Q3 2010 Bio-Reference Laboratories Earnings Conference Call - Final

10,438 words
26 August 2010
CQ FD Disclosure
FNDW
English

OPERATOR: Good day, everyone, and welcome to the third-quarter 2010 **Bio-Reference** Laboratories earnings conference call. My name is Carmen, your coordinator for today.

At this time, all participants are in a listen-only mode. (Operator Instructions). Later we will conduct a question-and-answer session. I would now like to turn the call over to your host for today, Ms. Tara Mackay, Investor Relations Coordinator. Please proceed.

TARA MACKAY, IR COORDINATOR, **BIO-REFERENCE** LABORATORIES: Thank you. Good morning and welcome to **Bio-Reference** Laboratories third-quarter 2010 earnings conference call. **Bio-Reference** Laboratories is one of the largest independent regional full-service laboratories in the country with focused marketing capabilities in the area of genomics, oncology, **women's health**, correctional health and physician office pathology.

Leading us on the call today will be Dr. Marc Grodman, President and Chief Executive Officer; and Sam Singer, Chief Financial Officer. Some of the commentary made in this presentation may relate to future results and events.

Statements regarding the Company's revenue and earnings guidance are based on the Company's current expectations. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties including general economic and business conditions, future regulatory requirements and mandated pricing reimbursements, the service and geographic market mix of any particular period, the Company's ability to effectively manage its operating costs and collect its receivables in a timely fashion, on the level of demand for the Company's products and services and on the Company's ability to manage its supply and delivery logistics in such an environment.

Additional discussion of these and other factors affecting the Company's business and prospects is contained in the Company's periodic filings with the Securities and Exchange Commission. I will now turn the call over to Dr. Marc Grodman, President and Chief Executive Officer.

MARC GRODMAN, CHAIRMAN, PRESIDENT, CEO, **BIO-REFERENCE** LABORATORIES: Tara, thank you very much. This is an exciting time at **Bio-Reference**. It's an exciting time but it's also a focused time.

We know what we need to accomplish. We know what we are focused on, the future, on growth, on investment, on opportunities. Sam is going to go in and Sam Singer is going to talk with you about our numbers and I would like to make some comments. Sam?

SAM SINGER, CFO, SVP, **BIO-REFERENCE** LABORATORIES: Thank you, Marc. Good morning, everyone. During the third quarter of fiscal year 2010 which ended on July 31, **Bio-Reference** recorded net revenues of 121,719,000, the highest quarterly net revenues recorded by the Company compared to $97,424,000 in the third quarter of prior fiscal year, an increase of 25%.

Gross profit on revenues for the current quarter were $61,630,000, representing a 51% gross profit margin. In the third quarter of the prior year, gross profit on net revenues was $49,261,000 representing a 51% gross profit margin.

Earnings per share on net income after taxes were $0.29 per share in the current quarter versus $0.23 per share in the prior year quarter. Patient count for the current quarter increased to $1,460,000 from $1,246,000 for the prior year quarter, an increase of 17%. Net revenue per patient for the third quarter just ended was $82.70 compared to $77.61 per patient in the same quarter of the prior fiscal year, an increase of 7%.

On July 31, 2010 working capital was $83,601,000, a 10% improvement over the $75,984,000 that we reported on October 31, 2009. Our day sales outstanding on July 31, 2010 was 94 days.

Our net revenues were $331,428,000 for the nine-month period ended July 31, 2010 representing a 27% increase over the net revenues for the same nine-month period in the prior fiscal year. Our gross profit on net revenues for the current nine-month period was $162,807,000 or 49% compared to the prior fiscal year of $127,252,000 or 49%. The number of patients serviced during the current nine-month period was 4,072,000 which was 22% greater than the prior year comparable period.

Net revenue per patient for the nine-month period just ended was $80.73 which was 4% greater than the prior comparable period. Earnings per share on net income was $0.63 per share for the nine-month period just ended as compared to $0.53 per share in the prior year. Thank you and I'll return the call to Marc.

MARC GRODMAN: Sam, thank you very much. A year ago at this time, we reported our third-quarter results. And in many ways, our third quarter was a watershed moment for **Bio-Reference** at that time, faced with very favorable comparisons, meaning that it was easy to go do better. Based on that prior year third quarter, we looked great.

Our revenues were up 25% from '09 comparing '09 to '08 and patient count was up 20%. We grew in the right way, based on investments in cancer, **women's health** and genetics.

We had invested heavily in those areas over those previous two or more years and starting then there were many, including ourselves. You said that when we came to today to this point that the comparisons for then to this year based on the strong quarter we had in third quarter of last year would be difficult.

Over that time, our investments in the future has not abated. We're investing more than ever than we have in growth areas where we see opportunities. And as our investment in professionals, technology, sales and marketing has not lessened, neither has our growth.

Our revenue increase of 25% over a supposedly watershed quarter and 17% patient growth both over strong [not weak] comparisons are emblematic of our continued efforts in the validation of our underlying strength and commitment. As we approach the final quarter of what will be our 17th year of 20% compound annual growth, we understand and consistently communicate the kind of company we have become.

This is what we strive for every day. There's no magic. But by the same token, there's nothing passive about it either. We invest in new ideas. We invest in technology. We invest in science. We invest in sales and marketing.

We do so not only in an effort to boost sales on a quarterly basis. Those who know us know we don't do it just to live quarter by quarter. But we do sort of prepare for growth in the coming years.

