

# LABORATORY

# INDUSTRY REPORT®



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Issue 09-12/December 2009

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## Managed Care Survey Finds Labs Tackling Pricing Pressures; Limited Leverage in Contract Negotiations

Many in the lab industry say that managed care pricing has been relatively flat this year and is expected to stay the same for 2010, according to the recently released 2009 Washington G-2 Reports' Managed Care Lab Contracting Survey. Over 50 percent of respondents indicated that pricing had remained the same over the past year, while almost 44 percent believe that pricing will remain the same next year.

In addition to pricing pressures, many labs are also reporting little to no leverage when it comes to negotiating managed care contracts. While over 50 percent of respondents indicated that they have some negotiating power, 25 percent said that they have none. Only 15.8 percent responded that they have strong negotiating power.

For more on these survey results, including the key competitive tools that labs are using to compete with the national labs for managed care contracts, please read *Inside the Industry* on p. 5-8.

## Analyst Estimates a Recent 7% Price Hike in LabCorp-UnitedHealthcare Contract; Increase Should Allay Pricing Concerns

A Credit Suisse (New York City) analyst estimates that Burlington, N.C.-based LabCorp received a 7 percent price increase from UnitedHealthcare (Minneapolis, Minn.) as of Oct. 1, which he said should address industrywide concerns about downward pricing pressures.

The estimate is based on price estimates made by analyst Ralph Giacobbe after he had a series of tests performed, including cholesterol, thyroid, and glucose, according to a research note published in early November. He had these same tests performed in October 2008 and estimated at that time that LabCorp had received a 4 percent increase effective this past year. This increase could confirm the long-held, industrywide assumption that the 10-year UnitedHealthcare contract with LabCorp contained price escalators. In addition, the lab leader agreed to significant price discounts early on in the contract, in exchange for the subsequent volume influx from the exclusive contract. UnitedHealthcare currently represents approximately 9 percent of LabCorp's revenue, or \$444 million. *Continued on page 2*

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## ■ PRICE HIKE IN LABCORP-UNITEDHEALTHCARE CONTRACT, *from page 1*

But Giacobbe also believes that this increase could be a positive sign for the lab industry, as it indicates stronger pricing trends in 2010. This will likely come as a surprise to some in the industry—particularly from the commercial laboratory sector, where many appear to have a bleak outlook on pricing for next year, according to results from the recently released 2009 Washington G-2 Reports' Managed Care Lab Contracting Survey (see pp. 5-8).

While pricing was strong in 2009 due to the 4.5 percent Medicare rate increase, the trend was not expected to continue into next year, given the 1.9 percent rate cut next year. "The cut to Medicare rates and negative CPI [consumer price index] created concerns (including our own) that managed care rates could also see softer pricing if benchmarked against either component," he wrote. "While we never expected a negative managed care pricing environment, we did believe that rates could at least directionally follow Medicare and or CPI."

This increase proves that managed care prices may be negotiated and locked in regardless of Medicare payments or inflationary rates, which means it's the responsibility of labs to negotiate favorable rates, according to Giacobbe. However, he did caution against assuming all contracts will see the same increase levels, given the price concessions that LabCorp accepted early on in the contract. "As a result, this level of increase may represent more of a "catch up" than a broad based pricing trend," he wrote. "Nevertheless, this level of rate increase is certainly encouraging and should help offset at least some of the Medicare pricing cut next year." 🏛️

## House to Consider Physician Fee Fix in Mid-November

**A**s *LIR* was going to press, the House was set to consider a fundamental reform of the Medicare physician payment system (H.R. 3961) during the week of Nov. 16, according to Washington G-2 Reports' *National Intelligence Report*.

Unless Congress intervenes, Part B physician fees are scheduled for a 21.2 percent cut on Jan. 1, 2010, under the current Sustainable Growth Rate (SGR) system used to calculate the annual fee update. H.R. 3961 would cancel this cut, repeal the SGR, and institute a new update system, costing about \$246 billion over 10 years. In 2010, the fee update would be based on the Medicare Economic Index. In 2011 and thereafter, it would be based on growth in the gross domestic product (GDP) plus 1 percent (plus 2 percent for primary-care and preventive services).

The new formula would remove items such as physician-administered drugs and diagnostic laboratory services not paid directly to practitioners from the spending targets. However, the bill would not increase total payments to physicians above what they are today and thus would not add to the federal deficit, according to a statement from House Democratic leaders.

