead of a pending initial public offering (IPO).

Aurora had total debt of \$235.2 million as of March 31. In addition, the company will need to pay as much as \$126.6 million in contingent consideration to pathology practices it has acquired if they meet certain operating earnings goals over the next three to five years.

Since being formed in June 2006, Aurora has completed 17 acquisitions. Most recently, Aurora acquired Pathology Solutions (Eatontown, NJ) in March for \$22.5 million in cash plus contingent consideration of up to \$11.5 million. The group has nine pathologists, including part-timers, and generates annual revenue of approximately \$16.5 million.

Aurora initially filed an IPO registration with the Securities & Exchange Commission on April 30 (see *LE*, May 2010, pp. 1-3). The private company is seeking to raise as much as \$150 million by going public.

On June 18, the company filed an IPO update. For the three months ended March 31, 2010, Aurora reported net income of \$2.2 million, down 33% from \$3.3 million in the same period a year earlier; revenue increased 13% to \$46.4 million. However, excluding acquisitions, organic revenue decreased 3.1% during the quarter.

Aurora processed 443,000 patient accessions in the three months ended March 31, 2010. Average revenue per accession fell 3.6% to \$105. Aurora attributed the decline to a change in service

First-Quarter Results at Aurora (\$000)

	1Q 2010	1Q 2009	% Chg
Revenue	\$46,419	\$40,947	13.4
EBITDA*	11,449	12,847	-10.9
Net income	2,239	3,332	-32.8
Cash & equivalents.....	3,222	--	--
Long-term debt	235,188	--	--
Accessions	443,000	376,000	17.8
Revenue per accession	105	109	-3.6

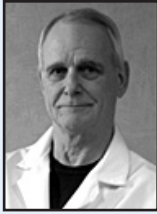
*Earnings before interest, taxes, depreciation and amortization

Source: Aurora Diagnostics

mix. Aurora said more physician clients were converting from global pathology services to a TC or PC arrangement, where Aurora receives only a portion of the revenue. This change is probably being driven by specialty physician groups that are insourcing pathology services, observes *LE*.

GENMARK DIAGNOSTICS RAISES \$27.6 MILLION FROM IPO

GenMark Diagnostics (San Diego, CA) raised gross proceeds of \$27.6 million from the sale of 4.6 million shares of common stock priced at \$6 per share. The company had hoped to raise as much as \$46 million when it first filed plans for an IPO in March (see *LE*, April 2010, page 9). GenMark, formerly named Osmetech, plans to use the money to market its rapid molecular diagnostic test system (X-8 System) and expand its test menu. The company's largest individual shareholder is Christopher Gleeson, chairman, who owns 1.8 million shares valued at approximately \$11 million.

HOW TO DEAL WITH IN-OFFICE LABS (*cont'd from page 1*)

Bruce Dziura, MD, chief of pathology at New England Pathology Associates (NEPA—Springfield, MA), says his group decided to take a collaborative approach with its urology clients in 2008. That was after a urology group client, Pioneer Valley Urology, hired a consulting firm (Twincrest) to help it build an in-office histology lab. This urology group began preparing its own slides and contracted with Baystate Pathology for professional services. “Overnight \$400,000 of revenue dried up,” notes Dziura. He says that Pioneer Valley bills for global pathology services and pays Baystate a negotiated fee for professional services.

In addition to losing a big client, Dziura says the Pioneer Valley arrangement was upsetting because the urologists collect the professional component reimbursement then pay out a portion to the contracted pathologist. “It creates an antagonistic relationship where the pathologist is treated like an indentured servant,” says Dziura.

So later in 2008, NEPA offered a different model to another local urology group, Urology Group of Western New England (Springfield, MA), which was exiting a pod lab arrangement with UroPath LLC (now part of HealthTronics).

Under what Dziura calls a collaborative model, NEPA helped Urology Group of WNE set up an in-office histology lab for a consulting fee of roughly \$10,000. NEPA acts as lab director and provides, bills and collects the full professional component for pathology services.

Urology Group of WNE owns the histology lab and equipment. NEPA employs and manages the technical staff at the in-office lab.

Urology Group of WNE bills and collects the full technical component. The group pays NEPA an hourly rate for the use of its technical employees.

Patient slides are prepared at the in-office histology lab. NEPA’s couriers pick up the slides and bring them to NEPA’s main office for pathologists to read. NEPA’s pathologists also perform all special stains.

