

# LABORATORY INDUSTRY REPORT®

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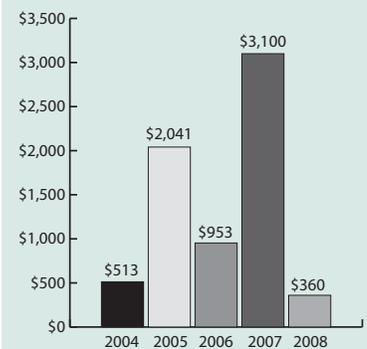
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## Lab M&A Reported Values Total \$350 Million+ in '08, Revenue Multiples Fall to 1x-1.5x

Washington G-2 Reports currently estimates that the lab mergers and acquisitions (M&A) market totaled 21 transactions in 2008, which is up from 2007's total of 18 transactions. However, total known value took a dip in 2008, down to approximately \$360 million from 2007's total of \$3.1 billion. Noticeably absent last year from the M&A landscape was Quest Diagnostics (Madison, N.J.), its \$2 billion purchase of AmeriPath in 2007 helped to raise that year's transaction values to record levels.

For an overview of key M&A transactions in 2008, as well as what the experts say is ahead for 2009, please read *Inside the Lab Industry* on p. 5. 🏛️

**Value of Laboratory Mergers, Acquisitions, and IPOs (\$Millions), 2004-2008**



\*\*\* Total for transaction purchases includes only those transactions where figures have been reported

## Quest Diagnostics' Revenues Up 8% to \$7.2B for 2008; Q4 Revenues Up 1.7%

The nation's lab testing leader, Quest Diagnostics (Madison, N.J.) posted strong revenue gains of 8.1 percent to \$7.2 billion for full-year 2008. The company's fourth quarter revenue was also relatively solid, with a gain of 1.7 percent to \$1.8 billion, however a dip in volume growth suggests that the testing provider is facing some financial headwinds as a result of the current recession. Quest also repurchased 5.5 million shares during this recent quarter, which exhausted its current repurchase program, and the board authorized a new \$500 million share repurchasing program.

These results were released a few weeks after Quest confronted a public relations nightmare after acknowledging that it provided possibly erroneous Vitamin D test results to thousands of people and had sent letters to thousands of doctors offering to provide free retests for patients who may have received questionable results. *Cont., p. 2*



## ■ QUEST DIAGNOSTICS' REVENUES, *from page 1*

The problems with testing were related to reagent preparation and, in some cases, with “less than strict adherence to our rigorous operating procedure for the test,” said Quest spokeswoman Wendy Bost, who emphasized that the issues were limited to specific time periods and only affected some of its labs. According to a January 8 report in the *New York Times*, Quest’s problems with the vitamin D test began after it shifted to a new test of its own design, replacing an older test approved by the Food and Drug Administration (FDA).

### Slowing Volume Growth

While Quest’s clinical testing revenues were up 2.3 percent for the fourth quarter compared to the same period in 2007, clinical testing volume continues to be dragged down slightly by the drugs-of-abuse or employment screening business. This business unit is negatively impacted by the rising unemployment rates nationwide. Including this business, volumes decreased 0.4 percent. Excluding this business, testing volume increased by approximately 1 percent, which is still short of the industry normal volume growth rate of between 2 percent and 3 percent often cited by industry analysts. However, as volume growth will continue to drag for the industry as a whole in 2009 due to the recession, this standard will likely shift to between 1 percent and 2 percent, putting Quest’s recent volume growth on the low end, but within range, of this standard.

But while volume growth was down, bad debt expense and days sales outstanding (DSO)—two benchmarks that are vulnerable during challenging economic times—showed slight improvement. For the fourth quarter, bad debt expense improved to 4.3 percent, compared to 4.4 percent for the same period in 2007. DSO improved to 44 days, compared to 45 days at the end of 2007.