Our **women's health** program has been highly successful, a program based on first on a disruptive technology which provides clinically relevant answers to questions requiring sexually transmitted infections. That program has evolved into a compelling **women's health** program that provides service to most of the country with all of the best elements of our business model -- better support, better marketing, better science .

GeneDx has enjoyed considerable growth, increasing logarithmically since we brought them into **Bio-Reference** four years ago this quarter. The value however is not just the revenues. It's our collective ability to synthesize the expertise of this wonderful acquisition and seamlessly integrate genetic medicine into all of our clinical offerings, in essence becoming an incubator for new clinical solutions.

There's going to be nowhere that this approach will be more apparent than the coalescence of GeneDx in our **women's health** program and our new offerings in prenatal testing. This is an area of health care that will be undergoing revolutionary changes in the coming years and with new available tests on the verge of coming into clinical practice.

We'll combine the strength of these units, GenPath **Women's Health** and GeneDx, into a compelling clinical service for the full continuum of testing in the OB/GYN office. GenPath, our cancer diagnostic laboratory, continues to grow, consistent with our belief that the best diagnostics is the appropriate diagnostics.

It took three years for us to develop and offer a genomic array as part of the armamentarium in the diagnosis of hematological malignant diseases in support of other existing testing modalities. We clearly have taken a leadership position in this area.

We have worked for years to explore how we can make an impact in the diagnosis and monitoring of solid tumors and we remain encouraged in our efforts. With regard to creating new clinically relevant solutions in oncology, in the coming quarters we will demonstrate how personalized medicine can really make a difference in delineating cancer care.

There will be (inaudible) thrust of pharmacogenomics and personalized medicine meet on a practical reasonable basis. And we are investing in this area and coming closer to making it a reality. These initiatives define us.

We don't come up with new tests to make more money on those tests. We seek to find solutions to clinically relevant questions so we can continue to grow, to create and provide value to more physician clients.

We seek technological innovations that provide differentiating capabilities to answer those questions, indicative of how we've grown GenPath as well as all of our offerings. These initiatives do not come without a price.

R&D efforts have increased [all and they're] taking maximum advantage of existing growth opportunities. I think it's important to go talk about what we mean by that.

We talk about developing new tests. We are not as someone, an old friend once told me, we are not adverse to investing in green bananas.

We're not going to invest in the trees, the seedlings don't do much for us. But we will invest for the future.

And when we talk about that, we're talking about tests that we don't offer now or can't offer now that we're developing, programs that we will offer in the future. This expense has grown. We will talk about it more later.

We said it's been about $0.5 million of efforts and that's probably increased about 50% and it will continue to do so in the future. Sales and marketing continued to grow because of our better science because our better science and better service model falls short if it's not put into the full view of our physician clients.

As I mentioned earlier, revenue and patient count growth of 25% and 17%, respectively off of a strong comparison, our outstanding metrics. Clearly we will be confronting an increasing denominator in measuring continued growth. But at least for now, the numbers speak for themselves.

Esoteric testing as a percentage of overall revenues grew to 57% from 53% in the same quarter of the prior year and revenue per patient increased 7% to $82.70 from $77.61, both significant achievements. Growth was seen in all elements of our business -- specialty and routine, local and (inaudible)

Gross margin was just shy of 51%, comparable to the third quarter of the prior fiscal year. These results should not be surprising.

We have rarely been presented with greater opportunities to grow our business. I have always stated that when the opportunity exists whether it's because there is -- because of our strengths, new technologies, clinical need, or disruption in the marketplace, it is incumbent upon us to feed the growth. That is what we are doing. Our results demonstrate this investment.

Of all elements that comprise cost of goods, technical professional salaries grew substantially, consistent with our investment in building capabilities to do the tests as well as the R&D efforts to create new tests. Other technical salary increase mostly was attributable to molecular and genetic testing areas.

Clearly the capability we need to possess in order to maximize the future opportunities. This is probably a good time to portray just who we have become.

Bio-Reference has close to 2600 employees. Of those, over 100 are either MD or PhD level professionals, certainly a contrast to where we were a decade or even five years ago.

And these R&D efforts which have increased incrementally over the past year should be consistent going forward unless new opportunities emerge that are going to go and increase it. Other SG&A expenses excluding sales, marketing and bad debt remain under 15% of net revenues and were relatively flat from the previous year's period.

Sales and marketing expenses were just over 9% of revenues, somewhat higher as a percentage than the same period last year but consistent with our often stated goal to grow through marketing and sales. There has been a substantial investment made in the area of sales and marketing over the past 12 months. And in this quarter, we saw an increase not only in personnel but support costs as we manage right now essentially three national sales force in **women's health**, GenPath, and GeneDx.

Over the past year, we have added significantly to all elements of our sales and marketing program especially with regard to these esoteric offerings in GenPath, GeneDx and **women's health**; the last two of which didn't even exist two years ago at this time. It is critical that we manage these forces from New Jersey and that we keep them focused on their targets.

When our sales representatives wake up every morning, they know who they are. They know that they are prepared and properly trained. They have substantial support and are deep in the belief that they are offering something meaningful by which to improve patient outcomes, whether it be for GenPath, GeneDx, **w o e n' s h e al t h** or **Bio-Reference**.

It is this focus that has been one of the primary elements of our success over the past few years. Bad debt was just under 13.5%, in line with our recent trends and should remain in this range for a remainder of the year.

