

LABORATORY



ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

PALMETTO SLASHES MDx TEST REIMBURSEMENT

Medicare carrier Palmetto GBA recently posted their reimbursement rates for 78 new molecular diagnostic test codes. Palmetto processes claims for several key states, including California. Based on an analysis by *Laboratory Economics*, the reimbursement for these 78 codes is down, on average, by 25% to 30% compared with the reimbursement labs had previously received under code-stack billing.

The California Clinical Laboratory Association (CCLA) held an emergency board meeting in response to Palmetto’s disappointing rates. CCLA executive director Mike Arnold says that Palmetto’s rates, in many instances, are below the lab cost of performing the tests. “These new reimbursement rates have no relationship to reality. They will result in lab closures, lost jobs and a reversal of recent advances in personalized medicine,” according to Arnold.

Just prior to release of the pricing, Palmetto medical director Elaine Jeter, MD, stated that she welcomed industry feedback and that Palmetto will consider additional information prior to providing its final gap-fill prices to CMS, which all contractors are required to do by the end of April. These prices will be effective for the remainder of 2013.

The billing management firm XIFIN Inc. (San Diego) is collecting pricing information from labs licensed for Medicare in California. XIFIN is collecting code-stack revenue data plus cost information that will be submitted to Palmetto for review.

Palmetto has begun processing claims for MDx tests under the new rates in California, Nevada, Hawaii, as well as North Carolina, South Carolina, Virginia and West Virginia. However, Palmetto has indicated that it will reprocess claims if it adjusts its rates. *Continued on pages 3-6.*

LIPOSCIENCE RAISES \$45 MILLION FROM IPO

On January 25, LipoScience Inc. (Raleigh, NC) completed an initial public offering (IPO) of five million shares of common stock at a price to the public of \$9 per share. In addition, the underwriters exercised in full their option to purchase 750,000 more shares from the company. As a result, the total IPO size was 5.75 million shares. LipoScience will receive net proceeds of approximately \$44.9 million after deducting investment bank commissions and other expenses. Barclays Capital Inc., UBS Securities and Piper Jaffray were the IPO’s lead underwriters. On its first day of trading on the Nasdaq, LipoScience shares increased 16% to \$10.45 per share for a market cap of \$145 million. *Continued on page 2.*

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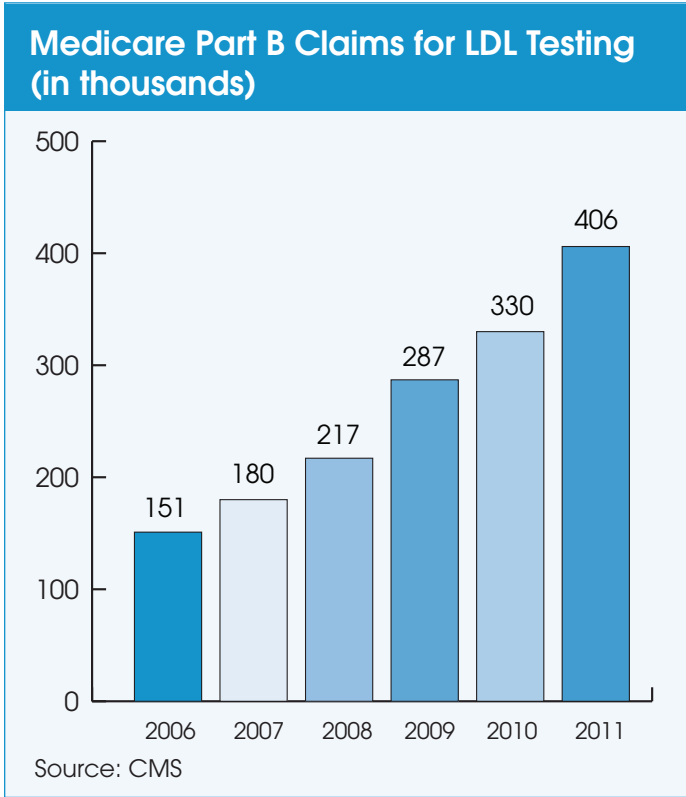
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LIPOSCIENCE RAISES \$45 MILLION FROM IPO (cont'd from page 1)

LipoScience markets a specialized cholesterol test under the brand name NMR LipoProfile test. The blood test measures low-density lipoprotein (LDL), or bad cholesterol, a key risk factor in heart disease. LipoScience performs its NMR LipoProfile exclusively at its CLIA-certified lab in Raleigh, North Carolina. The test is reimbursed by Medicare (CPT 83704) at a national rate of \$43.36.

LipoScience plans to use proceeds from the IPO to expand its 73-person sales and marketing staff.