In addition to biopsies, the in-office lab at Urology Group of WNE also performs technical services for urine cytology and the UroVysion bladder cancer test. NEPA performs and bills for professional services.

Dziura says the arrangement is patterned after the traditional hospital-to-pathologist relationship. “By setting up and managing the lab, we ensure quality and the profits are not insignificant,” he notes.

Dziura says NEPA recently branded its in-office histology lab service as AmberPath.

In June, NEPA helped a second urology group—Wayne B. Glazer, MD, Urology (Worcester, MA)—open an in-office histology and cytology lab. NEPA manages the lab and provides and bills for professional services. Dziura says NEPA expects to open two more in-office histology labs by year’s end.

“Unless they are legislated away, in-office histology is not going away. Eventually all urology groups of any size will go to this. Pathologists have to learn to deal with it,” says Dziura.

IN-OFFICE LAB Q&A WITH JANE PINE WOOD



For legal/regulatory insight into in-office labs, Laboratory Economics contacted Jane Pine Wood, an attorney focused on healthcare law at McDonald Hopkins (Chicago, IL). McDonald Hopkins represents more than 350 pathology groups and numerous clinical labs.

Are groups other than dermatology, urology and gastroenterology starting in-office labs?

I am seeing a few Ob/Gyns and a few multispecialty practices, but very few. It's still primarily the three groups that you mentioned.

Is there any evidence that in-office labs are over-utilizing pathology services?

I constantly hear from my pathology clients that the volume of biopsies, the volume of stains and the volume of FISH increase dramatically from these laboratories. I also hear from clients that they are seeing more "negative" biopsies, leaving the impression that the surgeons are more aggressively biopsying patients who, in the past, would have been in a "wait, watch and see" status. ASCP, CAP and ACLA currently are commissioning a study to document the anecdotal tales of increased utilization.

Given the trend, should pathology groups actively seek to partner with specialty groups to help them build in-office labs, so that the pathologists can be lab director and bill and provide professional services? (As opposed to contracting at a negotiated fee that might be as low as \$20 per CPT 88305 for professional services.)

There are pros and cons to working with specialty groups in this manner. Although the pathologists can preserve their professional component services (assuming that the pathology practice retains the right to independently bill for the PC services), if the pathologists had a technical component laboratory, they would now lose the TC revenue. Even if the TC previously went to the hospital, now the hospital loses the volume and that puts more pressure on the pathology practice with its hospital relationship.

The pathologists also have the liability that accompanies a CLIA directorship of a laboratory, and I have heard that some of these in-house labs (but certainly not all) cut corners on quality in order to save on expenses.

It's definitely a mixed bag, but it is generally better to preserve a right to independently bill the PC and help a group set up an in-house lab, rather than provide PC services on behalf of a urology group, sitting in the urology group's offices as a second-class citizen.

What is the most egregious regulatory offense that you see in-office labs making?

I see three types of problems with in-house labs. One is where the laboratory is physically housed in a location that would not comply with the Stark law's requirements for the "same building" or a "centralized building".

A similar issue is a laboratory where the supervision requirements for the Medicare anti-markup regulation are not being met, so the group is probably filing false claims at the full Medicare allowable because the required supervision is not in place.

A third issue is poor quality due to unreasonable cost-cutting. This last situation doesn't arise often, but I have heard of some horror stories.

The latest proposed rule from CMS was silent on in-office labs. What are the chances of new regulations that could prohibit or limit in-office histology labs?

I don't expect anything this year. MedPac has made recommendations, but I believe that MedPac's recommendations could require substantial legal review to determine if CMS has the authority to make such sweeping changes.

[The Medicare Patient Advisory Commission (MedPac), which advises Congress on Medicare payment issues, is reviewing options that could limit the types of services covered by the Stark Law In-Office Exception.]

IN-OFFICE LAB Q&A WITH JOE PLANDOWSKI



For further insight, we talked with Joe Plandowski, co-founder of Twincrest LLC (Toledo, OH) and its successor company, In-Office Pathology LLC (Lake Forest, IL), which has helped design, build and manage in-office histology labs for more than 30 urology and gastroenterology groups, including most recently Associates in Gastroenterology (*see page 9*).

Is the in-office histology lab trend slowing down?

No, it's increasing. We expect to open five or six new in-office labs this year.

Describe the economics of in-office labs for the average urologist or gastroenterologist.

