Jondavid Klipp, Editor, labreporter@aol.com

VOLUME 6, NO. 2 FEBRUARY 2011

LABORATORY ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

NOVARTIS BUYS GENOPTIX FOR $470 MILLION

Drugmaker Novartis (Basel, Switzerland) has purchased Genoptix (Carlsbad, CA) for $470 million in cash. The transaction marks the re-entry of pharma into the lab business (e.g., SmithKline/Quest Diagnostics and Roche/LabCorp), which reflects the increasing importance of companion diagnostics, notes Amanda Murphy, analyst at William Blair and Company. *Continued on page 10.*

AURORA BUYS PATH LABS IN TEXAS AND NEVADA

Aurora Diagnostics (Palm Beach Gardens, FL) has acquired two more pathology labs: Austin Pathology Associates and Western Pathology Consultants. *Full details on page 10.*

CMS TO PULL PLUG ON PHYSICIAN SIGNATURE RULE

The Centers for Medicare and Medicaid Services (CMS) has announced plans to rescind a controversial new rule that would have required a physician signature on all paper requisitions for Part B lab tests. Enforcement of the policy, finalized in the 2011 physician fee schedule rule, had been set to begin April 1. The signature rule would have placed an enormous burden on clinical labs. CMS's decision to withdraw the policy represents a major victory for lab lobbying groups, including the American Clinical Lab Association and American Association of Bioanalysts.

MORE DERMATOLOGISTS BUILDING IN-OFFICE LABS

Urology and gastroenterology groups continue to build in-office histology labs. And now dermatology groups have joined the trend. The weak economy has reduced demand for the cosmetic surgery services offered by dermatologists and they are looking for ways to replace this lost revenue. Dermatology groups that have recently opened their own histology labs include Dermatology Associates of Wisconsin, with 20 doctors; Bellmeade Dermatology in Nashville, with three doctors; and Southwest Skin Specialists in North Phoenix, with four doctors.
Continued on page 2.

CONTENTS

MORE DERMATOLOGISTS BUILDING IN-OFFICE LABS (*cont'd from page 1*)

Most dermatologists send skin tissue to outside labs. The labs prepare the slides and either the lab's pathologist or the dermatologist sending the slides reads them.

There are approximately 8,500 office-based dermatologists practicing in the United States today. An estimated 10% to 20% currently operate an in-office histology lab, but that percentage is rising rapidly. In-office histology labs were a hot topic at the recent American Academy of Dermatology annual meeting in New Orleans, February 4-8.

In-office histology lab consulting firms are marketing "turn-key" programs. Their pro formas suggest that a dermatology practice that produces 5,000 slides per year can bring in $300,000+ in annual slide preparation revenue and pocket $150,000 to $200,000 in profit after histotech salary, equipment and supply costs.

Meanwhile, urology and gastroenterology practices continue to open in-office histology labs. Groups recently opening new labs include Amarillo Urology Associates in Texas, with eight urologists, and Gastroenterology Associates of Central Georgia (Macon), with four doctors.

In fact, *Laboratory Economics'* list of physician groups with in-office labs has doubled to 150 groups since last published in July 2010. These 150 groups represent 2,755 physicians and an estimated $300+ million of annual pathology business that has been insourced.

150 Specialty Groups with In-Office Pathology Labs

Name of Group	*# Physicians*
Academic Urology of Pennsylvania (Rosemont, PA)	31
Advanced Dermatology Associates (Allentown, PA)	9
Advanced Urology Associates of Florida (Vero Beach, FL)	2
Alliance Urology (Greensboro, NC)	12
Amarillo Urology Associates (Amarillo, TX)	8
Anne Arundel Dermatology (Annapolis, MD)	13
Arapahoe Gastroenterology (Littleton, CO)	8
Arizona Digestive Health (Phoenix, AZ)	39
Arizona Institute of Urology (Tucson, AZ)	12
Arizona Urology Specialists (Phoenix, AZ)	24
Arkansas Urology (Little Rock, AR)	17
Asheville Gastroenterology Associates (Ashville, NC)	18
Associated Medical Professionals - Urology (Syracuse, NY)	16
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
Boston Urology Institute (Norwood, MA)	21
California Skin Institute (San Jose, CA)	11
Capital Digestive Care (Silver Spring, MD)	48
Capital Region Urological Services (Albany, NY)	15
Carolina Digestive Health Associates (Charlotte, NC)	13
Cary Gastroenterology Associates (Cary, NC)	6
Center for Digestive Care (Saint Petersburg, FL)	4
Center for Gastroenterology (Fort Collins, CO)	14
Center for Urologic Care of Berks County (Reading, PA)	6
Central Ohio Urology Group (Columbus, OH)	25
Chesapeake Urology Associates (Baltimore, MD)	48
Commonwealth Dermatology (Richmond, VA)	5
Community Care Physicians/Urological Institute (Albany, NY)	10