### Outlook for 2009

Looking ahead, Quest officials expect revenues to grow 3 percent, to \$7.5 billion in 2009, which is similar to LabCorp’s recently revised guidance for this year (see box). While pledging to have a conservative approach this year and continuing to focus on its cost savings goal of \$500 million—expected to come at the end of 2009—the company does have a healthy credit balance that could be used for a strategic acquisition, such as a hospital outreach laboratory. In the recent earnings call, Senior Vice President and Chief Financial Officer Robert Hagemann said that an expiring \$125 million receivables credit facility was recently replaced with a

#### Citing Economy, LabCorp Lowers '09 Guidance

The current recession is forcing the nation’s second largest testing provider to revise its projected earnings for 2009. On January 6, LabCorp (Burlington, N.C.) announced that it was lowering its revenue growth to between 2 percent and 4 percent, down from its initial revenue growth guidance of between 3.5 percent and 5.5 percent. In addition, the diluted earnings per share (EPS) are now expected to be in the range of \$4.75 to \$4.95, down from the prior guidance of \$5 to \$5.25. LabCorp officials are scheduled to present their fourth quarter 2008 results on Feb. 12, 2009.

new \$225 million facility, bringing the total receivables credit facility to \$500 million. “This, coupled with the \$750 million available under our revolving credit facility brings our unused lines of credit to \$1.3 billion and positions us extremely well from a liquidity standpoint,” he said. “Throughout 2009, we will remain prudent and generally conservative in how we deploy our capital, with excess cash used to retire debt, invest in growth, and repurchase shares.” 🏛️



## Esoteric Business Drives Bio-Reference 2008 Revenues Up 20% to \$301 Million; Q4 Revenues Up 16% to \$80 Million

Specialty testing services offered through the GeneDx subsidiary and women’s health initiatives helped drive Bio-Reference’s (Elmwood Park, N.J.) 2008 revenues to over \$300 million, an increase of 20 percent over 2007’s revenue total of \$250 million. For the fourth quarter of 2008, revenues increased 16 percent to \$81 million from 2007’s total of \$69.7 million for the same period. Revenue per requisition was up 10 percent, and volume growth was up 6 percent during the fourth quarter. This volume growth was 1 percent to 2 percent down due to current economic conditions.

Esoteric testing revenue grew 29 percent this past quarter and is now 50 percent of the company’s revenue mix. Much of Bio-Reference’s volume growth is derived from its esoteric franchises—GenPath and GeneDx—which the company invested heavily in throughout 2007 and 2008, especially in terms of sales reps and new tests and platforms. This investment included expanding the hematopathology salesforce from 20 to 40 sales reps, in addition to bringing new tests and platforms to market, such as the second generation of its Women’s Health Initiative, which the company began aggressively promoting in select markets beginning in September 2008. This new version incorporates a panel of up to 21 sexually transmitted diseases performed in conjunction with ThinPrep Pap smears.

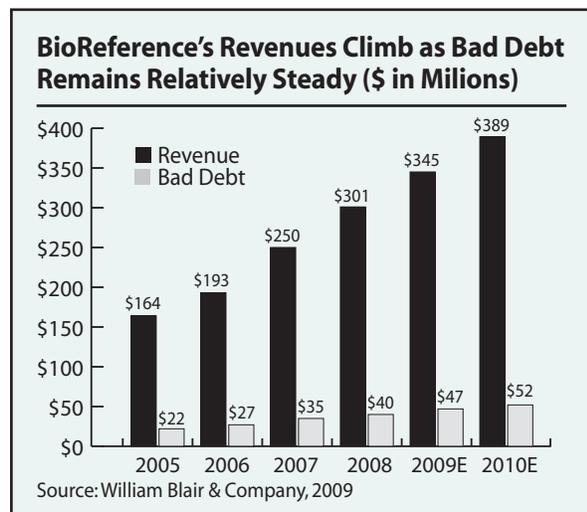
### Bad Debt Holds Steady

Despite this investment, which also includes the purchase of GeneDx for \$17 million in 2006, Bio-Reference’s bad debt has remained relatively steady as its revenue has continued to climb (see Figure). While still high according to industry averages, the testing provider does continue to improve its days sales outstanding

(DSO) numbers. For fiscal year 2008, DSO was 107, a drop from 2007’s 115. For the fourth quarter of 2008, DSO was 108, down from 115 for the same quarter of 2007. Nevertheless, the company will be under increased pressure to improve—even maintain—these DSO numbers as the deteriorating economy increases the number of uninsured patients and makes collections even more of a challenge.