Day sales outstanding, DSOs, were 94 days compared to 95 days in both the prior fiscal year same quarter and the immediately preceding quarter. Cash flow from operations for both the nine months and this quarter were just under 4 million, less than last year but not surprising in light of the substantial investments we've made in people, facilities and technology to keep up with our growth.

We will (inaudible) 100,000 square feet of space in Elmwood Park, New Jersey; not to mention, new satellite locations around the country. Specifically, we've now started working on our new (inaudible) facility on our main campus that will be dedicated mostly toward molecular and genetic testing capabilities.

The tax rate this quarter was just shy of 45% for the nine months and for the quarter, similar to the same quarter last year. This will be the assumed rate going forward.

We are who we thought we were, a growth company operating in the most exciting areas of clinical laboratory medicine with a strong sense of clinical relevance and the wherewithal to invest in what we believe is important. We are fully aware of the headwinds reported by other publicly traded laboratories.

And while we make no comment on the business of our competitors, our numbers most certainly speak for themselves. We are not an index fund for the laboratory industry.

Physician visits will affect us at the margins of our expansion in most cases. What we are is a company dedicated to growth and we see tremendous opportunity to grow in our markets.

Our quarterly and nine-month revenue expansion has been the result of that dedicated focus. We continued to invest in the technology and professional capabilities as well as the marketing and sales to assure our continued growth.

We are who we thought we were, a growth company operating in the most exciting areas of clinical laboratory medicine with a strong sense of clinical relevance and the wherewithal to invest. Recently during investor meetings, I was given an explanation of an investment strategy. Its focus is on a hungry piglet.

I guess all piglets go to the trough to get food. But size in itself doesn't guarantee a prime position.

The strategy was to bet on the hungry piglet who will find a way against all odds to make it through. You know, those of you who know me know that I have a fondness of all animals and of all the animal metaphors I would've imagined to characterize the Company, a pig would not have been a probable choice. But the analogy works.

The people at **Bio-Reference** are not only hungry, but they are smart and committed. There is a spirit that is inculcated throughout the Company of a shared sense of purpose, of achievement, of building something special.

It does not appear that our appetite will become satiated anytime soon. I want to thank all of you for being on the call this morning and I'm happy to take any questions.

OPERATOR: (Operator Instructions) Michael Tu, Global Hunter Securities.

MICHAEL TU, ANALYST, GLOBAL HUNTER SECURITIES: Congratulations on a great quarter. I just have a question regarding the **women's health** initiative. You purchased Lenetix before and wanted to see if it's starting to contribute materially to revenues and if -- how far along in the process you are in terms of gaining a license in New York.

MARC GRODMAN: The license for STIs is still -- we are in the process of responding to comments and we're in the middle of that process. We continue to work on that.

I have no prediction on how long that will take. Lenetix has not contributed substantially to revenues but it is a very critical part of our entire prenatal program which is what we are now working on that we will see over the next three to six months. So if anything, we've not seen the revenues from that acquisition. But it was a critical building block in building out our full service.

MICHAEL TU: Okay, great. And with regards to your comment about servicing most of the country, what are some of the states that are now excluded out of your national **women's health** initiative?

MARC GRODMAN: We are -- let me think -- Alaska, Hawaii, Idaho. I don't think we are in Iowa. Hawaii, I mentioned. Clearly we are very strong in more of the popular areas and some of the not so strong areas. So it's mostly I think in the northwest more so than the far west. But we are doing work in California. We have done well in California.

MICHAEL TU: How is that coming along?

MARC GRODMAN: Well, I mean, this is a new -- we are a new player. We see woman's health as a support business. You know, the new program was a way of getting in the office.

And now having been there, our business expands. It's one of the reasons why we can't comment on patient visits because for so many of us, we are expanding our business within existing new customers. So we don't see that.

So we manage our sales force from here. We bring our managers in who have done a wonderful job, who themselves have regional meetings. They come in and we meet every three to four weeks and talk about the field. So we're just starting to go in and make penetration in a number of markets.

MICHAEL TU: So, in California, what are some of the managed care programs you started to work with there?

MARC GRODMAN: I'm not sure I really have that information at this time, Michael. I'm sure that if you call back and you talk to the people who do this, I'm sure they can give you that information.

MICHAEL TU: And regarding your investing into facilities and technical professionals as well, wanted to get a little bit more color in terms of your facility, the buildout of the new facility, the timing, total cost. How should we look at it for the next 12 months?

MARC GRODMAN: I think the way that we will look at it is that a lot of the numbers that we have we said we have already reported are very much in the numbers that we have now. It won't be increased expenditures certainly as a percentage of total revenues and what we have done up to this point.

What we have done for those of you who have visited us, there's a new facility which we have opposite our main facility, we have already opened two laboratories there and it's probably, I don't know, 20%, 25% complete and the rest has to be done.

So I mean, the level of spend in terms of depreciation and amortization and investments with it, at the level we're doing now and over the next -- my hope is six to nine months -- it will all be seated and fully operationa l.

OPERATOR: Amanda Murphy, William Blair.

AMANDA MURPHY, ANALYST, WILLIAM BLAIR & COMPANY: Just some questions on **women's health**, if I may.

MARC GRODMAN: Sure.

AMANDA MURPHY: First, I know you don't like to give segment specific details but I'm curious if you can help us understand how much of the business is now in **women's health** and then also, how many paps are coming in with additional STIs or on the new platform?