Name of Group	# Physicians
Coral Ridge Gastroenterology Associates (Overland Park, FL)	5
Cowles Clinic (Greensboro, NC)	50
Delaware Valley Urology (Marlton, NJ)	35
Dermatology Associates of Tyler (Tyler, TX)	11
Dermatology Associates of Wisconsin (Manitowoc, WI)	20
Dermatology Group of the Carolinas (Concord, NC)	11
Dermatology & Skin Cancer Center (Lee's Summit, MO)	8
Dermsurgery Associates (Katy, TX)	5
Desert Gastro Consultants (Rancho Mirage, CA)	3
Digestive Care (Coral Springs, FL)	45
Digestive Care (Dayton, OH)	13
Digestive Disease Center of the Hudson Valley (Fishkill, NY)	8
Digestive Disease Clinic (Tallahassee, FL)	9
Digestive Disease Specialists of Northeast Alabama (Gadsden, AL)	5
Digestive Health Associates of Texas (Dallas, TX)	73
Digestive Health Associates (Reno, NV)	10
Digestive Health Center of Louisiana (Baton Rouge, LA)	15
Digestive Health Physicians (Fort Myers, FL)	6
Digestive Health Specialists (Tacoma, WA)	20
Digestive Health Specialists of the Southeast (Dothan, AL)	8
Digestive Specialists/GI Pathology of Dayton (Dayton, OH)	15
Eugene Gastroenterology Consultants (Eugene, OR)	8
Fall Hill Gastroenterology Associates (Fredericks-burg, VA)	3
Florida Foot and Ankle Associates (Doral Beach, FL)	32
Florida Urology Partners (Tampa, FL)	10
Florida Urology Specialists (Sarasota, FL)	6
Forest Healthcare Associates (Paramus, NJ)	16
Gastroenterology Associates (Evansville, IN)	8
Gastroenterology Associates Central Georgia (Macon, GA)	4

Name of Group	# Physicians
Gastroenterology Associates of Cleveland (Cleveland, OH)	5
Gastroenterology Associates of Pensacola (Pensacola, FL)	10
Gastroenterology Associates (Garden City, NY)	7
Gastroenterology Associates of Suffolk (Smithtown, NY)	4
Gastroenterology Center of Connecticut (Hamden, CT)	13
Gastroenterology Consultants (Moline, IL)	10
Gastroenterology Consultants (Reno, NV)	17
Gastroenterology Consultants of South Jersey (Lumberton, NJ)	8
Gastroenterology Group Inc. (Akron, OH)	4
Gastroenterology Specialties (Lincoln, NE)	7
Gastro-Intestinal Associates (Lima, OH)	4
Gastrointestinal Associates (Knoxville, TN)	13
Gastrointestinal Associates (Overland Park, KS)	9
Gastrointestinal Associates of North Texas (Fort Worth, TX)	16
Gastrointestinal Specialists (Memphis, TN)	6
Genito-Urinary Surgeons (Toledo, OH)	11
GI Associates and Endoscopy Center (Jackson, MS)	17
Gulf Coast Dermatology (Panama City, FL)	2
Hudson Valley Urology (Poughkeepsie, NY)	9
Integrated Medical Professionals (Melville, NY)	95
Knoxville Dermatology (Knoxville, TN)	6
Lancaster Gastroenterology (Lancaster, PA)	8
Lubbock Dermatology and Skin Cancer Center (Lubbock, TX)	3
Memphis Gastroenterology (Germantown, TN)	12
Metro Urology (St. Paul, MN)	25
Metropolitan Urologic Specialists (St. Louis, MO)	17
Michigan Institute of Urology (Detroit, MI)	27
Midwest Center for Dermatology & Cosmetic Surgery (Clinton Township, MI)	8
Midwest Gastrointestinal Associates (Omaha, NE)	18
Minnesota Gastroenterology (Minneapolis, MN)	50
Mount Kisco Medical Group (Mount Kisco, NY)	200

