

# LABORATORY

# INDUSTRY REPORT®



Julie McDowell, Managing Editor, jmcowell@ioma.com

Vol. XII, No. 10/October 2008

## HIGHLIGHTS

### TOP OF THE NEWS

- Industry will likely weather financial chaos ..... 1
- Sonic's '08 revenues up 26% ..... 1

### FINANCIAL ANALYSIS AND OUTLOOK

- Bio-Reference's Q3 benefits from esoteric growth ..... 3
- Analysts predict strong '08, stronger '09 for lab leaders ..... 4

### INSIDE THE LAB INDUSTRY

- Private equity's continued interest in labs ..... 5
- Rep. Velázquez receives Laboratory Public Service Award ..... 7

### INDUSTRY NEWSMAKERS

- DiagnoCure opens CLIA lab ..... 8
- Myriad considering company split .... 8

### CERTIFICATION NEWS

- ASCP, NCA to form one credentialing agency ..... 9

### LAB DEVELOPMENTS

- FDA questions LabCorp over OvaSure claims ..... 10
- CBLPath signs with Highmark in Pa. and W.Va. .... 10

### FINANCIAL

- Lab index down 6% over 5 weeks .... 11

### INDUSTRY BUZZ

- New pathology partnership in Nashville ..... 12

### Don't Miss:

#### LabCompete:

#### Laboratory Sales & Marketing Conference

Dec. 10-12, 2008 • Scottsdale AZ

[www.g2reports.com/labsalesmarketing08](http://www.g2reports.com/labsalesmarketing08)



WASHINGTON  
G-2 REPORTS

[www.g2reports.com](http://www.g2reports.com)

## Execs Think Labs Will Remain Steady Through Market Chaos; \$70 Billion Private Equity Available

The lab industry is expected to weather the current turmoil on Wall Street remarkably well. Fueled by the high growth and reimbursement of molecular and other esoteric testing, the industry continues to attract interest from private equity players, who are currently looking to invest \$70 billion in capital. "There is a robust amount of capital," said David Jahns, a managing director with Galen Partners (Stamford, Conn.), at the recent 26th Annual Lab Institute, held on September 17-19 in Arlington, Va. "There is about \$70 billion in fresh money that is unencumbered by what you've seen recently on Wall Street. Those dollars are ready and looking for places to invest."

But the lab industry will feel some impact of the current recession environment. Tight credit is likely to make purchasing and leasing transactions tougher for small and independent labs. In addition, volume growth is expected to decline, with LabCorp and Quest currently experiencing volume growth at 1 percent to 2 percent, compared to the normal 2 percent to 3 percent, according to analysts with William Blair & Company.

For more on the financial outlook for the national labs throughout this year and into 2009, please turn to p.4. This month's "Inside the Lab Industry," (pp. 5-7) focuses on why experts say that the current interest by private equity in the lab space makes this an ideal time to sell a lab or pathology practice. 🏛️

## Sonic Healthcare's 2008 Revenues up 26% to \$1.9 Billion

Sydney, Australia-based Sonic Healthcare has released its fiscal year 2008 earnings, with revenue up 26.2 percent to \$1.9 billion and net profit up 23.8 percent to \$206 million over previous year figures. Diluted earnings per share were up 12.2 percent to \$.57. The company CEO, Colin Goldschmidt, indicated that acquisitions are playing a large role in the company's growth. "Our international expansion has accelerated through the year, with the focus on Europe and the United States, where synergy activity has escalated, with pleasing outcomes," he added. "We will continue to pursue a growth path via both organic and acquisitional growth and to further promote our successful model in the best interests of all our stakeholders." *Continued on page 2*



## ■ SONIC HEALTHCARE, from page 1

But the company is not expecting the same levels of growth in 2009, according to the guidance released at the same time as the 2008 results. Revenue growth is expected to be 15 percent, while earnings per share are expected to be 10 percent, although this excludes any acquisitions other than those already announced.

This lower-than-expected guidance caught analysts off guard, said John Hester, an analyst with Linwar Securities (Sydney). "That was largely due to the dilution

of earnings coming from their businesses in Europe and the U.S. that had slightly lower marginal profitability, which is going to slow the overall rate of growth," he explained. "Having said that, though, with the Aussie dollar coming back stronger recently, they may do slightly better."

The other challenges facing Sonic right now and into 2009 involves reimbursement, which is driving margin pressure in the United States and in Europe, particularly Switzerland. However, the 4.5 percent increase to the Clinical Laboratory Fee Schedule will help boost reimbursement in the United States. In addition, while there have been some cost reductions of routine tests in Switzerland, this has been

partially offset by an increase in esoteric testing volumes, said Hester. "I think what this means is there is margin pressure in some European markets, which will force smaller operators to the wall," he added. "This is a catalyst for consolidation in the industry, and that is not a bad thing as far as Sonic is concerned. This means that there will be potentially more businesses available to buy."

