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LABORATORY INDUSTRY REPORT®

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Vol. XI, No. 1/January 2007

HIGHLIGHTS

WASHINGTON G-2 REPORTS

Competitive Bidding Demo In Holding Pattern Awaiting OMB's OK

After years of discussion about competitive bidding for laboratory services, CMS is expected to make 2007 the year in which it will fulfill the directive of the Medicare Modernization Act of 2003 and implement a demonstration project for lab competitive bidding. The demo project is currently in a holding pattern awaiting United States Office of Management and Budget (OMB) approval on its structure and budget, but industry leaders expect it to begin by June of this year.

Competitive bidding, long used in procurement circles, fuels a reverse auction process for vendor selection that greatly benefits the buyer—in this case, Medicare—who gains not only more options than in non-competitively bid situations but also almost surely a significantly lower price. In some industries, competitive bidding has yielded cost reductions of up to 30%. *LIR* believes that competitive bidding would be likely to trim 15% to 20% off of current Medicare Part B spending on clinical lab testing, which totaled approximately $7.1 billion in 2006.

Among the key concerns about competitive bidding, two words that strike fear into the heart of many laboratory executives, is that it would send a message that laboratory services are a commodity, essentially interchangeable among vendors and befitting the same purchasing methods as glassware or pipette tips. For background and the latest news on lab competitive bidding, see *Inside the Laboratory Industry*, pp. 5-7.

Sonic To Acquire American Esoteric Laboratories For $180M

Sonic Healthcare (Sonic; Sydney, Australia) finished 2006 with a bang. The Australian lab giant, which made its second United States acquisition last October with the purchase of Cognoscenti Health Institute (Orlando, FL), has signed an agreement to acquire all of American Esoteric Laboratories (AEL) from two private equity firms, ABS Capital Partners and Oak Investment Partners, and the company's management. Sonic will pay about $180 million in a cash

➥ *p. 2*

"We are keen for companies that we acquire to maintain their management autonomy, their name, and their local 'flavor,'" Sonic CEO Colin Goldschmidt, M.D., told LIR.

■ **SONIC TO ACQUIRE AMERICAN ESOTERIC LABORATORIES**, *from page 1*

transaction that is expected to close by the middle of this month.

With annual revenues of approximately $100 million, AEL has two laboratories in Tennessee (Memphis and Morristown) and two in Texas (Dallas and Tyler). The company also serves parts of Arkansas, Louisiana, and Missouri. Last year, AEL acquired DRL Labs (Tyler, TX), then the largest remaining Texas-based independent reference laboratory, and Physician's Medical Laboratory (Morristown, TN), a laboratory serving 20 counties in East Tennessee.

One of the world's largest laboratory companies, Sonic provides pathology and radiology services to medical practitioners, hospitals, and community health services. Since 1993, Sonic's annual revenues have risen from AU$25 million (USD$19.6 million) to over AU$1.6 billion (USD$1.25 billion).

The AEL acquisition allows Sonic, along with its primary U.S. affiliate, Clinical Pathology Laboratories (CPL), to increase its presence in Texas and enter markets throughout Tennessee and Mississippi. The combined organization will serve over 14,600 customers in 14 states through an employee base of approximately 2,100.

Following the closing of the transaction, Robert Connor, M.D., CPL's chairman and CEO, will also become CEO of the AEL subsidiary. Brian C. Carr, AEL's current chairman and CEO, will serve as a consultant to Sonic. Other than these senior management changes, both companies plan to continue operating within their management structures. This approach is characteristic of Sonic's "federation structure," which Sonic CEO Colin Goldschmidt, M.D., described to *LIR* in an interview last year as "independent labs working in a synergistic network," adding, "We are keen for companies that we acquire to maintain their management autonomy, their name, and their local 'flavor.'"

Sonic and AEL expect to integrate their sales and service organizations in the Dallas-Fort Worth market. With this exception, Sonic plans to continue full operations at each of AEL's three primary regional laboratories in Tyler, Texas; Memphis, Tennessee; and Morristown, Tennessee, and does not anticipate any personnel changes in AEL's regional laboratory network.