Name of Group	# Physicians
New England Dermatology and Laser Center (Springfield, MA)	9
New York Gastroenterology Associates (New York City)	4
New York Urological Associates (New York City)	11
Northeast Georgia Urological Associates (Gainesville, GA)	3
Northern Arizona Dermatology Center (Flagstaff, AZ)	7
NW Dermatology (Hoffman Estates, IL)	6
Ohio Gastroenterology and Liver Institute (Cincinnati, OH)	23
Ohio Gastroenterology Group (Columbus, OH)	23
Peninsula Urology Center (Atherton, CA)	2
Pioneer Valley Urology (Springfield, MA)	9
Red Bank Gastroenterology (Red Bank, NJ)	8
Riverchase Dermatology (Miami Beach, FL)	8
Rocky Mountain Gastroenterology Associates (Denver, CO)	23
Saint Louis Urological Surgeons (Saint Louis, MO)	12
Salinas Valley Urology Associates (Salinas, CA)	3
San Fernando Valley Urological Associates (Tarzana, CA)	7
Shore Gastroenterology Associates (Oakhurst, NJ)	6
Soderstrom Skin Institute (Peoria, IL)	6
Somerset Urological Associates (Somerville, NJ)	4
South Denver Gastroenterology (Denver, CO)	14
Southeast Texas Gastroenterology Associates (Beaumont, TX)	5
Southwest Florida Urologic Assoc. (Fort Myers, FL)	8
Summit Medical Group (Berkeley Heights, NJ)	150
Tacoma Digestive Disease Center (Tacoma, WA)	9
Texas Digestive Disease Consultants (Dallas, TX)	45
The Dermatology Group (Verona, NJ)	13
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 (Nashville, TN)	30

Name of Group	# Physicians
Urology Associates of Cape Cod (Cape Cod, MA)	4
Urology Associates of North Texas (Dallas, TX)	50
Urological Associates of Southern Arizona (Tucson, AZ)	12
Urology Austin, (Austin, TX)	18
Urology Center of Spartanburg (Spartanburg, SC)	12
Urology Consultants (Saint Louis, MO)	10
Urology Group of Western New England (Spring-field, MA)	5
Urology Health Specialists (Philadelphia, PA)	15
Urology Inc. (Fall River, MA)	5
Urology of Central Pennsylvania (Harrisburg, PA)	15
Urology of Greater Atlanta (Griffin, GA)	7
Urology of Indiana (Greenwood, IN)	30
Urology Partners (Bradenton, FL)	6
Urology Specialists of West Florida (Clearwater, FL)	20
Urologic Specialties of New England (West Warwick, RI)	8
Urology Specialty Care (Fair Lawn, NJ)	15
Urology Specialty Group (Miami, FL)	26
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
West Dermatology (Placentia, CA)	20
Western New York Urology Associates (Buffalo, NY)	23
WestMed (White Plains, NY)	190
Wilmington Gastroenterology Associates (Wilmington, NC)	7

Total Urologists	**907**
Total Gastroenterologists	**912**
Total Dermatologists	**181**
Total Other Physicians	**755**
Total All Physicians	**2,755**
Total Est'd AP Revenue per Year	**$300+ million**

LABCORP 2010: PROFITS UP 2.7%; REVENUE UP 6.6%

LabCorp (Burlington, NC) reported net income of $558.2 million for full-year 2010, up 2.7% from $543.3 million in 2009; revenue was up 6.6% to $5.004 billion.

Laboratory Economics estimates that LabCorp's top-line growth for 2010 was 3.5% after adjusting for the revenue gained from numerous acquisitions (e.g., Genzyme Genetics, FirstSource Lab, Medical Diagnostic Lab, DCL Medical Labs, Westcliff Medical Labs, Diamond Reference Lab, Centrex Clinical Labs, et al.).