Sonic is also struggling with its radiology business. Radiology comprises 14 percent of Sonic's revenue mix, although revenue growth was only 2 percent in 2008. The root of this flat growth is that while costs are rising, Medicare reimbursement in Australia has not increased in over 10 years, said Hester, adding that Sonic's largest radiology customer is the national health system or Medicare. "The revenue increases haven't kept pace with the cost increase, therefore the profitability of those businesses has continued to decline," he explained. "The catalyst to change might be an upcoming spending review by the Australian government." 🏰

### A Closer Look at the Australian Lab Market

- ❑ Pathology market estimated at \$1.59 billion for 2008; up 3 percent over 2007;
- ❑ Pathology services provided are expected to increase by 5.5 percent annually by 2013; and
- ❑ Sonic is currently leading in market share at 40 percent, followed by Primary Health Care Limited at 38.1 percent, and Healthscope Limited at 10.7 percent.

Source: IBISWorld Industry Report, *Pathology Services in Australia*, August 2008.

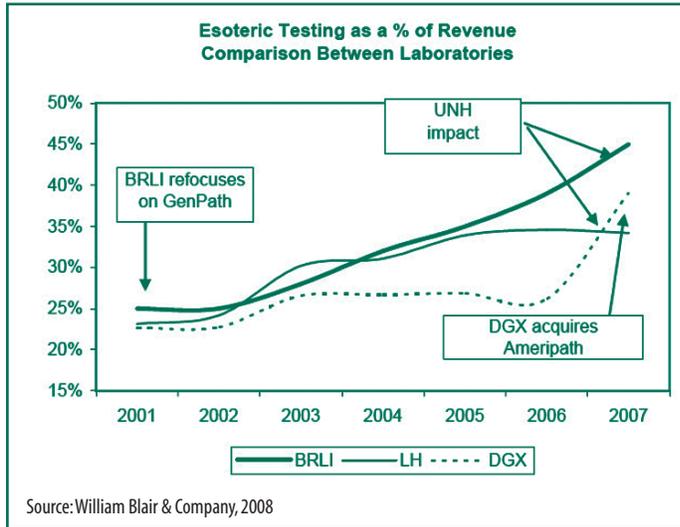
### LabCorp Purchases PathNet

LabCorp has acquired the Van Nuys, California-based PathNet Esoteric Laboratory Institute, also known as PathNet, which focuses on cancer, sexually transmitted infections, and genetic testing for women. *LIR* estimates that the acquisition price is likely between \$15 million and \$22.5 million, which translates to between 1x and 1.5x revenue. PathNet is rumored to have annual revenue of approximately \$15 million, and LabCorp executives have indicated their acquisition approach is currently between 1x and 2x revenue, although 2x appears unlikely in the case of this acquisition. "I think 2x revenue is the high end of the range that we will be looking at," said Brad Hayes, LabCorp's executive vice president and chief financial officer, in the company's second-quarter earnings call with analysts. "We look at the internal rate of return and our return, but 2x revenue would have to be something that we thought was pretty strategic." In related news, LabCorp is also reportedly seeking to acquire the hospital-based Carilion Labs (Roanoke, Va.), although there are conflicting rumors circulating in the industry as to whether that deal is still on the table.



## Esoteric Testing Drives Bio-Reference's 18% Revenue Growth in Third Quarter

New Jersey-based Bio-Reference Laboratories's (BRLI) esoteric testing divisions—GenPath and GeneDx—helped boost revenue 18 percent to \$77 million for the third quarter of 2008 (see figure). Revenue at GenPath—BRLI's national oncology lab—grew 35 percent, while the lab's genetics laboratory, GeneDx, grew 70 percent in revenue. Revenue per requisition also increased to 9 percent to \$74.11 over \$68.08 for the same quarter in 2007.



BRLI (Elmwood Park) continues to struggle with a higher-than-industry bad debt rate and days sales outstanding (DSO) figures, although these have also shown some improvement (see table below). But the esoteric testing growth follows several quarters of investment in these business areas by the company, including expanding the sales staff, noted CEO Marc D. Grodman, MD. "The growth that we experienced this quarter is primarily fueled by growth in these areas, even though it's early in the sales cycle for

the expanded sales efforts we implemented," he said in an earnings call. "Given these results, it's not surprising that in this quarter, percentage of revenues attributable to esoteric testing rose to 48 percent compared to 44 percent in the prior year."

If economic conditions were better, the esoteric growth would have been even higher, said Grodman. The economy continues to slow routine testing volumes industrywide, particularly at companies like LabCorp, whose second quarter results revealed a flat volume growth over 2007 levels. William Blair & Company (Chicago) analysts Amanda Murphy and John Kreger estimate that the economy reduced Bio-Reference's volume growth in the third quarter by between 1 percent and 2 percent. But esoteric growth is less economically sensitive given the acute disease states of many patients requiring esoteric testing, they explained in a research note.