MARC GRODMAN: Well, we don't really report out by segment. So we have a substantial amount of our business is **women's health** and it's in GenPath. And as we have talked about, we kind of cut the apple a lot of ways but certainly the area has been growing but so has all elements of the business.

There might be a bit of a faster rise with the **women's health** but it is still -- but all segments are growing. In terms of the paps, there are -- a lot of the business that we're having certainly has been an increase in molecular testing along with pap smears. But the volume of our pap smears themselves have increased substantially over the time.

This is a whole infrastructure that we have created and our volumes at some days have quadrupled what they were just 18, 21 -- probably a little more than 18 months ago. So I mean it's a substantial increase in volume.

And when one -- as we go into new areas, a lot of times we will go in selling molecular and it will be a while before we go in and get all the business out of an account. So that's as I mentioned on the previous question, it's a growing process.

And there will be differences of penetration, of how many molecular (inaudible) pap smears in different parts of the country. So you can't generalize it. But usually it's an area where the percentage grows as we do more work.

AMANDA MURPHY: Okay and then are you -- I don't know if the word surprise is the right word. But in terms of your revenue per patient growth, is that in line with your expectations? Because I mean, paps are sort of a lower revenue item, right?

MARC GRODMAN: They are but -- well, yes but a lot of times they are associated and because as I said, there may be some areas where we will be doing paps and there will be some areas where we will be adding more molecular. So, a lot of the growth that we have is either going to be some molecular only and then some molecular with paps.

And where we are in growth, it's just molecular or molecular with paps is going to determine a lot of those effects. So increased revenue per patient is related to growth in all elements and certainly related to the more than molecular testing associated with paps. But I just don't want to make trends in saying that it was necessarily a one-to-one relationship.

AMANDA MURPHY: Just looking at the pap smear market overall, when I calculate the numbers, I'm getting sort of a pretty low number in terms of your market share, less than 5%. Is that sort of where you guys are at?

And if so, where do you see that going? And I know you have hired some reps this quarter, but how many more reps do you think you need to kind of get broad coverage or are you already there?

MARC GRODMAN: Those are good questions. Of all the things that I have never wanted to look at is percent of market share because I've never really had any credible belief in what the denominators are. But I think that we're going to continue to grow.

We staffed high. We have over 80 people right now both selling, managing it around the country. And we will -- so we've really built out a sales force and we will add them as necessary in given areas and areas that really need more representation.

We watch that very carefully. But we're not done with our growth or building it out. **Women's health** is an exciting opportunity.

And the more that we're able to go do in prenatal as well as in infectious diseases is going to give us a greater representation of more business out of the office. So I think that we will -- Amanda, I think we will increase and have more people but I wouldn't put numbers on what that number is going to be. But we're going to do what we can as I say to go feed the growth not only in the new testing but also in the people we need to sell and service.

AMANDA MURPHY: Okay and then actually that brings me to my last question on the prenatal side. I think you said that you expect to have that up and running this year. Is that still true? And I'm just curious if you can sort of talk to your advantages in the prenatal piece of the business relative to competition.

MARC GRODMAN: Well, there are multiple parts of prenatal testing. There's the part of prenatal testing which is really done within the first OB office visit, early maternal screening. That's going to be done for patients that are going to be more high risk, that will involve both karotyping (inaudible) and the potential use of micro-arrays which is still undergoing an evolution.

We are within regard to those areas, we are uniquely qualified because if a woman -- I don't pretend to be an expert within the area. But as a woman goes in and is at high risk for an abnormal pregnancy or has a sonogram which may be abnormal, there will be tests that will be performed.

And in those cases, they will certainly -- where in the past they may have had cytogenetics, but they also are going to have the ability of having arrays. And I think that's part of the ACOG guidelines, if you have an array if you have abnormal cytogenetics.

In those cases if you find anything on an array or in cytogenetics, the follow-up is to go in and do screening. These are rare disorders and you want to go in and do DNA testing as a follow-up to that and you may also want to be able to do amniotic AFPs. We have that capability of doing that and certainly in terms of any (inaudible) you have off of an array, GeneDx is the preeminant laboratory in the world to be able to go in and test and do DNA sequencing for these disorders with a reputation at every Children's Hospital in the country.

It's in a preeminent position. So what we do for those high-risk cases is to provide what is in essence a one-stop shop for high-end rare disorder testing which is what we're talking about in these cases. It's a unique opportunity especially when layered above our **women's health**, our **women's health** salesforce.

This is not something that's going to be immediate. It's something that we've been working on, we will continue to work on. [it's part of] we talked about the coalescence of what we have to offer.

But we think about these things. We think about [where what] to make it easy. We want physicians not to have a hindrance or a reason not to [go give us] a solution.

So we are looking at that, about how to provide (inaudible) for those high-risk cases. In terms of the other cases, our capabilities are being built out and we continue to go in and build those out built on what we have already.

So our goal is -- and I wouldn't put any tight timeline on it. The GeneDX part of it is going to be introduced within the next few months. But in terms of everything else within the next six to nine, 12 months, we're looking to be able to go do all work that comes out of our OB/GYN office and do it on a reasonably specialized basis.

OPERATOR: Bob Willoughby, Bank of America-Merrill Lynch.

BOB WILLOUGHBY, ANALYST, BAS-ML: I guess it's easy to see where maybe some of your competitors have stumbled to the benefit of gender. But my understanding was always the **women's health** area was -- that's an area where you have got a lot more people you're going up against and they've hit it pretty hard.