On February 10, LabCorp held a conference call with analysts and investors to discuss its year-end results. Here's a summary of some key topics:

Westcliff Medical Labs

A dispute with the Federal Trade Commission continues to prevent LabCorp from integrating Westcliff Medical Labs (Santa Ana, CA), which LabCorp acquired in June 2010. David King, chairman and chief executive, expressed confidence that the litigation process will be resolved in LabCorp's favor, or that the company will reach a settlement with the FTC, which contends the purchase violates antitrust laws. "I'm scratching my head about how it could be perceived that increasing our market presence in a state where we've historically been underrepresented could be viewed as anticompetitive," said King. In the meantime, Westcliff has lost an estimated 15% to 20% of its daily accession volume and has been unable to collect payment from several significant payers.

Medi-Cal Lawsuit

LabCorp is facing a lawsuit filed by the California Attorney General's Office. The lawsuit alleges that LabCorp (and several other labs) have violated Medi-Cal's best-pricing regulations and overcharged the program for lab tests. The lawsuit has been in the discovery phase for more than one year. LabCorp's trial date, initially set for November, has been reset for January 30, 2012.

In response to the question, "Under Medicaid rules are you required to provide the absolute best pricing?" King answered, "We do not believe that in California, in particular, that there is any law or regulation that requires us to provide Medicaid with absolutely the best pricing. And I would also comment that the laws and the regulations do vary from state to state, but in those states where there are lowest pricing rules for Medicaid, we believe we've been quite rigorous in following and complying with those rules."

LabCorp			
Financials ($000)	***2010***	***2009***	***% Chg***
Revenue by product			
Genomic and esoteric	1,442,500	1,305,900	10.5
Anatomic pathology	295,000	295,600	-0.2
Routine	2,995,300	2,845,600	5.3
Canada labs	280,000	247,500	13.1
Total revenue	5,003,900	4,694,700	6.6
Pretax income	915,600	884,600	3.5
Net income	558,200	543,300	2.7
Diluted EPS	5.29	4.98	6.2
Requisition Volume	119.7M	119.5M	0.2
Overall price per req	$41.82	$39.28	6.5
Days sales outstanding (DSOs)	43	44	-2.3
Bad-Debt %	4.8	5.3	-9.4

Source: LabCorp

King said that LabCorp has had settlement discussions with the California AG and is "open to a reasonable resolution."

Outlook for 2011

LabCorp anticipates revenue growth of 9.5% to 11.5% in 2011, or 3.5% to 5.5% excluding Genzyme Genetics.

QUEST DIAGNOSTICS WRAPS UP SUB-PAR YEAR

Quest Diagnostics (Madison, NJ) reported net income of $720.9 million for full-year 2010, down 1.1% from $729.1 million in 2009; revenue fell 1.2% to $7.369 billion. At the start of 2010, Quest had forecast revenue growth of 3% to 4%. On January 25, the company held a conference call with analysts and investors to discuss its year-end results. Here's a summary of some key topics:

Anatomic Pathology

Quest reported that its anatomic pathology revenue decreased by 9.1% to $1.062 billion in 2010. "The biggest challenge at the moment is specialist insourcing," said Surya Mohapatra, PhD, chairman and chief executive.

Revenue Growth Initiatives

To raise volume growth, Quest hired more than 100 sales reps late last year. The addition has raised Quest's national sales force to more than 1,000 reps. Chief financial officer Robert Hagemann said Quest was also adding phlebotomists to its patient service centers to improve service and reduce wait times. He said Quest was also placing more phlebotomists directly in physician offices. "They're principally a tool to generate additional business and getting into accounts where we may have not been able to get in before," said Hagemann. In addition, Hagemann said Quest was looking at putting phlebotomists directly at employer sites.

Electronic Health Records

Quest's Care360 EHR system recently met criteria for "meaningful use," which will enable physicians that use the system to potentially receive federal incentives totaling $44,000 per doctor between 2011 and 2015. More than 1,800 physicians are currently using the Care360 HER, according to Mohapatra.