In the Senate meantime, the health care reform bill approved by the Finance Committee would cancel the 21.2 percent cut and grant a 0.5 percent increase in 2010, at a cost of \$10.9 billion. However, it makes no further change to the SGR.



## Genoptix, Myriad Genetics Emerge as Leaders in G-2's Third-Quarter Benchmarking Analysis

Specialty testing providers Genoptix (San Diego) and Myriad Genetics (Salt Lake City) continue to lead Washington G-2 Reports' 2009 productivity benchmarks. For the third quarter of this year, both companies are ahead in revenue per full-time employee (FTE) and pretax income per FTE (see Table 1).

Among the third-quarter 2009 results recently analyzed from 11 publicly traded laboratories, *LIR* found that hematology and oncology testing provider Genoptix comes out far ahead of the competition in revenue per FTE at \$148,538. This amount is actually a drop of almost 14 percent to the laboratory compared to the third quarter of 2008. Myriad follows at \$87,500, up 17.7 percent from the same quarter in 2008 (note that Myriad's third quarter ended on March 31, 2009). Following these leading companies was Bio-Reference Laboratories (Elmwood

Park, N.J.) at \$65,633—a healthy increase of over 43 percent compared to the same quarter in 2008.

For the second productivity measure tracked in this recent benchmark analysis—pretax income per FTE—Genoptix

was also in the lead with \$48,860, a decline of 1 percent compared to the third quarter of 2008. But the biggest gainer this quarter was Myriad at \$25,200—up over 500 percent compared to the previous year's third quarter. Following Myriad was Psychomedics (Acton, Mass.) at \$13,617, a decline of 10 percent for the drugs-of-abuse testing provider.

### Improvements on Bad Debt, DSO

Over the past two years, Wall Street analysts have been closely tracking bad-debt expense rates and days sales outstanding (DSO), as these are two financial measures most likely to reflect the impact of the current recession on labs.

As with previous quarters, *LIR* analyzed DSO and bad-debt figures for the country's three largest full-service clinical laboratory testing providers—Quest Diagnostics (Madison, N.J.), LabCorp, and Bio-Reference—as well as specialty testing provider Genoptix.

*Continued on page 9*

### Q3 2009 Financial Benchmarks

	Revenue (in millions)	Full-Time Employees	Revenue/ Employee	Comparison to Q208	Pre-Tax Income (millions)	Pre-Tax Income /Employee	Comparison to Q2 08
Quest.....	\$1,897.2	42,800	\$44,327	4.4%	326.30	\$7,624	22%
LabCorp .....	\$1,185.1	28,000	\$42,325	-3.1%	223.10	\$7,968	9%
Bio-Reference .....	\$97.4	1,484	\$65,633	43.4%	11.67	\$7,864	69%
Enzo Clinical Labs.....	\$10.6	266	\$39,850	16.1%	-0.40	\$(1,504)	-213%
Genzyme Genetics/Diagnostics...	\$91.9	1,708	\$53,806	11.4%	n/a	n/a	n/a
MedTox Scientific .....	\$22.3	582	\$38,316	-19.9%	1.20	\$2,062	-63%
Myriad Genetics .....	\$87.5	1,000	\$87,500	17.7%	25.22	\$25,220	555%
Psychomedics.....	\$4.7	94	\$50,000	-24.2%	1.28	\$13,617	-10%
Orchid Cellmark.....	\$14.7	410	\$35,854	-1.3%	-0.43	\$(1,039)	67%
Genoptix .....	\$50.8	342	\$148,538	-13.9%	16.71	\$48,860	-1%
Neogenomics .....	\$7.3	160	\$45,625	43.1%	n/a	n/a	n/a

Note: Myriad Genetics third quarter ended March 31; Enzo Clinical Labs third quarter ended April 30.  
Source: Washington G-2 Reports, company filings, William Blair & Co. research notes.



## LabCorp's Q3 Revenues Grow Over 4% to \$1.13 Billion; Revenue-Per-Requisition Growth Is 4.3%

Third-quarter revenues for the nation's second-largest testing provider, LabCorp (Burlington, N.C.), totaled \$1.13 billion, up 4.4 percent over \$1.18 billion for the third quarter of 2008.

Revenue-per-requisition growth was up 4.3 percent, excluding the Canadian joint venture consolidation, which is higher than Quest's revenue-per-requisition growth of 3.9 percent. LabCorp officials attributed this increase to growth in the core business, where revenue per requisition was up 5.6 percent. The revenue-per-requisition growth was fueled by two government contracts that were not renewed during the quarter—which were primarily core testing, yet lower revenue accounts, as well as price escalators built into the managed care contracts (see p. 1 for related article). The price escalator for the UnitedHealthcare account is reportedly estimated at 7 percent.