The average office-based urologist performs 80 to 85 prostate biopsies per year. Based on the National Comprehensive Cancer Network (NCCN) guidelines of 12 cores per prostate biopsy, this results in about 1,000 billable 88305's per year per urologist. Add in special stains, cytology and UroVysion bladder cancer testing and each urologist is the source of about \$150,000 to \$200,000 in pathology revenue (technical and professional).

So a six-doctor urology group can bring in roughly \$1 million per year of revenue by building its own histology lab. Profit to the group would be an estimated \$400,000 to \$500,000 after paying for histotech salaries, pathology services and supply costs.

The economics for gastroenterologists are smaller, but still compelling. On yearly basis, the average office-based gastroenterologist performs about 500 biopsy procedures with an average 2.2 tissue samples per patient. That's roughly 1,000 billable 88305's per year per gastroenterologist plus special stains. So the average gastroenterology doctor is the source of roughly \$100,000 to \$150,000 in pathology revenue (technical and professional) per year.

The big difference between urology and gastroenterology labs is UroVysion, which is billed at an average of \$850 to \$1,000 per patient (i.e., average 4 probes/patient at \$220-\$250 per probe).

Do in-office labs lead to excess biopsies and over-utilization of pathology services?

Absolutely not. The urology groups we're involved with follow the NCCN's protocol for the early detection of prostate cancer, which call for 12 tissue cores to be taken.

[The NCCN is an alliance of 21 leading cancer centers, including MD Anderson Cancer Center, Fox Chase Cancer Center, Memorial Sloan-Kettering and Duke Comprehensive Cancer Center.]

Remember that licensed and boarded pathologists are retained by in-office labs to provide professional services and to serve as medical directors. You would think that if gross overutilization was occurring, these pathologists would rise to the call and blow the whistle, especially because their professional organizations are aggressively pushing this message. But I know of no instance where this has occurred.

Who is the in-office lab trend hurting the most?

The national pathology labs. When an in-house lab is opened they need to hire or contract with a local pathologist for professional services. The big labs don't fit in because they cannot provide on-site services.

Given the in-office lab trend, what should pathologists do?

Partner with a consulting company like In-Office Pathology LLC to build a lab while the pathologists arrange an agreement with urology and gastroenterology groups to provide long-term professional pathology services. This way the local pathologists do not have to get involved in the nitty-gritty of providing a physical lab. Instead, pathologists get to do what they are trained to do which is to provide professional services. In-office labs are a very powerful way for local pathologists to get back clients that have fled to the myriad of specialty pathology companies (Bostwick, OUR Labs, Caris, CBLPath, GI Pathology, etc.) that have removed local tissue work into pathology factories.

IN-OFFICE LAB Q&A WITH JAMES RICHARD, DO



Last but not least, we talked with James Richard, DO, a pathologist at CAP-Lab (Lansing, MI) and president of the Michigan Society of Pathologists. CAP-Lab is a six-pathologist group that specializes in surgical pathology, cytopathology, hematopathology, and dermatopathology.

What's driving the in-office lab trend?

Urology groups got started after reimbursement for Lupron injections for prostate cancer were cut in 2005. There's a direct correlation between reimbursement pressure and in-office labs. It has become an issue of greed versus ethics, and greed wins in hard economic times.

Do in-office labs lead to excess biopsies and over utilization of pathology services?

Today we're seeing 12 or more tissue samples taken per patient for prostate biopsies by urologists with in-office labs. That might be reasonable for a 52-year-old man. But we've seen patients in their 80s and 90s get biopsies with 12 tissue samples, each one filled with tumor, when they could have gotten only two—one on the left side of the prostate and one on the right.

There's also excess utilization of additional testing. For example, our pathology lab performs immunoperoxidase testing for verification of prostate cancer on an average of 5% of cases. But we've seen proposed business models for in-office urology labs recommending 30%.

Many past studies have shown a direct correlation between self referral and over utilization. CAP is gathering statistics and has commissioned an economist to evaluate them and write a report that is expected to be completed this fall. But look at radiology. Studies have shown that when nonradiologists own their own imaging equipment and have the opportunity to self-refer, their utilization is substantially higher than other physicians who refer their patients to a radiologist.

Do on-site labs improve patient care?

Some argue that they improve turnaround time, but it's actually worse because they wind up batching things.

Pathologists that do interpretations at in-office labs also lose the benefit of having a second pair of eyes for review. At our lab every malignant diagnosis is reviewed by at least two pathologists.

How is your pathology lab dealing with the in-office trend?