LabCorp Buys Kansas Lab

LabCorp (Burlington, NC) has quietly snapped up another independent laboratory: Peterson Laboratory Services (PLS) of Manhattan, Kansas. PLS was formerly owned and managed by medical directors Peggy Peterson, D.O., and John Bambara, M.D.; and Susan Speaks, M.D., Ph.D. and Tarek Salem, M.D. Word of the acquisition comes only a few months after PLS's designation of LabCorp as its primary reference lab. Financial terms of the deal were not disclosed.

PLS management, which referred to the acquisition as a "collaborative transfer," will stay on as medical directors and technical advisors. The laboratory will continue to offer anatomic pathology services (surgical pathology and cytology) as well as hematopathology. In addition to its main office in Manhattan, PLS has patient service centers in the Kansas towns of Topeka, Atchison, and Leavenworth.

What Does '07 Hold For LabCorp? *LIR*'s Interview With New CEO Dave King

David P. King

On January 1, David P. King takes the helm of the country's second largest private lab, LabCorp (Burlington, NC), succeeding Thomas P. Mac Mahon as chief executive officer. King also joins the board of directors. Mac Mahon will continue to serve as chairman of the board until the 2008 annual shareholders' meeting.

King joined LabCorp in 2001 as senior vice president, general counsel, and chief compliance officer after acting as outside counsel for several years. Since 2005, he served as executive vice president and chief operating officer of LabCorp; prior to that he served as the head of Esoterix and US LABS as well as the LabCorp executive vice president of strategic planning and development.

David P. King talked to *Laboratory Industry Report* about the upcoming challenges of 2007, LabCorp's strategies for dealing with the execution of the United Healthcare agreement, and where he thinks the company is headed.

LIR: What plans do you and LabCorp have for 2007?
David P. King: The major priority in 2007, of course, continues to be the execution of the United Healthcare agreement. So we will continue to hire people and staff to handle the business we expect to receive. We will continue to open patient-service centers and other patient access points, and I think that will be our number-one priority.

LIR: How many service centers and new employees are you planning?
King: We haven't given an exact number, but it will be a lot of service centers. And we will also continue to look at innovative ways to add access points, such as our agreement with Duane Reade (New York, NY) to add phlebotomists to drugstores in order to make healthcare convenient to patients who want to be able to leave the doctor's office and get the prescription filled and get their blood drawn in one central, convenient location. As for the employees, it will be a significant increase in our work force. Most of that hiring was completed before Jan. 1, 2007.

LIR: You've mentioned LabCorp's strategic plan. What is it?
King: Our strategic plan has three components. First is scientific differentiation, which is offering tests and technologies that differentiate and distinguish us and put us on the cutting edge, such as the guided imaging Pap smear, HPV testing, and our industry-leading cancer testing.

The second component of our strategic plan is managed care and focusing on our partnerships with managed care—obviously with United, but also with WellPoint and our other major carriers.

And the third is what we talk about as our customer-focused culture. This includes continuing to improve our connectivity products, service levels, estimate tracking, report form improvement, and all the things that surround giving the customer a better experience when they come to LabCorp.

LIR: What areas do you see as strong growth areas in 2007 and beyond for LabCorp?
King: We think women's health will continue to be an area of interest. As I

mentioned earlier, with image-guided Pap, with HPV, with the continuing advances in test menu and test offering, we look to women's health as an area of continuous growth. Infectious disease will continue to remain a focus for LabCorp. Make no mistake that people will still die of cancer, but cancer is becoming increasingly a chronic disease, so our pathology and tissue capabilities and our cancer recurrence testing will continue to be growth areas. We look to improve the range of offerings of cancer screenings, cancer prognostics, cancer diagnostics, and cancer capabilities—that's a secondary area that I expect to be a growth area for us.

And finally, there is the whole area surrounding cardiology. The laboratory tests and genetic markers around cardiology are becoming better understood by scientists and physicians, and I expect cardiology will be a nice growth area in the upcoming year and into the future.