On the downside, volume growth was essentially flat at 1 percent, in line with Quest's underlying volume growth for the same quarter. However, company CEO David King said that this slowdown in volume growth was predicted and due in some part to the loss of the two government contracts and the annualizing of acquisitions. For instance, pre-employment drugs-of-abuse testing volumes continue to drop—down 15 percent this quarter compared to a 10 percent drop in the third quarter of 2008. "We have said throughout the year that volume growth in the second half of the year could slow given declines in the number of insured lives, the timing of Cobra, and severance expirations connected to layoffs," he explained in the earnings call.

### Esoteric Up Almost 10%

For the third quarter, esoteric volumes were up 9.2 percent, with this line of testing now comprising 36 percent of revenues. The company's goal is to grow esoteric to 40 percent of revenue over the next three to five years. These recent results indicate that LabCorp is on track to achieve this goal.

This esoteric growth strategy is driven primarily by a shift in focusing on sales to

### Quest to Build \$16 Million Lab in Oklahoma City, Hints at Possible Dx Testing Company Acquisition

Quest's joint venture entity, Diagnostic Laboratory of Oklahoma (DLO), is building a new 70,000-square-foot-facility that will feature a cytology lab to perform anatomic pathology test as part of the AmeriPath subsidiary. The new lab is expected to be open in the third quarter of 2011.

In addition, the lab testing leader has also announced it has sold \$750 in senior unsecured bonds due in 2020 and 2040. A portion of the proceeds could be used to fund an acquisition, according to the filing with the Securities and Exchange Commission (SEC) on Nov. 16. "[W]e are currently considering the potential cash acquisition of a diagnostics testing business," stated the SEC filing. "If we enter into a definitive agreement with respect to this acquisition, we would expect to use a portion of the remaining net proceeds from this offering to fund the purchase price of the acquisition in its entirety."

specialty physicians. But this is causing at least one Wall Street analyst to voice concern. "Given esoteric tests are higher revenue and higher margin, this mix shift drives overall revenue-per-requisition rather than volume growth," said Amanda Murphy of William Blair & Co. (Chicago) in a research note following the results' release. "Although economic headwinds remain and we believe an economic recovery should result in a rebound in volume growth, we are somewhat concerned that this shift in focus has caused the company to lose focus on its core testing business and so will be focused on this metric going forward."

## G-2 Reports' Managed Care Survey Reveals Pricing Remaining Flat in 2009 and 2010; Labs Grapple With Little to No Contracting Leverage

A majority of labs are reporting that managed care pricing and reimbursement have remained the same in 2009 and are expected to be flat into 2010, with many commercial labs reporting that pricing has decreased some over the last year, according to results from the 2009 Washington G-2 Reports' Managed Care Lab Contracting Survey. This survey is part of the forthcoming *Washington G-2 Reports' Survival Guide to Negotiating Managed Care Contracts*.

Overall, 53.2 percent of respondents said that pricing over the past year had remained "about the same," while 24.1 percent reported that pricing had "increased a little" (see Table 1). Slightly over 15 percent of overall respondents said that pricing had "decreased a little," followed by 6.3

Table 1

Over the Last Year, Has Pricing in Your Area, by Lab Type					
	Commercial lab	Hospital outreach	Private pathology practice	Other	Overall
Increased a lot	0.0%	0.0%	0.0%	5.9%	1.3%
Increased a little	14.3	22.5	37.5	29.4	24.1
Remained about the same	14.3	62.5	62.5	58.8	53.2
Decreased a little	50.0	12.5	0.0	0.0	15.2
Decreased a lot	21.4	2.5	0.0	5.9	6.3

percent who indicated that it had "decreased a lot." Only 1.3 percent reported that pricing had "increased a lot."

Most of the respondents to the 2009 Managed Care Contracting Survey were from the hospital outreach environment (51 percent), 17.5 percent were from

commercial labs, and 10 percent were from private pathology practice. There were 21.3 from the "other" category, which includes independent regional reference labs, federal facilities, in vitro diagnostic (IVD) developers, academic medical centers, and specialty labs. Over 70 percent of all labs polled participate in managed care contracting.