You can't put your head in the sand. We've told our urology and gastroenterology clients that if they're even thinking about opening an in-office lab, they should talk to us first.

Pathologists have got to maintain control of their professional service. We helped a small urology group set up a histology lab. They own the lab, but we manage and staff it. In that way we can assure a certain level of quality. The urology group bills for the technical component and we perform and bill for professional services.

We're also in the process of setting up a lab for a large gastroenterology group. They approached us earlier this year after Blue Cross Blue Shield of Michigan cut reimbursement for endoscopic procedures by 14%.

I'm treating these arrangements like small hospital relationships. I'm not thrilled with the situation, but it's better than giving up professional component control.

The American Medical Association's ethics say no physician should make income on another physician's services. But I've seen urology groups with in-office labs do global billing and pay a contracted pathologist as little as \$7.50 per 88305 for interpretations. Something's wrong when it's more expensive to get the oil changed in your car than get a diagnosis for cancer.

What's the regulatory outlook for in-office labs?

The Stark in-office exception was never intended for anatomic pathology, which is not performed when the patient is there in the office. Eventually legislation will close down the Medicare population to these labs and this may put them out of business.

Who's benefiting the most from in-office labs?

The lab equipment sales reps. Certainly not the patients or the payors.

NEW IN-OFFICE HISTOLOGY LABS

Associates in **Gastroenterology** (Manassas, VA) recently opened its own histology lab. The group is preparing slides and has contracted with a local pathologist at a negotiated fee for professional services. The group is billing for global pathology services, including immunohistochemistry and special stains. The group has five gastroenterologists and two physician assistants. Estimated annual pathology service revenue is \$600,000.

Somerset Urological Associates (Somerville, NJ) opened a histology lab in May. The group, which has four urologists, has contracted with Anthony D’Aguillo, MD, for slide interpretations. The group is billing globally and will generate estimated annual revenue of \$600,000 from pathology services.

Mount Kisco Medical Group (Mount Kisco, NY) opened a new anatomic pathology lab last summer. This multi-specialty group hired two full-time pathologists from Quest Diagnostics. Kim Ruska, MD, is former director of dermatopathology for Quest’s lab in Teterboro, New Jersey. Barbara Winkler, MD, is former associate director for gynecological pathology. MKMG has about 200 physicians, including four urologists and seven gastroenterologists, in 20 different offices in Westchester, Putnam and Dutchess counties. Estimated annual pathology service revenue is \$2+ million.

Lancaster Gastroenterology (Lancaster, PA) opened a histology lab in May 2009. The group has hired a full-time pathology assistant and contracts with Fabien Baksh, MD, at Pennsylvania Specialty Pathology (Lancaster) for professional services. Lancaster Gastroenterology has eight gastroenterologists. Estimated annual pathology service revenue is \$1 million.

75 Specialty Groups That Have Insourced Anatomic Pathology

The table below shows 75 specialty groups that have opened in-office histology labs over the past five years. In total, these groups represent 1,381 physicians and \$150 million in annual anatomic pathology revenue.

<i>Name of Group</i>	<i># Physicians</i>
Advanced Urology Associates of Florida (Vero Beach, FL).....	2
Alliance Urology (Greensboro, NC).....	12
Arizona Digestive Health (Phoenix, AZ).....	39
Arkansas Urology (Little Rock, AR).....	17
Asheville Gastroenterology Associates (Asheville, NC).....	17
Associated Urological Specialists (Orland Park, IL).....	16
Associates in Gastroenterology (Manassas, VA).....	5
Atlanta Gastroenterology (Atlanta, GA).....	50
Atlantic Urological Associates (DeLand, FL).....	14
Austin Gastroenterology (Austin, TX).....	21
Bergen Urological Associates (Hackensack, NJ).....	3
California Skin Institute (San Jose, CA).....	11
Capital Region Urological Services (Albany, NY).....	15
Cary Gastroenterology Associates (Cary, NC).....	6
Center for Digestive Care (Saint Petersburg, FL).....	4
Center for Gastroenterology (Fort Collins, CO).....	14
Central Ohio Urology Group (Columbus, OH).....	25
Chesapeake Urology Associates (Baltimore, MD).....	48
Community Care Physicians/Urological Institute (Albany, NY).....	10
Coral Ridge Gastroenterology Associates (Overland Park, FL).....	5
Delaware Valley Urology (Marlton, NJ).....	35
Desert Gastro Consultants (Rancho Mirage, CA).....	3
Digestive Disease Specialists of Northeast Alabama (Gadsden, AL).....	5
Digestive Health Associates of Texas (Dallas, TX).....	73