So I guess I look at the numbers, see the growth. Are you doing anything from a pricing standpoint? Are you doing anything from a different kind of panel, per se? I mean, how am I viewing your success amidst what I would think is more formidable competition there?

MARC GRODMAN: The underlying thrust of what we have done with our **women's health** program besides just making it a focus area is based on a disruptive technology that has made it easy for physicians to go in and understand how to do testing in sexually transmitted infections and it's a program (inaudible) with a pap smear once you have gathered the DNA that you have with that, we're able to do a multiplex PCR which I think has eluded many of the competitors, and in a package where we've made it easy for physicians to do this testing.

So at the outset, it answers a clinically relevant question. So if you can get it for the physician which in areas of the country it's not always so easy, if you can do that, there's compelling reason to go in and use us.

You then follow that as a means of going in and getting more and support and becoming in essence and portraying for them a focused **women's health** laboratory with its own experts, our own people, our won people giving talks and and their own support services. So we have made it into something first based on some disruptive technology, coupled it with a lot of educational materials and have made it and differentiated it.

It doesn't work all over the country. Let's face it, as Amanda said before, 96% of the pap smears go somewhere else or 97%. But it's a reason to be able to go in and open the door.

Once we have had the advantage, once we saw that we can go differentiate ourseleves which is the toughest thing and it's not just words. The toughest thing in the laboratory business is to differentiate yourself from the competition.

So once we do that, then we said, okay, that's great. Now let's invest in it. Let's go bring in sales and marketing people and let's really go hit hard at it. Let's go create marketing materials that are going to be really outstanding.

We have done that. And we have built and taken that advantage. All of a sudden, it's a new idea, a new concept. And that's the other thing that's important in the lab business, to be the new guy going in and trying to do it special. So it's something that we have built out and that's why and you know, there are more **wome n's health** physicians than there are going to be cancer patients.

Thank God. So we're able to go in and that's why we have over 80 people selling within this area. And now, now you take that advantage, you coalesce it with the potential genetic offerings that are done and given to us, the expertise at GeneDx and fold that into a whole range of new -- I was going to say a whole new array, I don't mean to pun -- of offerings that are potential in the prenatal market, that's another differentiating factor that we have with the reputation that GeneDx has among every genetic counselor in the country or with a good number of them.

So, that's how we make a differentiated market and that's where the growth is. So no, there's no contract. No, there's no deal, there's no special advantage we have. It's just old fashioned work of fiding something where we can go be different, provide a better clinical solution and then marketing (inaudible) to get it in front of physician clients.

BOB WILLOUGHBY: I guess that it follows then that you would go, Marc, then with a premium pricing strategy of sorts.

MARC GRODMAN: You get what you pay -- in the laboratory business, unfortunately, the problem you have with it is that you get -- we accept that we're involved in most national -- in most plans. In this business, yo u take what you get.

The key in the laboratory business whereby we're different than the IVD or the drug business is that we get business from the relationship. We get business by servicing the account.

So whatever we do to go in and get there, we grow with more counts. And that's what it's all about for us. And as what I mentioned before in the speech, we don't invest in new testing to make more money on those tests.

We grow to be able to go in and get more business. We didn't do all -- the idea of doing all of this was to quadruple the number of pap smears that we've done. So I mean it's -- you get what you can. The overall mix has been positive and that's how we have been able to grow as much as we have.

BOB WILLOUGHBY: And managed care understands the clinical differential and they have weighed in on everything and are (multiple speakers)

MARC GRODMAN: They pay what they consider to be reasonable and we will accept what they pay. That's part of what the laboratory business is, is that no one in the laboratory business turns back a specimen (inaudible) orders it and that's part of what we live with in the business of being in essence and that is (inaudible) realities of the laboratory business, is that we take what they pay us especially for these kinds of tests.

A specialized one-time test for $5000 is a different story and you may be able to make the point if you hold the patient responsible. No one does that in by and large most the businesses that we're talking about. But I would certainly invite anyone who has not to come and visit us and see this firsthand.

BOB WILLOUGHBY: And maybe just lastly so I understand, your panels then -- it's a Thin Prep sample coming in, it's a various array of molecular tests that you're running on this stuff. Net net is it testing for the same things with greater clarity or is it a broader array (multiple speakers)

MARC GRODMAN: We test for more things which a physician has the choice to be able to order depending on the clinical need. So testing that you have for a vaginosis or for a vaginal discharge is going to be different than what you would do if there was a lesion which is different testing than what you are going to do if someone has a fertility issue or we definitely want someone to have if they're pregnant. But it's the ability of just making it easy and having it available to be able to do a test (multiple speakers) we do it both on SurePath as well as on Thin Prep.

BOB WILLOUGHBY: And it is a physician driven model as opposed (multiple speakers)

MARC GRODMAN: Absolutely.

BOB WILLOUGHBY: To the company that was out there in oncology where, hey, send the sample, they do everything (multiple speakers)

MARC GRODMAN: This is a good idea and most physicians like it.

BOB WILLOUGHBY: Any comments, Marc, on just Empire, what expectations might be for you there?

MARC GRODMAN: I think there will be a positive. I don't know how much it is. I think that a lot of people have billed and we were not officially in Empire. We did have business through Blue Cross. I think that it will be a positive.

I think most business that will occur from Empire, most incremental change will come from simply getting higher business from (inaudible) so meaning if you have 20 accounts, you'll get more business from the 20 accounts because maybe some of those will have not given you the empire business before.

