Your Independent Source for Business & Financial News

G2 INTELLIGENCE

LABORATORY INDUSTRY REPORT®

Kimberly Scott, Managing Editor, kscott@G2Intelligence.com

Issue 08-11/August 2011

HIGHLIGHTS

Upcoming Conferences

Molecular Diagnostics Fall 2011
Sept. 23, 2011
San Francisco
www.mdxconference.com

Lab Institute 2011
Oct. 19-21, 2011
Crystal Gateway Hotel, Arlington, VA
www.labinstitute.com

Lab Copay Not Part of Debt Ceiling Deal, But It Is Not Off the Table Yet

The compromise deal to raise the federal debt ceiling until 2013 reach this week in Congress does not include cuts to Medicare and Medicaid—at least not initially.

Under "stage one" of the compromise plan, the debt ceiling would be raised immediately by $400 billion and subsequently by another $500 billon, according to an analysis by the law firm of Alston & Bird. This stage includes approximately $1 trillion in deficit reduction through the establishment of 10-year caps on discretionary spending. This stage would not affect Medicare and Medicaid.

In "stage two" of the plan, a joint bipartisan committee made up of 12 members will develop legislation to achieve at least $1.5 trillion in future deficit reduction by Thanksgiving. The legislation could include reforms to entitlements—including Medicare and Medicaid—and revenues.

If the joint committee fails to come to a majority agreement on recommendations that achieve at least $1.2 trillion, or Congress fails to enact recommendations that produce at least that amount, "sequestration" would be triggered, forcing the president to issue an order each year

Continued on page 2

Myriad Claims Victory in Ruling on Gene Patents

In a long-awaited decision, the Court of Appeals for the Federal Circuit ruled that genes can be patented, overturning a lower court decision that essentially invalidated Myriad Genetic's patents for its BRACAnalysis test.

In a 2-to-1 decision, the appeals court ruled the DNA isolated from the body was eligible for patents because it was "markedly different" in its chemical structure from DNA that exists inside the chromosomes in the body. As a result, isolated DNA is not simply a product of nature, which would not be eligible for a patent.

In another part of the ruling, the court ruled against Myriad's patent claims on the process of analyzing whether a patient's genes had mutations that raised the risk of cancer. The court said the process was not patentable because it involved only "patent-ineligible abstract mental steps."

Myriad Genetics, based in Salt Lake City, applauded the court's ruling.

Continued on page 7

■ **Lab Copay Not Part of Debt Ceiling Deal**, *from page 1*
for across-the-board spending cuts applicable to fiscal years 2013-2021. The sequester would be equally divided between defense and nondefense programs. While some federal programs would be exempt (including Medicaid), Medicare would not be exempt. Medicare cuts would be limited to 2 percent of the cost of the Medicare program and would come from provider payments and insurance plans.

LabCorp to Pay $49.5 Million to Settle California Lawsuit

Laboratory Corporation of America Holdings (Burlington, N.C.) has agreed to pay the state of California $49.5 million to settle a lawsuit alleging that the company overcharged the state's Medicaid program (Medi-Cal) for clinical laboratory testing.

LabCorp disclosed the settlement in a July 14 filing with the Securities and Exchange Commission (SEC). The company had been scheduled to go to trial in January 2012. LabCorp says it agreed to the settlement to avoid the uncertainty and costs associated with prolonged litigation.

The company recorded a second-quarter pretax charge of $34.5 million (net of a previously recorded reserve of $15 million), $20.7 million after tax. The settlement is subject to a final negotiation and approval.

The lawsuit against LabCorp, Quest Diagnostics, and several other major labs operating in California was filed in 2005 under the state's False Claims Act by a competitor, Chris Riedel, chief executive officer of Hunter Laboratories (Campbell, Calif.). Under the act, the whistleblower can be rewarded with 15 percent to 25 percent of the amount recovered.