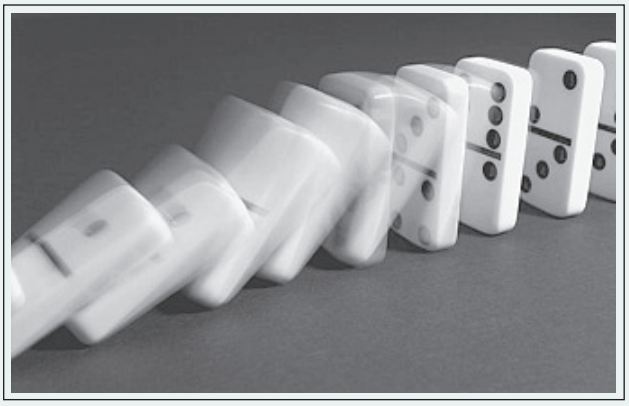
LIR: Do you have any acquisitions planned for 2007?
King: We always are interested in making strategic acquisitions, so while I'm not going to talk about a particular acquisition, I can say that we're going to look at acquisitions in two categories: first, in genomic and esoteric acquisitions like US LABS and Esoterix, which were the last two major acquisitions LabCorp made because they complement areas that are strategic to the company; in those cases, leukemia/lymphoma and the hematology/oncology business. Secondly, the other area we look for acquisitions are strategic areas that give us infrastructure in a market or a location where we don't have security or infrastructure, or they give us particular managed care relationships that we have not had before. Those are the types of acquisitions that we look for. And of course, we get very disciplined about what we'll pay for acquisitions, and we expect to maintain that discipline.

LIR: How do you intend to increase your organic growth?
King: We have two kinds of organic growth expected in 2007. We are now going to grow because of the United business that will come in our direction. The second way we are going to grow is to stay focused on the components of the strategic plan that led to our prior growth, which is to continue our partnering relationship with managed care and get more business from managed care plans because we are a more efficient provider than almost every lab out there, if not every laboratory. We want to continue to grow by improving the experience, by having improved connectivity products, and by having a test menu that is unmatched in the industry. And beyond that we're going to grow because new tests and technologists will continue to be available.

LIR: What message do you think you can send to the lab industry as a whole?
King: I think we're going to focus next year on conveying the message to the payer community and the entire healthcare community that laboratory medicine is 3% to 4% of the spending and 80% of the decisions. For most people, the first thing the doctor says is: "What do the labs say?" We will continue to grow and continue to be successful as long as we can continue to remind people of the message that what the labs have to say is what drives treatment decisions.

Lab Industry Awaits First Domino Of Competitive Bidding Project To Tip

The Medicare Clinical Laboratory Competitive Bidding Demonstration project is currently in a quiet period—perhaps the calm before the storm—as everyone waits for the United States Office of Management and Budget (OMB) to approve the structure and budget of the demonstration project. CMS representatives decline to even guess as to when that approval will occur, although Alan Mertz, president of the American Clinical Laboratory Association (ACLA; Washington, DC), has heard rumors that the project is expected to start in the middle of this year.



"It seems the CMS is intent on launching this next year sometime," said Mertz in December. "It's slipped a little bit. We thought it would be the first quarter of 2007, but now it's looking like implementation would be June of 2007."

A Little Background

The Clinical Laboratory Competitive Bidding Demonstration project was initiated as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). The goal, according to Linda Lebovic, MPH, MT (ASCP), project officer of the Competitive Lab Bidding Demonstration at CMS, "is to determine whether competitive bidding can be used to provide quality laboratory services at prices below current payment rates."

The demo project is structured around Metropolitan Statistical Areas (MSAs). A set of parameters were used to define the MSAs, resulting in a possible 22 areas for the demonstration project. Competitively bid fees in the demonstration areas will be set for all tests paid under the Medicare Part B clinical laboratory fee schedule. Exceptions are pap smears, colorectal cancer screening tests, and any new tests that might be added to the fee schedule during the demonstration period.

All "independent, hospital and/or physician office laboratories with $100,000 or more in annual Medicare Part B (fee-for-service) payment for nonpatient services will be required to participate in the demonstration." Once the bidding has been made and adjudicated, winners will be announced. There will be multiple winning laboratories in order to assure quality of service competition between laboratories. There will be two demo sites, and the demonstration will run three years.