I don't think that new accounts will change -- that people will change their primary laboratory service provider because of it. I know that's counter to what some people are saying, but you really go in -- you'll just get more business out of your existing accounts.

OPERATOR: Raymond Meyers, Benchmark Company.

RAYMOND MEYERS, ANALYST, BENCHMARK COMPANY: First, just a couple of housekeeping questions what was bad debt in the quarter, Marc?

MARC GRODMAN: It was just just by shy of 13.5%.

RAYMOND MEYERS: Total number of sales reps ending the quarter or now?

MARC GRODMAN: Oh, God. We're clearly over 200 by a small amount. But I'm not going to commit to the exact number over 200.

RAYMOND MEYERS: Okay and then let's step back. I mean, you're doing very well here obviously. And when a company is doing that well, we're always looking over our shoulder at what could happen. Can you discuss the reimbursement and lab supply pricing environment, including potential changes in Medicare reimbursement? Is there anything changing?

MARC GRODMAN: Gee, I don't know. Anyone who knows me knows that I never look behind my back about what's going on. You're right, we always look at seeing what could go in and what could go wrong.

There hasn't been a lot of -- I mean, Medicare we know. That was kind of what happened last year with health reform and we did go in and accept cuts and decreases to future updates and we live with those realities.

It is back to where we were where we see -- and I think I've always said this for over many, many years. Pricing pressure always trends down. You make up for it with a growing business.

But they don't really ever go off. We don't see that. I don't think anyone in healthcare really sees that. The question is how much they trend.

I think right now it is a reasonably steady curve as to where we are right now. So I don't necessarily (inaudible) pressures over with that regard with laboratory supplies.

I think that the hardest challenge that we have is not really that people charge more. It's that as you get involved -- as we get involved in more genetic molecular testing, we have to get better sophistication.

A lot of the more routine testing, you can go negotiate good fees and good reagent costs because it's all automated. When you deal with more things that are less automated and more kind of cutting-edge, you have to be very careful that you buy appropriate amounts and that's something we're both -- us as well as the vendors are kind of feeling their way. So I think we have to be very diligent on that because otherwise those reagents and those costs could clearly can go in and have an effect.

But I think that what -- beyond that, there are all kinds of things that we look at behind our back about what could go wrong. But I don't really see anything on the reimbursement front that is going to go really -- do anything disruptive or really change the paradigm at this time.

RAYMOND MEYERS: Great. Thank you very much.

OPERATOR: Scott Paxton, Jefferies & Co.

PAXTON SCOTT, ANALYST, JEFFERIES & CO.: Most of my questions have been answered but just a couple of small ones here. Marc, you mentioned in your opening remarks that you're seeing growth both in the specialty testing business as well as your routine. And I' was just wondering if you could just give us a little bit more color in terms of where those numbers are falling out in those two categories.

MARC GRODMAN: As I said, we really don't go in and break things out by the growth in all areas. I mean, I think that it's clear to say that our greatest growth has been in the specialty areas.

It's consistent with our increasing revenue per patient. There's probably a bit of a greater growth within **wom en's health**. But all areas all areas are growing between oncology, clearly with GeneDx and with the [regional] business itself. So although I think women's is taking the lead, there's some growth all across the board.

PAXTON SCOTT: Okay, all right. That's helpful. And then just kind of tacking onto that, your specialty testing business has grown 51 to 57% going from the first quarter of last year to today. Where -- I mean, any sense on where that can go ultimately or kind of what your long-term goal is?

MARC GRODMAN: I don't make -- we don't make long-term goals based on stacked numbers like that. I mean, we don't know where it could go. It probably -- given who we are now, the number will grow.

We have three -- sales and marketing has -- we've invested in it. The numbers have gone up. We have thre e national salesforces within GeneDx, GenPath oncology and **women's health**. We (inaudible) them two years ago.

Those are things that we are selling. So clearly we're going to grow within more of the specialty markets. But when and how fast and where it's going to go to, I wouldn't even venture to guess that.

PAXTON SCOTT: Okay, okay. And then lastly, just clarity, the cash flow number you gave, a little under $4 million, was that operating cash flow or free cash flow?

MARC GRODMAN: That was operating cash flow. That was cash flow from operations for the nine months but also is the number for the quarter.

PAXTON SCOTT: Okay. And then lastly, just any new thoughts on kind of what you're seeing on the acquisition front?

MARC GRODMAN: No, I really don't -- there's really nothing to comment on really at this time with that. One of the things that has happened with us is that at this kind of growth rate, we're doing the equivalent of incorporating a substantial new acquisition every year.

And you know, when you buy a laboratory, you have to deal with integration and all kinds of issues. If we had $75 million of business in the year, that's a lot of -- that's a big acquisition which is all organic.

So, I'm not going to make any comments on acquisitions. But at this kind of growth level that we are achieving, it would have to be a pretty special opportunity and one that would really as I said always would have to be both accretive but even more so synergistic and bring a new technology. That's why we did Lenetix. We thought it was a capability that was good that would add to what we're going to do and those are the kind of ones that we would look toward.

OPERATOR: Steven Shackman, UBS.

STEVEN SHACKMAN, ANALYST, UBS: Thanks for taking my questions. Marc, thanks for the comments before regarding the Empire contract. But wanted to bring up that and also the WellPoint opportunity. I guess first, how do you size up the kind of incremental revenue opportunity mix between the routine and esoteric tests from those potential contracts?

