

# LABORATORY



# ECONOMICS

*Competitive Market Analysis For Laboratory Management Decision Makers*

## CMS MOVE TOWARD “PACKAGED PAYMENTS” MEANS LOWER REIMBURSEMENT FOR LAB TESTS

**C**MS is seeking to shift more hospital outpatient fee-based services into bundled payments. The plans are part of the 2014 proposed rule for the Outpatient Prospective Payment System and Ambulatory Surgical Center Payment System, announced July 8.

The proposed rule, if adopted, will eliminate separate fee schedule payments to hospital outpatient departments for most clinical lab tests and anatomic pathology technical services. Instead, payment for clinical lab and pathology technical services would be merged into a single facility payment, much like the inpatient DRG. These changes, if finalized, will take effect on January 1, 2014.

A transition from separate payments for clinical lab and pathology tests paid under fee schedules to packaged payments (more notoriously known as capitation) will ultimately result in lower reimbursement for these tests, notes *Laboratory Economics*. *Full details on page 3-4.*

## PATHOLOGY OUTPATIENT RATES SET TO SKYROCKET

**M**edicare’s Hospital Outpatient Prospective Payment System (OPPS) proposed rule for 2014 includes major increases for most pathology codes. For example, the national rate for CPT 88305-TC is set to rise from \$38 currently to \$58 in 2014. “The good news is that outpatient rates for pathology lab technical services are going up. The bad news is that most outpatient pathology lab services will be bundled and no longer eligible for separate billing on the OPPS fee schedule,” notes Robert Tessier, senior reimbursement consultant at HBP Financial Services Group (Woodbridge, CT). Tessier is advising hospitals to steer their managed care contracts to be linked to the proposed outpatient rates, which are nearly double the proposed physician fee schedule rates for 2014. *Cont’d on pages 5-6.*

## NEW BILL SEEKS TO OUTLAW IN-OFFICE PATHOLOGY LABS

**A** new Congressional bill has been introduced that would remove anatomic pathology professional and technical services from the Stark Law’s in-office ancillary services exception. The Promoting Integrity in Medicare Act of 2013 (H.R. 2914) was presented by Rep. Jackie Speier (D-CA) on August 1. *Continued on page 2.*

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**NEW BILL SEEKS TO OUTLAW IN-OFFICE PATH LABS** (*cont'd from p. 1*)

In addition to anatomic pathology services, the bill would eliminate diagnostic MRI, CT, PET, radiation oncology and physical therapy from the Stark Law’s in-office ancillary services exception (IOASE).

Introduction of the Promoting Integrity in Medicare Act (PIMA) follows a report from the Government Accountability Office (GAO), “Action Needed to Address Higher Use of Anatomic Pathology Services by Providers who Self-Refer,” which found that self-referral of anatomic pathology services cost the Medicare program an estimated \$69 million per year (see *LE*, July 2013, pp. 7-8).

Co-sponsors of the bill include Rep. Jim McDermott (D-WA) and Rep. Dina Titus (D-NV). It has been referred to the House Energy and Commerce Committee and the House Ways and Means Committee, but will likely need co-sponsors from the majority party (the Republicans) or inclusion in another bill to make it out of these committees and be voted on by Congress.

Proponents of the bill say that many physician practices are using the Stark exception in a manner not originally intended, to self-refer patients for complex services that are not typically provided on the same day of an office visit. This not only increases utilization of services but also Medicare costs, according to PIMA supporters, which include the American Clinical Laboratory Assn. (ACLA), College of American Pathologists (CAP), American College of Radiology and American Physical Therapy Association.

Estimated savings from PIMA could reach \$1 billion or more when the costs of overutilization from self-referred imaging services are added to the equation and scored over a 10-year period, notes *Laboratory Economics*. These savings might be used by Congress this fall as they scramble for money to offset the cost of repealing or delaying the sustainable growth rate formula, which calls for an across-the-board 25% cut to Part B Physician Fee Schedule rates in 2014.

“This solution is optimal since it attacks the true drivers of utilization, physicians. For far too long CMS has addressed utilization increases through broad, nonspecific cuts to referral laboratories,

which have no control over the volume of services ordered by physicians,” according to ACLA President Alan Mertz.