Quest Diagnostics			
Financials ($000)	***2010***	***2009***	***% Chg***
Revenue by product			
Gene-Based & Esoteric	1,604	1,534	4.6
Anatomic Pathology	1,062	1,168	-9.1
Routine	3,903	3,960	-1.4
Drugs of Abuse	170	162	4.9
Other*	630	631	-0.2
Total revenue	7,368,900	7,455,243	-1.2
Pretax income	1,184,300	1,227,900	-3.6
Net income	720,900	729,111	-1.1
Diluted E.P.S.	4.05	3.87	4.7
Total debt	2,990,200	3,107,299	-3.8
Cash & securities	449,300	534,256	-15.9
Shareholders' equity	4,054,000	4,011,464	1.1
Bad-debt %	4.0	4.3	-7.0
Days Sales Outstanding	42	41	2.4
Est'd number of requisitions	146.5M	148M	-1.0
Est'd revenue per requisition	$44.87	$44.96	-0.2

*Other revenue includes clinical trials testing, information technology services (MedPlus) and testing services for life insurance companies

Source: Quest Diagnostics and requisition estimates from *Laboratory Economics*

Medi-Cal Billing
As with LabCorp (see page 5), Quest is facing a lawsuit filed by the California Attorney General's Office, which alleges that Quest has overcharged Medi-Cal for lab tests.

Quest's trial date had been set for May 2, but has been reset to October 3, 2011. In the meantime, Quest has suspended billing Medi-Cal (see *LE*, January 2011, page 3), but still continues to provide testing services. As of December 31, 2010, Quest said it was owed $25 million from the Medi-Cal program.

On the conference call, Hagemann said Quest was negotiating a resolution. During the fourth quarter of 2010, Quest had reached a settlement agreement under which the company would pay $241 million. However, the settlement agreement was not finalized because of disagreement over how Quest would bill Medi-Cal in the future.

Hagemann said, "We have assumed that there will not be a material change in our Medi-Cal reimbursement….We feel that we're billing appropriately."

On the question of whether similar Medicaid billing issues could spread to other states, Hagemann said, "What I can tell you is that California is, by far, our greatest percentage of Medicaid revenues. At $66 million a year, it's a little over 25% of our total Medicaid revenues. Every state has slightly different regulations, but we believe we're compliant with those."

Outlook for 2011
Mohapatra anticipates revenue growth of 1% in 2011, with earnings growth of between 1% and 6%.

BIO-REFERENCE 2010: PROFITS UP 21%; REVENUE UP 26%

Bio-Reference Labs (Elmwood Park, NJ) reported a 21% increase in net income to $26.381 million for the fiscal year ended October 31, 2010; revenue was up 26% to $458 million. Bio-Reference processed 5.6 million requisitions in 2010 versus 4.6 million in 2009; average revenue per requisition was $81.03, up 4.7% from $77.38, driven by increased esoteric testing.

Esoteric testing (GenPath and GeneDx) now accounts for 57% of overall revenue at Bio-Reference versus 53% a year ago. In particular, the company's new women's health initiative (aka GenPap), which includes ThinPrep Pap testing plus a panel of sexually transmitted infections, added to growth. Bio-Reference currently performs roughly one million Pap tests per year and about 10% to 15% of these include an STI panel. The GenPap test panel includes the ThinPrep Pap test with HPV plus an STI panel with up to 21 tests. Bio-Reference is reimbursed roughly $375 per GenPap test, according to estimates from William Blair & Co.

Bio-Reference expects its overall revenue to grow by at least 15% in fiscal 2011; net income is also expected to grow by at least 15%.

Bio-Reference Labs

Financials ($000)	2010	2009	% Chg
Revenue	$458,024	$362,654	26.3
Pretax income	46,963	38,589	21.7
Net income	26,381	21,850	20.7
Diluted E.P.S.	0.94	0.78	20.5
Requisition Volume	5,607	4,648	20.6
Overall price per req	81.03	77.38	4.7
Days sales outstanding (DSOs)	94	95	-1.1
Bad-debt %	13.6	14.2	-4.2

Source: Bio-Reference

MYRIAD GENETICS: PROFITS DOWN 29%; REVENUE UP 8%

Myriad Genetics (Salt Lake City, UT) reported a 29% decrease in net income to $46.729 million for the six months ended December 31, 2010; revenue was up 8.1% to $192.3 million. The decline in net income was due to higher taxes.