### Downward Pricing Pressure Continues

When analyzed by lab type, it appears that commercial labs are experiencing more downward pressure in managed care pricing over the past year, compared to hospitals or pathology groups, as indicated in Table 1. Fifty percent responded that their pricing had "decreased a little" over the past year, compared to over 12.5 percent of hospital outreach labs and 0 percent of private pathology practices. In fact, 21.4 percent of commercial labs reported that their pricing had "decreased a lot" over the last year, compared to 2.5 percent of hospital outreach labs, and 0 percent of private pathology practices.

With the exception of commercial labs, it appears as if most of the hospital outreach labs, private pathology practices, and other labs felt that pricing had remained the same. However, a solid number of pathology labs—37.5 percent—indicated that pricing had "increased a little" over the past year. This compares to 29.4 percent of "other" labs and 22.5 percent of outreach labs. It's also important to note that the labs categorized as other were the only respondents to report that their pricing "increased a lot."

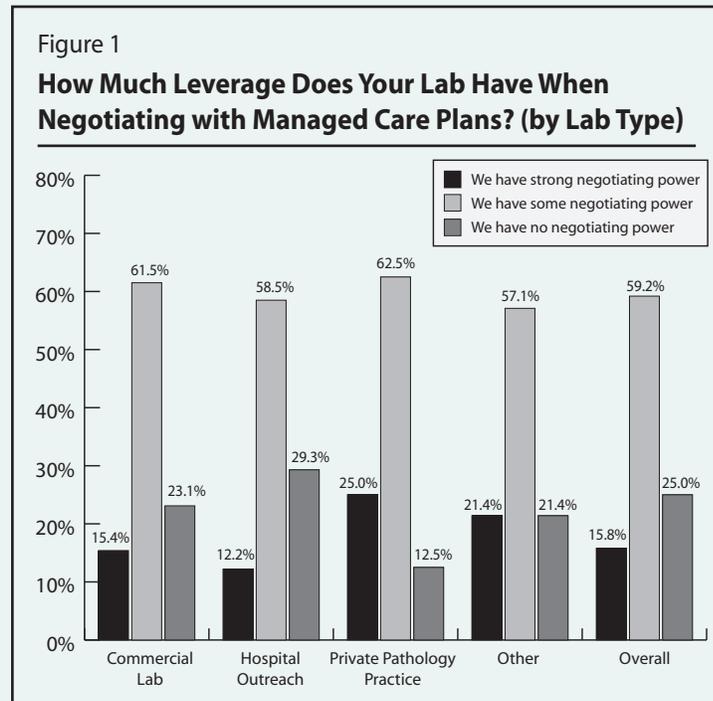
Expectations for next year appear to be in line with this year's. Overall, 43.6 percent of respondents expect pricing to remain the same, 23.1 percent expect pricing to decrease a little, and

7.7 percent expect it to decrease a lot. In particular, commercial labs appear to have a bleak pricing outlook for next year. For these respondents, 46.2 percent expect pricing to decrease a little, while 23.1 percent expect it to dip a lot.

In terms of the primary managed care players, UnitedHealthcare is dominant. Overall, over 63 percent of respondents have contracts with United, compared to 31 percent of other carriers (which include Cigna, Aetna, and Anthem), and 5.2 percent of Blue Cross Blue Shield (BCBS) plans. (Note that respondents could pick more than one provider, as most labs contract with multiple providers.) United is the leading provider among the outreach and

pathology respondents. Over 80 percent of respondents from each of these categories have contracts with the provider, compared to 0 percent of BCBS plans. For commercial labs, over 25 percent contract with United, as well with BCBS, but a majority of these respondents indicated they contract with other plans.

Even though most labs participate in managed care contracts, a majority feel that they have little to no negotiating power (Figure 1). Overall, 59.2 percent of respondents indicated that they have some negotiating power, while 25 percent said that they have none. Only 15.8 percent responded that they have strong negotiating



power. When analyzed by lab type, 25 percent of pathology practices indicated that they have strong leverage, compared to 15.4 percent of commercial labs and 12.2 percent of hospital outreach labs.

### Contract Service Demands

In terms of services mandated by contracts, over 37 percent of respondents deliver the results to the physician office through an electronic delivery system. Interestingly, managed care organizations are demanding more clinical and quality care data from labs. Almost 35 percent of overall respondents are required to submit clinical results to the managed care organization and over 46 percent require participating in a quality reporting program.