"While this clearly is a negative for the space overall, we are encouraged by the fact that if it is the economy driving lackluster volume growth for the industry

(versus increased competition from hospital labs, for example), it is a transitory issue, which should resolve [itself] once we see economic improvements," wrote Murphy and Kreger. 🏠

### Bio-Reference Q3 2008 Financial Benchmarks

Q3 Revenue (in millions)	Full-Time Employees	Revenue/Employee	Comparison to Q2 07	Pretax Income (millions)	Pretax Income/Employee	Comparison to Q2 07
\$77.8	1700	\$45,765	18%	\$7.9	\$4,647	20%
-----						
				Current DSO		
		2006 (avg)	2007 (avg)	2008Q1	2008Q2	2008Q3
Quest		48	48	48	46	n/a
LabCorp		54	56	58	54	n/a
Bio-Reference		117	115	120	109	108

Source: Company filings, William Blair & Company, 2008

## Analysts Predict Close to 10% Revenue Growth for LabCorp, Quest and 19% for Bio-Reference in 2008

While the economy is having an adverse impact on physician utilization, the nation's leading lab companies are positioned for a strong half of 2008 and a stronger 2009, predict William Blair & Company (WB&C; Chicago) analysts Amanda Murphy and John Kreger in a recent industry assessment. They predict LabCorp's revenue to grow 10.2 percent, Quest Diagnostics to grow 9.3 percent, and Bio-Reference to grow 19.1 percent by 2008—all in line with the companies' estimates. For 2009, LabCorp and Quest are expected to grow 15 percent or more and Bio-Reference is expected to grow by 20 percent, according to Murphy and Kreger. (For analysis on Bio-Reference's recently released third quarter results, turn to p. 3.)

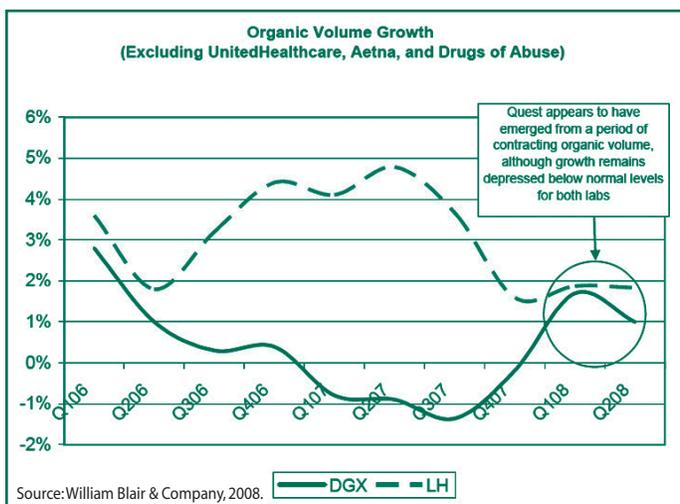
Despite this positive outlook, however, both LabCorp and Quest are experiencing volume growth at 1 percent to 2 percent, which is below normal growth of 2 percent to 3 percent. But Murphy and Kreger have concluded that this slowdown in organic volume growth is driven by the weak economy, rather than specific problems within each company. They base this analysis on a physician survey they conducted in July, finding that 27 percent have seen a noticeable decline in physician office visits or increase in cancellations over the past year. "In terms of the volume growth contraction LabCorp has reported in the first half of 2008, we are now more comfortable that this trend is reflective of the economic downturn—as opposed to some other more fundamental effect," wrote the WB&C analysts. "While the evidence remains anecdotal, there is some support (including our informal survey of 49 physician practices across 10 states representing 689 doctors) for the notion that patients are deferring medical costs."

### Improved Reimbursement; Price Escalators Helping Industry

Murphy and Kreger identify four key factors that will help to boost growth in the lab industry the rest of the year and into 2009: LabCorp and Quest both have conservative guidance for 2008; both these labs as well as Bio-Reference will benefit from the 4.5 percent update to the 2009 Medicare Clinical Laboratory Fee Schedule, as well as price escalators embedded in managed care contracts

renegotiated in 2007. In addition, these labs have use of strong free cash flow, which should drive earnings growth through share repurchases and acquisitions. Both LabCorp and Quest have cost cutting initiatives currently in place.

In particular, Quest has an aggressive cost-cutting plan in place. The nation's lab leader is on track to cut \$500 million by 2009. In addition, Murphy and Kreger are more optimistic about the near term impact of the company's diversification strategy, as well as recent improvement in positive organic volume growth (see figure). 🏠



## Strong Fundamentals Continue to Attract Private Equity Sector to Lab Industry

In this climate of financial uncertainty, the consistency of cash flow and predictability in the pathology and clinical lab industry continue to attract interest from private equity investors, explained David Jahns, a managing director with the health care private equity firm Galen Partners (Stamford, Conn.), at the recent 26th Annual Lab Institute held from September 17 to 19 in Arlington, Va.

Currently in the United States, private equity has about \$70 billion available to invest, Jahns estimated. Private equity is looking to invest in companies with consistent growth and reliable cash flow with respect to earnings and growth rates, which attract higher multiples and ultimately lucrative exit strategies. The \$50 billion a year lab industry—currently enjoying a 7 percent growth rate—has the attributes sought after by the private equity sector. “The demographics and the fundamental need for these services, as well as the underlying stability of these businesses are historically proven, which is very attractive for private equity dollars,” he explained.