In 2009, the state attorney general's office joined the case, noting that under state law, "no provider shall charge [Medi-Cal] for any service . . . more than would have been charged for the same service . . . to other purchasers of comparable services . . . under comparable circumstances." The attorney general's office blasted what it called a pattern of abuse whereby the labs in the case charged Medi-Cal up to six times more for tests than it charged other customers, such as independent practice associations, physician offices, and hospitals.

The LabCorp settlement comes on the heels of a $241 million settlement with Quest Diagnostics (Madison, N.J.), announced in June, of allegations of lab overpricing of Medi-Cal over a 15-year period. Quest also agreed to price-reporting obligations for a limited time and, in lieu of such obligations for a transitional period, to provide Medi-Cal with a discount until the end of July 2012. In reaching a settlement, the company admitted no wrongdoing but sought to avoid the risk, time, and expense of lengthy litigation. As part of the recovery, Riedel reportedly received $70 million.

Seven others involved in the California case have either settled or been dropped from settlement discussions. In all, the lawsuit settlements have recovered roughly $300 million.

Riedel and his law firm Cotchett, Pitre & McCarthy have filed "lowest charge" lawsuits in six other states, according to *Laboratory Economics*: Florida, Georgia, Massachusetts, Michigan, Nevada, and Virginia.

Solstas Acquires Four More Laboratories

Laboratory testing firm Solstas Lab Partners (Greensboro, N.C.) has acquired four more clinical laboratory companies, bringing its estimated annual revenue to almost $400 million.

Solstas was created last year through the merger of Carilion Labs and Spectrum Laboratory Network (*LIR, March 2010, p. 1*).

The acquisitions, completed in June and July, include the following:

- ❏ NextWave Diagnostic Laboratory (Wilmington, N.C.), a clinical lab formed by several principals from Wilmington Pathology Associates, with revenues of more than $5 million;
- ❏ Wilmington Pathology Laboratory (Wilmington, N.C.), the technical lab that provides service to Wilmington Pathology Associates;
- ❏ Select Diagnostics (Greensboro, N.C.), which operates three labs—one in North Carolina, one in South Carolina, and one in Virginia. Select has about 130 employees and annual revenue of more than $15 million; and
- ❏ Southern Diagnostic Laboratories (Birmingham, Ala.), a comprehensive pathology and clinical laboratory that will expand Solstas's reach westward.

The recent acquisitions follow a June investment from health care venture capital fund Ascension Health Ventures. Welsh, Carson, Anderson & Stowe, a private equity firm, remains the primary investor.

Bud Thompson, Solstas's executive vice president, says the NextWave and Wilmington Pathology acquisitions give Solstas the opportunity to expand its offerings along coastal North Carolina. According to MedCity News, NextWave's customer base consists primarily of local physicians and nursing homes.

Wilmington Pathology Laboratory focuses on cytology, particularly Pap and human papillomavirus tests. The company also has an exclusive contract to provide services to Wilmington Pathology Associates, a pathology group that will remain independent but still partner with Solstas.

Quest, Genomic Vision Form Strategic Collaboration

Quest Diagnostics (Madison, N.J.) and Genomic Vision (Paris), a biotechnology company dedicated to the development of molecular diagnostics, have announced a multiyear exclusive collaboration involving Genomic Vision's proprietary molecular combing genomic-analysis technology.

Under terms of the agreement, Quest Diagnostics has exclusive rights to develop and offer clinical- and research-use laboratory testing services based on Genomic Vision's molecular combing (also known as DNA combing) technique in the United States, India, and Mexico. Genomic Vision will retain rights to market new testing services that emerge from the collaboration's research and development in Europe (with the exception of the United Kingdom), the Middle East, and Africa. Quest Diagnostics has also made an equity investment for an undisclosed sum in Genomic Vision. Additional terms were not disclosed.

DNA combing is an analytical technique that stretches coils of DNA into straight chains to facilitate direct high-resolution analysis of targeted areas of the human genome.