Digestive Health Center of Louisiana (Baton Rouge, LA).....	15
Digestive Health Specialists (Tacoma, WA).....	18
Eugene Gastroenterology Consultants (Eugene, OR).....	8
Florida Foot and Ankle Associates (Doral Beach, FL).....	32
Gastroenterology Associates of Cleveland (Cleveland, OH).....	5
Gastroenterology Associates of Pensacola (Pensacola, FL).....	10
Gastroenterology Associates (Garden City, NJ).....	7
Gastroenterology Associates of Suffolk (Smithtown, NY).....	4
Gastroenterology Center of Connecticut (Hamden, CT).....	13
Gastroenterology Consultants (Reno, NV).....	17
Gastroenterology Consultants of South Jersey (Lumberton, NJ).....	7
Gastroenterology Specialties (Lincoln, NE).....	8
Gastro-Intestinal Associates (Lima, OH).....	4
Gastrointestinal Associates (Overland Park, KS).....	9
Gastrointestinal Associates of North Texas (Fort Worth, TX).....	16
Gastroenterology Group Inc. (Akron, OH).....	4
Genito-Urinary Surgeons (Toledo, OH).....	11
Hudson Valley Urology (Poughkeepsie, NY).....	9
Lancaster Gastroenterology (Lancaster, PA).....	8
Metro Urology (St. Paul, MN).....	25
Metropolitan Urologic Specialists (St. Louis, MO).....	17
Michigan Institute of Urology (Detroit, MI).....	27
Midwest Gastrointestinal Associates (Omaha, NE).....	18
Minnesota Gastroenterology (Minneapolis, MN).....	50
Mount Kisco Medical Group (Mount Kisco, NY).....	200
New York Urological Associates (New York City).....	11
Ohio Gastroenterology Group (Columbus, OH).....	23
Pioneer Valley Urology (Springfield, MA).....	9
Shore Gastroenterology Associates (Oakhurst, NJ).....	6
Somerset Urological Associates (Somerville, NJ).....	4
Southeast Texas Gastroenterology Associates (Beaumont, TX).....	5
Southwest Florida Urologic Assoc. (Fort Myers, FL).....	8
Texas Digestive Disease Consultants (Dallas, TX).....	30
The Urology Center of Colorado (Denver, CO).....	14
The Urology Group (Cincinnati, OH).....	34
Triangle Urology (Durham, NC).....	6
Troy Gastroenterology (Troy, MI).....	8
Urology Associates (Manhasset, NY).....	8
Urology Associates of North Texas (Dallas, TX).....	50
Urology Consultants (Saint Louis, MO).....	10
Urology Group of Western New England (Springfield, MA).....	5
Urology Health Specialists (Philadelphia, PA).....	15
Urology of Indiana (Greenwood, IN).....	30
Urology Partners (Bradenton, FL).....	6
Urologic Specialties of New England (West Warwick, RI).....	8
UroPartners LLC (Chicago, IL).....	38
Village Podiatry Group (Smyrna, GA).....	22
Virginia Urology (Richmond, VA).....	25
Wake Gastroenterology (Raleigh, NC).....	4
Wayne B. Glazier, MD, Urology (Worcester, MA).....	3
Wilmington Gastroenterology Associates (Wilmington, NC).....	7
Total Urologists	570
Total Gastroenterologists	546
Total Other Physicians	265
Total Physicians	1,381
Total Estimated AP Revenue per Year	\$150+ million

Source: *Laboratory Economics*

GROWTH SLOWS AT PUBLICLY-TRADED LABS (*cont'd from page 1*)

Quest Diagnostics saw its first-quarter revenue decline by 0.1% to \$1.806 billion.

LabCorp's revenue was up 3.3% to \$1.194 billion (after adjustments for acquisitions—Monogram Biosciences and Centrex Clinical Labs—revenue growth was an estimated 1%).

The pathology lab operations at **HealthTronics** (Austin, TX) grew the fastest. The company reports that its lab revenue grew by 28.9% to \$3.4 million in the first quarter. HealthTronics said growth was led by its ClariPath Labs in Augusta, Georgia.

Bio-Reference Labs (Elmwood Park, NJ) grew its revenue by 26.7% to \$110.4 million. The company said its women's health initiative (aka GenPap) was driving growth. Pap volume has increased to 3,000 tests per day from 1,000 tests per day in January 2009.