Revenue from BRACAnalysis (list price: $3,340) was up 7.9% to $169.9 million and accounted for 88% of Myriad's overall revenue. Myriad markets its testing services through 150 sales reps targeting oncology offices and 165 reps targeting ob-gyn offices.

Myriad Genetics			
Financials ($000)	***Six Months Ended Dec. 31, 2010***	***Six Months Ended Dec. 31, 2010 009***	***% Chg***
Revenue	$192,298	$177,890	8.1
Pretax income	75,232	67,750	11.0
Net income	46,729	65,802	-29.0
Diluted E.P.S.	0.50	0.66	-24.2
Cash & securities	494,405	457,559	8.1

Source: Myriad Genetics

Myriad recently launched its ninth genetic test, Panexia, which has a list price of $3,025. Panexia analyzes the PALB2 and BRCA2 genes. A person with a detectable mutation has up to an 8.6-fold higher risk than the general population of developing pancreatic cancer. The test is targeted at the roughly 9,000 patients diagnosed with hereditary pancreatic cancer each year—a market that represents a potential $27 million in annual revenue.

GENOMIC HEALTH POSTS $4 MILLION PROFIT; REVENUE UP 19%

Genomic Health (Redwood City, CA) reported net income of $4.288 million in 2010 versus a loss of $9.411 million in 2009; revenue was up 19% to $178.1 million. Genomic Health processed more than 57,270 Oncotype DX cancer tests in 2010, up 17% from 49,030 tests in 2009.

Genomic Health markets Oncotype DX tests for breast (list price: $4,075) and colon cancer (list price: $2,900) through 150 sales and marketing employees. The company hopes to introduce a third test for prostate cancer in 2013.

This year the company expects revenue of between $200 million and $210 million (up 12% to 18%), 63,000 to 66,000 tests delivered and a net profit of between $3 million and $5 million.

Genomic Health			
Financials ($000)	***2010***	***2009***	***% Chg***
Revenue	$178,101	$149,548	19.1
Pretax income	4,152	-8,851	NA
Net income	4,288	-9,411	NA
Diluted EPS	0.14	-0.33	NA
Requisition Volume	57,270	49,030	16.8

Source: Genomic Health

MEDTOX POSTS $3 MILLION PROFIT; REVENUE UP 15%

Medtox Scientific (St. Paul, MN) reported net income of $3.017 million in 2010 versus $1.299 million in 2009; revenue was up 15.4% to $97.1 million. The company's fastest growing segment was clinical lab testing, up 30.8% to $29.9 million. Clinical lab testing growth was driven by pain management testing as well as traditional lab testing for physician offices. Medtox, which still derives the majority of its revenue from workplace drugs-of-abuse testing services and kit sales, entered the clinical lab testing business only three years ago (see *LE*, March 2008, page 10).

Medtox Scientific			
Financials ($000)	***2010***	***2009***	***% Chg***
Revenue by product			
Drugs-of-abuse testing	39,624	36,040	9.9
Clinical lab testing	29,923	22,884	30.8
Clinical trial services	7,500	6,927	8.3
POC drug test kits	20,054	18,257	9.8
Total revenue	97,101	84,108	15.4
Pretax income	4,845	2,047	136.7
Net income	3,017	1,299	132.3
Diluted EPS	0.34	0.15	126.7

Source: Medtox Scientific

NEOGENOMICS RECORDS $3 MILLION LOSS; REVENUE UP 17%

NeoGenomics (Ft. Myers, FL) reported a net loss of $3.303 million in 2010 versus a net loss of $2.243 million in 2009; revenue was up 16.6% to $34.4 million. Volume was up 22% to 38,443 cases and average revenue per case was down 4% to $894.08. The reduction in average revenue per case was due primarily to new contracts with three managed care companies.