Specific pathology services that PIMA would ban from being performed at physician offices include the professional and technical components of 1) surgical pathology;

**Lobby Spending by Select Health Professional Trade Groups, 2013\***

American Medical Assn. ....	\$9,365,000
American College of Radiology .....	2,111,582
American Physical Therapy Assn.....	927,809
American Academy of Dermatology .....	664,862
College of American Pathologists .....	447,839
American College of Gastroenterology .....	272,283
Large Urology Group Practice Assn.....	240,000
American Urological Assn .....	225,000
American Gastroenterology Assn. ....	130,000
American Assn. of Bioanalysts .....	100,000

\*Year to date through July 30, 2013

Source: Center for Responsive Politics

2) cytopathology; 3) hematology; 4) blood banking; and 5) pathology consultation and clinical laboratory interpretation services.

Ultimately, it may be the American Medical Assn. that dictates whether or not PIMA is enacted into law or not. The AMA has by far the biggest lobbying muscle among health professional trade groups. Historically, the AMA has lobbied to keep the Stark Rule exception for diagnostic imaging, anatomic pathology and physical therapy services.

“The Speier bill has as much chance of passing as a snowball in hell,” says Joe Plandowski, co-founder of In-Office Pathology LLC. (Lake Forest, IL). He says the bill is too comprehensive and that the AMA is aggressively lobbying to squash it. “Had the bill focused only on anatomic pathology, it might have had a chance. And, if that was the case, I would look to the specialty physician ownership of hospitals as guidance whereby no new specialty physician hospitals are allowed. However, those in existence can continue to operate. I would see the same grandfather ruling for physician-owned in-office labs. Remember, there are about 4,000 physician-owned in-office pathology labs in the country [including Mohs labs]. Shutting those down will not happen without a major legal fight,” according to Plandowski.

#### **“PACKAGED PAYMENTS” MEANS LOWER RATES** (*cont’d from page 1*)

Clinical lab tests provided to hospital outpatients are currently reimbursed by Medicare on a fee-for-service basis through the Part B Clinical Lab Fee Schedule, while anatomic pathology technical services are paid through the OPSS fee schedule.

The purpose of the lab test packaging proposal is “to encourage greater efficiency by hospitals and the most economical delivery of medically necessary laboratory tests,” according to CMS. The proposal is based on the concept that lab tests that are integral, ancillary, supportive, dependent, or adjunctive to the primary services provided in the hospital outpatient setting should be packaged with the primary service. For example, an ER visit requiring lab tests would be priced to include such services and Medicare would no longer pay separately for these tests.

“Outpatient labs will be turned into cost centers as opposed to revenue generators,” says Mick Raich, President of Vachette Pathology (Blissfield, MI). Hospital outpatient labs will be forced to negotiate with their hospital owners for a slice of the bundled payment. “Under the proposed packaged payment system, clinical lab and pathology tests for hospital outpatients could wind up being reimbursed at a fraction of the amount they are currently paid via the fee-for-service method,” adds Raich. He notes that most hospital outpatient labs derive 35% to 60% of their revenue from Medicare fee schedules, so the change to packaged payment will have a profound effect on their budgets.

Medicare Part B spending on clinical lab tests provided by intermediary labs (i.e., hospital lab outpatient/outreach) totaled \$4.661 billion in calendar year 2012, according to CMS’s 2013 Medicare Trustees Report (see graph on page 4). A significant portion of these expenditures will evaporate if the proposed OPSS rule is finalized, observes *Laboratory Economics*.

It is important to note that professional fees paid to pathologists are not part of the packaging proposal and will continue to be paid under Medicare’s Part B Physician Fee Schedule.

#### **Packaged Payments for Clinical Lab Tests**

Under the proposal, a clinical lab test provided to hospital outpatients would be reimbursed through a packaged payment when it is: (1) provided on the same date of service as the primary service; and (2) ordered by the same practitioner who ordered the primary service.

A clinical lab test would continue to be paid separately under the CLFS if: (1) the test was the only service provided on a particular date of service; and (2) the test was provided on the same day as the primary service, but was ordered by a different practitioner for a different purpose from the primary service.

The clinical lab test codes proposed to be packaged would be assigned status indicator “N” (not separately payable under OPPS) for calendar year 2014. These codes are listed in Addendum P of the proposed rule. However, this Addendum includes all tests currently on the CLFS with the exception of molecular diagnostic tests and CPT 36415 (routine venipuncture), notes Charles Root, PhD, President of CodeMap LLC. (Schaumburg, IL).

### **No Change for Payment of Molecular Diagnostic Tests for Now...**

The proposed OPPS rule states that all molecular diagnostic tests (CPT codes 81200-81383, 81400-81408 and 81479) will continue to be paid under the CLFS. However, CMS says that as molecular diagnostic tests become more routine, these tests may be shifted into packaged payments as well.