Commercial labs appear to be under the most pressure to provide electronic result delivery, with almost 73 percent of respondents indicating so in this survey. This compares to 31.4 percent of hospital outreach labs, 16.7 percent of private pathology labs, and 35.3 percent of other labs. Quality and clinical data reporting is also required of commercial labs. Over 63 percent are required to participate in quality reporting programs, while 45 percent are required to submit clinical results.

Because managed care revenues do contribute at least 20 percent of most of the respondents' revenue, the trend toward declining reimbursement is a negative for the lab industry (Table 2). When asked about reimbursement trends over the past 12 months, the responses mirrored those of the pricing question. Fifty-two percent of overall respondents said that it had "stayed the same," while 25.3 percent indicated that reimbursement had "moved lower," and slightly over 5 percent said that it had "moved significantly lower."

### Rating Competitive Tools

Revenue potential and offering a "one-stop shop" for clients appear to be the top priorities when pursuing these contracts. When

asked to rate the various factors on their importance while pursuing managed care contracts, revenue maximization was rated the highest by overall respondents at 3.58, followed by one-stop shopping for clients at 3.29 (Table 3). The remaining factors were getting a foot in the door for new sales at an overall rating of 2.83, followed by pursuing market share to help ensure lab data availability at 2.72 and defending against competition from new labs at 2.68.

Respondents were also asked to rate their strongest competitive tools when going up against national labs. These tools are often a lab's most compelling selling points when negotiating for a managed care contract. Overall, respondents indicated that stats and same-day testing were their strongest competitive services at 4.24, followed by relationships with local physicians at 4.16. The

following assets were consolidated inpatient and outpatient data, rated at 4.04, and consolidated clinical and anatomic at 3.36.

When asked to elaborate on the three best ideas to negotiate better managed care contracts, offer-

Table 3

Average Rating of the Factors on Their Importance While Pursuing Managed Care Contracts, by Lab Type					
	Commercial lab	Hospital outreach	Private pathology practice	Other	Overall
Revenue maximization	3.85	3.36	4.00	3.69	3.58
One-stop shopping for clients	2.62	3.53	3.14	3.31	3.29
Foot in the door for new sales	3.67	2.71	3.00	2.44	2.83
Market share to help assure lab data availability	2.21	2.93	2.00	3.00	2.72
Defending against new labs	2.57	2.68	2.86	2.69	2.68

Note: The larger the average the more important the factor.

ing same-day result turnaround was a frequent comment by both hospital outreach and commercial labs. Outreach labs also noted that highlighting the continuity of inpatient and outpatient records is a negotiating point. But outreach labs also have another competitive

Table 2

Over the Past 12 Months, How Has Your Managed Care Reimbursement Trended? by Lab Type					
	Commercial lab	Hospital outreach	Private pathology practice	Other	Overall
Moved much higher	0.0%	2.5%	0.0%	7.1%	2.7%
Moved somewhat higher	7.7	15.0	25.0	14.3	14.7
Stayed the same	30.8	47.5	75.0	71.4	52.0
Moved lower	38.5	32.5	0.0	7.1	25.3
Moved significantly lower	23.1	2.5	0.0	0.0	5.3

edge over other facilities—the ability to leverage their hospital or health system affiliation. One manager of laboratory services of a large Massachusetts outreach operation noted that his facility is able to “tie negotiations for lab rates to hospital rate negotiations.” Hospital connections can also be important to other lab operations. One pathology practice administrator noted that leveraging relationships with large regional hospital clients also worked in its favor when it came to managed care contracts.

### Who Oversees the Negotiating?

This survey also asked respondents about who in their lab was responsible for negotiating managed care contracts. Responses were widespread; however most of the overall respondents indicated that the health system or hospital vice president of contracting (30.8 percent)

Table 4

Who in Your Organization Negotiates MCO Lab Contracts? by Lab Type					
	Commercial lab	Hospital outreach	Private pathology practice	Other	Overall
Lab GM	28.6%	12.5%	25.0%	12.5%	16.7%
Health System or Hospital CFO	7.1	32.5	12.5	12.5	21.8
Health System or Hospital VP of Contracting	7.1	42.5	12.5	31.3	30.8
Lab Sales Executive	42.9	2.5	0.0	12.5	11.5
Other (please specify)	14.3	10.0	50.0	31.3	19.2
Others: consultant; CMO; joint effort consisting of finance director, sales director, COO, and health system legal/finance staff; executive vice president; director of reimbursement.					

or chief financial officer (CFO) (21.8 percent) are those directing the contract negotiations (Table 4).