If past experience is any indication, this next phase of women’s health testing service offerings could deliver a significant boost to volume. In 2006, when the company launched its first Women’s Health Initiative panel, orders for HPV tests increased from 18 percent to 50 percent, and the number of chlamydia/gonorrhea tests ordered increased from 5 percent to

29 percent over a three-month period, according to analyst Amanda Murphy with William Blair & Company (Chicago). “We would not be surprised if the company achieved similar success with its next-generation Women’s Health panel and expect the company will move to aggressively market this offering over the next year,” she added in a research note. 🏠





## American Pathology Partners Signals Launch With UniPath Acquisition

Led by a team of lab industry heavyweights, American Pathology Partners (APP; Nashville, Tenn.) is moving forward with plans to create a national pathology network by acquiring UniPath, an anatomic pathology practice based in Denver. The practice, which employs 25 pathologists, has an approximate annual volume of 185,000 tests, according to APP’s 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.

Last fall, APP received \$75 million in financing from New Enterprise Associates, with a mandate to create a national network of local pathology practices. “We are partnering with labs and pathology practices nationwide to expand their capabilities in areas such as management support, access to capital, sales and marketing, and contract negotiations to enable these local players to be more competitive with the national laboratories like Quest Diagnostics and LabCorp,” explained APP’s chief financial officer, Thanasis Papaioanu, a former investment banker who helped CBLPath secure initial funding.

APP executives view the UniPath acquisition as a means to establish substantial infrastructure. Because UniPath covers so many subspecialty areas, including cytology, dermatopathology, and hematopathology, the practice makes for an excellent platform laboratory for APP.

The transaction also enables the UniPath pathologists and leaders—including President Michael G. Venrick, M.D., and CEO Tricia Hughey—to retain some ownership in the practice, which is part of APP’s business model. While technically an acquisition, Dooling said that APP wants to incentivize growth in their partnerships by allowing revenue to flow back to the practice to disperse among the pathologists. “When you do a 100 percent buy-out model, it’s usually difficult to incentivize for additional growth, which is why there have been some problems with some other pathology and lab consolidations,” said Dooling.

### Focus on Sales Development, Contracts

Specifically, APP will focus on implementing more formalized and detailed sales and marketing strategies, especially in recruiting, hiring, and training the sales staff. “We want to put together aggressive goals for the reps to go out and achieve, as well as a lucrative compensation plan,” said Dooling. “We want to hire the best sales reps that we can who are focused on driving the business and making money.” *Cont., p. 10*

### APP’s C-Suite

- ❑ Chairman: Martin S. Rash, the former CEO of Nashville-based Province Healthcare Company, which was sold to Lifepoint Hospitals in 2004 for over \$1 billion;
- ❑ CEO: Robert A. Yeager, former chairman of Attentus Healthcare Company (Franklin, Tenn.);
- ❑ COO: Robert Mignatti, former executive vice president and COO of Esoterix (Austin, Texas), which was sold to LabCorp for \$150 million in 2005;
- ❑ CFO: Thanasis Papaioanu, former managing director at Harpeth Capital, as well as former CFO of Innovative Pathology Services; and
- ❑ Executive VP Sales and Marketing: Edward Dooling Jr., former vice president and general manager of AmeriPath Inc.’s AP division.

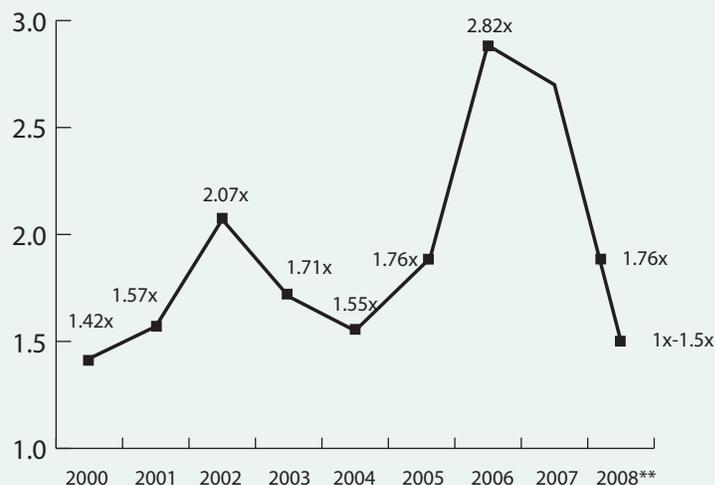
## Quest Sits Out 2008's Lab M&A Market

The nation's largest testing provider, Quest Diagnostics (Madison, N.J.), remained quiet throughout last year's merger and acquisition (M&A) market, which Washington G-2 Reports estimates totaled at least between \$356.8 million and \$364.3 million in total valuations that were publicly disclosed or reported. This is a sharp drop from 2007's total reported valuation of \$3.1 billion, which was boosted in large part by Quest's almost \$2 billion acquisition of anatomic pathology testing provider AmeriPath and 2006's total of almost \$1 billion.