“When we talk about the current flight of capital and what else is going on in the capital markets, businesses that are going to produce cash flow and don’t have a failure risk are very attractive,” Jahns went on to explain. He estimated that the current median valuation of lab acquisitions is between 11.2x to 11.9x EBITDA of the last twelve months (LTM). “These multiples are in excess of what the private equity multiple is for other businesses outside the lab space,” he explained.

And it’s private equity that’s driving these high values, according to Jahns. “Right now, private equity—especially in pathology and AP—is driving a lot of the values,” he explained. “While there are strategic buyers out there, such as Sonic and LabCorp . . . with the cost of capital being where it’s been the past few years, private equity has been rivaling a lot of the strategic buyers in terms of exits for many independent labs and pathology practices.”

One of Galen’s portfolio companies is CBL Path, a Rye Brook, N.Y.-based anatomic pathology (AP) lab. Since Galen’s initial investment in July 2005, the AP lab has grown from \$14 million to \$75 million in net revenues. This growth was enabled by building a 66,000-square foot AP lab that is capable of processing about 4,500 accessions a day. In addition, the facility—and therefore the lab—has room to grow. The lab is currently at 35 percent to 40 percent of capacity, with over 22,000 square feet of underdeveloped space to accommodate growth. (For more on CBL Path, read the article on p. 10).

### **High Values, Contracting Pressure Make It a Good Time to Sell**

Given the current economy, it’s likely that many small and regional independent labs will decide to merge, put themselves up for sale, or recapitalize with the help of private equity, predicted another Lab Institute

speaker, David Nichols, founder of the Nichols Management Group (York Harbor, Maine), a clinical laboratory and AP consulting firm that has been involved with negotiating and closing over \$500 million in acquisitions. And values are higher than they have been before, he added, noting that hospital outreach labs, in particular, might look to sell or become part of a joint venture. There's also the added pressure of exclusive managed care contracts that often exclude independent labs. "Now is a good time with these high values to maybe exit your position because a lot of hospitals are getting back to their core strategy," added Nichols. "If you are a small player, it's also an opportune time to sell because of the exclusive managed care contracts and the pressure to participate in those contracts."

In addition to high values, there are tax advantages to selling your lab sooner rather than later, before a new presidential administration arrives in the White House. As part of any tax reform plans, a new administration will likely change the current capital gains tax rate of 15 percent, which is set to expire in 2010.

It's unclear what changes—if any—either candidate would make to tax rates, although Jahns said that candidate Sen. Barack Obama (D-Ill.) has indicated that he might increase the capital gains rate to 28 percent. And there are rumors that regardless of when these changes are implemented,

they could be made retroactive to the beginning of 2009. This uncertainty is driving many sellers and buyers to close deals by the end of this year.

*'Now is a good time with these high values to maybe exit your position because a lot of hospitals are getting back to their core strategy.'*

*—David Nichols*

Any increase in the capital gains rate will hit small labs hard, many of which were started by pathologists or other entrepreneurs. "To the extent that the capital gains tax is increased, maybe even up to the marginal tax

rate, we think this would create a dampening effect on job creation in the country," said Jahns. "This will have a significant impact on the private equity community because the value creation in this country comes from small entrepreneurs creating businesses and broad growth in terms of the employment base."

### **Pricing Update**

In addition to valuations, Nichols also spoke about current pricing trends. Due to pricing set by United Healthcare's exclusive contract with LabCorp, even small insurance companies are demanding 70 percent of Medicare pricing for lab testing, he explained. However, hospital outreach labs still continue to enjoy managed care contracts that are 130 percent to 140 percent of Medicare, said Nichols, who added that this is likely to end soon. "I think it will be increasingly difficult for outreach labs to maintain their current lofty reimbursement," he said.

While there has been a lot of discussion on the slowing volume growth, Nichols said that with the labs he works with, he has noticed an increase in testing through analyzing the tests per requisition benchmarks. For instance, the standard used to be 2.3 tests per requisition, but now he is seeing 4 and 4.1 tests per requisition. Nevertheless, to really grow routine clinical testing, he said that the industry needs more new tests for chronic diseases that would be done frequently and reimbursed at between \$50 and \$75.

Overall, though, the lab industry is in a healthy place, especially with the recent 4.5 percent increase in the Medicare fee schedule for 2009. "The lab business has been pretty rock steady throughout the last 30 years, and with the developments on Wall Street over the past year, labs have shown to be recession resistant," said Nichols. 🏛️

## Rep. Nydia Velázquez Honored With Public Service Award at Lab Institute

Congresswoman Nydia M. Velázquez was awarded the 2008 Laboratory Public Service National Leadership Award in recognition of her efforts to repeal the Medicare competitive bidding demonstration project for laboratory services at the recent Lab Institute in Arlington, Va.



