GENOPTIX SOARS 49% ON 1ST DAY ON NASDAQ

Shares of Genoptix Inc. (Carlsbad, CA) jumped 49% on their first day of trading on the Nasdaq on October 30 to close at $25.35. The cancer-testing lab company had expected to price shares of its IPO in the $14 to $16 range, but raised that to $17 on strong demand from initial investors. The success of Genoptix’s IPO is likely to spur other privately-held pathology lab companies to go public.  Cont’d on pages 2-3.

NEW REGS TAKE AIM AT POD LABS

Physician groups that order a pathology test from a lab outside their primary office will no longer be allowed to markup bills to Medicare, according to the Physician Fee Schedule Final Rule issued by CMS on November 1. The new anti-markup rule will apply to both technical and professional components starting Jan. 1, 2008. “It effectively shuts down the “pod” lab business model,” says Greg Smith, healthcare attorney at Womble Carlyle Sandridge & Rice (Greensboro, NC). But pod lab companies are not expected to go down without a fight. “I ain’t never brought a knife to a gun fight…The fat lady ain’t sung yet,” says one pod lab executive. Cont’d on pages 3-4.

DETAILS ON COMPETITIVE BIDDING IN SAN DIEGO

Last month, CMS selected San Diego-Carlsbad-San Marcos as the first of two locations for a competitive bidding demonstration for clinical lab services provided to Medicare beneficiaries. There are 223,000 Medicare fee-for-service beneficiaries in the San Diego area, according to Linda Lebovic, senior analyst in the Medicare Demonstrations Program Group at CMS. Total Part B spending on the 303 lab tests that will be bid on was $21.2 million in 2006, she tells LE.  More details on Page 8.

CELLNETIX OPENS MEGA LAB IN SEATTLE

CellNetix Pathology & Laboratories (Seattle) has opened a newly renovated 48,000-square-foot lab and office building in Seattle. The new lab will perform histology, cytology and immunohistochemistry for the 36 pathologists that are part of CellNetix. And there are plans to add FISH and flow cytometry services within the next year, according to Don Howard, MD, PhD, chairman of CellNetix.  Cont’d on Page 2.
CELLNETIX OPENS MEGA LAB (cont’d from page 1)

CellNetix Pathology & Laboratories is governed by a board of seven pathologists. The company includes two business entities:

- **CellNetix Pathology PLLC** is the professional services corporation formed by the merger of three pathology groups—Black Hills Pathology (Olympia), Associated Pathology (Everett) and Washington Pathology Consultants (Seattle)—in October 2005. CellNetix Pathology, which is owned by 21 pathologists, provides professional services to CellNetix Labs as well as 10 hospitals.

- **CellNetix Labs LLC** manages the new laboratory. It provides technical services to CellNetix Pathology and employs about 85 managers and lab personnel. Owners include pathologists and top executives. Employees can earn shares based on job performance and longevity.

Howard says the merger of the three pathology groups created the economy of scale needed to open a centralized lab and hire an experienced management staff. The management at CellNetix Labs LLC includes CEO Caitlin Cameron, a former AT&T executive. David Anderson, chief operating officer, was formerly associate general manager for the Northwest Region at Dynacare Laboratories. And chief financial officer Randy Borek was formerly a consultant at Per Se Technologies (now McKesson).

Leica Microsystems to give its peripheral hospital clients access to CellNetix’s specialists for consultations. Howard notes that CellNetix Labs has an IT staff of five employees managed by Pat Cooke, who formerly owned a Seattle-based IT consulting company named ISOutsource.com.

Howard says there were several other pathology groups in the Seattle area that considered joining CellNetix two years ago but balked because of fear of loss of control and skepticism that the new company could succeed. Now some of these groups have come back to the bargaining table. Howard believes that CellNetix could grow to 100 pathologists within the next few years.

GENOPTIX IPO SOARS 49% ON 1ST DAY (cont’d from page 1)

A total of 5.75 million shares were sold in the IPO, including 4.736 million shares sold by the company and 1.014 by existing stockholders. Genoptix received net proceeds of $72.7 million after deducting underwriter commissions and expenses. Genoptix says it will use up to $12 million of IPO proceeds to boost its staffing, including sales people. It will also use between $15 million and $25 million to establish a second laboratory and will pay off $2 million of debt.
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