Jondavid Klipp, Editor, labreporter@aol.com

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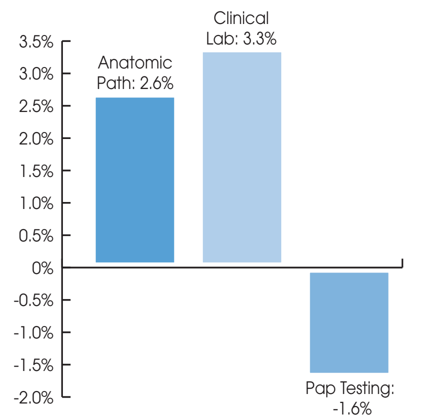
LABORATORY ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

GROWTH SLOWS IN ANATOMIC PATHOLOGY

After years of growth ranging from 5% to 10% per year, the U.S. anatomic pathology market is cooling off. Anatomic pathology volumes are expected to grow by only 2.6% this year, according to an exclusive survey of 218 pathology groups and labs conducted by *Laboratory Economics* in early April. Expected clinical lab test volume growth is stronger at 3.3%. Pap testing was weakest and is expected to decline by 1.6% this year because of extended testing intervals due to HPV testing and new vaccines. *For a full summary of LE's Anatomic Pathology Market Trends Survey, see pages 5-7.*

Test Volume Growth for 2013



Source: *LE's Anatomic Pathology Market Trends Survey*, April 2013; n=218

AETNA SLASHES ITS LAB FEE SCHEDULE

Effective July 1, 2013, Aetna is lowering its standard lab fee schedule—the Aetna National Contract Default (ANCD)—for all its health plans to rates that are equal to only 45% or 50% of national Medicare reimbursement rates. Aetna says that it calculated its new rates based on "industry standard methodologies and sources." However, all of its clinical lab, Pap test and anatomic pathology reimbursement rates are set at exactly 45% or 50% of Medicare's Clinical Lab Fee Schedule or Physician Fee Schedule. *Continued on page 2.*

PROPOSED BUDGET CALLS FOR LAB FEE CUTS

The Obama Administration has released its proposed federal budget for fiscal year 2014. The President's budget includes $371 billion in savings from Medicare, including $9.46 billion from a proposed 1.75% reduction to the Clinical Lab Fee Schedule (CLFS) made each year from 2016 through 2023. This would extend the current 1.75% annual cuts to the CLFS (enacted under the Affordable Care Act of 2010) scheduled for 2011-2015.

This proposal, on top of cuts already scheduled under current law, would bring total cuts to the CLFS to 35% to 40% over the next 10 years, according to Mark Birenbaum, PhD, administrator for the National Independent Laboratory Assn. (St. Louis, MO).

On the bright side, the President's budget proposal would retire the Sustainable Growth Rate (SGR) formula and undo the sequestration cut of 2% to physician pay and the CLFS that became effective April 1. There also was no mention of a lab co-pay in the proposed budget. *Continued on page 3.*

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AETNA SLASHES ITS LAB FEE SCHEDULE (*cont'd from page 2*)

For example, Aetna's new rate for Vitamin D testing (CPT 82306) is $18.32, which is equal to 45% of the Medicare national rate of $40.70.

Aetna's new global rate for CPT 88305 is a ridiculously low $35.05, which is half of the Medicare rate of $70.09, which itself was reduced by 33% this year due to a big reduction in technical component reimbursement.

In many cases, Aetna's new rates are barely enough to cover the cost of test reagents and supplies. For example, its reimbursement for thin-layer Pap testing (CPT 88142) is only $13.93. This means that a typical lab paying $7 per test for thin-layer supplies has only got $6.93 left over to pay for specimen transport, specimen prep and cytotechnologist review. In fact, Aetna's reimbursement rate is below the current Medicare rate of $14.53 for the outdated conventional Pap smear (CPT 88164).