### **Packaged Payments for Anatomic Pathology Technical Services**

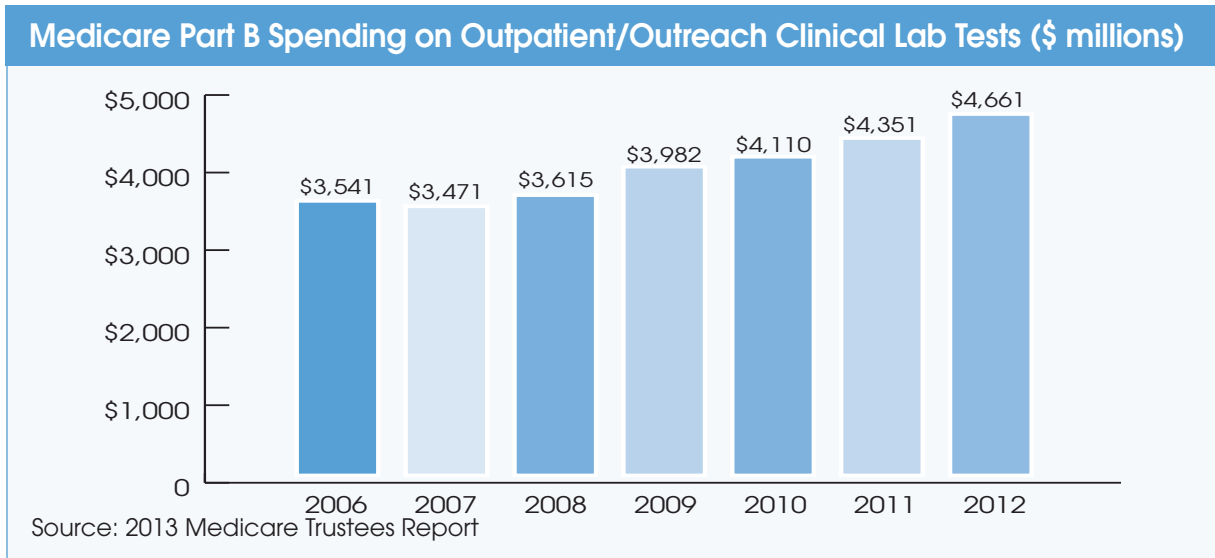
Under the proposed OPPS rule, 425 ancillary services currently paid separately under the OPPS fee schedule would be reimbursed under packaged payments. Among the ancillary services identified for packaged payments are most radiological imaging procedures and anatomic pathology services.

The anatomic pathology codes proposed to be packaged have been assigned status indicator “Q1” for calendar year 2014. These codes are listed in Addendum P of the proposed rule. In all, about 50 anatomic pathology codes would be affected, including the technical components for the high-volume CPT codes 88112, 88185, 88305, 88307, 88312, 88313, 88342, 88367, 88368, et al.

The proposed rule states that these codes will be packaged and not paid separately if billed on the same day as a code with an S, T or V status (such as surgery procedures and clinic or emergency department visits). Pathology technical services will be eligible for a separate fee only when they are performed independently with no other services on the same day.

### **Packaged Payments for Add-On Pathology Codes**

The proposed OPPS rule is also seeking packaged payment for several pathology procedures described by add-on codes, including 88177, 88185, 88311, 88314, 88332, 88334, and 88388. These specific add-on codes would be unconditionally packaged and assigned status indicator “N” for 2014.



**PATHOLOGY OUTPATIENT RATES SET TO SKYROCKET** (*cont'd from p. 1*)

Medicare’s Hospital Outpatient Prospective Payment System (OPPS) proposed rule for 2014 includes major increases for most pathology codes. The OPPS fee schedule covers Medicare payment to hospitals for technical services provided to outpatients. The final rule will be issued around November 1 and become effective January 1, 2014.