Concerns

Within the laboratory industry the demonstration project has caused a fair amount of concern and even controversy. "Lab services are a very complex service that involves very complicated logistics," says Alan Mertz. "Having

to pick up specimens in the afternoon, transporting perishable specimens very quickly to a lab and having precise testing done on them that evening, and having absolutely precise and accurate results reported back to physicians usually the next morning."

The laboratory industry performs approximately 1,100 different tests, and few, if any, laboratories provide all of them. Within the industry, there are also specializations. Mertz notes, "You have some labs that focus on nursing homes, others that tend to focus on hospitals and referrals."

Mertz notes that the type of services laboratories provide are equivalent to those performed by physician's offices and hospitals. "No one would suggest we competitively bid a couple of physicians' offices in the Washington, D.C., area to service all Medicare beneficiaries. It just doesn't work. You can lower the price, but we have a system where you wouldn't have access to those physicians. That's the basic problem."

An example of the complexity of this project involves MSAs and laboratory-to-laboratory referrals. If a laboratory in one area wins the demonstration project, but regularly sends out some of their tests to a laboratory in another area outside the MSA, they will need to make bids that account for costs that include their send-out reference tests. Mertz says, "For the reference lab, how do you know how much to bid? If that reference lab doesn't get below this magic bidding level for those tests, they're out of Medicare for three years."

"Not much is going to happen until we have that first domino of OMB approval. After we get OMB approval on the key design elements, we'll announce demonstration sites, we'll hold an open-door forum, and then another open-door forum to ask questions about implementation."

Comparisons have been made between the demo project and the way in which private insurers use competitive bidding strategies in negotiating with laboratories. However, there are significant differences. Mertz says, "In the private sector, when there are negotiations between plans and labs, it's exactly that, negotiations. One of the key things that those negotiations center around is guaranteed volume."

A laboratory involved in private payer contracts knows what their proposed volumes will be and what population they are serving. The terms negotiated typically revolve around those figures. Mertz tells Washington G-2 Reports, "It's a basic economic principle—you always have to know the volume of a product before you can set the price, and you can't lower the price of something until you know how many units you're going to sell. That's what Wal-Mart does. You can't have any kind of negotiations without knowing that. In this demonstration project, you have absolutely no way of knowing what your volume is going to be."

The Tentative Schedule

Once the OMB approves the design of the bidding forms and the sites, a number of things will begin to happen. "Not much is going to happen

until we have that first domino of OMB approval," says Lebovic. "After we get OMB approval on the key design elements, we'll announce demonstration sites, we'll hold an open-door forum, and then another open-door forum to ask questions about implementation. Then we'll post information on our Web site and convene a bidder's conference. We'll continue to make information and all the materials available on our project Web page, through our CMS listservs and through our demonstration e-mailboxes."

"Everybody has come together and looked at this and recognized that you can't commoditize clinical laboratory medicine service," says ACLA's David Mongillo. "It's just a tremendously flawed system if they move ahead with this demonstration project."

CMS has already sent their instructions to carriers. Nothing else about the schedule is solid. "Right now it's June," says Mertz. "So if OMB approves fairly soon, that's what CMS is aiming for."

Political Winds Are Blowing

The MMA was a Republican initiative to reform Medicare. The demonstration project specifically was a Republican House of Representatives proposal. In the 2006 midterm elections, the Democratic Party took over control of both the House and Senate. "We've talked to a lot of the Democratic leaders, and they have a lot of skepticism about this. So we're going to be talking to them more to see if they would take a harder look at this," says Mertz. "That certainly would be well into [2007], but we've already started discussing this with them."

According to David Mongillo, vice president of policy and medical affairs for ACLA, "Not always does the clinical lab community come together, but in this case, the clinical laboratory community completely has come together—small labs, sector labs, such as nursing homes and end-stage renal disease labs—and everybody has come together and looked at this and recognized that you can't commoditize clinical laboratory medicine service. It's just a tremendously flawed system if they move ahead with this demonstration project."