The number of publicly disclosed and reported transactions in 2008 did spike a bit—up to 21 from 2007's 18 transactions. The average revenue multiple

paid to acquire the labs dipped a bit, however, down to 1x to 1.5x from 2007's average of 1.76x.

**Average Revenue Multiple\* Paid to Acquire Labs, 2000-2008**



\*Purchase price (including assumed debt)/annual revenue of acquired lab  
\*\*Ending September 2008.  
Source: Washington G-2 Reports

Quest only made one acquisition this year—Pathway Diagnostics (Malibu, Calif.), a provider of biomarker development and laboratory testing services for the pharmaceutical industry. Unlike Quest, LabCorp was active this year with seven publicly disclosed acquisitions. However, two industry M&A experts, who *LIR* spoke to, characterized LabCorp's approach as more restricted and highly strategic compared to previous years. "They had a disciplined approach, and when prices began to exceed values, I saw

them starting to pull back their ambitious acquisition strategy, and Quest has continued to remain on the sidelines," said Dave Nichols, founder of Nichols Management Group (York Harbor, Maine), a firm that has closed 11 acquisitions worth over \$500 million and helped launch three start-ups worth \$275 million in the last 20 years.

Nichols also views the current revenue multiple range of 1x to 1.5x as a signal of the remigration to the mean and is likely to hold steady for the near future. "Outside of high technology acquisitions, due to the credit crunch-induced private equity challenges and declining prices of the national laboratory stocks, the days of two and three times revenue are gone for the near term," he explained.

LabCorp's strategy was definitely more discriminatory this year, agreed Jeff Ellis, managing director of Crosstree Capital Partners Inc., (Tampa, Fla.) an

M&A firm working primarily with small to midsize laboratories. “We see LabCorp as a bit more selective in this market, given that they, like everyone, are trying to manage their cash more tightly,” he explained. “They are weeding out acquisitions that they might have looked at harder in the past.” But LabCorp is actively looking for acquisitions, but with a strategic angle, said Ellis. One example is their purchase of the contract research organization Tandem Labs (Salt Lake City), which performs bio-analytical testing services for pharmaceutical companies.

Even though Quest was inactive last year, Ellis insists that the nation’s lab leader is still looking for highly strategic acquisitions. But it likely won’t be \$10 million to \$20 million labs that they want to keep out of LabCorp’s hands. In addition, integrating 2007’s AmeriPath acquisition continues to drain resources. Quest has also invested a lot of capital into their India operations, which has not—as of yet—produced the revenue returns hoped for by the company. “I wouldn’t say that they have shut their doors to acquisitions, but must have a strong strategic fit,” explained Ellis.

Before looking ahead to how these developments position the M&A market in 2009 for labs, below are more details on some of the big deals from 2008 (a detailed table is featured on p. 8).

### **Looking Closer at the Big Deals in 2008**

#### *LabCorp Acquires Stanford Outreach for Rumored \$30 Million*

In August 2008, LabCorp acquired Stanford Hospital & Clinics’ basic outreach testing services for a rumored \$30 million, a 1x revenue multiple. The acquired outreach lab has a reported annual revenue of \$30 million. Included in the acquisition were patient service centers, as well as rapid response laboratories throughout the San Francisco Bay Area, although Stanford officials did not disclose the exact number of facilities included in the deal. Of approximately 200 basic outreach testing employees, more than half were either hired or offered a position by LabCorp. The acquisition increases LabCorp’s footprint in Quest-dominated California.

In this current economic environment, expect to see more hospitals divest their outreach laboratories to build up depleted cash reserves, predicted Ellis. In addition, an outreach acquisition is a way to make a big sale purchase in one transaction, he added.