MARC GRODMAN: Yes, Steve, I really don't. I've been doing it too many years to try to do that. I think you [always make us sick] when you think you're going to go in and be able to predict how much managed care contracting or a new insurance contract's going to go yield in business.

So I really don't go in. Clearly WellPoint and the fact that we're doing that on a large-scale national basis or a 14-state basis I think is what the number is as well the Empire one will be helpful. But I still believe -- I'm probably somewhat on the line that doesn't like to go in and promote these things or use these things as huge revenue numbers.

I know that goes against what a lot of other people do but I kind of downplay them. Most of the opportunity is simply to go in and one, get as I said before to Bob is to get more same-store sales, getting more business out of existing accounts. And if you want to go in and -- where you're trying to go get new business, it's just one of the reasons why people may let you in the door.

But it's all -- but they're not going to let you in the door because you're a part of that network. They'll let you into the door because [you still have a lot to offer] and there's no obstacle to being able to go in and use you.

Let me put it in another way which probably would -- which may well gain some criticism. Changes in managed care contracting, I don't believe -- as they say, this is the basis of you getting business. I think you'd get marginally more business. But I don't think it really changes the needle.

When managed contracting changes is when people get thrown out of programs. Then all of a sudden, you have to go in and move things around and that's more of a disruptive change as we saw with (inaudible)

But just adding people to the network because you could have -- it doesn't necessarily have the same I think disruptive effect as they do that. That's one of the reasons why we believe so strongly that those situations whereby all laboratories compete equally for businesses is going to be the better -- is the better business model for all comers, mostly for patients and physicians who then choose who they want.

But I really think that -- I'm one -- we really don't see that. That's why we don't make announcements abou t those things because I don't think those are really substantial events.

STEVEN SHACKMAN: Okay, that's fair. And I'm glad you brought up the UnitedHealth issue or contract from a few years ago. Could you just remind us what the ramp was like from that opportunity?

MARC GRODMAN: With us, we had -- we gained and we were posting numbers at that point quarter over quarter. There was an increase by almost 30% and we had a huge increase in revenues because as I said, it was mostly an increase in same-store sales.

But there was even stranger because -- there was a disruptive change because the primary provider wasn't in network anymore. So there was a scurry for new business.

So there was more of a disruptive effect. The issue with that which had its ramifications over the following year is that we may have increased our revenue solely because of that for a period of time by 20% but we did 40% more tests.

So it's not always everything is all positive and that put a lot of pressure on our cost structure a number of years ago. So you increased 20% just from that. It was 30% overall.

And you do 40% more tests, it has an effect. So that's a different situation because someone was out of the network. Not a whole bunch of labs are added into a network.

STEVEN SHACKMAN: Okay and just one final follow-up here. Do you anticipate adding -- I know you've mentioned kind of increased business from existing accounts. But do you anticipate adding additional salespeople to go after that business or --

MARC GRODMAN: Sure, one thing -- we've had -- we'll have 17 years of 20% compound annual growth. W e have not been shy about adding salespeople.

We add them judiciously, we add them at times. It's one thing when you build out a salesforce and then you add to it incrementally and those are differences.

And right now with the salesforce that we have, I mean we are -- we're building out. We're adding people specialized in the prenatal market as a smaller number but we are still going to be selling with our underlying **women's health** program. So sure, we're going to be adding more people.

STEVEN SHACKMAN: Great. Thanks very much.

OPERATOR: Graham Tanaka, Tanaka Capital Management.

GRAHAM TANAKA, ANALYST, TANAKA CAPITAL MANAGEMENT: Another great quarter. Just wondering, I know ou don't like to comment on the acquisitions, but in terms of cash flow and financially, what do you want to be doing with your incremental cash flow in the next couple of years?

You've gotten major -- played some major pieces that you are very lucky actually to get and did a great job with and you have several platforms of growth. So it seems to me that you might be building cash flow. Could you do stock buybacks?

MARC GRODMAN: I don't know, we're still at a point where we're trying to go finish work across the street on our 30,000 square foot new facility. I mean, we are building in sales, we're building in people. We're spending a lot of time in investing in -- we really do think about what testing is going to be ordered two years from now, Graham.

We think about what technologies are. As I told you, we are not adverse to green bananas. So in that mode, when you grow this fast which is right now what we're doing in as many ways, we spend a lot of time thinking about new services.

That is going to occupy that and the infrastructure that we (inaudible) do it is still -- still remains to be fully fleshed out. Informatics is a huge issue and is an ongoing issue with the kind of growth that we've had. So we will be doing a lot to be able to just go build out what it is that we're doing and building sales and mostly building on new clinical solutions.

GRAHAM TANAKA: Well, sort of related to that, the whole Obamacare thing is still being figured out but on one hand, people say well you're getting squeezed in reimbursements. On the other hand, there is going be a greater demand supposedly for informatics and basically getting everything all computerized. Are you -- what is your view kind of just generally on the Obamacare issue? Is that a net positive or a a net negative maybe for the industry and for the Company?

MARC GRODMAN: It's kind of funny. A year ago at this time as I was Chairman of American Clinical Lab Association lap and I was in the throes of all kinds of things with health reform and potential co-pays and potential lab taxes that we had worked hard and difficult to go (inaudible) my feeling about it now will be different than what it was at that time.

The issue of most of the healthcare was coverage. When I've had to talk about health reform, it's really about that and that's what the biggest thrust was. There was very little in care that had to go do with changing the growth curve that had been done in terms of Medicare spending.