Joining forces with other labs—whether in the form of partnerships or networks—is one approach to

negotiating successful managed care contracts. When asked which national lab they would want to partner with in response to a managed care request for proposal (RFP), a significant number of overall respondents chose Quest Diagnostics (Madison, N.J.) over LabCorp (Burlington, N.C.)—63.8 percent compared to 36.2 percent. For the most part, this reflects the breakdown in labs, with the exception of commercial labs—where 80 percent chose Quest compared to 20 percent who chose LabCorp.

When asked to elaborate on their preference, many respondents indicated that Quest is believed to be a better partner than LabCorp. “I have serious reservations about either one,” wrote one vice president of business development and marketing from a commercial lab in New York. “I guess the lesser of two evils is Quest.” A chief business officer from a commercial lab in Kansas remarked that Quest provides better service as a partner lab. “LabCorp has no desire to work with other labs and will cut all access off to other reference labs with no notice,” he continued.

From the hospital outreach lab’s perspective, many respondents noted that they would rather partner with ARUP Laboratories (Salt Lake City) and Mayo Medical Laboratories (Rochester, Minn.). In addition, there appears to be a greater interest in joining a network. “Hospitals can create their own networks, like the Joint Venture Hospital Laboratories (JVHL; Allen Park, Mich.),” said one hospital outreach medical director from Michigan. “I don’t trust any national lab as they have shown that they do not share very well.” 🏛️



■ **G-2'S THIRD-QUARTER BENCHMARKING ANALYSIS**, *from page 3*

In terms of DSO, Quest continues to hold steady at 43, as it has done all year. The rest of the labs continue to improve this metric, particularly Bio-Reference. After grappling with 100-plus rates, the company brought its DSO down to 95 compared to 104 during the second quarter of 2009. Genoptix shaved three days off its rate, bringing its DSO down to 51 from 54 from the second quarter of this year. LabCorp also improved—down to 48 this quarter compared to 50 for the previous quarter.

**Earnings News**

- ❑ **Genoptix's revenues increased 58 percent to \$50.8 million for third quarter of 2009, compared to \$32.1 million for the third quarter of 2008.** This recent quarter's results include a \$4.4 million in cash collections related to prior-period revenue, which was achieved through expansion of the billing department and reimbursement for flow cytometry tests that had previously been denied under Center for Medicare & Medicaid Services' Medicare Unlikely Edits initiative. This has since been temporarily suspended, and companies impacted received retroactive adjustments. Other significant takeaways from the quarter include an increase of 9 percent in revenue per case to \$3,150 and case growth up 45 percent. Five hundred new cases were added, which is off slightly from the over 1,000 that were added in the first and second quarters. The specialty lab also added eight hematopathologists (or hempaths) this quarter, as well as five new sales reps for a total sales team of 67.
- ❑ **Myriad Genetics' first-quarter 2010 revenue increased 22 percent to \$85.1 million compared with \$70 million for the first quarter of 2009.** The company has added 50 sales reps in recent months and is in the midst of direct-to-consumer campaigns in the Midwest, as well as Texas and Florida.

Unfortunately, Bio-Reference wasn't as successful in controlling bad-debt expense. For this quarter, bad debt ticked up slightly to 14.2, compared to 13.9 in the second quarter. Quest and LabCorp both held steady at 4.4 and 5.3, respectively, while Genoptix brought its rate down to 2 percent compared to 3 percent from the previous quarter. 🏛️

	DSO						Current Bad-Debt Expense (%)					
	2006	2007	2008	Q1 2009	Q209	Q309	2006	2007	2008	Q1 2009	Q209	Q309
Quest	48	48	44	43	43	43	3.8	4.4	4.3	4.5	4.4	4.4
LabCorp	54	56	51	52	50	48	4.8	4.8	6.2	5.32	5.3	5.3
Bio-Reference	117	115	107	115	104	95	13	13.9	13.3	14.5	13.9	14.2
Genoptix	n/a	53	53	67	54	51	n/a	3	3	3	3	2

**Catholic Health Initiatives Strives to Triple Outreach Volume Through Equity Partnership in PAML**

**S**pokane, Wash.-based joint venture leader Pathology Associates Medical Laboratories (PAML) is partnering with its second health system, Catholic Health Initiatives (CHI), which operates 78 hospitals in 20 states. CHI (Denver) will become a 25 percent owner in PAML, while Providence Health & Services will continue to be a 75 percent owner. PAML will be using the investment by CHI to develop new partnerships with the health system's local hospitals throughout the country.