**Medicare OPPS Payment Rates for Key Pathology Technical Services\***

<b>CPT/ HCPCS</b>	<b>Description</b>	<b>2014 Proposed APC</b>	<b>2013 Final APC</b>	<b>2014 Proposed Rate</b>	<b>2013 Final Rate</b>	<b>% Chg</b>
88104	Cytopath, smear	342	433	34.95	23.43	49.2%
88108	Cytopath, concentrate tech	342	433	34.95	23.43	49.2%
88112	Cytopath cell enhance tech	342	433	34.95	23.43	49.2%
88120	FISH manual for urine sample	343	661	144.39	157.05	-8.1%
88121	FISH computer for urine sample	343	661	144.39	157.05	-8.1%
88172	Cytopath dx eval FNA 1st each site	433	433	58.44	23.43	149.4%
88173	Cytopath eval FNA report	433	343	58.44	38.10	53.4%
88184	Flowcytometry/tc, 1 marker	344	433	277.56	23.43	1084.6%
88185	Flowcytometry/tc, add-on	NA	342	NA	12.71	NA
88187	Flowcytometry/read, 2-8	343	433	144.39	23.43	516.3%
88188	Flowcytometry/read, 9-15	433	433	58.44	23.43	149.4%
88189	Flowcytometry/read, 16 & >	343	433	144.39	23.43	516.3%
88300	Level I-surgical pathology	342	342	34.95	12.71	175.0%
88302	Level II-surgical pathology	342	433	34.95	23.43	49.2%
88304	Level III-surgical pathology	342	433	34.95	23.43	49.2%
88305	Tissue exam by pathologist	433	343	58.44	38.10	53.4%
88307	Tissue exam by pathologist	343	344	144.39	60.45	138.9%
88309	Tissue exam by pathologist	661	661	485.78	157.05	209.3%
88311	Decalcification procedure	NA	342	NA	12.71	NA
88312	Special stains group 1	433	433	58.44	23.43	149.4%
88313	Special stains group 2	433	433	58.44	23.43	149.4%
88321	Microslide consultation	342	342	34.95	12.71	175.0%
88331	Path consult during surgery	433	433	58.44	23.43	149.4%
88332	Additional frozen section	NA	342	NA	12.71	NA
88342	Immunohistochemistry	343	343	144.39	38.10	279.0%
88346	Immunofluorescent study	344	343	277.56	38.10	628.5%
88360	Tumor immunohistochem/manual	343	343	144.39	38.10	279.0%
88361	Tumor immunohistochem/computer	343	343	144.39	38.10	279.0%
88367	FISH-computer assisted	344	343	277.56	38.10	628.5%
88368	FISH-manual	344	344	277.56	60.45	359.2%
<b>AVERAGE</b>						235.3%

\*Proposed national rates unadjusted for geographic wage differences

Source: *Laboratory Economics* from CMS

## PROPOSED OPPTS RATES 300% MORE THAN MPFS RATES

In a stunning reversal, Medicare reimbursement rates for technical pathology services paid under the OPPTS are set to rise to an average of 3X the rates paid for the same services under the Medicare Physician Fee Schedule (MPFS), according to an analysis of proposed 2014 rates by *Laboratory Economics*.

### Proposed OPPTS vs. MPFS for Key Pathology Technical Services for 2014\*

CPT/ HCPCS	Description	Proposed OPPTS Rate	Proposed MPFS Rate	OPPTS/ MPFS
88104	Cytopath, smear	\$34.95	\$23.82	147%
88108	Cytopath, concentrate tech	34.95	23.82	147%
88112	Cytopath cell enhance tech	34.95	23.82	147%
88120	FISH manual for urine sample	144.39	158.21	91%
88121	FISH computer for urine sample	144.39	462.37	31%
88172	Cytopath dx eval FNA 1st each site	58.44	17.69	330%
88173	Cytopath eval FNA report	58.44	38.45	152%
88184	Flowcytometry/tc, 1 marker	277.56	23.82	1165%
88185	Flowcytometry/tc, add-on	NA	12.93	NA
88187	Flowcytometry/read, 2-8	144.39	68.73	210%
88188	Flowcytometry/read, 9-15	58.44	86.42	68%
88189	Flowcytometry/read, 16 & >	144.39	106.15	136%
88300	Level I-surgical pathology	34.95	9.19	380%
88302	Level II-surgical pathology	34.95	22.11	158%
88304	Level III-surgical pathology	34.95	23.82	147%
88305	Tissue exam by pathologist	58.44	30.96	189%
88307	Tissue exam by pathologist	144.39	60.9	237%
88309	Tissue exam by pathologist	485.78	158.21	307%
88311	Decalcification procedure	NA	9.87	NA
88312	Special stains group 1	58.44	23.82	245%
88313	Special stains group 2	58.44	23.82	245%
88321	Microslide consultation	34.95	NA	NA
88331	Path consult during surgery	58.44	23.82	245%
88332	Additional frozen section	NA	12.25	NA
88342	Immunohistochemistry	144.39	38.45	376%
88346	Immunofluorescent study	277.56	38.45	722%
88360	Tumor immunohistochem/manual	144.39	38.45	376%
88361	Tumor immunohistochem/computer	144.39	38.45	376%
88367	FISH-computer assisted	277.56	38.45	722%
88368	FISH-manual	277.56	60.90	456%
<b>AVERAGE</b>				<b>300%</b>

