

# LABORATORY



# ECONOMICS

*Competitive Market Analysis For Laboratory Management Decision Makers*

## NOVARTIS BUYS GENOPTIX FOR \$470 MILLION

**D**rugmaker 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

**A**urora 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

**T**he 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

**U**rology 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

### HEADLINE NEWS

Novartis buys Genoptix .....	1, 10
Aurora buys path labs in TX and NV.....	1, 10
CMS to pull plug on doc signature rule .....	1
More derms bring labs in-house .....	1, 2-4

### IN-OFFICE PATHOLOGY

List: 150 groups with histology labs .....	2-4
--	-----

### FINANCIAL

LabCorp grows revenue 7% in 2010.....	5-6
Quest revenue dips 1%.....	6-7
Bio-Reference's top line up 26% .....	7
Myriad Genetics revenue up 8% .....	8
Genomic Health revenue up 19% .....	8
Medtox grows revenue 15%.....	9
NeoGenomics sales rise 17%.....	9
Lab stocks up 5% YTD.....	12

### MERGERS & ACQUISITIONS

Pathology Inc. buys clinical lab.....	10
Sonic buys California pathology lab.....	10

### CANCER TESTING

Vermillion raises \$22 million.....	11
-------------------------------------	----

### LEGAL

Quest seeks dismissal of age discrimination suit .....	11
--	----

**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 insured.

<b>150 Specialty Groups with In-Office Pathology Labs</b>			
<b>Name of Group</b>	<b># Physicians</b>	<b>Name of Group</b>	<b># Physicians</b>
Academic Urology of Pennsylvania (Rosemont, PA)	31	Atlanta Gastroenterology (Atlanta, GA)	50
Advanced Dermatology Associates (Allentown, PA)	9	Atlantic Urological Associates (DeLand, FL)	14
Advanced Urology Associates of Florida (Vero Beach, FL)	2	Austin Gastroenterology (Austin, TX)	21
Alliance Urology (Greensboro, NC)	12	Bergen Urological Associates (Hackensack, NJ)	3
Amarillo Urology Associates (Amarillo, TX)	8	Boston Urology Institute (Norwood, MA)	21
Anne Arundel Dermatology (Annapolis, MD)	13	California Skin Institute (San Jose, CA)	11
Arapahoe Gastroenterology (Littleton, CO)	8	Capital Digestive Care (Silver Spring, MD)	48
Arizona Digestive Health (Phoenix, AZ)	39	Capital Region Urological Services (Albany, NY)	15
Arizona Institute of Urology (Tucson, AZ)	12	Carolina Digestive Health Associates (Charlotte, NC)	13
Arizona Urology Specialists (Phoenix, AZ)	24	Cary Gastroenterology Associates (Cary, NC)	6
Arkansas Urology (Little Rock, AR)	17	Center for Digestive Care (Saint Petersburg, FL)	4
Asheville Gastroenterology Associates (Asheville, NC)	18	Center for Gastroenterology (Fort Collins, CO)	14
Associated Medical Professionals - Urology (Syracuse, NY)	16	Center for Urologic Care of Berks County (Reading, PA)	6
Associated Urological Specialists (Orland Park, IL)	16	Central Ohio Urology Group (Columbus, OH)	25
Associates in Gastroenterology (Manassas, VA)	5	Chesapeake Urology Associates (Baltimore, MD)	48
		Commonwealth Dermatology (Richmond, VA)	5
		Community Care Physicians/Urological Institute (Albany, NY)	10