CHI was driven to partner with PAML as part of its move to expand its outreach lab operations. The health system already has a relationship with PAML. CHI's Franciscan Health System is part of PAML's Seattle joint venture, PACLAB, which pulls in over \$100 million in annual outreach revenue. "Part of our growth strategy is expanding business on the noninpatient, in order to diversify our revenue stream from a national perspective," explained Paul Edgett, CHI's senior vice president, national business lines. "We feel that the lab industry overall is a good investment. PAML was interested in a true partnership where we shared in the risk and the rewards, and they have a proven track record of developing outreach joint ventures, as well as a strong esoteric reference lab operation." Through its partnership in PAML, CHI expects to triple its outreach volume within five years. Edgett declined to provide data on current volumes.

### **PAML Eyeing National Expansion**

In the partnership with CHI, routine testing will be done at the local outreach facilities. Currently, CHI hospitals send their esoteric testing to reference labs such as Quest (Madison, N.J.) and Salt Lake City's ARUP. However, over the next 24 to 36 months, the majority of esoteric and other reference lab work will begin going to PAML.

In addition, PAML provides CHI resources in four key areas: sales and marketing, physician connectivity, outreach billing, and technical and esoteric testing capabilities. These are the areas that most hospital outreach labs are lacking, and PAML sees the partnership with CHI as the first step in bringing their joint venture outreach model to a national level.

"We realize that these are the things that we need to bring to the table, because these are the things that make a hospital laboratory look, act, and function more like a commercial laboratory," said PAML's senior vice president, Noel Maring.

PAML is looking to partner with more health systems; its initial health system partnership was established with Hospital Corporation of America's MountainStar Healthcare Network in Salt Lake City. With this most recent health system partnership, CHI provides PAML with access to geographic areas that they have had their eye on but no presence in until now. "Through CHI, we will have access to markets like Colorado, Maryland, and New Jersey that we find very attractive, and where they have hospitals," said Maring. 🏛️

### **Bostwick Labs Acquires CBI**

**B**ostwick Laboratories (Richmond, Va.) has completed its acquisition of the bioanalytical and DNA testing business units of Commonwealth Biotechnologies (CBI; Richmond, Va.). The pathology reference lab paid \$1.11 million in cash for the two units, CBI Services and Fairfax Identity Laboratory (Fairfax, Va.), in a deal that excluded land and buildings but included a lease commitment of five years.

Bostwick will operate CBI Services as a contract research organization under the name International Biotechnology Services (IBioTech). It will be a division of Bostwick's American International Pathology Laboratories (AIPL) subsidiary in Silver Spring, Md. Fairfax Identity Labs will retain its name. Bostwick will operate both businesses out of the CBI building in Richmond.



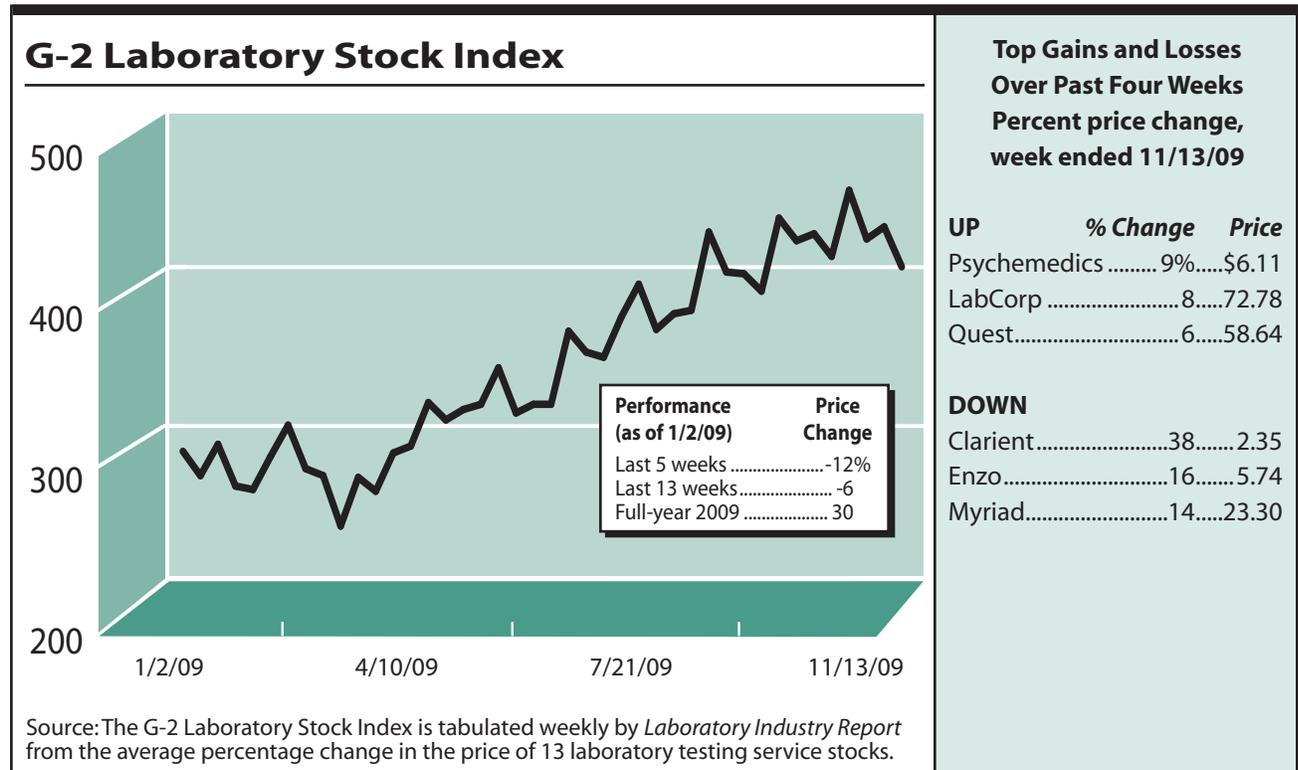
## Lab Index Continues Late Year Fall; Down 12% Over Five Weeks, but Up 30% for Full Year 2009