As chairwoman of the House Small Business Committee, Rep. Velázquez of New York's 12th District convened a committee hearing on July 25, 2007, to hear testimony on the impact that the Medicare proposal would have on the lab industry. Following the hearing, she introduced H.R. 3435, the Community Clinical Laboratory Fairness in Competition Act of 2007, to repeal the demonstration project. Joined by a companion Senate bill, this legislation was ultimately folded into a larger Medicare measure that passed both the House and Senate this past summer. Faced with a presidential veto, the legislation became law when Congress voted by big margins to override the White House.

"This year's award recipient was the first legislator to give this crucial issue national scrutiny, understanding that the consequences of instituting a lab bidding process would have been to restrict the number of labs that were able to provide Medicare services," said Washington G-2 Reports Founder and Executive Editor Dennis Weissman in presenting the award. "Most directly impacted would have been the thousands of smaller labs that provide high-quality service to a wide variety of patients, including vulnerable and underserved communities such as rural areas and nursing homes."

Sponsored by Washington G-2 Reports with the support of the medical billing management company Kellison & Company (Cleveland), the 2008 G-2 Laboratory Public Service National Leadership award winner is selected by an independent selection board made up of five rotating industry representatives who consider all eligible nominations.



## DiagnoCure Opens CLIA Lab, Launches Colorectal Staging Test



*DiagnoCure's CEO,  
John Schafer*

The Canadian-based molecular diagnostic company DiagnoCure has recently opened a CLIA-certified lab outside of Philadelphia to market its proprietary tests. DiagnoCure Laboratories—a subsidiary of DiagnoCure—recently received regulatory approval with specific CLIA certification required to launch its Previstage GCC colorectal cancer screening test. The test, which measures whether colorectal cancer has metastasized and identifies which patients would benefit most from chemotherapy, is currently priced at \$3,500.

The market for this test is estimated at 97,000 specimens per year and could total \$340 million. DiagnoCure's (Quebec) CLIA lab, located in West Chester, Pa., currently has three salespeople who are focused primarily on selling the test on the East Coast, said company CEO John Schafer, adding that this sales staff will expand in the future. The sales staff is also currently marketing the test via telephone globally and across the United States. The Previstage sales focus is targeting oncologists, as well as colorectal surgeons and pathologists who are involved in staging this cancer for treatment.

"In terms of oncologists who specialize in colorectal cancer, there are probably between 1,500 and 2,000 key institutions in the U.S. that we want to focus on, and that will ultimately take a salesforce of between 15 and 20 people," said Schafer. 🏠

## Myriad Genetics Turns Profitable in FY08; Ponders Split of Pharma, Mol Dx

Although turning a profit this fiscal year, Myriad Genetics (Salt Lake City) has announced it has hired banking giant J.P. Morgan Chase (New York City) to help its board conduct a strategic review of the biotech company's business model of combining pharmaceutical development and molecular diagnostic development and testing. In a recent earnings call, president and CEO Peter Meldrum announced that now that the company appears to be entering an era of "sustained profitability," it must reconsider its organization.

"The challenge facing the company will be to address Wall Street's growth and earnings expectations without shortchanging our investment in R&D and the long-term future of the company," he announced. "While our hybrid strategy certainly benefited the company in the past when we were not profitable, I believe it is incumbent on the board and management team at Myriad to revisit the strategy in light of the dynamics surrounding a profitable company."

Myriad's molecular diagnostic revenue increased 53 percent to \$222.9 million in fiscal year 2008, compared to \$145.3 million in 2007. Total revenues for this fiscal year were \$333.6 million, a 112 percent increase from last year's \$157.1 million. Revenues were boosted by a \$100 million upfront license payment from H. Lundbeck A/S (Copenhagen), for European marketing rights to the Alzheimer drug Flurizan. However, Myriad has since halted development on this drug since late-stage clinical trial results proved a disappointment. Myriad spent a reported \$60 million in developing Flurizan in 2008. 🏠



## Unified Lab Credentialing Agency Aims to Clarify Hiring Process

The two major laboratory certification agencies—the American Society for Clinical Pathology (ASCP) Board of Registry and the National Credentialing Agency (NCA) for Laboratory Personnel—are moving toward creating a unified credentialing agency. The creation of one agency will make certification easier for students entering the profession, as they will now only take one exam, instead of two, upon completion of their internship, explained Cynthia S. Johns chair of the Board of Governors of the ASCP-Board of Registry.

Having one credentialing agency will also impact recruiting and hiring lab personnel. “The agreement and unification will make it easier for lab directors and managers because they won’t have to guess which certification credential someone has and whether that’s the person who they want to hire in their lab,” said Johns. “The lab director will no longer have to determine which credential is the one they should be looking for.”