Global Reimbursement Rate Comparison

CPT Code	Description	Aetna National Rate	Medicare National Rate	Aetna % of Medicare
80048	Metabolic panel	$5.23	$11.63	45%
80053	Comprehensive metabolic panel	6.54	14.53	45%
80076	Hepatic function panel	5.62	11.23	50%
81001	Urinalysis auto w/scope	1.96	4.35	45%
81003	Urinalysis auto w/o scope	1.55	3.09	50%
82306	Vitamin D 25 hydroxy	18.32	40.70	45%
82607	Vitamin B12	9.32	20.72	45%
84153	PSA total	11.38	25.29	45%
84403	Total testosterone	15.97	35.49	45%
85027	Complete CBC automated	4.00	8.89	45%
85610	Prothrombin time	2.43	5.40	45%
86003	Allergen specific IgE	3.59	7.17	50%
86140	C-reactive protein	3.56	7.11	50%
86703	HIV-1/HIV-2 antibody	9.43	18.85	50%
87491	Chylmd trach dna amp probe	24.12	48.24	50%
87591	N. gonorrhoeae dna amp probe	21.71	48.24	45%
87621	HPV dna amp probe	21.71	48.24	45%
88142	Cytopath c/v thin layer	13.93	27.85	50%
88175	Cytopath c/v auto fluid redo	18.21	36.41	50%
88185	Flow cytometry	27.05	54.1	50%
88304	Level III surgical pathology	22.29	44.57	50%
88305	Level IV surgical pathology	35.05	70.09	50%
88307	Level V surgical pathology	148.68	297.36	50%
88313	Special stains	30.47	67.71	45%
88342	Immunohistochemistry	57.67	115.34	50%

Source: *Laboratory Economics* from Aetna letter to lab providers (March 26, 2013)

PROPOSED BUDGET CALLS FOR MORE LAB CUTS (*cont'd from p. 1*)

Birenbaum says the cuts will hurt small independent labs disproportionately because Medicare accounts for an average of roughly 25% to 60% of their revenue. In comparison, Quest and LabCorp each get about 17% of their revenue from Medicare.

Alan Mertz, president of American Clinical Laboratory Assn. (Washington, DC), says the proposal to extend the 1.75% cuts came as a surprise. "No one on the Hill nor the MedPAC committee had proposed cuts of this magnitude." He says these cuts are unlikely as long as the lab community continues to get its message across in Washington. "We've already made more than our share of sacrifices," says Mertz. He notes that the President's budget proposal is subject to change during the legislative process, particularly as the House and Senate leadership pursue alternative budget frameworks.

The CLFS was reduced by 2.95% effective January 1, 2013. In addition, the Budget Control Act of 2011 triggered an automatic sequester cut of 2% effective April 1, 2013.

Factors Affecting the Clinical Lab Fee Schedule:

1. Medicare's CLFS is supposed to get an annual inflation update each year based on the Consumer Price Index for all Urban Consumers (CPI-U).
2. Under the Affordable Care Act of 2010, CMS must reduce the inflation update to the Part B lab fee schedule by a "productivity adjustment" of about 1.3% per year from 2011-2020.
3. ACA requires an additional 1.75% decrease in the CPI update each year from 2011-2015.
4. Effective January 1, 2013, the CLFS was subject to a one-time 2% cut to help pay for a 10-month freeze in Medicare payment rates to physicians.
5. The Budget Control Act of 2011 triggered an automatic sequester cut of 2% to the CLFS effective April 1, 2013.
6. President Obama's proposed federal budget for fiscal year 2014 calls for extending the 1.75% annual cuts through 2016-2023, but would cancel the 2% sequestration cut.

The Part B clinical lab fee schedule has essentially been frozen since 2000. If the Part B clinical lab fee schedule had been adjusted with the inflation rate since 2000, a hypothetical $10 test would be now be reimbursed at about $14.

Medicare Part B Clinical Lab Fee Schedule Changes

Year	Part B Clinical Lab Fee Schedule Change	Hypothetical $10 Test
2000	0.00%	$10.00
2001	0.00%	$10.00
2002	0.00%	$10.00
2003	+1.10%	$10.11
2004	0.00%	$10.11
2005	0.00%	$10.11
2006	0.00%	$10.11
2007	0.00%	$10.11
2008	0.00%	$10.11
2009	+4.50%	$10.56
2010	-1.90%	$10.36
2011	-1.75%	$10.18
2012	+0.65%	$10.25
Jan. 1, 2013	-2.95%	$9.95
April 1, 2013	-2.00%	$9.75

Source: *Laboratory Economics*

PALMETTO INCREASES FEES FOR 8 MDx TESTS

Palmetto GBA, the Medicare administrative contractor for California, Nevada and Hawaii, has raised its payment rates for eight high-volume MDx test codes. The changes range from a 9% increase for KRAS Mutation Analysis (CPT 81275) to a 189% hike for CYP2D6 (CPT 81226).

Palmetto reviewed its pricing based largely on data submitted by the California Clinical Laboratory Association (CCLA). Palmetto's new rates for the eight MDx tests is more in line with the pricing that labs had received under the old code-stack method of billing. However, Palmetto has not changed its initial prices for more than 100 other new MDx test codes, which remain, on average, 30% below the median rates under code-stack billing.