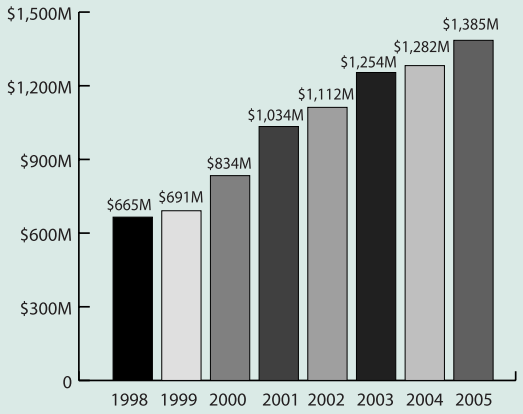
Competitive Bidding Structure

- ❑ There will be two demonstration sites. The demos will last three years and will have staggered starts.
- ❑ The sites will be chosen based on the beneficiaries who live within competitive bidding areas (CBAs) and not based on a laboratory's location.
- ❑ The project excludes hospital inpatient and outpatient testing, as well as physician office lab (POL) testing.
- ❑ The project will include tests offered by independent labs, as well as nonpatient testing by hospitals and POLs.
- ❑ The project will cover all laboratory tests paid for under Medicare Part B clinical lab fee schedule with the exception of Pap smears, colorectal cancer screening tests, and new tests added to the lab fee schedule during the course of the demonstration.
- ❑ Laboratories that have more than $100,000 in annual Medicare test payments in CBA are required to bid.
- ❑ Laboratories that have less than $100,000 in demo test annual payments are not required to bid, but will be paid for demo tests provided to beneficiaries residing in the CBA at the competitively bid fee schedule. Annual payments are capitated.
- ❑ Labs that participate in bidding but do not win will not be eligible for Medicare reimbursement for demo tests provided to beneficiaries residing in the CBA.
- ❑ Laboratories that are required to bid but do not participate in the bidding will be ineligible for Medicare Part B reimbursement for demo tests provided to beneficiaries residing in the CBA.
- ❑ Winning laboratories will be paid under one competitively set demonstration Medicare Part B clinical laboratory fee schedule for lab tests provided to beneficiaries living in the demo area.

Spotlight on Pap Testing: Monolayer Testing To Take 100% Of Market In '07?

Washington G-2 Reports estimates that laboratory service revenue from Pap testing topped $1.5 billion last year and will continue to grow. Meanwhile, more than 80% of the Pap test market is dominated by two companies: Cytyc (Marlborough, MA) and TriPath Imaging (Burlington, NC), which is now owned by Becton, Dickinson (see pg. 9). Both companies market a mono-layer Pap test (versus traditional smears). The Cytyc product, ThinPrep, was approved by the FDA in May 1996. The TriPath Imaging system, SurePath, was approved by the FDA in June 1999.

Laboratory Service Revenue from Pap Testing ($MM)



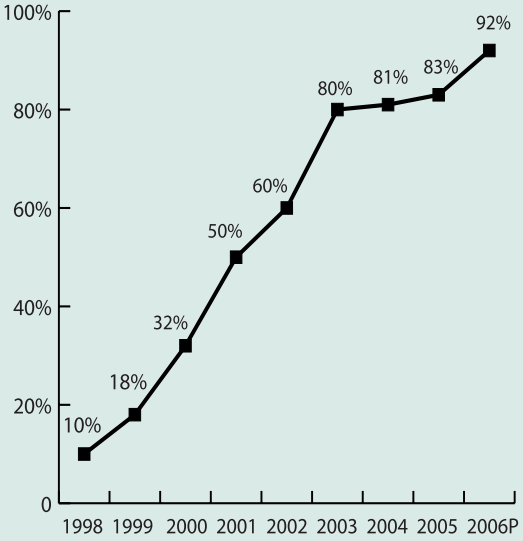
Source: Washington G-2 Reports

Before April 1, 2001, Medicare reimbursed mono-layer tests at the same rate as traditional Pap tests, which was $7.15 before Jan. 1, 2000, and a national minimum of $14.60 thereafter. As of April 1, 2001, Medicare upped mono-layer Pap test reimbursement to a national cap of $28 per test, resulting in accelerated acceptance of the mono-layer tests.

Medicare only accounts for about two million Pap tests each year. Medicare reimbursements, however, are a standard for how managed care companies and third-party payers set their reimbursements.