Quest Diagnostics expects to validate and release the first laboratory-developed test based on molecular combing, for aiding the detection of individuals afflicted with facioscapulohumeral muscular dystrophy, in 2012. The companies will also focus on developing tests for cancer and neurological disorders, with testing services to be offered to clients of Quest Diagnostics. Quest Diagnostics may also offer molecular combing-based laboratory testing services for new drug development to pharmaceutical companies through its clinical trials business and for research use to academic institutions, beginning in 2012.

Mixed Bag for Pathology in Proposed 2012 Medicare Physician Fee Schedule Rule

The Medicare physician fee schedule proposal for 2012 contains a steep cut in pathology and other physician Part B reimbursement, would scrap the pathology "grandfather" protection, would add three new pathology measures for quality reporting, and would include a series of pathology codes in the review of potentially misvalued codes.

Pathology and other physician fees are scheduled for a cut of 29.5 percent as of Jan. 1 2012, under the sustainable growth rate (SGR) formula as required by law. This would result in the conversion factor, used to set payment rates, based on relative value units (RVUs), falling to $23.9635 for 2012 vs. $33.9764 this year. For the physician component of the most frequently ordered pathology code—CPT 88305, Gross and microscopic tissue exam Level 4—the fee would fall from the current $36.35 to $25.16 next year, a drop of 31 percent.

The pathology grandfather protection is yet again targeted by the Centers for Medicare and Medicaid Services (CMS) in its proposed rule. The agency is proposing to bar an independent clinical laboratory from billing Part B directly for the technical component (TC) of pathology services to hospital inpatients and outpatients.

CMS has sought to eliminate such billings since 1999, but Congress has repeatedly thwarted this change by approving a series of extensions. The current extension ends Dec. 31, 2011, and pathology and lab groups are lobbying to have the grandfather protection made permanent or at least be further extended.

CMS estimates that the savings from ending the protection are approximately $80 million for 2012. CMS contends that payment for the TC (the preparation of the slide involving tissue or cells that a pathologist interprets) is included in the hospital's prospective payment, and labs should seek reimbursement from the hospital, not the Part B program.

The grandfather provision applies to hospital-lab arrangements in effect as of July 22, 1999, when the Medicare program first proposed to end such billings. The protection applies to the hospital, not the lab, CMS has ruled. Hospitals may switch labs without forfeiting the protection; however, independent labs cannot switch hospitals and still be protected. The TC of pathology services includes anatomic services, cytopathology, and surgical pathology.

Inside The Lab Industry

LabCorp Beats Quest in Second Quarter; Quest Lowers Expectations for Year

For the fourth quarter in a row, LabCorp has beat Quest Diagnostics in revenue and volume growth. To help counter its weak earnings, Quest announced a $500 million cost-cutting plan over the next three years.

For the quarter ended June 30, LabCorp's total revenue rose 13.3 percent to $1.4 billion. In comparison, Quest's revenue increased just 1.5 percent to $1.9 billion. LabCorp's testing volume increased 4.8 percent, and revenue per requisition rose 8.1 percent, while Quest's volume dropped 0.9 percent and revenue per requisition declined 1.6 percent.

Quest's second-quarter results underscore anemic growth, says Darren Lehrich, an analyst with Deutsche Bank, who views the cost-cutting measure with some skepticism.

"It is clear to us that sales execution remains lackluster, and competitively [Quest] appears to still be losing ground in key testing areas," he writes in a research note. "In response to anemic growth, [Quest] launched a new $500 million cost initiative geared toward reducing selling, general, and administrative expenses. We believe a leaner cost structure is in order, but evidence is still lacking that [Quest] has the right strategies in place to foster better growth."

LabCorp Delivers

For the second quarter, LabCorp's net earnings were $122.9 million and earnings per share (EPS) were $1.20. Earnings per diluted share, excluding amortization, restructuring, and other special charges recorded during the quarter, were $1.64.