<b>Name of Group</b>	<b># Physicians</b>	<b>Name of Group</b>	<b># Physicians</b>
Coral Ridge Gastroenterology Associates (Overland Park, FL)	5	Gastroenterology Associates of Cleveland (Cleveland, OH)	5
Cowles Clinic (Greensboro, NC)	50	Gastroenterology Associates of Pensacola (Pensacola, FL)	10
Delaware Valley Urology (Marlton, NJ)	35	Gastroenterology Associates (Garden City, NY)	7
Dermatology Associates of Tyler (Tyler, TX)	11	Gastroenterology Associates of Suffolk (Smithtown, NY)	4
Dermatology Associates of Wisconsin (Manitowoc, WI)	20	Gastroenterology Center of Connecticut (Hamden, CT)	13
Dermatology Group of the Carolinas (Concord, NC)	11	Gastroenterology Consultants (Moline, IL)	10
Dermatology & Skin Cancer Center (Lee's Summit, MO)	8	Gastroenterology Consultants (Reno, NV)	17
Dermsurgery Associates (Katy, TX)	5	Gastroenterology Consultants of South Jersey (Lumberton, NJ)	8
Desert Gastro Consultants (Rancho Mirage, CA)	3	Gastroenterology Group Inc. (Akron, OH)	4
Digestive Care (Coral Springs, FL)	45	Gastroenterology Specialties (Lincoln, NE)	7
Digestive Care (Dayton, OH)	13	Gastro-Intestinal Associates (Lima, OH)	4
Digestive Disease Center of the Hudson Valley (Fishkill, NY)	8	Gastrointestinal Associates (Knoxville, TN)	13
Digestive Disease Clinic (Tallahassee, FL)	9	Gastrointestinal Associates (Overland Park, KS)	9
Digestive Disease Specialists of Northeast Alabama (Gadsden, AL)	5	Gastrointestinal Associates of North Texas (Fort Worth, TX)	16
Digestive Health Associates of Texas (Dallas, TX)	73	Gastrointestinal Specialists (Memphis, TN)	6
Digestive Health Associates (Reno, NV)	10	Genito-Urinary Surgeons (Toledo, OH)	11
Digestive Health Center of Louisiana (Baton Rouge, LA)	15	GI Associates and Endoscopy Center (Jackson, MS)	17
Digestive Health Physicians (Fort Myers, FL)	6	Gulf Coast Dermatology (Panama City, FL)	2
Digestive Health Specialists (Tacoma, WA)	20	Hudson Valley Urology (Poughkeepsie, NY)	9
Digestive Health Specialists of the Southeast (Dothan, AL)	8	Integrated Medical Professionals (Melville, NY)	95
Digestive Specialists/GI Pathology of Dayton (Dayton, OH)	15	Knoxville Dermatology (Knoxville, TN)	6
Eugene Gastroenterology Consultants (Eugene, OR)	8	Lancaster Gastroenterology (Lancaster, PA)	8
Fall Hill Gastroenterology Associates (Fredericksburg, VA)	3	Lubbock Dermatology and Skin Cancer Center (Lubbock, TX)	3
Florida Foot and Ankle Associates (Doral Beach, FL)	32	Memphis Gastroenterology (Germantown, TN)	12
Florida Urology Partners (Tampa, FL)	10	Metro Urology (St. Paul, MN)	25
Florida Urology Specialists (Sarasota, FL)	6	Metropolitan Urologic Specialists (St. Louis, MO)	17
Forest Healthcare Associates (Paramus, NJ)	16	Michigan Institute of Urology (Detroit, MI)	27
Gastroenterology Associates (Evansville, IN)	8	Midwest Center for Dermatology & Cosmetic Surgery (Clinton Township, MI)	8
Gastroenterology Associates Central Georgia (Macon, GA)	4	Midwest Gastrointestinal Associates (Omaha, NE)	18
		Minnesota Gastroenterology (Minneapolis, MN)	50
		Mount Kisco Medical Group (Mount Kisco, NY)	200