NeoGenomics			
Financials ($000)	***2010***	***2009***	***% Chg***
Revenue	$34,371	$29,469	16.6
Net loss	-3,303	-2,243	NA
Diluted EPS	-0.09	-0.06	NA
Case volume	38,443	31,638	21.5
Number of tests performed	57,332	45,675	25.5
Avg. # of tests per case	1.49	1.44	3.5
Revenue per case	894.08	931.44	-4.0
Revenue per test	599.51	645.19	-7.1

Source: NeoGenomics

On February 10, NeoGenomics held a conference call with analysts and investors to discuss its year-end results. Here's a summary of some key topics:

Medicare Reimbursement Changes
The reduction in Medicare reimbursement for UroVysion bladder cancer testing will not materially affect NeoGenomics because it represents only 7% of the company's overall revenue, according to chairman and chief executive Douglas VanOort.

Outlook for 2011
NeoGenomics anticipates revenue of between $41 million and $45 million in 2011 representing an annual increase of more than 20%.

New Board Members
NeoGenomics recently added two new board members: Kevin Johnson, former chairman and chief executive of Dianon, and Raymond Hipp, former chairman and chief executive of Alternative Resources Corp., which provides information technology outsourcing services.

NOVARTIS BUYS GENOPTIX FOR $470 MILLION (*continued from page 1*)

The deal has an enterprise value of $330 million after adjusting for Genoptix's cash holdings of $140 million. The deal values Genoptix at approximately 1.7 times its estimated revenue of $195 million for 2010.

Genoptix operates a CLIA-certified lab in Carlsbad, California, that specializes in leukemia/lymphoma pathology services. The company processed an estimated 61,000 patient cases from 1,350 physician clients in 2010 (see *LE*, December 2010, page 10).

After growing its revenue by an average of nearly 100% per year from 2006 to 2009, Genoptix's growth rate slowed down with revenue estimated to remain basically flat in 2010 and 2011. The company has been encountering reimbursement pressure as it shifted to in-network status with major payers.

Novartis says Genoptix will become part of its molecular diagnostics division. The acquisition is expected to support and expedite the company's development of companion diagnostics, especially in oncology. Among the cancer drugs developed by Novartis is imatinib (Gleevec) for chronic myeloid leukemia.

Novartis plans to maintain Genoptix's lab and testing services to hematologists/oncologists.

AURORA BUYS PATH LABS IN TEXAS AND NEVADA (*continued from page 1*)

On January 1, 2011, Aurora acquired the pathology lab practice of Austin Pathology Associates along with 100% of the equity of Texas Pathology, LLC (the lab's management company). Aurora paid $29.9 million in cash. The transaction also includes contingent consideration of up to $14.9 million based upon the acquired practice's financial performance in 2011, 2012 and 2013. Austin Pathology has about 17 pathologists.

In addition, Aurora bought the pathology lab practice of Western Pathology Consultants, Ltd. (Reno, NV) on January 1, 2011. Aurora paid $7 million in cash plus contingent consideration of a maximum of $4 million based on the practice's annual financial performance through December 31, 2015. Western Pathology has seven pathologists.

Aurora, which registered for an IPO in April 2010 (see *LE*, May 2010, pp. 1-3), has now made 20 acquisitions since being formed in 2006.

PATHOLOGY INC. BUYS CENTRAL COAST CLINICAL LABS

Pathology Inc. (Torrance, CA) has purchased Central Coast Clinical Laboratories (Templeton, CA) for an undisclosed sum. CCCL, which was founded in 2003, provides clinical lab testing services to ob-gyn and primary care practices in the central coast between Los Angeles and San Franscico. Pathology Inc. is owned by the equity investment firm ABS Capital Partners (Baltimore, MD).

SONIC BUYS CENTRAL COAST PATHOLOGY CONSULTANTS

Australian-based Sonic Healthcare has acquired Central Coast Pathology Consultants (San Luis Obispo, CA) for an undisclosed sum. Sonic says that CCPC together with its recent acquisition of Physicians Automated Lab (Bakersfield, CA) will form the company's California Division. CCPC has nine pathologists and estimated annual revenue of more than $20 million.

VERMILLION RAISES $22 MILLION

Vermillion (Austin, TX) has raised $21.8 million through the sale of 4 million shares priced at $5.45 per share on February 15. The company expects to receive net proceeds of $20.2 million after underwriting expenses. Roth Capital Partners was the sole manager of the stock offering.