Washington G-2 Reports estimates that in 1999, 18% of the 51 million Pap tests performed in the United States were done using mono-layer methods. The National Cancer Institute estimates there are approximately 55 million Pap tests performed in the United States in 2005 and 2006. The market share for mono-layer was 83% in 2005, and based on projections of revenue increases from 2005 to 2006 for both Cytyc and TriPath, Washington G-2 Reports believes mono-layer Pap testing will account for 92% of the Pap testing market share. Into 2007 and beyond, Washington G-2 Reports predicts that mono-layer Pap testing will replace traditional methods completely.

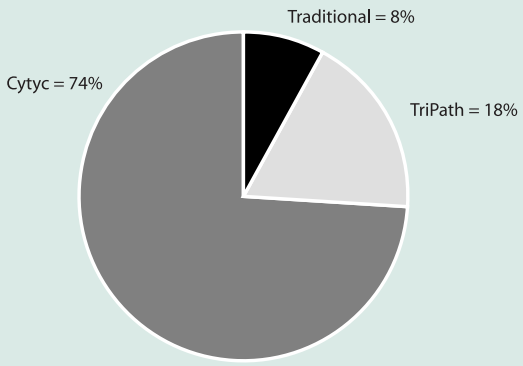
Percentage of Pap Tests Performed Using Mono-Layer Methods, 1998-2006



Source: Washington G-2 Reports

Although it has been predicted that growth in mono-layer Pap testing would slow, it doesn't appear to be. Although the test is more expensive than the traditional method, there has long been concern among physicians over reliability of the traditional Pap testing methodology. Several studies indicate the new techniques improve detection of precancerous lesions by 65% in screening populations and 6% in high-risk populations when compared with the conventional Pap smear. They also reduce the likelihood of a false-positive diagnosis through improving specimen quality. This, far more than cost, is probably driving the robust and enduring growth in mono-layer Pap testing market penetration.

Market Share for Pap Test Vendors, 2006P



Source: Washington G-2 Reports; Company reports

Pap Testing at the Largest U.S. Laboratory Companies, 2006

	Annual Pap Volume	*Conversion to Liquid Pap*	*Primary Vendor*
Quest Diagnostics	13,000,000	94%	Cytyc
LabCorp	9,000,000+	90%	Cytyc
AmeriPath	1,500,000	85%	Cytyc
DCL Medical Laboratories	275,000	100%	Cytyc
Sunrise Medical Labs	230,000	97%	Cytyc
Bio-Reference	150,000	75%	Cytyc
Spectrum Laboratory	145,000	98%	Cytyc
TriCore Reference Labs	125,000	96%	TriPath
Totals	24,425,000	92%	

Source: Washington G-2 Reports

Approximately 74% of the 55 million Pap tests performed in the United States in 2006 used Cytyc's ThinPrep, 18% use TriPath, and 8% used the traditional Pap testing method.

BD Closes on $350m TriPath Acquisition

Global medical technology company Becton, Dickinson, and Company (BD; Franklin Lakes, NJ) has closed on its $350 million purchase of the approximately 93.5% of outstanding shares in TriPath Imaging (Burlington, NC), a leading player in the increasingly crowded market for cervical cancer screening. BD has held a 6.5% equity interest in TriPath since 2001, when the two companies began their ongoing collaboration to discover cancer biomarkers. BD's bid of $9.25 in cash per share of TriPath represented at 81% premium to the company's closing share price on the day the bid was filed.

TriPath is best known for SurePath, its liquid-based Pap test. Every year, 110 million Pap tests are performed worldwide, about half of them in the United States. Washington G-2 Reports estimates that about 20% of U.S. Pap tests use SurePath. In addition to expanding its cervical cancer screening portfolio, TriPath is developing molecular diagnostics for breast, ovarian, and prostate cancers. The company was formed in September 1999 through the merger of AutoCyte and NeoPath and acquisition of the technology and intellectual property of Neuromedical Systems.

Luminex To Buy Tm Bioscience For $37.9M

As predicted in last month's issue of *LIR* (December 2005, pp. 1-2), molecular diagnostics company Tm Bioscience (Toronto, Canada) has been acquired. The buyer is not a large national laboratory but IVD company Luminex (Austin, TX), best known for its xMAP testing platform. Under the terms of the agreement, valued at $37.9 million, each Tm Bioscience share will be exchanged for 0.06 shares of Luminex common stock. This represents a 41.5% premium for Tm shares based on the stock's closing price on the day of the acquisition. The transaction is expected to close in the first quarter of this year.