Palmetto MDx Test Price Changes

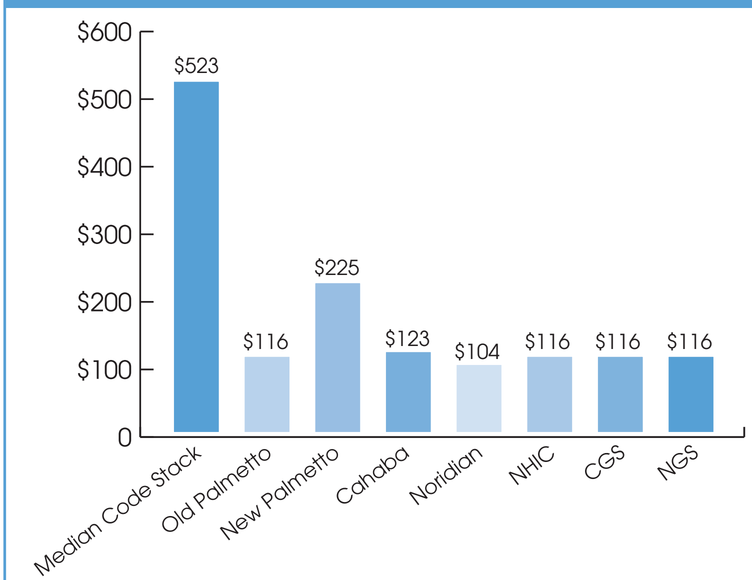
CPT Code	Test Name	Palmetto Old Rate	Palmetto New Rate	Increase Amount	Increase Percent
81210	BRAF Gene Mutation	$57.51	$97.45	$39.94	69%
81225	CYP2C19 Genotype	135.26	319.12	183.86	136%
81226	CYP2D6 Genotype	147.50	426.43	278.93	189%
81227	CYP2C9 Genotype	96.78	169.50	72.72	75%
81235	EGFR Mutation Analysis	116.25	225.00	108.75	94%
81241	F5	68.64	78.39	9.75	14%
81270	Jak2	72.81	82.88	10.07	14%
81275	KRAS Mutation Analysis	225.88	246.40	20.52	9%

Source: Palmetto GBA

In addition, other Medicare carriers have not announced any changes to their initial MDx test prices. Furthermore, neither Palmetto or any of the other carriers have provided details on how they determined pricing.

Congress requires CMS lab rate setting to be rational and transparent (see Section1833(h)(8)(B)(iv) of the Social Security Act). However, carrier pricing for most of the new MDx test codes looks wildly disparate and irrational, observes *Laboratory Economics*. For example, under the code-stack method, labs had billed for a median rate of $523 for EGFR Mutation Analysis (CPT 81235). Palmetto's initial pricing was $116 and its revised rate is $225. Meanwhile, Noridian's rate is $104. And other carriers, including NHIC, CGS and NGS, appear to have completely neglected their job to analyze and calculate pricing by simply copying Palmetto's initial wrong rate of $116.

Pricing Variation Among MACs for EGFR (CPT 81235)



Source: *Laboratory Economics*, XIFIN Inc. and MACs

DECLINING REIMBURSEMENT IS TOP CONCERN (*cont'd from page 1*)

Declining reimbursement remains the biggest challenge that pathology groups and labs will face over the next five years, according to *LE's Anatomic Pathology Market Trends Survey*. Thirty-one percent of survey respondents cited reimbursements as their biggest concern in *LE's* latest poll, up from 26% in our previous poll in 2011.

"We are afraid that managed care companies are going to follow suit with CMS on lowering 88305-TC reimbursement. We are already seeing pressures from Premera, Aetna, and UnitedHealth to lower our fee," noted an anonymous pathologist who responded to our survey.

"The biggest challenge will be adapting to new payment models while struggling with broken up and failing old payment models with their inherent inequities," noted a pathologist from Oklahoma.

The next most frequently cited challenge was "specialty physician groups insourcing pathology," which was cited by 15%, down from 19% in our 2011 survey. (See page 6 for more on in-office pathology labs.)

"Competition from large commercial labs" was the third highest ranked challenge at 13%. In particular, surveyed pathology groups and labs cited the willingness of national labs to provide EMR packages at little or no cost to attract new clients. In addition, 9% of respondents cited "exclusion from managed care contracts" as their top concern

"Pathologists/labs are now considered vendors rather than specialists. From EHR donations to requests to provide services such as Medical Directorships at minimal fees continues to eat away at profits. The relationships between clients and pathologists that in the past were important can now be dismissed if services are offered at lower costs," observed a pathology lab executive from Texas.