Another issue is the sizable amount of market share dominated by the outpatient and outreach market, according to Nichols. “In a \$50 billion industry, half of the market is hospital-related, and I see LabCorp increasingly successful in initiating programs and strategies to work together through joint ventures or similar arrangements to penetrate that market. It’s a critical place for them to go,” he added. “These arrangements have been successfully structured to benefit both parties. Recent Quest hospital-based initiatives have been surprisingly non-existent.”

## ***Sonic Healthcare Purchases American Clinical Services and Woodbury Clinical Laboratory for Total \$33 Million, Clinical Labs of Hawaii for \$121 Million.***

The Sydney-based Australian lab giant made five publicly disclosed acquisitions this year, slightly down from 2007's total of seven. Three were in the United States, two of which were American Clinical Services Inc., which is based in the lucrative New Jersey-New York metropolitan area and Woodbury Clinical Laboratory, based near Nashville, Tenn. The combined acquisition price for both labs was \$33 million. "These acquisitions continue the local growth in these markets where we don't have a presence," Sonic Healthcare USA's President David Schultz told *LIR* at the beginning of 2008. "These are not large labs that are going to keep us from seeking to acquire other acquisitions in these areas."

The third U.S. Sonic purchase was Clinical Laboratories of Hawaii (CLH; Honolulu) and its associated anatomic pathology practice, Pan Pacific Pathologists for \$121 million, a 1.1x revenue multiple. Founded in 1971, CLH has over 70 locations in Hawaii, more than 900 employees, and prospective annual revenues of \$110 million.

Overseas, Sonic announced last summer that it was expanding its presence in Germany through two acquisitions. The company purchased the Labor 28 Group, a laboratory serving the metropolitan population in Berlin for over \$100 million and the GLP Medical Group in Hamburg for \$30 million.

## ***Rosetta Genomics Buys Parkway Clinical Labs for \$3 Million+***

Over the summer, Rosetta Genomics (Jersey City, N.J.) acquired Parkway Clinical Laboratories (PCL; Bensalem, Pa.) in a deal potentially worth \$3.1 million. This strategic purchase will amplify the marketing and development of Rosetta's micro-RNA-based tests. PCL's revenues in 2008 are expected to be close to \$3 million, putting the acquisition price at a 1.1x revenue multiple. PCL operates a 5,000 square foot CLIA-certified lab and has 33 full-time employees.

## **Predictions for 2009**

This year, Crosstree's Ellis sees the strong demand for laboratories as very much intact, with a lot of strategic buyers out there looking to make a purchase. Labs offering anatomic pathology (AP) testing services still are attractive, and cytology is becoming more appealing as new technology moves faster into the women's health arena. "Cytology has always been one area where companies have struggled to make good margins on the business—you really have to have good scale to do well," he explained. "But with all of the new technologies coming out for cytology in the molecular realm, it seems like many of the strategic buyers are eager to build up a good cytology base and build a women's health franchise that they can brand."

But the primary challenge this year is clearly the economy, which has brought valuations down since the peak in early 2008. Because of the burgeoning recession, Nichols sees the potential for more joint ventures and mergers and less of an interest in outright acquisitions. He also sees more pressure on labs to deliver efficiency and added value to current customers.

But where labs will most acutely feel the impact of the recession is in declining utilization. In 2009, the Nichols Management Group predicts an average nationwide reduction of approximately 6 percent to 8 percent in utilization from 2007 levels. Nichols compares operating in this current economic environment to labs that operate in climates prone to major weather events. During an event like a hurricane, volumes are always negatively impacted, and it's hard to get those test days back. "It's the same situation with this economy because people will put off and delay doctor's visits and lean towards diagnosing only acute—rather than both acute and chronic symptoms—which will lead to a net reduction in laboratory utilization," said Nichols. "Anatomic pathology is the primary niche immune from this phenomena because this testing, outside of cosmetic procedures, is not elective and often cannot be postponed." 🏛️