The purchase will give Luminex an impressive genetic testing portfolio and another powerful platform technology, namely Tm Biosciences's Tag-It assays and platform, and a range of analyte specific reagents (ASRs). Tm Bioscience's products include tests for infectious diseases, as well as tests for genetic mutations related to cystic fibrosis (CF), sepsis, and pharmacogenomic applications. The company's CF test is the first multiplexed human disease genotyping test to be cleared by the FDA for diagnostic use in the United States.

Aetna Contracts With Genomic Health For Oncotype DX

Genomic Health (Redwood City, CA) has signed a national contract with Aetna (Hartford, CT) for Oncotype DX, the company's test that quantifies the likelihood of breast cancer recurrence and predicts the likelihood of chemotherapy benefit for many early-stage breast cancer patients. The agreement with Aetna, which has more than 15 million health plan members, establishes payment rates across all of Aetna's plans for members with early-stage breast cancer. Coverage for the test began late last year.

Genomic Health launched Oncotype DX, its first test, in 2004. The test is the first commercially available multi-gene expression assay that has clinical evidence validating its ability to predict the likelihood of breast cancer recurrence, the likelihood of patient survival within 10 years of diagnosis, and the likelihood of chemotherapy benefit.

The company has also recently announced the results of several studies that examined the roles and relationships of genes measured by Oncotype DX, including an analysis of more than 10,000 node-negative tumors indicating that all 21 genes impact the assessment of an individual woman's tumor.

Aetna's Policy on Oncotype DX

Aetna will cover Oncotype Dx to assess necessity of adjuvant chemotherapy in women with recently diagnosed breast tumors, where all of the following criteria are met:

- ❑ Breast cancer is nonmetastatic (node negative);
- ❑ Breast tumor is estrogen receptor positive;
- ❑ Breast tumor is HER2 receptor negative or breast tumor is HER2 receptor positive and less than 1 cm in diameter;
- ❑ Adjuvant chemotherapy is not precluded due to any other factor (e.g., advanced age and/or significant co-morbidities); and
- ❑ Member and physician (prior to testing) have discussed the potential results of the test and agree to use the results to guide therapy (i.e., member will forgo adjuvant chemotherapy if Oncotype Dx score is low).

Source: Aetna Clinical Policy Bulletin, Tumor Markers (December 2006)

Lab Stocks Rise 4%; Clarient And Genomic Health Soar 27%

The G-2 Laboratory Stock Index rose 4% in the four weeks ended December 15, with seven stocks up in price and four down. Year to date, the G-2 Index is up 27%, while the Nasdaq is up 11% and the S&P 500 is up 14%.

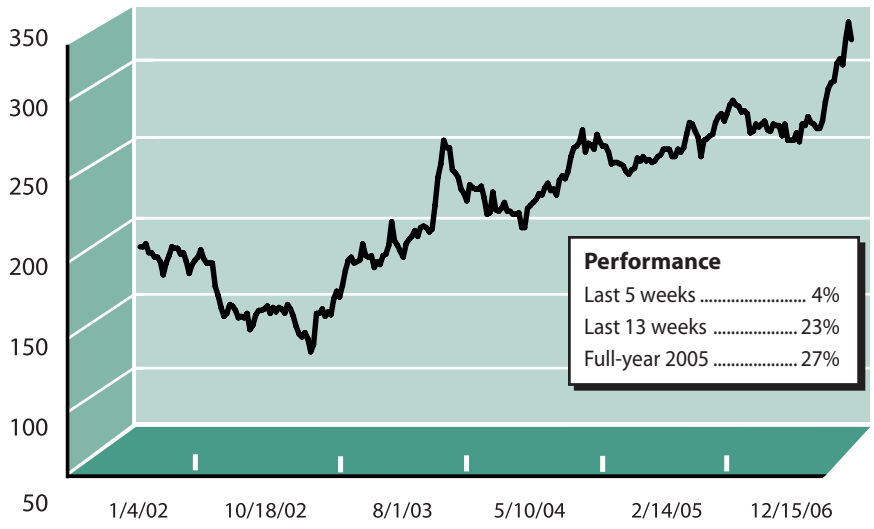
Clarient (Aliso Viejo, CA), which specializes in cancer testing, rose 27% to $1.49 per share for a market capitalization of $117 million. The company recently announced the completion of the final milestones in its agreement with privately owned Dako (Glostrup, Denmark) to develop the ACIS III, an automated cellular imaging system. Completing these milestones triggers Dako's final $750,000 payment to Clarient. Meanwhile, Clarient is moving ahead with the launch of the new ACIS III and recently filled the first order for the commercial units to be used in the launch.