What is the biggest challenge pathology groups will face over the next 5 years?

	2013	*2011*	*2010*	*2009*	*2008*	*2007*
Declining reimbursement	31%	26%	29%	25%	27%	23%
Specialty physician groups insourcing pathology	15%	19%	17%	18%	14%	15%
Competition from large commercial labs	13%	16%	15%	15%	19%	20%
Exclusion from managed care contracts	9%	9%	8%	10%	NA	NA
Staffing shortages	6%	7%	8%	13%	19%	15%
Technical staff shortages	5%	5%	7%	12%	13%	NA
Pathologist shortages	1%	2%	1%	1%	6%	NA
Increased expenses for information technology	6%	8%	9%	10%	6%	NA
Difficulty/expense of adding new molecular diagnostics	6%	5%	5%	7%	9%	NA
Weak economy	6%	8%	8%	NA	NA	NA
Loss of "grandfather clause" for TC billing	4%	NA	NA	NA	NA	NA
Uncertainty about ACOs and bundled payments	3%	NA	NA	NA	NA	NA
Other	1%	2%	1%	1%	2%	16%

Source: *LE's Anatomic Pathology Market Trends Surveys, 2007-April 2013*

Survey Demographics: The survey was e-mailed to approximately 5,000 pathology groups, independent labs and hospitals in early April 2013. A total of 218 surveys were judged usable, yielding a response rate of 4%. Among the respondents, 75 were from hospital-based pathology groups, 92 from local or regional independent pathology groups and labs, 27 from academic medical center-based pathology groups, 13 from national pathology companies and 11 from in-office pathology labs.

HOW WILL PATHOLOGY LABS DEAL WITH THE 88305-TC REDUCTION?

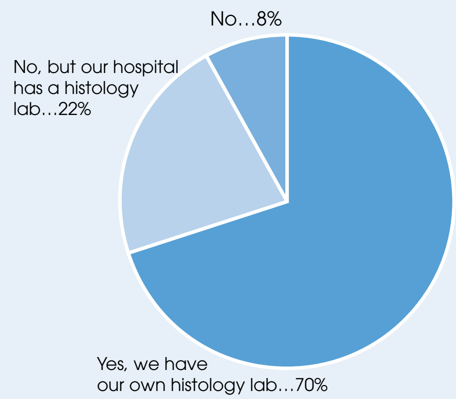
The 52% cut to 88305-TC is affecting the majority of survey takers. Seventy percent of respondents said their pathology group operates a histology lab for slide preparation.

Survey respondents are hopeful that the 88305-TC reduction will slow down the formation of in-office pathology labs.

"Specialty groups owning and profiting from anatomic pathology business is causing over-biopsying and fragmentation of patient care. Perhaps with the TC reimbursement decline, these labs will close," noted a pathologist from Pennsylvania.

"I think the 88305 technical component decrease will slow or stop subspecialty group insourcing of histology. If IHC is cut next year, it will stop insourcing completely. However, it will make it harder for my group to accept the work as well," according to a pathology lab executive from Arizona.

Does your pathology group operate a histology laboratory?



Source: *LE's Anatomic Pathology Market Trends Survey*, April 2013; n=218

In terms of adapting to lower reimbursement for 88305-TC, the most popular response was "put pressure on reagent suppliers and other vendors to lower costs," cited by 47% of survey takers. Forty-two percent said they would try to "grow their way out of it." And thirty-three percent said they will "hold or reduce employee compensation." Only 1% (two respondents) said they planned to sell their technical lab.

How will your pathology group/lab adapt to lower Medicare rates for 88305-TC?*

Put pressure on reagent suppliers and other vendors to lower costs	47%
We will grow our way out of it	42%
We will hold or reduce employee compensation	33%
Improve billing and collection efficiency	28%
We will reduce staff	27%
We will delay new instrument/equipment purchases	23%
We will consolidate offices/labs	11%
We will sell our technical lab	1%

*Survey respondents were able to select multiple answers

Source: *LE's Anatomic Pathology Market Trends Survey*, April 2013; n=218

Several survey respondents believe the 88305-TC cut will lead to fewer small independent pathology groups and more hospital-employed pathologists.

"Small independent 1-4 pathologist groups are going to cease to exist because of the compression of margins in the TC side of the business. Hospitals with TC operations will employ pathologists in the future rather than the current partnership model with local independent pathologists. Employed pathologists are less expensive," noted a pathology lab executive from Alabama.