Operating income for the quarter was $225.7 million. Adjusted operating income was $279.6 million compared to $270.5 million for the same period last year. Operating cash flow for the quarter was $184.9 million.

LabCorp at a Glance *($ millions except earnings per share)*

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Revenue	$1,403.30	$1,238.40	$2,771.70	$2,432.00
Net income (attributable to Quest)	122.90	153.70	250.00	286.40
Earnings per share	1.20	1.46	2.44	2.70

Source: LabCorp

The balance of cash at the end of the quarter was $118.9 million and there were no borrowings outstanding under the company's $500 million revolving credit facility. During the quarter the company repurchased approximately $60.5 million of stock, representing about 600,000 shares. As of June 30, 2011, approximately $408.5 million of repurchase authorization remained under the company's approved share repurchase plan.

The company recorded restructuring and other special charges of $53.9 million during the quarter. The restructuring charges include $7.5 million in net severance and other personnel costs along with a $10.8 million in net facility-related costs primarily associated with the ongoing integration of the Genzyme Genetics and Westcliff acquisitions. The special charges also include $34.5 million related to the recently announced settlement of the Hunter labs litigation, along with $1.1 million for legal costs associated with the planned acquisition of Orchid Cellmark.

LabCorp has reaffirmed its 2011 revenue outlook and is expecting revenue growth of approximately 9.5 percent to 11.5 percent. Adjusted EPS is expected to be $6.17 to $6.32. The company is also reaffirming its 2011 operating cash flow guidance of approximately $900 million, excluding the Hunter Labs settlement, and expects 2011 capital expenditures of about $150 million.

Quest Seeks to Cut Expenses

Quest's adjusted income from continuing operations for the second quarter was $179 million, or $1.12 per share, compared to the same period in 2010, when adjusted income was $195 million and earnings were $1.07 per share. Income from continuing operations in 2011 was reduced by 10 cents per share from costs associated with the Athena Diagnostics and Celera acquisitions. Including these items, reporting income from continuing operations was $164 million, or $1.02 per diluted share.

Quest at a Glance *($ millions except earning per share)*

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Revenue	$1,903.20	$1,874.70	$3,724.80	$3,680.20
Net income (attributable to Quest)	163.10	194.70	109.30	357.10
Earnings per share	1.02	1.07	0.67	1.96

Source: Quest Diagnostics

For the quarter, adjusted operating income was $337 million, or 17.7 percent of revenues. Cash flow from operations was $60 million and was reduced by the Medi-Cal settlement payment and costs related to Athena and Celera. Before these items, cash flow was $271 million, compared to $209 million in 2010.

For the full year, Quest has lowered guidance and is now expecting adjusted EPS of $4.25 to $4.35 (down from $4.25 to $4.45). Revenue growth is now projected at 1.5 percent (down from 3 percent).

Company officials announced a new cost-reduction plan designed to cut $500 million over three years. Few details of the plan were released though Quest has already begun to implement a workforce reduction. This is the second aggressive cost-reduction plan implemented in the past four years. The company in 2007 implemented a three-year, $500 million initiative designed to offset the impact of the industry's managed care war.

■ **Myriad Claims Victory**, *from page 1*

"We strongly support the court's decision that DNA and cDNA are patent-eligible material as both are new chemical matter with important utilities which can only exist as the product of human ingenuity," said Peter Meldrum, president and CEO of Myriad. "Furthermore, we believe this decision is in the best interests of the agriculture, biotechnology, and pharmaceutical industries, as well as the hundreds of millions of people whose lives are bettered by the products these industries develop based on the promise of strong patent protection."

The ruling is in response to a lawsuit brought by a group of patients and scientists represented by the American Civil Liberties Union and Public Patent Foundation. In an opinion issued in March 2010, U.S. District Judge Robert Sweet ruled Myriad's patents on BRCA1 and BRCA2 were invalid, saying that isolated DNA was not really different from the DNA in the body.