\*Proposed national rates unadjusted for geographic wage differences; assumes conversion factor for MPFS remains at 34.023

Source: *Laboratory Economics* from CMS

## FINAL FEE SCHEDULE COULD INCLUDE MORE SURPRISES

The September 6 deadline for comments to CMS on the proposed 2014 physician fee schedule cuts is almost here. Thousands of pathologists and labs have written CMS in an effort to mitigate the proposed cuts, which include cuts that range as high as 50% to 80% for the technical components of many key pathology codes.

If finalized, the proposal would reduce payment below the cost of the supplies used to perform many pathology services. The reductions would result in an estimated loss of \$571 million in annual Medicare payments to pathology labs (see *LE*, July 2013, page 6). Hundreds of millions more would be lost if commercial health plans followed Medicare and made proportional cuts.

CMS will issue its final physician fee schedule for 2014 in early November. The final rule may include adjustments to the proposed rates.

In addition, the final rule is likely to include additional changes to several high-volume pathology codes, including CPT codes 88305, 88342, 88112, 88365-88368. These codes have been under CMS review as potentially misvalued. In total, these codes represent approximately \$1 billion in Medicare spending for 2013.

### High-Volume Codes Under Review for Revaluation

<i>CPT Code</i>	<i>Estimated Annual Medicare Spend (\$ mill) for 2013</i>
88305 technical component .....	\$500
88342 immunochemistry PC and TC .....	325
88112 cytopathology PC and TC .....	100
88365, 88367 and 88368 in-situ hybridization PC and TC .....	100
Total Under Review .....	\$1,025

Source: *Laboratory Economics* and CAP

### CPT 88305

The technical component for CPT 88305 was cut by 52% this year and could be further reduced in 2014. CMS has been reviewing the appropriate number of blocks (now at 2 blocks) to assume as typical for each 88305-TC service. A reduction in the assumed number of blocks would result in lower direct PE inputs for 88305-TC and therefore a lower reimbursement rate.

### CPT 88342

Both the PC and TC rates for CPT 88342 are likely to change next year through the use of a new add-on code to report each additional antibody tested on a patient sample. The first CPT 88342 would be billed at one rate, while additional 88342's would be billed at a lowered rate.

### CPT 88112

The TC and PC components for CPT 88112 (Cytopathology, cell enhancement technology) are under review because CMS identified them as high-expenditure codes that have not been reviewed since 2006. Medicare will spend an estimated \$100 million on CPT 88112 in 2013.

### CPT 88365, 88367 & 88368

The PC and TC rates for CPT codes 88365-88368 may change to ensure the appropriate relative to CPT codes 88120 and 88121. CMS is concerned that physicians may be reporting in-situ hybridization services (e.g., "FISH" testing) incorrectly where multiple units of each code are reported. Medicare will spend an estimated \$100 million on CPT codes 88365-88368 in 2013.

## LABCORP ACQUIRES BENDINER AND GENESIS CLINICAL LAB

LabCorp has acquired **Bendiner & Schlesinger Inc.** (Brooklyn, NY). Specimen testing has been transferred to LabCorp's major lab in Raritan, New Jersey. Operations at B&S's 80,000 square foot lab in Brooklyn have been shut down and all six of its patient service centers in the New York City area have been closed. LabCorp laid off 245 B&S employees in late May, according to a filing with the New York State Department of Labor.

B&S had been one of America's oldest medical labs. The privately held company was originally founded in 1843 as a compounding pharmacy in the days when apothecary was an art. B&S began performing lab testing in 1902. B&S was a full-service lab that specialized in toxicology testing for workplace testing and drug rehab programs across the country. Annual revenue at B&S is estimated to have been more than \$20 million.

In a separate transaction, LabCorp has acquired the outreach lab business of **Genesis Clinical Laboratory** (Berwyn, IL). GCL is a division of the 373-bed MacNeal Hospital based in the suburbs of Chicago. MacNeal Hospital is owned by the for-profit hospital chain Vanguard Health Systems Inc. (Nashville, TN). Vanguard itself is in the process of being sold to its larger rival Tenet Healthcare Corp. (Dallas, TX).