In-Office Pathology Labs Remain a Problem

The percentage of pathology groups and labs that say they have lost business to specialty groups (e.g., urologists, gastroenterologists, dermatologists, etc.) that have built in-office histology labs rose to an all-time *LE* survey high. Twenty-seven percent of survey respondents said they had lost "significant business" in 2013 and 32% said they lost "some business."

Has your pathology group/lab lost business in the past year because a physician group client created its own histology lab?

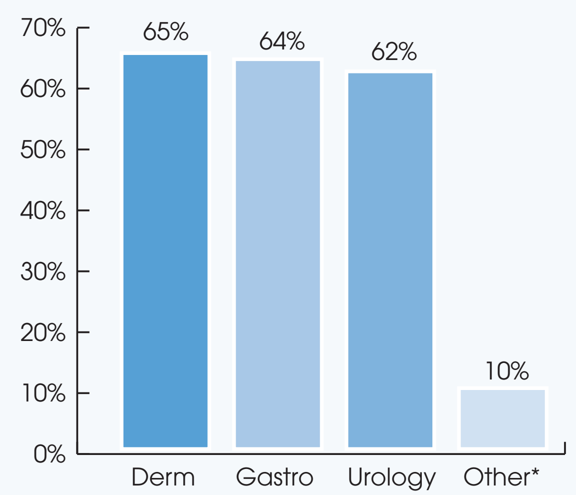
	2013	*2011*	*2010*	*2009*	*2008*	*2007*
Yes, we've lost significant business	27%	11%	17%	15%	8%	5%
Yes, we've lost some business	32%	36%	29%	37%	28%	28%
No, we have not been affected	41%	53%	54%	48%	64%	67%

Source: *LE's Anatomic Pathology Market Trends Surveys*, 2007-April 2013

The insourcing trend is currently strongest at dermatology groups. Sixty-five percent of survey respondents said at least one derm group had insourced anatomic pathology services in their market. "The American Academy of Dermatology is still endorsing and encouraging insourcing as a viable business model. This is bad medicine," according to a pathologist from Kansas.

So far insourcing has not spread in any significant way to specialties other than derm, gastro and urology. However, a handful of survey participants cited in-office labs at podiatry, multispecialty, plastic surgery, heme/oncology, ENT and Ob/Gyn practices.

What types of groups have insourced pathology in your area?



*Includes podiatry, multispecialty, plastic surgery, heme/oncology, ENT, Ob/Gyn

Source: *LE's Anatomic Pathology Market Trends Survey*, April 2013; n=218

"The concept that pathology revenue (TC and PC) are "free" sources of income for clinicians has been very damaging to our profession. The mechanisms for accomplishing this evolved over time (client billing, POD labs, insourcing/hiring) but the message pathology has sent (that we can be bought) is probably irreversible now. This bodes poorly for ACO era," noted a pathologist from Minnesota.

White House Budget Proposal Seeks Stricter Stark Exception Rules

President Obama's recent budget proposal offered some hope that the in-office ancillary services (IOAS) exception to the Stark law could someday be tightened up to exclude anatomic pathology services. The proposed budget calls for the exclusion of radiation therapy and advanced imaging from the IOAS Stark exception. Removing this loophole would save an estimated $6.1 billion over 10 years. Anatomic pathology was not mentioned, but the door is now open for AP services to also be excluded from the IOAS Stark exception, according to ACLA president Alan Mertz. But first he says the savings to the Medicare program that could be achieved by banning in-office pathology labs needs to be scored.

PUBLICLY-TRADED LABS GREW 1% IN 2012

Thirteen publicly-traded labs grew their revenue by 0.9% to $15.8 billion in 2012 (after adjusting for acquisitions), according to financial reports collected by *Laboratory Economics*.

Excluding Quest Diagnostics and LabCorp, 11 publicly-traded labs grew by 10.4% last year (after adjusting for acquisitions).

Revenue growth was fastest at two cancer-testing lab companies—NeoGenomics (up 38%) and Myriad Genetics (up 20%)—and the specialty testing lab LipoScience (up 20%). Other lab companies recording double-digit growth (after adjusting for acquisitions) included Bio-Reference Labs (up 18%), CombiMatrix (up 15%), Genomic Health (up 14%) and Enzo Clinical Labs (up 13%).

Acquisition-adjusted revenue for Quest Diagnostics was down 1.5% last year, while LabCorp's revenue was flat.