## Lab Deals Total 21 in 2008

<i>Month</i>	<i>Buyer</i>	<i>Target</i>	<i>Purchase Price</i>	<i>Target Revenue</i>	<i>Price/Revenue Multiple</i>
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.....	\$5-\$10M.....	n/a.....
May-08.....	Manhattan Physicians Labs.....	Genatom Inc.....	n/a.....	\$10M.....	n/a.....
May-08.....	LabCorp.....	IDX Pathology.....	n/a.....	10 M.....	n/a.....
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.....	Rosetta Genomics.....	Parkway Clinical Labs.....	3.2 M.....	3 M.....	1.1x.....
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.....	30M.....	30 M.....	1x.....
September-08.....	LabCorp.....	PathNet.....	\$15M-\$22.5 M.....	15 M.....	1.0x-1.5x.....
October-08.....	MTS Health Investors.....	DNA Diagnostics Center.....	n/a.....	n/a.....	n/a.....
December-08.....	CBLPath.....	Laboratory of Podiatric Pathology.....	n/a.....	n/a.....	n/a.....
December-08.....	Quest Diagnostics.....	Pathway Diagnostics.....		6M.....	
<b>Total **</b> .....	<b>21 Transactions</b> .....	<b>\$356.8M-\$364.3M***</b> .....			<b>Avg. price/revenue multiple: ..... 1.0x-1.5x</b>

\*All prices in U.S. dollars

\*\* Sonic reported the total acquisition price for these two labs was \$33 million. Since the breakdown was not detailed, this figure was not included in the total acquisition total for 2008.

\*\*\* Total for transaction purchases includes only those transactions where figures have been reported

Source: Washington G-2 Reports



## OralDNA Labs Partners With Midwest Dental Partners

The Nashville-based OralDNA Labs will provide periodontal testing services for the over 60 clinics within Midwest Dental and its Western division, Mountain Dental, under a recently announced multiyear agreement. Headquartered in Mondovi, Wisconsin, Midwest Dental is a dental management company with clinics in Wisconsin, Minnesota, Illinois, Iowa, and Colorado.

OralDNA will provide specialty testing services for the Midwest Dental clinics through its two saliva-based diagnostic panels—MyPerioPathsm and MyPerioIDsm—based on technology previously only available in Europe to target periodontal disease.

Backed by funding through Oak Investment Partners for an undisclosed amount, Oral DNA's leadership has a strong background in the esoteric testing business. The president and CEO is Brian Carr, who was the founder and CEO of American Esoteric Laboratories (AEL) before the company was sold to Sonic Healthcare (Sydney, Australia) in 2007 for \$180 million. OralDNA's senior vice president and chief operating officer is Ken Clarke, who was the former vice president of operations for LabOne in Ohio before the company was sold to Quest Diagnostics in 2005 for \$934 million.

OralDNA Labs's target customers are the more than 200,000 dentists and dental hygienists in the United States. The market for oral diagnostics in the United States is difficult to estimate because it is an emerging market, but Walker told *LIR* last year that in 2007 dental service expenditures totaled \$96.9 billion. 🏛️

*OralDNA Labs's target customers are the more than 200,000 dentists and dental hygienists in the United States.*

*In 2007 dental service expenditures totaled \$96.9 billion.*

## ParagonDx Opens CLIA Lab in North Carolina

Genetic testing provider ParagonDx (Morrisville, N.C.) has opened its CLIA-certified molecular diagnostics lab and is now offering next-day turnaround testing services for warfarin sensitivity to local doctors and patients.

This testing helps doctors prevent excessive bleeding in patients who are taking warfarin also known as Coumadin, which is a common anti-coagulant prescribed to prevent and treat blood clots. Using this test, doctors can understand the genetic component that can help achieve the optimal level of warfarin, which has been shown to lower the risk of potential life-threatening adverse drug reactions. The U.S. Food and Drug Administration relabeled warfarin in 2007 to recommend that patients receive genetic testing prior to the initiation of warfarin therapy.

ParagonDx will analyze the samples at its laboratory and provide results the next day, which represents a vast improvement over other labs that can take as long as five days to generate results for this test, according to a statement from the company. The rapid turnaround time provides a significant advantage to patients because they can begin taking the appropriate warfarin dose right away. 🏛️



## Response Genetics Expands Sales Staff to Triple Volume in 2009

Los Angeles-based Response Genetics continues to ramp up its national strategy to sell its proprietary lung and colorectal cancer tests, having recently announced plans to expand its sales staff from three to 10 people and moving beyond the California service area to major oncology markets, including Texas and New York. With 10 percent of the country's 10,000 oncologists based in California, however, the state will continue to be a focus for the company, which performs the PCR-based tests in a panel format that provides genetic analysis to help physicians with treatment decisions for patients with nonsmall cell lung and colorectal cancer. The tests are preformed in Response Genetics's CLIA-certified laboratory.