<i>Name of Group</i>	<i># Physicians</i>	<i>Name of Group</i>	<i># Physicians</i>
New England Dermatology and Laser Center (Springfield, MA)	9	Urology Associates of Cape Cod (Cape Cod, MA)	4
New York Gastroenterology Associates (New York City)	4	Urology Associates of North Texas (Dallas, TX)	50
New York Urological Associates (New York City)	11	Urological Associates of Southern Arizona (Tucson, AZ)	12
Northeast Georgia Urological Associates (Gainesville, GA)	3	Urology Austin, (Austin, TX)	18
Northern Arizona Dermatology Center (Flagstaff, AZ)	7	Urology Center of Spartanburg (Spartanburg, SC)	12
NW Dermatology (Hoffman Estates, IL)	6	Urology Consultants (Saint Louis, MO)	10
Ohio Gastroenterology and Liver Institute (Cincinnati, OH)	23	Urology Group of Western New England (Springfield, MA)	5
Ohio Gastroenterology Group (Columbus, OH)	23	Urology Health Specialists (Philadelphia, PA)	15
Peninsula Urology Center (Atherton, CA)	2	Urology Inc. (Fall River, MA)	5
Pioneer Valley Urology (Springfield, MA)	9	Urology of Central Pennsylvania (Harrisburg, PA)	15
Red Bank Gastroenterology (Red Bank, NJ)	8	Urology of Greater Atlanta (Griffin, GA)	7
Riverchase Dermatology (Miami Beach, FL)	8	Urology of Indiana (Greenwood, IN)	30
Rocky Mountain Gastroenterology Associates (Denver, CO)	23	Urology Partners (Bradenton, FL)	6
Saint Louis Urological Surgeons (Saint Louis, MO)	12	Urology Specialists of West Florida (Clearwater, FL)	20
Salinas Valley Urology Associates (Salinas, CA)	3	Urologic Specialties of New England (West Warwick, RI)	8
San Fernando Valley Urological Associates (Tarzana, CA)	7	Urology Specialty Care (Fair Lawn, NJ)	15
Shore Gastroenterology Associates (Oakhurst, NJ)	6	Urology Specialty Group (Miami, FL)	26
Soderstrom Skin Institute (Peoria, IL)	6	UroPartners LLC (Chicago, IL)	38
Somerset Urological Associates (Somerville, NJ)	4	Village Podiatry Group (Smyrna, GA)	22
South Denver Gastroenterology (Denver, CO)	14	Virginia Urology (Richmond, VA)	25
Southeast Texas Gastroenterology Associates (Beaumont, TX)	5	Wake Gastroenterology (Raleigh, NC)	4
Southwest Florida Urologic Assoc. (Fort Myers, FL)	8	Wayne B. Glazier, MD, Urology (Worcester, MA)	3
Summit Medical Group (Berkeley Heights, NJ)	150	West Dermatology (Placentia, CA)	20
Tacoma Digestive Disease Center (Tacoma, WA)	9	Western New York Urology Associates (Buffalo, NY)	23
Texas Digestive Disease Consultants (Dallas, TX)	45	WestMed (White Plains, NY)	190
The Dermatology Group (Verona, NJ)	13	Wilmington Gastroenterology Associates (Wilmington, NC)	7
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		
		<b>Total Urologists</b>	<b>907</b>
		<b>Total Gastroenterologists</b>	<b>912</b>
		<b>Total Dermatologists</b>	<b>181</b>
		<b>Total Other Physicians</b>	<b>755</b>
		<b>Total All Physicians</b>	<b>2,755</b>
		<b>Total Est'd AP Revenue per Year</b>	<b>\$300+ million</b>

## 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 of-

fices. “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.

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*

### 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.

### 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%

**B**io-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			
<i>Financials (\$000)</i>	<i>2010</i>	<i>2009</i>	<i>% Chg</i>
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%

**M**yrriad 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 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.

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

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

**G**enomic 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

**Copyright warning and notice:** It is a violation of federal copyright law to reproduce or distribute all or part of this publication to anyone (including but not limited to others in the same company or group) by any means, including but not limited to photocopying, printing, faxing, scanning, e-mailing and Web-site posting. If you need access to multiple copies of our valuable reports then take advantage of our attractive bulk discounts. Please contact us for specific rates. Ph: 845-463-0080.



## 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.

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.

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

**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**

**P**athology 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 Francisco. Pathology Inc. is owned by the equity investment firm ABS Capital Partners (Baltimore, MD).

**SONIC BUYS CENTRAL COAST PATHOLOGY CONSULTANTS**

**A**ustralian-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: Bloomberg

### Subscribe to Laboratory Economics

YES! Please enter my subscription to *Laboratory Economics* at \$349 for one year. Subscription includes 12 monthly issues sent both electronically and by regular mail plus access to all back issues at [www.laboratoryeconomics.com/archive](http://www.laboratoryeconomics.com/archive).

Check enclosed  
(payable to *Laboratory Economics*)

Charge my: MC Amex Visa (circle one)

Card # \_\_\_\_\_

Name \_\_\_\_\_

Expiration Date \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Cardholder's name \_\_\_\_\_

Mailing Address \_\_\_\_\_

Signature \_\_\_\_\_

City, State, Zip \_\_\_\_\_

Billing address \_\_\_\_\_

Phone \_\_\_\_\_

Fax \_\_\_\_\_

e-mail address \_\_\_\_\_

**Mail To:** Laboratory Economics, 195 Kingwood Park, Poughkeepsie, NY 12601;  
Fax order to 845-463-0470; or call 845-463-0080 to order via credit card.