Revenue Growth at 13 Publicly-Traded Lab Companies ($000)

Company	Revenue 2012	Revenue 2011	Reported Change	Pro Forma Change*
Quest Diagnostics	$7,382,562	$7,391,932	-0.1%	-1.5%
LabCorp	5,671,400	5,542,300	2.3%	0.0%
Sonic Healthcare USA[1]	836,200	756,500	10.5%	2.0%
Bio-Reference[2]	661,661	558,642	18.4%	18.0%
Myriad Genetics[3]	496,005	402,084	23.4%	20.0%
Aurora Diagnostics	277,886	268,695	3.4%	-3.4%
Genomic Health	235,173	206,111	14.1%	14.1%
LipoScience	54,798	45,807	19.6%	19.6%
Enzo Clinical Labs[4]	59,403	52,762	12.6%	12.6%
NeoGenomics	59,867	43,484	37.7%	37.7%
Transgenomic Inc.	31,480	31,971	-1.5%	-1.5%
Psychemedics	25,224	24,090	4.7%	4.7%
Combimatrix	5,350	4,658	14.9%	14.9%
Total, 13 companies	$15,797,009	$15,329,036	3.1%	0.9%
Total, 11 companies (excluding Quest and LabCorp)	$2,743,047	$2,394,804	14.5%	10.4%

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

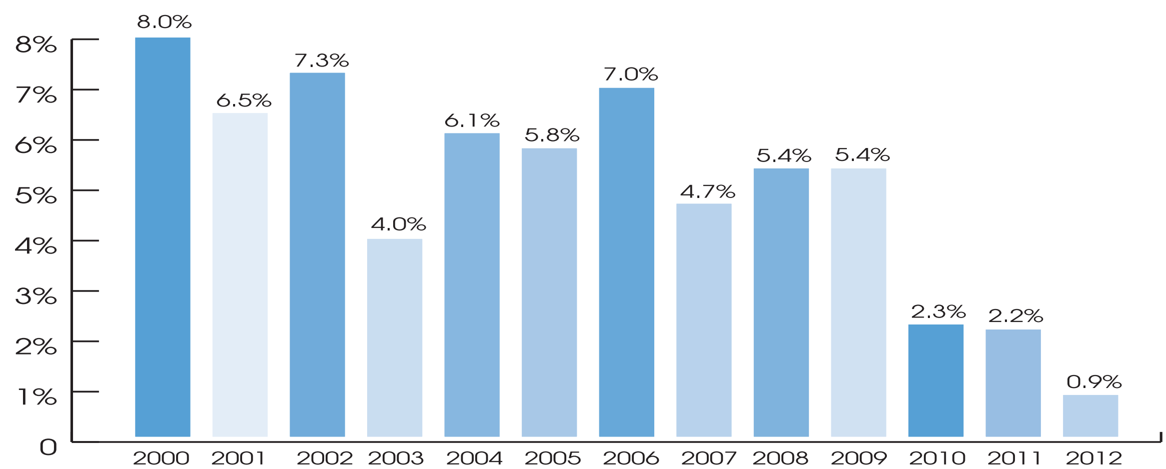
[1]Sonic Healthcare USA's revenue is for fiscal year ended June 30, 2012; [2]Bio-Reference's revenue is for fiscal year ended October 31, 2012; [3]Myriad Genetics' revenue is for fiscal year ended June 30, 2012; [4]Enzo's revenue is for lab services only for fiscal year ended July 30, 2012.

Source: *Laboratory Economics* from company reports

GROWTH AND PROFITABILITY AT THE PUBLICLY-TRADED LABS

Last year marked the slowest growth rate for the publicly-traded labs since the start of the new millennium. Annual revenue growth for publicly-traded labs had ranged between 2.2% and 8% in the previous 12 years, 2000-2011. The significant revenue growth that occurred between 2000 and 2006 was due in large part to higher revenue per requisition from improved managed care pricing and a mix shift toward higher-priced esoteric tests. Slower growth for the publicly-traded labs began in 2007 in conjunction with increased pricing competition for managed care contracts (e.g., LabCorp's exclusive national contract with UnitedHealth effective Jan. 1, 2007).