Since the launch of its lung and colorectal cancer tests in September 2008, the company has performed 500 tests. Based on this volume that was sold with three full-time salespeople, the company projects that 2009 volumes will more than triple to over 1,600, a Response Genetics spokesman confirmed. The company estimates that each salesperson costs the company between \$200,000 and \$300,000 in terms of total compensation and related expenses.

This sales expansion comes a few months after Response announced it was partnering with NeoGenomics Laboratories (Ft. Myers, Fla.) to develop a national sales strategy. NeoGenomics is a CLIA-certified lab that specializes in cancer genetic testing and offers testing services that include cytogenetics, flow cytometry, molecular diagnostics, and fluorescence in-situ hybridization—also known as FISH. Under terms of this agreement, NeoGenomics's 20-person national salesforce will sell the tests, although they will be performed through Response Genetics's CLIA-certified lab. 

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### ■ AMERICAN PATHOLOGY PARTNERS, *from page 4*

As a group, we have done this in the past, and that's what we are looking at doing here."

Managed care contract negotiations are another priority, noted COO Robert Mignatti, who was the former executive vice president and COO of Esoterix (Austin, Texas), which is now owned by LabCorp. This is another area where UniPath is providing APP with a foundation. Because the practice is well established in the Denver region, they have solid contracts in place. "What we are looking to do is extend those contract relationships," said Mignatti. "We have solid relationships with all of the payers."

In terms of future acquisitions, Dooling said that APP is in discussions with a number of pathology groups nationwide, but the company is primarily focused on growing based on UniPath's capabilities. "We've got a robust pipeline of pathology groups that we've been having discussions with for about a year," said Dooling. "But it was important for us to identify that platform laboratory to give us a good foundation from which we could build from. There are a lot of pathology entities out there, but we felt it was important to get the right partner, expand their footprint, and cover all of the subspecialty areas as a means to establish our foundation." 



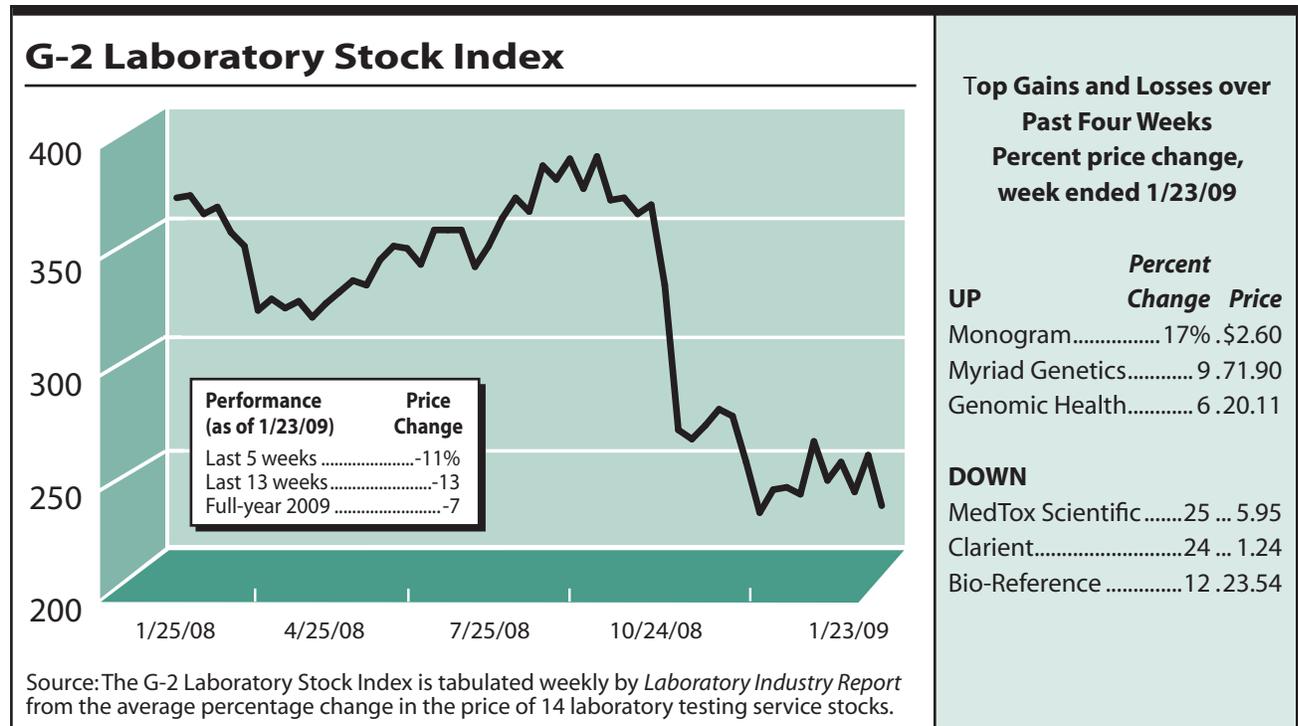
## Labs Stocks Start Out 2009 Down 7%, Down 11% Over Five Weeks