LabCorp is now in the process of transferring GCL outreach specimens to its major lab in nearby Elmhurst, Illinois. GCL will continue to provide inpatient testing services to MacNeal Hospital and three other Vanguard hospitals in the Chicago area.

LabCorp has spent \$104 million on acquisitions year to date through June 30, 2013, including its acquisitions of B&S, GCL's outreach lab and others.

## BIO-REFERENCE BUYS HUNTER LABS

Bio-Reference Labs (Elmwood Park, NJ) has acquired Hunter Laboratories (Campbell, CA) for an undisclosed amount. Hunter Labs was started in 2003 by its CEO and owner Chris Riedel. The company has more than 200 employees and operates more than 30 PSCs, primarily in northern California. Hunter Labs also has estimated annual revenue of \$25 million.

The acquisition of Hunter Labs gives Bio-Reference a West Coast laboratory as well as Medi-Cal in-network status.

Hunter Labs and Riedel were whistleblowers in a qui tam lawsuit filed in 2005 brought on behalf of the State of California against Quest Diagnostics, LabCorp and several smaller labs. The lawsuit alleged that these labs were over-billing Medi-Cal and was settled in 2011 with Quest paying \$241 million and LabCorp paying \$49.5 million.

Riedel says that he will now focus his time assisting his attorneys with similar lawsuits he has filed against the two big labs in several other states. For example, Riedel has a trial set to begin in November against Quest for not passing on its lowest advertised prices to the Medicaid program in Nevada.

## HEALTHTRONICS LAB SOLD TO METAMARK GENETICS

Endo Health Solutions (Malvern, PA) has sold its subsidiary anatomic pathology business, Health-Tronics Laboratory Solutions (HLS), to Metamark Genetics (Cambridge, MA). HLS operates pathology labs in Augusta, Georgia, and Collegeville, Pennsylvania. Metamark Genetics is developing molecular-based prognostic tests for early staged cancers. The acquisition of HLS gives it two CLIA-certified labs from which to launch its tests.



## MERGER & ACQUISITION SUMMARY FOR 2013

An estimated \$500 million has been spent on 11 lab acquisitions year to date through August 30, according to research by *Laboratory Economics*. Quest Diagnostics has spent a total of \$179.9 million on three acquisitions so far this year. Its biggest was the purchase of the clinical outreach and anatomic pathology businesses of UMass Memorial Medical Center for approximately \$90 million. LabCorp has spent a total of \$104.2 million on acquisitions so far this year.

### Laboratory Merger & Acquisition Summary, January 2012-August 2013 (\$ millions)

Date	Buyer	Target	Purchase Price	Acquired Revenue	Price/Revenue
Aug-13	Metamark Genetics	HealthTronic Laboratory	NA	NA	NA
Aug-13	Bio-Reference Labs	Hunter Laboratories	NA	25E	NA
Jun-13	Quest Diagnostics	Dignity Health outreach lab	NA	NA	NA
Jun-13	LabCorp	Genesis Clinical Lab outreach lab	NA	30E	NA
May-13	Quest Diagnostics	Advanced Toxicology Network	NA	NA	NA
May-13	LabCorp	Bendiner & Schlesinger Inc.	NA	25E	NA
Apr-13	Initial Public Offering	Cancer Genetics Inc.*	42	4.3	9.8
Jan-13	Quest Diagnostics	UMass Labs	90	75E	1.2
Jan-13	InCyte Pathology	Eastside Pathology	NA	NA	NA
Jan-13	Access Genetics	OralDNA Labs	NA	NA	NA
Jan-13	Initial Public Offering	LipoScience**	125	55	2.3
Dec-12	Selah Genomics	Lab21 (SC labs)	NA	NA	NA
Dec-12	Bio-Reference Labs	Florida Clinical Lab	7	NA	NA
Dec-12	Bio-Reference Labs	Meridian Clinical Lab	1.9	NA	NA
Dec-12	Ascend Clinical LLC	PathCentral Lab	NA	NA	NA
Dec-12	OPKO Helath	Prost-Data/OURLab	42	12	3.5
Dec-12	Sterling Reference Labs	SECON of New England	NA	NA	NA
Dec-12	Sterling Reference Labs	Graham-Massey Analytical Labs	NA	NA	NA
Nov-12	Miraca Holdings	OncoDiagnostic Laboratory	NA	NA	NA
Oct-12	Miraca Holdings	Aloha Laboratories	NA	NA	NA
Aug-12	Vista Clinical Diagnostics	Aurora Diagnostics CHC Labs	0.15	6	0.03
Jul-12	LabCorp	Medtox Scientific	241	108	2.2
Jun-12	Genova Diagnostics	Metamatrix	NA	NA	NA
Apr-12	US Clinical Labs	Prestige Laboratory	NA	NA	NA
Apr-12	Waud Capital	Sterling Reference Lab	NA	15E	NA
Mar-12	PathGroup	Atlanta Dermatopathology	NA	5E	NA
Feb-12	Sonic Healthcare USA	Bridger Pathology Labs	NA	NA	NA
Jan-12	LabCorp	Millennium Laboratory	NA	10E	NA
Jan-12	Quest Diagnostics	SED Medical Labs	50.5	50E	1.0