The ASCP and NCA have signed a letter of intent to create one agency and are writing a memorandum of understanding, which will include a time line for implementation. 🏠

### Correction: Sonic Purchases Labor 28 Group for 8.8x EBITDA, GLP Medical Group for 8.6x EBITDA

The August 2008 issue of *LIR* incorrectly stated that Sonic Healthcare purchased Berlin, Germany-based Labor 28 Group for a multiple of 8x revenue and Hamburg’s GLP Medical Group for a revenue multiple of 8.8x. Rather, the acquisition price of \$98 million for Labor 28 represents an EBITDA multiple of approximately 8.8x, while the GLP Medical Group acquisition price of \$42 million represents a prospective EBITDA multiple of approximately 8.6x. Both acquisitions are said to be between 1x and 2x revenue multiples, therefore *LIR* is estimating that the projected annual revenue for Labor 28 is between \$98 million and \$196 million, while GLP Medical’s annual revenue is between \$42 million and \$84 million. This correction also impacts the global lab acquisitions chart. The correct (and updated) version of the chart is below. *LIR* regrets this error.

#### Global Lab Acquisitions Total 18 So Far in 2008

Month	Buyer	Target	Purchase Price	Target Revenue	Price/Revenue Multiple
January-08	Caris Diagnostics	Molecular Profiling Institute	40 M	n/a	n/a
January-08	Sonic Healthcare	American Clinical Services	n/a	13 M	n/a
January-08	Sonic Healthcare	Woodbury Clinical Laboratory	n/a	4 M	n/a
January-08	Carilion Labs	Innovative Pathology Services	n/a	n/a	n/a
January-08	LabCorp	Tandem Labs (CRO)	n/a	n/a	n/a
January-08	LabCorp	Gamma-Dynacare	n/a	n/a	n/a
March-08	LabCorp	Acadiana Medical Labs	n/a	10 M	n/a
March-08	Aurora Diagnostics	Twin Cities Dermatopathology	n/a	n/a	n/a
April-08	LabCorp	Albany Cytopath Labs	n/a	n/a	n/a
May-08	Manhattan Physicians Labs	Genatom Inc	n/a	n/a	n/a
May-08	LabCorp	IDX Pathology	n/a	10 M	n/a
June-08	Rosetta Genomics	Parkway Clinical Labs	3.2 M	n/a	1.1x
June-08	Sonic Healthcare	Labor 28 Group (Berlin)	98.1M	98M-196M	1.0x-2.0x
June-08	Sonic Healthcare	GLP Medical Group (Hamburg)	42M	42M-84M	1.0x-2.0x
June-08	Sonic Healthcare	Clinical Laboratories of Hawaii	121 M	110 M	1.1x
July-08	HealthTronics	UroPath	7.5 M	n/a	n/a
August-08	LabCorp	Stanford Hospital Outreach Laboratory	30 M	30 M	1x
September-08	LabCorp	PathNet	\$15-30M	15M	1x-1.5x
<b>Estimated Total:</b> 18 Transactions \$356.8M-\$371.8M			<b>Estimated Avg. Price Multiple:</b> 1x-1.5x		*All prices in U.S. dollars



## FDA Questions Validity of LabCorp's OvaSure Claims

LabCorp's marketing of its OvaSure ovarian cancer test is drawing concern from FDA officials. Specifically, officials take issue with promotional claims that the test has 95.3 percent sensitivity and 99.4 percent specificity, according to a letter to LabCorp from Steven Gutman, FDA's director of the Office of In Vitro Diagnostic Device Evaluation and Safety. OvaSure is intended to identify high-risk women who might have ovarian carcinoma.

OvaSure's performance characteristics are based on a study in the Feb. 15, 2008, issue of *Clinical Cancer Research* [14(4):1065-72]. But this research was conducted on two populations that were "clinically biased for being healthy and normal," as well as having already experienced ovarian cancer. Therefore, this research is not sufficient to establish the performance characteristic for diagnosing high-risk women who might have ovarian cancer, as touted in LabCorp's marketing of OvaSure, wrote Gutman in the letter.

When contacted by *LIR* for comment, LabCorp spokesman Eric Lindblom stated that company officials had recently met with FDA officials about their concerns, but wouldn't share the details of the meeting. "LabCorp looks forward to working with the agency to review the clinical data related to this important test and continuing to advance the early detection of ovarian cancer for high-risk patients," he explained. 🏠

## CBLPath Lands Highmark Managed Care Contract in Pennsylvania and West Virginia

Subspecialized anatomic pathology provider CBLPath (Rye Brook, N.Y.) is expanding its access to Pennsylvania residents with its recent contract with Highmark Inc., one of the largest health insurance providers in the state with 4.6 million members. Highmark's managed care products include Highmark Blue Cross Blue Shield, Highmark Blue Shield, Keystone Health Plan West, as well as Highmark Health Insurance Company and Mountain State Blue Cross and Blue Shield, which serves members in West Virginia.

"This opens a lot of doors for us," said Brian Krout, CBLPath's vice president of Marketing, adding that Highmark is the largest managed care plan in western Pennsylvania. "Not having this western Pennsylvania managed care contract was really holding us back." Following New York and New Jersey, Pennsylvania is the largest market for CBLPath, he added.