Genomic Health (Redwood City, CA) was up 27% to $20.57 per share for a market cap of $463 million. The shares were up on news of the company's new pact with Aetna as well as new findings on the effectiveness and precision of its OncotypeDX test (*see p. 10*).

Meanwhile, **Enzo Biochem** (Farmingdale, NY) fell 10% to $14.20 per share for a market cap of $459 million. Enzo recently announced operating results for the first quarter of its 2007 fiscal year, which ends October 31. The company earned $10.4 million in net revenues, up 3% from the corresponding year-ago quarter. Revenues at Enzo Clinical Labs amounted to $8.1 million, slightly higher than last year's $8.0 million. Additionally, the company plans to sell 3.3 million shares at $14 each in a registered direct offering to institutional investors. The offering is expected to bring $43.1 million to Enzo's coffers.

At the two largest lab companies: **LabCorp** rose 3% to $71.89 per share for a market cap of $9.25 billion, while **Quest Diagnostics** dipped 2% to $52.26 per share for a market cap of $10.43 billion.

G-2 Laboratory Stock Index



Source: The G-2 Laboratory Stock Index is tabulated weekly by *Laboratory Industry Report* from the average percentage change in the price of 11 laboratory testing service stocks.

% price change, 4 weeks ended 12/15/06

UP	Price	% Chg
Bio-Reference	$24.75	2%
Clarient	1.49	27
Genomic Health	20.57	27
LabCorp	71.89	3
Monogram	1.74	1
Myriad	30.64	2
Psychemedics	18.10	1
DOWN		
Enzo Biochem	14.20	-10
Medtox	12.99	-1
Quest	52.26	-2
Orchid	3.32	-2

INDUSTRY buzz

Make 2007 the year that your lab puts molecular diagnostics to work! Learn key strategies for success at **Washington G-2 Reports's 2nd Annual *Molecular Diagnostic Conference: Integrating MDx Into Your Lab***, Feb. 7 to 9, 2007, at the Renaissance Tampa Hotel International Plaza in Tampa, Florida. This year's conference will focus on how to leverage molecular diagnostic manpower, intellectual property, and novel technology.

For a complete conference program, go to www.g2reports.com/molecular07 *or call 1-800-401-5937, ext. 2.*

Conference co-chairperson **Daniel H. Farkas, Ph.D.**, executive director of the Center for Molecular Medicine, will discuss the 10 reasons *not* to add molecular diagnostics to your test menu—and then consider 10 rebuttals.

Ronald McGlennen, M.D., president and medical director of Access Genetics, will moderate a discussion on the topic of how to select test menus that are right for your lab and business model. Expert panelists **Cindy Johnson**, director of laboratory operations at CentraCare Laboratory Services, and **Mark Tulecke, M.D.**, medical director at Seacoast Pathology, will share their experiences from a variety of practice settings.

Myla Lai-Goldman, M.D., LabCorp's executive vice president, chief scientific officer, and medical director, will lead a panel in addressing the current and future role of the clinical laboratory in implementing companion diagnostics, including an examination of the obstacles to their introduction and what the clinical laboratory industry can do to overcome them.

Happy New Year from G-2!

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Enzo Biochem 631-755-5500

Genomic Health 866-662-6897

LabCorp 336-584-5171

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 Laboratory Industry Report (ISSN 1060-5118) is published by Washington G-2 Reports, 3 Park Avenue, 30th Floor, New York, NY 10016-5902. Tel: 212-244-0360. Fax: 212-564-0465. Order line: 212-629-3679. Web site: www.g2reports.com.

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