But the appellate decision rejected Sweet's reasoning, saying that since DNA is a chemical, the chemical structure is what matters and that "informational content is irrelevant to that fact."

The ACLU called the latest ruling a blow to the idea that patent law cannot impede the free flow of ideas in scientific research. "Human DNA is not a manufactured invention, but a natural entity like air or water," said Chris Hansen, a staff attorney with the ACLU Speech, Privacy, and Technology Project. "To claim ownership of genetic information is to unnecessarily block the free exchange of ideas."

The decision also rejects arguments made by the Obama administration, which had filed a friend of the court brief arguing that isolated DNA should not be patented and that many of the gene patents issued by the Patent Office are invalid.

Although the case could be appealed to the Supreme Court, industry analysts believe Myriad will maintain its patent-protected position for its BRACAnalysis test for some time.

CMS Delays Placement, Pricing of New Molecular Pathology Codes

The Centers for Medicare and Medicaid Services (CMS) has officially acknowledged that it will delay implementation of new molecular pathology codes on the Medicare clinical lab fee schedule until 2013.

At a July 18 public forum, CMS officials noted that, by law, since these codes were not discussed at the annual meeting on pricing recommendations for new lab tests, they could not be placed on the lab fee schedule for 2012.

But officials left the door open to the possibility that some of the codes could be placed on the Medicare physician fee schedule and priced for rollout sometime in 2012. Pricing for this fee schedule follows a separate process from that used for the lab fee schedule.

At issue are 101 new codes approved by the American Medical Association's CPT Editorial Panel for inclusion in the CPT update for 2012. The codes are assigned to one of two categories covering more than 90 percent of the volume of current molecular pathology procedures.

One category, Tier 1, includes 92 high-volume tests coded by specific analyte. The other category, Tier 2, includes nine low-volume tests coded by the level of resources required for their performance and interpretation. (The new coding system does not affect molecular microbiology tests or most cytogenetic assays, the AMA said.)

Currently, molecular pathology codes are payable through a system of "stacking codes" (CPT 83890-83914) that are likely to be retired in 2013, though this could happen earlier, depending on provider and payer readiness.

Which Fee Schedule Is the Right Fit?

CMS convened a special information session July 18 to obtain input on the key question of where to place and price the new codes for genetic testing:

- ❏ On the clinical laboratory fee schedule, where pricing is set using the crosswalk or gap-fill method and there is no beneficiary cost sharing for tests; or
- ❏ On the physician fee schedule, where pricing is set using relative value units (RVUs) subject to adjustments under the sustainable growth rate (SGR) formula and periodic CMS review of the relative values. Beneficiary cost sharing is required.

Representatives from the College of American Pathologists (CAP) and the Association for Molecular Pathology (AMP) supported placing the new codes on the physician fee schedule, arguing that physician interpretation is required for the majority of these tests and the physician fee schedule allows for frequent updating in light of changing technology and greater efficiencies, which is necessary for a fast-moving area like genetic testing.

The American Clinical Laboratory Association (ACLA) recommended that each new genetic test code be assessed individually to determine how the interpretive function is most commonly performed:

- ❏ If the interpretation is most commonly performed by nonphysician doctoral health care professionals, the code should be placed on the lab fee schedule, and CMS should work with stakeholders to develop a new code that will allow these professionals to bill for the interpretive function or continue using CPT code 83912.
- ❏ If the interpretation is most commonly performed by pathologists, the code should be placed on the physician fee schedule as a professional component/technical component service, and CMS should develop a policy that would allow suppliers of such services to bill and receive payment for the technical component (notwithstanding that the services were performed and interpreted by qualified Ph.D. health care professionals rather than physicians).
- ❏ If the interpretation is most commonly performed by an advanced computer system, the code should be placed on the lab fee schedule, recognizing that advanced analysis should be additionally valued as part of the fee schedule payment.