There still was willful lack of informatics. There's a huge initiative on of being able to go in and have more physicians use electronic medical records which are critical.

Clinical laboratories, we have decreases for updates that were well chronicled [from over last] and although we don't know, the jury is out as to what's going to happen in the coming years. But we clearly have contributed heavily.

In terms of EMRs, laboratories play an important role. We have -- there right now is a Safe Harbor that we can pay up to a certain portion of an EMR in physician accounts. Physicians are going to be penalized if they don't have EMRs of meaningful use.

Our National Coordinator of Information Technology is [David Blumenthal], someone that I have known for many years and is doing an outstanding job. I have known him when I was at Harvard and Mass General and is a wonderful leader.

And there has to go be an institution of more people using EMRs just for a better saner healthcare system, just so we can go in and do good informatics. We started a program a while ago called, PractitionEHR which is an advertising model that is in essence a distributed EMR that will hopefully meet meaningful use that physicians can use.

We don't get anything out of it. We have the lab interface with it but they can use other labs as well. But it's a way of -- as a basis of creating goodwill to go in and provide this amortizing base distribution of an EMR because all of that is going to be better for the system.

So I don't (inaudible) healthcare reform in the face of what it does for the laboratory business. That was something that I had to do as my job of Chair of ACLA a while ago and I think that we did reasonably well for the industry and for everyone in that regard.

But in terms of the overall structure to increase coverage and of many of the changes in terms of health insurance and increasing the age of dependents and increasing care for people who have serious conditions, I do think that a lot of it was positive. And as part of that, I think that it was a good thing for everyone.

OPERATOR: (Operator Instructions) Blake Goodner, Bridger.

BLAKE GOODNER, ANALYST, BRIDGER: I just wanted to go back to the question earlier on the call about -- just making sure I understand the disruptive nature of the **women's health** technology. I just want to make sure I understand. So you guys have an ability to basically take -- pull more out of the Thin Prep or the SurePath and put it on a multiplex panel and the LabCorps and Qwests of the world, they have not yet figured out scientifically how to do that. Is that (multiple speakers)

MARC GRODMAN: Can't comment on any other laboratory, what they do. I know what we do.

BLAKE GOODNER: How many markers are you able to pull out and test for out of the vial?

MARC GRODMAN: There are a substantial number that we do. Over 20 markers have the potential of being done. However what is done and what is reported is what a physician wants and only what he orders. The potential is to do over 20.

BLAKE GOODNER: On average, what are you seeing out there?

MARC GRODMAN: I don't give out that information but it depends on the clinical (inaudible) that they're ordering for. There may be two, there may be three and physicians only order by what they need and they are only guided by -- you only order a certain set [of people] if you have a lesion than what you would do with a vaginosis or whether it's pregnancy and physicians order each one individually. But it makes it easy to have it done.

BLAKE GOODNER: So if I'm thinking about the price, is one of the factors driving the better pricing you're seeing that you're not just getting the sort of average $30 for someone that would order a Thin Prep (multiple speakers)

MARC GRODMAN: No, no, no. First of all, I'm not sure I see -- it's a picture of better pricing that we're seeing it all. I think that we do more specialty work than we do our molecular work. Still most of the pap smears that come in come in with HPV/chlamydia more than with any STI panels. It's still the thrust of what you get for the business.

BLAKE GOODNER: Got it, well what percentage of your work are you seeing HPV as well?

MARC GRODMAN: I mean, we have probably a higher number. We probably do close to 50%.

BLAKE GOODNER: Close to 50%. Okay, and then the last two questions are just, when I'm looking at your 17% patient growth, I assume the majority is from the **women's health** area? Can you be any more specific (multiple speakers)

MARC GRODMAN: No.

BLAKE GOODNER: No, you can't be more specific?

MARC GRODMAN: I've already -- I've said to you before that we have growth along all -- across all segment s of the business and there's probably a greater growth in **women's health**. But I can't -- anything beyond that, we really don't report out that way.

BLAKE GOODNER: No problem. And then maybe just a quick question for Sam. Your expectations going forward for free cash flow and DSOs and bad debt, would DSOs and bad debt be expected to remain around the current levels and would free cash flow --

MARC GRODMAN: I can answer that. We really don't -- the numbers that we've had whenever we've changed what we thought they would be, we have. We have seen bad debt that has been as high as 14%. We said we thought we would be more at around a 13.5% level and we see that going for the future.

DSOs were higher. They've come down. They've been at this level. We don't make predictions about guidance or about cash flows.

We think that we came back at a new lower level last year and we don't expect that much to change with that. We very rarely give guidance upon that. Free cash flow is all a basis of investment. And right now while we have the growth opportunities, we're going to feed the growth.

BLAKE GOODNER: Got it. Thank you.

MARC GRODMAN: My pleasure.

OPERATOR: We have no further questions at this time. I would like to turn the call back over to Dr. Grodman for closing remarks. Please proceed.

MARC GRODMAN: Listen, thank you very much. I wish all of you a good summer. It's an exciting time at **Bio-Reference**.

I'm glad all of you in some way share it with us and I look forward to speaking with all of you again. Also, if any of you want more information about **Bio-Reference**, come visit us, come see what we are doing here, meet the people, see what we're building. I think it's an exciting place to be. Thank you very much and have a great rest of your summer. Bye-bye.

OPERATOR: This concludes the presentation. Ladies and gentlemen, you may now disconnect. Have a wonderful day.

Document FNDW000020100909e68q001gu