E=estimated by *Laboratory Economics*

\*Market value of Cancer Genetics Inc. at IPO price of \$10 per share; \*\*Market value of LipoScience at IPO price of \$9 per share

Source: *Laboratory Economics*

## PUBLICLY-TRADED LABS SHRINK BY 1% IN FIRST-HALF 2013

Revenue at 16 publicly-traded labs decreased by 1.3% to \$7.956 billion in the first six months of 2013 (after adjusting for acquisitions), according to financial reports collected by *Laboratory Economics*.

Excluding Quest Diagnostics and LabCorp, 14 publicly-traded labs grew by 10% during the first half of 2013 (after adjusting for acquisitions).

The fastest-growing companies were **Sequenom's Molecular Diagnostics Division**, up 316% to \$53.6 million; **Cancer Genetics Inc.**, up 53.8% to \$3.1 million; and **Response Genetics**, up 39.9% to \$10.9 million.

**Quest Diagnostics** (Madison, NJ) reported net income of \$301.2 million for first-half 2013, down from \$336.8 million in first-half 2012. Quest's reported revenue decreased by 4.9% to \$3.602 billion in first-half 2013. *Laboratory Economics* estimates that Quest's organic revenue was down 6% after adjusting for the acquisitions of SED Medical Labs (January 2012), UMass Labs (January 2013) and Dignity Health outreach labs (June 2013).

**LabCorp** (Burlington, NC) reported net income of \$299.2 million for first-half 2013, down from \$314.9 million in the same period last year. Revenue increased 2.2% to \$2.909 billion. *Laboratory Economics* estimates that LabCorp's organic revenue was flat after adjusting for the acquisitions of Medtox Scientific (July 2012), the outreach lab business of Genesis Clinical Laboratory (June 2013) and Bendiner & Schlesinger (May 2013).

**Bio-Reference Laboratories** (Elmwood Park, NJ) posted net income of \$20 million in the six months ended April 30, 2013, up 20% from \$16.7 million during the same period last year. Revenue increased 16.4% to \$330.6 million. After adjusting for the recent acquisitions of two small labs in Florida, Bio-Reference's revenue growth was an estimated 13%.

**Genomic Health** (Redwood City, CA) recorded a net loss of \$3.9 million in first-half 2013 versus net income of \$2.6 million in first-half 2012. Revenue was up 9.2% to \$126.8 million.

**Aurora Diagnostics** (Palm Beach Gardens, FL) reported a net loss of \$12.8 million in first-half 2013 versus a net loss of \$4.7 million for first-half 2012. Revenue fell by 12.6% to \$123.9 million. Total accessions decreased 2.5% to 1.072 million cases, while average revenue per accession was down 10.1% to \$116.

**NeoGenomics** (Fort Myers, FL) reported net income of \$276,000 in first-half 2013, down from \$1.2 million in the same period last year. Revenue was up 1.6% to \$31.3 million. Total accessions increased by 16.9% to 41,479 cases, while average revenue per accession decreased by 13.1% to \$754.

**LipoScience** (Raleigh, NC) recorded a net loss of \$5.3 million in first-half 2013 versus net income of \$475,000 in the same period a year ago. Revenue fell by 2.7% to \$26.9 million. LipoScience processed 1.047 million lipid test panels in first-half 2013, up 8% from 969,000 test panels in first-half 2012. The overall average selling price for its test panels decreased 7.9%, to \$24.72.