The information session also triggered heated discussion concerning what would happen starting January 2012 when the new codes take effect for CPT purposes. While at the national level CMS is not putting these codes on the lab fee schedule,

local contractors could make their own pricing decisions about them. However, subsequent back-and-forth between CMS officials and a local contractor did not clarify what this process might entail.

Government Declines to Intervene in Case Against Quest

The Department of Justice has declined to intervene in a 2005 lawsuit filed against Quest Diagnostics alleging that it overcharged the federal government by more than $1 billion.

Fair Laboratory Practices Associates (FLPA) sued Quest and Unilab in the Southern District Court of New York in 2005, accusing them of engaging in a so-called "pull-through" scheme whereby they charged customers below-cost rates in exchange for referrals of Medicare and Medicaid reimbursable lab tests.

Andrew Baker, Richard Michaelson, and Mark Bibi, all former employees of Unilab, which was acquired by Quest in 2003, formed FLPA to bring the qui tam action. In April 2011, the court dismissed the case on procedural grounds, saying Bibi—Unilab's former general counsel—divulged confidential information to the group. FLPA appealed the verdict and the federal court recently unsealed an amended complaint that charges Quest with violations of the Federal False Claims Act and the federal anti-kickback statute.

Baker requested that the government intervene in the case, but in a July 5 notice the Department of Justice declined; however, the government said it reserved the right to intervene, for good cause, at a later date.

Quest vehemently denies the allegations, says company spokesperson Wendy Bost. "Quest Diagnostics did not—and we do not—provide kickbacks to doctors, insurers, or anyone else to induce referrals of any testing—let alone government-reimbursed testing."

The case is noteworthy, in part, because of Quest's recent $241 million settlement with the state of California over allegations of overbilling and LabCorp's subsequent $49.5 million settlement over the same charges.

FDA Issues Draft Guidance on In Vitro Companion Diagnostics

The Food and Drug Administration (FDA) is proposing that in vitro diagnostic devices and the corresponding therapeutic product be approved or cleared contemporaneously for the use indicated in the therapeutic product labeling.

In a much-anticipated draft guidance announced July 12, the agency clarifies FDA's definition of a companion diagnostic, recommends early engagement between the FDA and manufacturers so that the agency's expectations are included in development plans, and highlights the FDA's intention to conduct simultaneous reviews of a drug or biologic therapy and its corresponding companion diagnostic.

The guidance also identifies instances where the FDA may approve a targeted medicine in the absence of a cleared or approved companion diagnostic. In cases where the therapy is intended to treat a serious or life-threatening disease or condition for which there is no available satisfactory treatment and when the potential benefits outweigh the risks of not having a cleared or approved companion diag-

nostic, the therapy could be approved first while the companion diagnostic may be approved or cleared later through the appropriate device submission process.

The FDA defines an IVD companion diagnostic device as an in vitro diagnostic device that provides information that is essential for the safe and effective use of a corresponding therapeutic product. The use of an IVD companion diagnostic device with a particular therapeutic product is stipulated in the instructions for use in the labeling of both the diagnostic device and the corresponding therapeutic product, as well as in the labeling of any generic equivalents of the therapeutic product.

An IVD companion diagnostic device could be essential for the safe and effective use of a corresponding therapeutic product to:

- ❏ Identify patients who are most likely to benefit from a particular therapeutic product;
- ❏ Identify patients likely to be at increased risk for serious adverse reactions as a result of treatment with a particular therapeutic product; and
- ❏ Monitor response to treatment for the purpose of adjusting treatment (e.g., schedule, dose, discontinuation) to achieve improved safety or effectiveness.

FDA does not include in this definition clinical laboratory tests intended to provide information that is useful to the physician regarding the use of a therapeutic product but that are not a determining factor in the safe and effective use of the product.