Vermillion developed the OVA1 blood test for accessing the risk of ovarian cancer in women with a pelvic mass. The test combines the results of five immunoassays into a single numerical score. A score of five or higher indicates the mass is likely to be malignant and the patient should be referred to a gynecologic oncologist.

Vermillion says it will use the cash raised to expand its sales and marketing team, and to develop additional tests.

OVA1 was cleared by the FDA in September 2009 and launched in March 2010. Quest Diagnostics, which has invested $20+ million in development of the test, has exclusive U.S. marketing rights through September 2014.

Under the marketing agreement, Quest pays Vermillion $50 for every test performed plus 33% of Quest's gross profit. Quest markets the test at a list price of $650. Medicare carriers are reimbursing the test at approximately $500.

It's been a long and bumpy road for Vermillion (formerly named Ciphergen). Since being formed in 1993, Vermillion has accumulated losses of nearly $300 million. The company filed for Chapter 11 bankruptcy in March 2009. It emerged from bankruptcy in January 2010.

At the start of 2010, Vermillion had anticipated OVA1 sales of 8,000 to 10,000 tests. Actual sales came in at 6,155 tests. The company reported a net loss of $19 million in 2010 versus a net loss of $22 million in 2009; revenue was $1.2 million versus zero in 2009.

QUEST SEEKS DISMISSAL OF CLASS ACTION SUIT

Quest Diagnostics has asked U.S. District Court Judge Katherine Hayden to dismiss a class action lawsuit filed by a former sales rep, Theresa Seibert.

Seibert claims that Quest has used age discrimination since it started restructuring its sales force in 2008 (see *LE*, December 2010, pp. 1, 7). After working 26 years for Quest, Seibert, age 53, was fired for "poor performance" in January 2010.

Quest contends that the lawsuit is frivolous, unreasonable and groundless.

Meanwhile, Seibert's attorney, Glen Savits from Green Savits & Lenzo LLC (Morristown, NJ), says he has been getting a steady stream of calls from former Quest employees and that the class will likely be 100 or greater. Savits notes that this is a class action under the New Jersey Law Against Discrimination. It is therefore an "opt-out" class action. That means that Seibert represents the entire class as defined in the complaint and nobody else has to officially "join" the class action.

Eventually, Savits says all people that fit the class definition (former sales reps over age 40) will be notified and they will have the choice to do nothing and remain part of the class or opt-out of the class and pursue an action on their own.

LAB STOCKS UP 5% YEAR TO DATE

Eleven lab stocks have risen by an unweighted average of 5% so far this year. The combined market capitalization for the group is currently $23 billion. In comparison, the S&P 500 Index and the Nasdaq are each up 6%. The top-performing lab stock so far this year is Genoptix, up 31%, which is being acquired by Novartis (see page 1). Meanwhile, the stock price of LabCorp is flat and Quest Diagnostics is up 6%.

Company (ticker)	Stock Price 12/31/10	Stock Price 2/14/11	2011 Price Gain	Market Capitalization ($ millions)	Annual Revenue ($ millions)	Price-to-Revenue Ratio
Bio-Reference (BRLI)	$22.18	$22.89	3%	$635	$458	1.4
Celera (CRA)	6.30	6.36	1%	525	130	4.0
Enzo Biochem (ENZ)	5.28	4.76	-10%	180	97	1.9
Genomic Health (GHDX)	21.39	22.83	7%	656	178	3.7
Genoptix (GXDX)	19.02	24.96	31%	439	200	2.2
LabCorp (LH)	87.92	87.73	0%	8,920	5,004	1.8
Medtox Scientific (MTOX)	13.10	15.11	15%	133	97	1.4
Myriad Genetics (MYGN)	22.84	19.24	-16%	1,740	363	4.8
NeoGenomics (NGNM)	1.30	1.48	14%	54	34	1.6
Psychemedics (PMD)	8.20	8.91	9%	46	20	2.3
Quest Diagnostics (DGX)	53.97	57.26	6%	9,640	7,369	1.3
Totals & Averages			5%	22,968		2.4

Source: Bloomburg