This recent contract bolsters the AP lab's already expanding managed care portfolio in the state. Last January, the lab signed a contract with Independence Blue Cross and Blue Shield, which has 2.6 million members in southeastern Pennsylvania. CBLPath also recently signed an extension contract with Aetna, giving the lab access to 1.1 million additional members in Pennsylvania. In total, Krout estimates that these contracts now provide the lab access to over 8 million members and when coupled with Medicaid, Medicare, and other PPO and indemnity plans provides coverage for between 90 percent and 95 percent of the state's population. 🏠



## Lab Stocks Down 6% Over 5 Weeks, Down 2% for Year

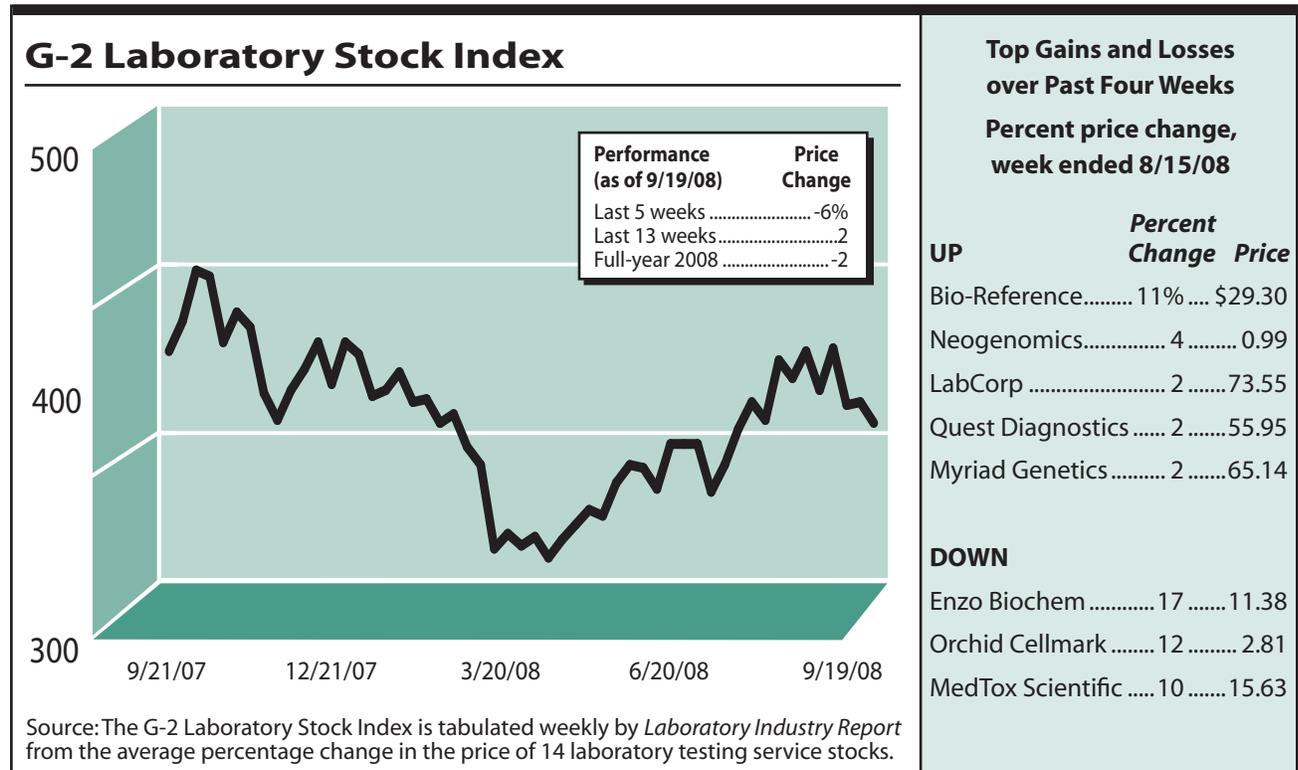
The chaos on Wall Street in September took its toll on lab industry stocks throughout the month. For the week ended Sept. 19, 2008, the G-2 Laboratory Index was down 6 percent over the past five weeks and 2 percent so far in 2008. But there still are signs of strength—over the past 13 weeks, the 14 publicly traded labs tracked by the Index are up 2 percent.

Another sign of strength this month was that both the national lab leaders—**Quest Diagnostics** (Madison, N.J.) and **LabCorp** (Burlington, N.C.)—were up 2 percent. For the week ended September 19, LabCorp was at \$73.55 a share for a market cap of \$8.18 billion, while market leader Quest was at \$55.95 a share for a market cap of \$10.92 billion. **Myriad Genetics** was also up 2 percent to \$65.14 a share for a market cap of \$2.97 billion.

Overall gainers for this time period in September were led by **Bio-Reference Laboratories** (Elwood Park, N.J.), which was up 11 percent to \$29.30 a share for a market cap of \$403.55 million. Coming in second, slightly ahead of Quest and LabCorp was **Neogenomics** (Ft. Myers, Fla.), up 4 percent to \$0.99 a share for a market cap of \$31.14 million.