Ideally, according to the FDA, a "therapeutic product and its corresponding IVD companion diagnostic device would be developed contemporaneously, with the clinical performance and clinical significance of the IVD companion diagnostic devices established using data from the clinical development program of the corresponding therapeutic product." However, the FDA states that it recognizes that this will not always be possible.

The guidance also notes that studies of companion diagnostics generally will be significant-risk devices that will require an investigational device exemption (IDE). Most studies of other IVDs are non-significant-risk.

FDA will use a risk-based approach to regulate companion diagnostics. FDA says that in its experience to date, companion diagnostics generally will be Class III devices requiring a premarket approval, but there could be instances where a 510(k) would be sufficient.

The guidance has been long-awaited by industry, which has sought guidance in this area marked by ambiguity, notes Jamie Wolszon, an attorney with Hyman, Phelps & McNamara (Washington, D.C.) on the FDA Law Blog *(www.fdalawblog.net)*. Years ago, the FDA issued a draft guidance on the topic, which received criticism from the industry. FDA stated last year that it would promulgate two guidances to provide clarity that would address issues including when the FDA would require simultaneous approval and what data would be required.

Comments on the draft guidance will be accepted until Sept. 12, 2011. The guidance is available online at *http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/GuidanceDocuments/ucm262292.htm*.

Lab Index Up 4% in Last Five Weeks

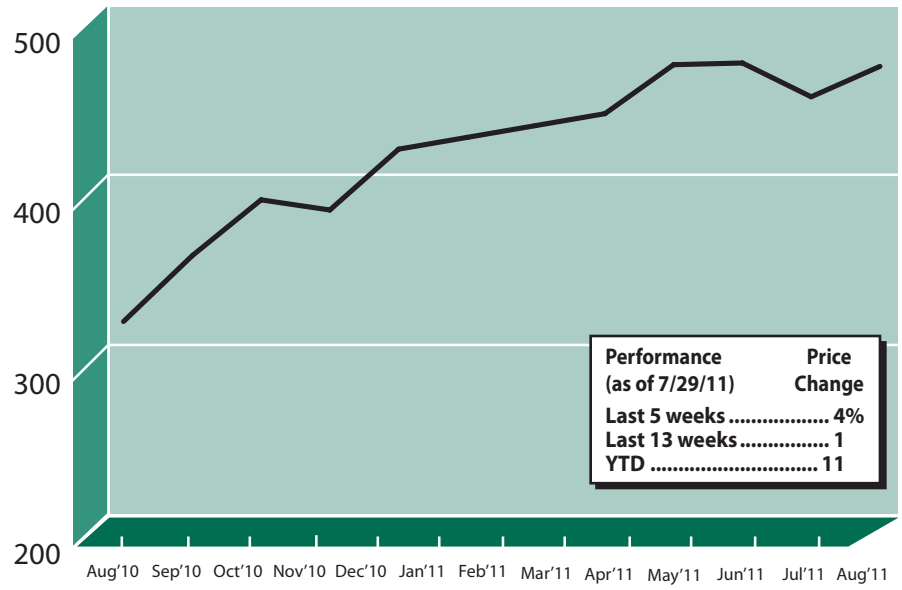
The G2 Intelligence Laboratory Stock Index rose an unweighted average of 5 percent in the five weeks ended July 29, 2011, with one stock gaining in price, one unchanged, and eight declining. Since the beginning of the year, the index is up 11 percent. In comparison, the Nasdaq is up 4 percent, and the S&P 500 is up about 3 percent.

Shares of **Neogenomics** (Fort Myers, Fla.) climbed 11 percent to $1.45 after the company reported 23 percent revenue growth for the second quarter of fiscal 2011. Revenue for the quarter was $10.5 million, an increase of $2 million from the same period in 2011. Test volume increased by approximately 27 percent. Average revenue per test stabilized at $570, which is down about 3 percent from last year's level but in line with the level reported in the first quarter of 2011. Second-quarter results include approximately $300,000 of one-time revenue from overflow testing on behalf of a customer that was reorganizing its lab operations during the quarter. After adjusting for this and for the internalization of testing by one large client in 2010, revenue and test volume grew by 25 percent and 32 percent, respectively.