Neogenomics (Ft. Myers, FL) increased its first-quarter revenue by 21.8% to \$8.4 million. Requisition volume increased by 24.7% to 9,580; average revenue per requisition fell 3.4% to \$878.73.

Genomic Health (Redwood City, CA) reported revenue growth of 21.6% to \$41.2 million. The company says it delivered 13,310 OncoType Dx breast cancer test results in the first quarter, up 19% from 11,210 in the same period last year.

Revenue Growth at 16 Publicly-Traded Lab Companies (\$'000)

<i>Company</i>	<i>First-Quarter 2010</i>	<i>First-Quarter 2009</i>	<i>Reported Change</i>	<i>Pro Forma Change*</i>
Quest Diagnostics	\$1,805,503	\$1,808,006	-0.1%	-0.1%
LabCorp	1,193,600	1,155,700	3.3%	1.0%
Bio-Reference ¹	110,447	87,183	26.7%	26.7%
Genzyme Genetics	91,349	91,185	0.2%	0.2%
Myriad Genetics	90,830	86,531	5.0%	5.0%
Genoptix	47,399	39,189	20.9%	20.9%
Aurora Diagnostics	46,419	40,947	13.4%	-3.1%
Genomic Health	41,229	33,896	21.6%	21.6%
Clariant Inc.	26,620	23,192	14.8%	14.8%
Prometheus RxDx (lab services)	20,252	21,648	-6.4%	-6.4%
Celera/Berkeley HeartLab	17,500	28,500	-38.6%	-38.6%
Medtox Scientific (lab services)	16,519	16,158	2.2%	2.2%
Enzo Clinical Labs ²	10,805	10,619	1.8%	1.8%
NeoGenomics	8,418	6,914	21.8%	21.8%
Psychemedics	4,464	4,079	9.4%	9.4%
HealthTronics (lab services)	3,371	2,615	28.9%	28.9%
Total, 16 companies	3,534,725	3,456,362	2.3%	1.0%
Total, 14 companies (excluding Quest and LabCorp)	\$535,622	\$492,656	8.7%	7.0%

*Pro forma change is estimated by *Laboratory Economics* after adjustments for acquisitions.

¹Bio-Reference's revenue is for three months ended April 30, 2010; ²Enzo's revenue is for lab services only for the three months ended April 30, 2010.

Source: *Laboratory Economics* from company reports

LAB STOCKS DOWN 9% YEAR TO DATE

Twelve lab stocks have fallen by an unweighted average of 9% so far this year. The combined market capitalization for the group is currently \$20.6 billion versus \$24.5 billion at the start of the year. In comparison, the S&P 500 Index is down 3% and the Nasdaq is down 2%. The top-performing lab stock so far this year is Medtox Scientific, which is up 51%. Meanwhile, the stock price of LabCorp is down 1% and Quest Diagnostics is down 18%. Overall, four lab stocks are up and eight have fallen.

COMPANY (TICKER)	STOCK PRICE 12/31/09	STOCK PRICE 7/9/10	2010 PRICE GAIN	MARKET CAPITALIZATION (\$ MILLIONS)	EARNINGS PER SHARE (TTM)*	PRICE-TO- EARNINGS RATIO*
Bio-Reference (BRLI)	\$19.56	\$21.43	10%	\$596	0.84	25.5
Celera (CRA)	6.90	6.68	-3%	548	-0.38	NA
Clariant (CLRT)	2.65	3.17	20%	271	-0.13	NA
Enzo Biochem (ENZ)	5.38	4.23	-21%	161	-0.48	NA
Genomic Health (GHDX)	19.56	13.20	-33%	380	-0.24	NA
Genoptix (GXDX)	35.53	17.03	-52%	298	1.67	10.2
LabCorp (LH)	74.84	74.33	-1%	7,730	4.98	14.9
Medtox Scientific (MTOX)	7.75	11.70	51%	102	0.12	97.5
Myriad Genetics (MYGN)	26.09	15.06	-42%	1,473	1.37	11.0
Neogenomics (NGNM)	1.50	1.18	-21%	44	-0.07	NA
Psychemedics (PMD)	7.35	7.81	6%	46	0.38	20.6
Quest Diagnostics (DGX)	60.38	49.73	-18%	8,948	3.93	12.7
Totals & Averages			-9%	20,597		

*Earnings per share and price-to-earnings ratios are based on figures for trailing 12 months

Source: Bloomberg

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