**Sonic Healthcare USA** (Austin, TX) reported U.S. revenue of \$345 million for the six months ended June 30, 2013, down 2.8% from \$355 million in the same period last year. The Australian-based company says it has initiated a \$60 million cost-cutting plan with saving expected from lab consolidation, workforce reductions and supply cost savings.

**Myriad Genetics** (Salt Lake City, UT) reported revenue of \$330.6 million for the six months ended June 30, 2013, up 25.8% from \$262.7 million in the same period last year. Revenue from the company's BRACAnalysis test, which represented 74% of total revenue for the six-month period, was \$245 million, up 14.2% from \$214.6 million.

### Revenue Growth at 16 Publicly-Traded Lab Companies (\$'000)

<b>Company</b>	<b>First-Half Revenue 2013</b>	<b>First-Half Revenue 2012</b>	<b>Reported Change</b>	<b>Pro Forma Change*</b>
Quest Diagnostics	\$3,602,387	\$3,787,049	-4.9%	-6.0%
LabCorp	2,909,100	2,846,700	2.2%	0.0%
Sonic Healthcare USA	345,000	355,000	-2.8%	-2.8%
Bio-Reference <sup>1</sup>	337,709	290,236	16.4%	13.0%
Myriad Genetics	330,588	262,742	25.8%	25.8%
Genomic Health	126,785	116,098	9.2%	9.2%
Aurora Diagnostics	123,941	141,850	-12.6%	-12.6%
Sequenom Molecular Diagnostics	53,609	12,890	315.9%	315.9%
NeoGenomics	31,260	30,771	1.6%	1.6%
LipoScience	26,927	27,677	-2.7%	-2.7%
Enzo Clinical Labs <sup>2</sup>	26,704	29,365	-9.1%	-9.1%
Transgenomic	14,680	16,299	-9.9%	-9.9%
Psychemedics	13,331	13,106	1.7%	1.7%
Response Genetics	10,938	7,817	39.9%	39.9%
Combimatrix	3,111	2,575	20.8%	20.8%
Cancer Genetics Inc.	3,050	1,983	53.8%	53.8%
Total, 16 companies	\$7,955,999	\$7,945,279	0.1%	-1.3%
Total, 14 companies (excluding Quest and LabCorp)	\$1,447,633	\$1,308,409	10.6%	10.0%

\*Pro forma change is estimated by *Laboratory Economics* after adjustments for acquisitions.

<sup>1</sup>Bio-Reference's revenue is for six months ended April 30, 2013; <sup>2</sup>Enzo's revenue is for lab services only for six months ended April 30, 2013.

Source: *Laboratory Economics* from company reports

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## LAB STOCKS DOWN 2% YTD

Thirteen lab stocks are, on average, down 2% in price year to date through August 16. In comparison, the S&P 500 Index is up 17.6%. The top-performing lab stocks so far this year are Response Genetics, up 39%, and Psychemedics, up 24%, followed by Genomic Health, up 18%. Quest Diagnostics is flat and LabCorp is up 12%.

Company (ticker)	Stock Price 8/16/13	Stock Price 12/31/12	2013 Price Change	Market Capitalization (\$ millions)	P/E Ratio	Price/Sales	Price/Book
Bio-Reference (BRLI)	\$26.46	\$28.63	-8%	\$732	16.2	1.1	3.0
Cancer Genetics Inc. (CGIX)	9.75	10.00	-3%	42	NA	7.8	NA
CombiMatrix (CBMX)	2.95	5.28	-44%	10	NA	1.5	1.9
Enzo Biochem (ENZ)	2.35	2.70	-13%	94	NA	1.0	2.7
Genomic Health (GHDX)	32.05	27.24	18%	968	790.0	3.9	6.9
LabCorp (LH)	96.86	86.62	12%	9,000	14.3	1.6	3.4
LipoScience (LPDX)	5.19	9.00	-42%	76	NA	1.4	1.3
Myriad Genetics (MYGN)	27.41	27.25	1%	2,180	15.5	3.6	3.3
NeoGenomics (NEO)	2.18	2.48	-12%	106	NA	1.8	5.6
Psychemedics (PMD)	13.31	10.75	24%	70	22.7	2.7	6.0
Quest Diagnostics (DGX)	58.09	58.27	0%	9,180	14.2	1.3	2.4
Response Genetics (RGDX)	1.93	1.39	39%	63	NA	3.0	7.1
Sonic Healthcare (SKHCY)	13.30	13.69	-3%	5,283	NA	NA	NA
Unweighted Averages			-2%		145.5	2.5	3.6

Source: Zacks

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