The 13 publicly traded labs tracked by G-2 Reports' Laboratory Stock Index continue to slump as 2009 draws to a close. Over the past five weeks for the week ended Nov. 13, 2009, the index is down 12 percent and 6 percent for the past 13 weeks. However, there is evidence of strength, as the index is up 30 percent for the full year 2009. As in previous months, the Nasdaq and S&P 500 continue to grow. For 2009, the Nasdaq is up almost 33 percent, while the S&P 500 is up over 17 percent so far this year.

Leading the gainers this month is **Psychemedics** (Acton, Mass.), which is up 9 percent to \$6.11 per share for a market cap of \$32.12 million over four weeks for the week ended Nov. 13. Following are the two national lab leaders, who appear to be finishing 2009 in strong positions. **LabCorp** (Burlington, N.C.) is up 8 percent to \$72.78 per share for a market cap of \$7.81 billion. Following LabCorp is **Quest Diagnostics**, up 6 percent to \$58.64 per share for a market cap of \$11.01 billion.

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

The top labs posting losses over four weeks for the week ended Nov. 13 was lead by **Clariant** (Aliso Viejo, Calif.), down 38 percent to \$2.35 per share for a market cap of \$190.08 million. New York-based **Enzo Biochem** followed Clariant, down 16 percent to \$5.74 per share for a market cap of \$219.55 million. Rounding out this group was **Myriad Genetics** (Salt Lake City), down 14 percent to \$23.30 per share for a market cap of \$2.24 billion. 🏛️





## Geisinger's Proven Diagnostics to Offer Berkeley HeartLab's Cardiovascular Tests

Under a recently announced comarketing agreement, Proven Diagnostics will offer selected proprietary cardiovascular diagnostic tests and services from Berkeley HeartLab (BHL), a subsidiary of Celera Corp. (Burlingame, Calif.). Proven Diagnostics is Geisinger Health System's (Danville, Pa.) new outreach laboratory operation that recently launched in July.

The test offerings include BHL's 4myheart cardiovascular disease-management program. In addition, Proven Diagnostics and Geisinger Medical Center will be the first clinical laboratories allowed exclusive access to BHL's genetic test that analyzes the KIF6 gene. Research has shown a relationship between the gene and cardiovascular risk and statin benefit.

Celera is looking for this partnership to boost BHL volume growth, which has been slow in recent months. For the third quarter, Celera's lab services revenue through BHL was down \$24.2 million compared to \$30.1 million for the same period in 2008. Officials attributed the decline primarily to volume decline and lower reimbursement rates, which reflect the impact of test denials and collection efforts. 🏠

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- Clariant 949-425-5700
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- Myriad Genetics 801-584-3600
- NeoGenomics 239-768-0600
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509-755-8600
- Proven Diagnostics  
866-869-1334
- Psychemedics 978-206-8220
- Quest Diagnostics 800-222-0446

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