CC2011

**100% Satisfaction Guaranteed!** If at anytime you become dissatisfied with your subscription to *Laboratory Economics* drop me an e-mail and I'll send you a refund for all unmailed issues of your subscription, no questions asked.  
Jondavid Klipp, [labreporter@aol.com](mailto:labreporter@aol.com)





# THE U.S. ANATOMIC PATHOLOGY MARKET: FORECAST & TRENDS 2011 F CONDENSED TABLE OF CONTENTS

## 1: Anatomic Pathology Market Size & Structure

- F Anatomic Pathology Market Size
- F Test Volume Growth for Anatomic Pathology
- F Anatomic Pathology Company Market Share
- F Top 50 Independent Histology Labs
- F Average Annual Collected Revenue per Pathologist
- F Revenue for Subspecialties in the Pathology Market
- F Estimated New Cancer Cases, 2007-2010

## 2: Medicare Claims Trends

- F Medicare Reimbursement History for CPT 88305
- F Medicare Reimbursement for Key Codes in 2011
- F Reimbursement Changes for UroVysion
- F Submitted Claims Volume from 2000-2009 for CPT 88305, 88342, 88185, 88367, 88312, 88307, 88112, 88313, 88304, 88361
- F Market Share Changes for Key CPT Codes

## 3: The Cervical Cancer Screening Market

- F Lab Service Revenues from Cervical Cancer Screening
- F Medicare Reimbursement for Pap Testing
- F U.S. Sales of Gardasil
- F Deaths from Cervical Cancer, 1998-2009

## 4: In-Office AP Laboratories

- F Number of Urology Groups Starting In-Office Labs
- F Medicare Reimbursement for Colonoscopy with Biopsy
- F Number of Gastroenterology Groups Starting In-Office Labs
- F Profiles of 31 Specialty Groups that Insourced Pathology
- F List: 101 Specialty Groups with In-Office Labs
- F In-Office AP Labs Effect on Pathology Groups
- F Compensation: Urologists vs. Pathologists

## 5: Mergers & Acquisitions

- F Quest and LabCorp Cash Payments for Acquisitions
- F Average Purchase Price to Revenue Multiples
- F Laboratory Acquisition Summary, 2007-2010
- F Aurora Diagnostics Acquisition Summary

## 6. Digital Pathology

- F Percentage of Pathology Groups Using Digital Pathology
- F How Labs Are Using Digital Pathology
- F Why Some Labs Don't Use Digital Pathology
- F U.S. Market Size for Digital Pathology
- F Medicare Claims for CPT 88361 for 2009
- F Vendor Market Share for Digital Pathology

## 7. The Business Outlook for Anatomic Pathology

- F Anatomic Pathology Market Size, 2010-2015
- F Fastest-Growing Subspecialties in Pathology
- F Biggest Challenges Facing Pathology Groups
- F Managed Care Reimbursement for Key Codes
- F APF Survey Results on In-Office Histology Labs
- F Competitiveness of Quest and LabCorp
- F Pharmacogenomics in Cancer Treatment

## Appendix: Pathology Lab Company Profiles

Agendia, Aurora Diagnostics, Bio-Reference Labs, Bostwick Labs, Caris Life Sciences, CBLPath, Clariant Inc., Genomic Health, Genoptix, Genzyme Genetics, HealthTronics/ClariPath, LabCorp, med fusion, Myriad Genetics, NeoGenomics, PathGroup, Quest Diagnostics

## ORDER FORM: THE U.S. ANATOMIC PATHOLOGY MARKET: FORECAST & TRENDS 2011

**q** YES! Please send me *The U.S. Anatomic Pathology Market: Forecast & Trends 2011*

\_\_\_\$450 (for subscribers to *Laboratory Economics*)

\_\_\_\$550 (non-subscriber price)

Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Mailing Address \_\_\_\_\_

\_\_\_\_\_

Phone \_\_\_\_\_

Fax \_\_\_\_\_

E-mail address \_\_\_\_\_

**q** Please invoice us P.O. # \_\_\_\_\_

**q** Check enclosed (Payable to *Laboratory Economics*)

**q** Charge my: MC Amex Visa (circle one)

Cardholder's name \_\_\_\_\_

Card # \_\_\_\_\_

Expiration Date \_\_\_\_\_

Cardholder's Name \_\_\_\_\_

Signature \_\_\_\_\_

Billing address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## 3 EASY WAYS TO ORDER

**MAIL TO:** LABORATORY ECONOMICS, 195 KINGWOOD PARK, POUGHKEEPSIE, NY 12601

**FAX ORDER:** 845-463-0470

**PHONE ORDER:** 845-463-0080

**WEB SITE:** WWW.LABORATORYECONOMICS.COM