LabCorp (Burlington, N.C.) shares fell 4 percent despite the company reporting a 13 percent increase in revenue for the second quarter of 2011. LabCorp's testing volume increased almost 5 percent, and revenue per requisition rose about 8 percent (*see related story on p. 5*).

Shares of **Quest Diagnostics** (Madison, N.J.) dropped 9 percent on weak second-quarter results. The company's revenue increased just 1.5 percent, while volume dropped about 1 percent and revenue per requisition fell 1.6 percent. To help counter weak earnings, the company announced a $500 million cost-cutting plan over the next three years (*see related story on p. 5*).

G2 Laboratory Stock Index



Source: The G2 Laboratory Stock Index is tabulated weekly by Laboratory Industry Report *from the average percentage change of 10 laboratory testing service stocks.*

Percent Price Change, Six weeks ended 7/29/2011

	Price	Percent Change
UP		
Neogenomics	$1.45	+11
DOWN		
Bio-Reference	19.94	-3
Enzo Biochem	3.84	-1
Genomic Health	26.85	-5
LabCorp	90.76	-4
Medtox	15.61	-3
Myriad Genetics.	21.27	-6
Quest Diagnostics	54.01	-9
Psychemedics	8.58	-12
NO CHANGE		
Orchid Cellmark	2.75	0

INDUSTRY BUZZ

Better Targeting of Pharmaceuticals Can Save Billions

Genetic testing made possible by the mapping of the human genome can help the United States cut costs and create jobs while at the same time improving survival rates for such diseases as cancer, HIV, and heart disease. According to Alan Mertz, president of the American Clinical Laboratory Association (ACLA), using genetic tests to select the drug that precisely matches the genetic fingerprint of the patient can save an estimated $30 billion to $110 billion per year.

"Genetic testing is going to be a powerful and increasingly important tool in helping public and private payers get control of overutilization and inappropriate utilization of health care resources," said Mertz in a recent presentation to the Marwood Group, a health care advisory and financial services company.

Every year, the United States spends about $300 billion on pharmaceuticals, he explained. But studies show that anywhere from 20 percent to 75 percent of patients do not respond to drug therapy, often due to drug interactions or incorrect dosing. Roughly half of the time, it is due to a molecular mismatch between the patient and the pharmaceutical, said Mertz. Genetic testing can help physicians better target drug therapy.

References

ACLU 212-549-2666

American Clinical Laboratory Association 202-637-9466

College of American Pathologists 800-392-9994

Fair Laboratory Practices Associates 703-798-3109

Genomic Vision +33(0)155 422 929

LabCorp 336-436-5274

Marwood Group 212-532-3651

Myriad Genetics 801-584-3600

Neogenomics 239-768-0600

NextWave Diagnostic Laboratory 910-202-2400

Quest Diagnostics 800-222-0446

Select Diagnostics 336-510-1120

Solstas Lab Partners 540-855-9506

Southern Diagnostic Laboratories 205-313-1240

Wilmington Pathology Laboratory 910-362-9511

 Laboratory Industry Report (ISSN 1060-5118) is published by G2 Intelligence, 1Phoenix Mill Lane, Fl. 3, Peterborough, NH 03458-1467 USA. Tel: 800-401-5937. Fax: 603-924-4034. Web site: www.G2Intelligence.com.

Kimberly Scott, Managing Editor; Dennis Weissman, Executive Editor; Heather Lancey, Designer; Beth Butler, Marketing Director; Dan Houder, COO; Doug Anderson, Publisher

Receiving duplicate issues? Have a billing question? Need to have your renewal dates coordinated? We'd be glad to help you. Call customer service at 973-718-4700.