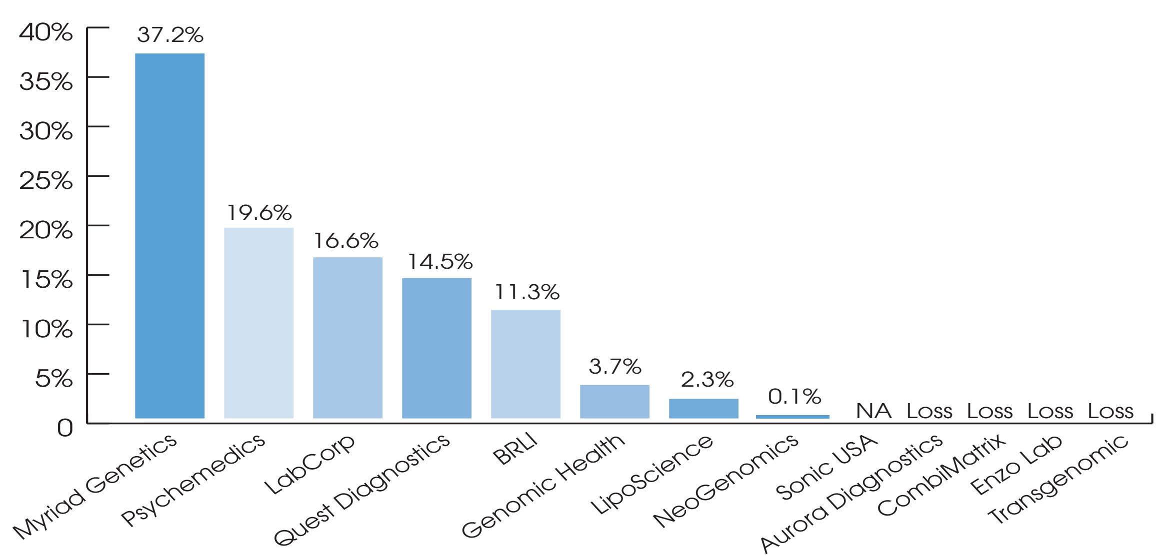
Revenue Growth at Publicly-Traded Labs



Source: *Laboratory Economics*

In terms of profitability, Myriad Genetics had the highest pretax margin at 37.2%. The drug-testing lab Psychemedics was next at 19.6%. LabCorp's pretax margin was 16.6%, followed by Quest Diagnostics at 14.5%. Bio-Reference Labs recorded a pretax margin of 11.3% in 2012.

Pretax Profit Margin Comparison, 2012



Source: *Laboratory Economics* from company reports

COMPARING PRODUCTIVITY AT QUEST, LABCORP AND BRLI

On a weighted basis, three publicly traded lab companies collected average revenue of $46.89 per requisition in 2012. Average collected revenue per test was $15.63.

The three companies—Quest Diagnostics, LabCorp and BioReference Labs Inc. (BRLI)—generated an average of $175,515 in revenue per employee last year. The average number of requisitions processed was 3589 per employee per year, while employees processed an average of 10,768 tests per year. These figures are based on the total number of employees at the three companies, including all administrative, couriers, sales and marketing, and lab technical staff.

In terms of billing and collection, the average bad-debt expense for the big three commercial labs was 4.4% with an average days in accounts receivables of 48 days.

The combined revenue mix at the three publicly-traded labs was 49% from commercial insurance, 26% client bill, 18% Medicare, 6% patient bill and 1% from Medicaid.

Productivity Stats at Quest, LabCorp and BioReference Labs

	Quest Diagnostics	LabCorp	BioReference	Totals*
Revenue 2012	$7,382,562,000	$5,671,400,000	$661,661,000	$13,715,623,000
Pretax Income 2012	$1,068,395,000	$944,200,000	$74,516,000	$2,087,111,000
# Employees	41,000	34,000	3,145	78,145
Avg. Revenue per Employee	$180,062	$166,806	$210,385	$175,515
Avg. Pretax Income per Employee	$26,058	$27,771	$23,693	$26,708
Annual Requisitions	146,800,000	125,900,000	7,801,000	280,501,000
Avg. Revenue per Requisition	$46.45	$45.04	$84.24	$46.89
Avg. Reqs processed per Employee	3,580	3,703	2,480	3,589
Annual Tests (assumes 3 tests per req.)	440,400,000	377,700,000	23,403,000	841,503,000
Avg. Revenue per Test	$15.48	$15.01	$28.08	$15.63
Avg. Tests processed per Employee	10,741	11,109	7,441	10,768
Bad-Debt Expense	$268,600,000	$246,000,000	$89,396,000	$603,996,000
Bad-Debt %	3.6%	4.3%	13.5%	4.4%
Days in AR	47	46	80	48

*Averages are weighted based on size

Source: *Laboratory Economics* from company reports

AURORA DX REPORTS $161 MILLION LOSS

Aurora Diagnostics (Palm Beach Gardens, FL) has reported a net loss of $160.9 million for full-year 2012, according to the company's 10K financial report filed with the Securities & Exchange Commission. Aurora's results included a $168.5 million non-cash charge related to goodwill and intangible asset write-downs for acquired pathology practices.