After experiencing a slight uptick at the end of 2008, the 14 publicly traded stocks tracked by the G-2 Reports Laboratory Stock Index started off the new year down 11 percent over the past five weeks for the week ended January 23 and down 7 percent so far this year. The Nasdaq and S&P 500 Indices continue to be in free fall. So far in 2009, the Nasdaq is down over 9 percent and the S&P is down 10 percent.

With the unemployment rates rising, it's not surprising that employment testing labs are taking some of the biggest hits. Leading the list of the top three labs posting losses over the past four weeks is **MedTox Scientific** (St. Paul, Minn.), down 25 percent to \$5.95 per share for a market cap of \$50.33 million for the week ended Jan. 23, 2009. The company has been long focused on employment testing, but has recently expanded its clinical laboratory business. Following MedTox is cancer diagnostic specialty lab **Clariant** (Aliso Viejo, Calif.), down 24 percent to \$1.24 per share for a market cap of \$89.95 million. Rounding out the top three is **Bio-Reference Labs** (Elmwood Park, N.J.), down 12 percent to \$23.54 per share for a market cap of \$324.57 million.

Leading the labs posting gains over the past four weeks is infectious disease and cancer testing specialty provider **Monogram Biosciences** (South San Francisco, Calif.), up 17 percent to \$2.60 per share for a market cap of \$58.33 million for the week ended Jan. 23, 2009. Following is **Myriad Genetics** (Salt Lake City), up 9 percent to \$71.90 per share for a market cap of \$3.34 billion. The third lab posting the top gains over the past four weeks is **Genomic Health** (Redwood City, Calif.), up 6 percent to \$20.11 per share for a market cap of \$570.36 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)





## Aetna, UnitedHealth to Pay \$70 Million to Fund New Reimbursement Database, Part of Settlement With N.Y. Attorney General

UnitedHealthcare's parent company, UnitedHealth Group, will pay \$50 million to set up a new independent database that will be used to determine reimbursements for out-of-network providers, as part of a settlement with New York State Attorney General Andrew Cuomo. Aetna (Hartford, Conn.) has also agreed to contribute \$20 million toward the new independent database.

This settlement will end Cuomo's investigation into Ingentix Inc., the nation's largest provider of health care billing information that is owned by UnitedHealth Group (Minnetonka, MN). Cuomo's office has alleged that Ingentix uses a "defective and manipulative" database to set reimbursement rates for out-of-network expenses. However, under the settlement, Ingenix can continue to operate and UnitedHealth will admit no wrongdoing.

In related news, UnitedHealth Group has also agreed to pay \$350 million to resolve a class action lawsuit by physicians challenging the health insurer's system for reimbursing out-of-network claims, the parties announced January 15 (*American Medical Ass'n v. United Healthcare Corp.*). 

### References in this issue

- American Pathology Partners  
615-916-3200
- Bio-Reference Labs 800-229-5227
- Clariant 949-425-5700
- Crosstree Capital Partners  
813-774-4750
- Genomic Health 650-556-9300
- LabCorp 800-334-5161
- MedTox Scientific 800-832-3244
- Midwest Dental Partners 715-926-5050
- Monogram Biosciences 650-635-1100
- Myriad Genetics 801-584-3600
- NeoGenomics Laboratories  
239-768-0600
- Nichols Management Group  
207-363-8230
- OralDNA Labs 615-577-9055
- ParagonDx 919-653-5520
- Quest Diagnostics 800-222-0446
- Response Genetics 323-224-3900
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