Labs down for the week ended September 19 were led by **Enzo Biochem** (New York City), down 17 percent to \$11.38 a share for a market cap of \$423.39 million. **Orchid Cellmark** (Princeton, N.J.) was down 12 percent to \$2.81 a share for a market cap of \$84.20 million. **MedTox Scientific** was down 10 percent to \$15.63 a share for a market cap of \$132.17 million. 🏠

For up to the minute laboratory and diagnostic firm data, financial news and company podcasts—go to [www.g2reports.com](http://www.g2reports.com)





## American Pathology Partners Launches with \$75 Million in Financing

An impressive group of health care and lab industry leaders have recently launched American Pathology Partners (APP) in Nashville with \$75 million in financing from New Enterprise Associates. It appears as if APP is focused on creating a network of local pathology practices, providing them with expanded capabilities, including management support, access to capital, sales and marketing, and purchasing services to enable these local players to be more competitive with the national laboratories like Quest Diagnostics and LabCorp.

APP's chairman is Martin S. Rash, the former CEO of Nashville-based Province Healthcare Company, which was sold to Lifepoint Hospitals in 2004 for over \$1 billion. The executive slate also includes CEO Robert A. Yeager, most recently the chairman of Attentus Healthcare Company (Franklin, Tenn.); chief operating officer Robert Mignatti, who was formerly executive vice president and COO of Esoterix (Austin, Texas), which was sold to LabCorp for \$150 million in 2005; and executive vice president of sales and marketing Edward Dooling Jr., who was a former vice president and general manager of the anatomic pathology division of AmeriPath Inc. 🏠

### References in this issue

- American Pathology Partners  
615-916-3200
- American Society for Clinical  
Pathology 312-541-4999
- Bio-Reference Labs 800-229-5227
- CBLPath 877-225-7284
- CMS 877-267-2323
- DiagnoCure Oncology Laboratories  
610-701-9007
- Enzo Biochem 631-755-5500
- Galen Partners 203-653-6400
- LabCorp 800-334-5161
- Linwar Securities +61-2-9025-5800
- MedTox Scientific 800-832-3244
- Myriad Genetics 801-584-3600
- Neogenomics 239-768-0600
- Nichols Management Group  
207-363-8230
- Orchid Cellmark 609-750-2200
- Quest Diagnostics 800-222-0446
- Sonic Healthcare +61-2-9855-5444

### LIR Subscription Order or Renewal Form

**YES**, enter my one-year subscription to the *Laboratory Industry Report (LIR)* at the rate of \$449/yr. Subscription includes the *LIR* newsletter and electronic access to the current and all back issues at [www.ioma.com/g2reports/issues/LIR](http://www.ioma.com/g2reports/issues/LIR). Subscribers outside the U.S. add \$100 postal.\*

AAB & NILA members qualify for special discount of 25% off — or \$336.75 (Offer code LIR11)

I would like to save \$269 with a 2-year subscription to *LIR* for \$629\*

**YES**, I would also like to order the *Lab Industry Strategic Outlook 2007: Market Trends & Analysis* for \$1195 (\$1095 for Washington G-2 Reports subscribers). (Report #1866C)

Check enclosed (payable to Washington G-2 Reports)

American Express       VISA       Mastercard

Card # \_\_\_\_\_ Exp. Date \_\_\_\_\_

Cardholder's Signature \_\_\_\_\_

Name As Appears On Card \_\_\_\_\_

Name/Title \_\_\_\_\_

Company/Institution \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_

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

\*By purchasing an individual subscription, you expressly agree not to reproduce or redistribute our content without permission, including by making the content available to non-subscribers within your company or elsewhere.

**Mail To:** Washington G-2 Reports, 1 Washington Park, Suite 1300, Newark, NJ 07102-3130. Or call 973-718-4700 and order via above credit cards or fax order to 973-622-0595. LIR 10/08

© 2008 Washington G-2 Reports, a division of the Institute of Management and Administration Inc., Newark, NJ. All rights reserved. Copyright and licensing information: It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. The Copyright Act imposes liability of up to \$150,000 per issue for such infringement. Information concerning illicit duplication will be gratefully received. To ensure compliance with all copyright regulations or to acquire a license for multi-subscriber distribution within a company or for permission to republish, please contact IOMA's corporate licensing department at 973-718-4703, or e-mail [jping@ioma.com](mailto:jping@ioma.com). Reporting on commercial products herein is to inform readers only and does not constitute an endorsement. *Laboratory Industry Report* (ISSN 1060-5118) is published by Washington G-2 Reports, 1 Washington Park, Suite 1300, Newark, NJ 07102-3130. Tel: 973-718-4700. Fax: 973-622-0595. Web site: [www.g2reports.com](http://www.g2reports.com).

Julie McDowell, Managing Editor; Dennis Weissman, Executive Editor; Janice Prescott, Sr. Production Editor; Perry Patterson, Vice President and Publisher; Joe Bremner, President.

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.