The write-downs were made because of several factors, including the loss of hospital and client contracts. Aurora is also recognizing lower revenue because some clients are switching from global billing to either technical component (TC) or professional component (PC) only services. These factors, combined with higher operating costs, including higher pathologist compensation, have resulted in slower projected revenue and profit growth at pathology practices owned by Aurora.

In addition, Aurora has been hurt by Medicare's recently announced 52% rate cut to the technical component of CPT 88305. Aurora estimates that changes to the 2013 Medicare Physician Fee Schedule, assuming no change in the conversion factor, will reduce its Medicare revenue by $21 million per year. Late last year, Aurora projected that the Medicare rate cut would result in only a $1 million per year loss of revenue from commercial insurance payers. However, the company now says it cannot predict the extent to which commercial insurance payers will seek to reduce rates for 88305-TC.

Furthermore, Aurora has $316 million of long-term debt outstanding that requires interest payments of more than $30 million per year. Aurora's senior notes (CUSIP: 051620AB8, 10.75%, 1/15/18) currently trade for about 80 cents on the dollar with a yield to maturity of 16.4%. As of December 31, 2012, Aurora held $10.8 million in cash and had a working capital deficit of $4.1 million.

Aurora recently hired crisis management expert Daniel Crowley as its president and CEO (see *LE*, March 2013, page 1).

Aurora owns 19 pathology labs with more than 100 pathologists. Its largest practices include Greensboro Pathology Associates (Greensboro, NC), Cunningham Pathology (Birmingham, AL) and LMC Pathology Services (Las Vegas, NV). Aurora is majority-owned by the private equity firms Summit Partners (53% stake) and KRG Capital Partners (35% stake). Founder Jim New has a 5.6% stake.

Aurora Diagnostics

Financials ($ 000)	*2012*	*2011*	*% Chg*
Revenue	$277,886	$268,695	3.4
Cost of services	134,877	119,938	12.5
SG&A expense	64,230	63,346	1.4
Bad-debt expense	18,343	18,147	1.1
Interest expense	32,531	32,545	0.0
Goodwill/intangible asset writeoffs	168,498	14,168	1,089.3
Net income	-160,854	-32,866	NA
Cash & securities	10,842	16,262	-33.3
Working capital	-4,126	-3,132	NA
Long-term debt	315,965	316,262	0.0
Fair value of contingent consideration	26,256	51,720	-49.2
Shareholders' equity	20,227	179,890	-88.8
Accessions	2,171,000	2,012,000	7.3
Revenue per accession	$126	$133	-5.2

Source: Aurora Diagnostics 10K Report

LAB STOCKS FLAT

Eleven lab stocks are, on average, unchanged in price year to date through April 15. In comparison, the S&P 500 Index is up 11% and the Nasdaq is up 9%. The top-performing lab stocks so far this year are NeoGenomics, up 52%, followed by LipoScience, which had an IPO on Jan. 25 and is up 9%. LabCorp shares are up 8% and Quest Diagnostics is unchanged.

Company (ticker)	Stock Price 3/15/13	Stock Price 12/31/12	2013 Price Change	Market Capitalization ($ millions)	P/E Ratio	Price/ Sales	Price/ Book
Bio-Reference (BRLI)	$23.58	$28.63	-18%	$654	15.2	1.0	2.8
CombiMatrix (CBMX)	3.18	5.28	-40%	9	NA	0.7	1.2
Enzo Biochem (ENZ)	2.15	2.70	-20%	102	NA	0.8	2.1
Genomic Health (GHDX)	28.36	27.24	4%	854	113.4	3.7	6.7
LabCorp (LH)	93.50	86.62	8%	8,705	14.9	1.6	3.2
LipoScience (LPDX)	9.80	9.00	9%	144	76.5	2.6	NA
Myriad Genetics (MYGN)	26.65	27.25	-2%	2,147	18.3	4.1	3.3
NeoGenomics (NEO)	3.76	2.48	52%	181	NA	2.8	18.5
Psychemedics (PMD)	10.90	10.75	1%	57	19.1	2.3	5.1
Quest Diagnostics (DGX)	58.37	58.27	0%	9,235	13.2	1.2	2.2
Sonic Healthcare (SKHCY)	13.99	13.69	2%	5,542	NA	NA	NA
Unweighted Averages			0%	$27,630	38.6	2.1	5.0

Source: Bloomberg

Jondavid Klipp, Editor and Publisher Jennifer Kaufman, Associate Editor