LipoScience markets NMR LipoProfile through agreements with national and regional labs. Its largest customers are Health Diagnostics Laboratory (Richmond, VA), accounting for 32% of revenue, and LabCorp, representing 29% of revenue.



In addition, the company has developed an automated system, the Vantera Clinical Analyzer, to decentralize NMR LipoProfile testing to other labs. Vantera was cleared by the FDA in August 2012.

Among LipoScience's competitors are Berkeley HeartLab (San Francisco, CA), now part of Quest Diagnostics, as well as Atherotech (Birmingham, AL), SpectraCell Laboratories (Houston, TX) and Singulex (Alameda, CA).

The market for LDL testing has been growing steadily. The number of Medicare Part B claims for CPT 83704 increased by an average annual rate of 22% between 2006 and 2011.

In the nine months ended Sept. 30, 2012, LipoScience recorded net income of \$1 million versus a net loss of \$568,000 in the same period a year earlier; revenue increased by 24% to \$41.2 million. The overall number of NMR LipoProfile tests increased by 35% to 1.5 million tests for the nine-month period, while the average selling price decreased 5.8% to \$26.69.

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	Nine months to Sept. 30		
	2012	2011	% Chg
Revenue	\$41,241	\$33,328	23.7
Net income	1,057	-568	NA
Test volume	1,459,000	1,082,000	34.8
Avg. selling price	\$26.69	\$28.34	-5.8

Source: LipoScience

Founder and chief scientific officer James Otvos, 65, has a 5% stake in LipoScience. Chief executive Richard Brajer, 52, owns 3%. The private equity firm Three Arch Capital (Portola Valley, CA) holds a 13% stake.

PALMETTO SLASHES MDx TEST REIMBURSEMENT (*cont'd from p. 1*)

Palmetto says that its new MDx test fees were calculated based on a detailed analysis of multiple lab applications and a standardization of the submitted code stacks.

However, a *Laboratory Economics* analysis of 25 of the MDx test codes indicates that Palmetto's new rates are, on average, equal to only 73% of the rates previously charged by labs under the code-stack method. Our analysis is based on rates from Medicare's 2012 lab fee schedule and the code stacks that various labs had used last year to bill for MDx tests as published in their test menu catalogues.

For example, Palmetto's pricing has been set particularly low for Cytochrome P450 2C19 Genotyping (CPT 81225). This test identifies patients who are poor metabolizers or extensive metabolizers of drugs, including Plavix, that are modified by the liver enzyme CYP2C19.

Palmetto's fee for CPT 81225 has been set at \$135.26. But *LE's* analysis of 13 labs performing the test shows they had billed a median code-stack price of \$379. The specific labs reviewed by *LE* for this particular test included Quest Diagnostics, LabCorp, Mayo Medical Labs, ARUP Labs, UW Medicine, Genelex, Baylor College of Medicine, Genetic Pathways, Matrix Genomics, Cleveland Clinic, et al. Mayo had the median price of \$378.82 using a code stack of 83890, 83892, 83894, 83900, 83901 x 3, 83912, and 83909 x 10. Palmetto's fee is equal to only 36% of this median.

In another example, Palmetto's rate for EGFR Mutation Analysis (CPT 81235) has been set at \$116.25. EGFR Mutation Analysis is used to help make treatment decisions for lung cancer. *LE's* review of eight labs performing the test shows a median code-stack price of \$523. In this case, the two labs in the middle were GenPath at \$515.58 and LabCorp at \$533.48. The average of these two prices gives a median of \$524.53. Palmetto's fee is set at just 22% of the median calculated by *Laboratory Economics*.

A separate analysis conducted by XIFIN compared Palmetto's new rates with average allowable rates paid by Aetna, Cigna and UnitedHealth to non-contracted labs in 2012 for six MDx tests. The XIFIN analysis indicated that Palmetto's fee cuts are even more drastic than *Laboratory Economics'* estimates. Overall, XIFIN's analysis shows that Palmetto's new rates for six common MDx tests are only 34% of the average allowables paid in 2012.

Palmetto MDx Test Pricing vs. Average Allowables

<i>Code</i>	<i>Lab Test Description</i>	<i>Avg. 2012 Allowable*</i>	<i>Palmetto Pricing</i>	<i>Percent of Allowable</i>
81206	BCR/ABL 1 Gene Major	\$214.33	\$108.37	51%
81210	BRAF Gene Mutation	\$427.00	\$57.51	13%
81225	CYP2C19 Genotype	\$236.00	\$135.26	57%
81226	CYP2D6 Genotype	\$426.00	\$147.50	35%
81227	CYP2C9 Genotype	\$238.00	\$96.78	41%
81235	EGFR Mutation Analysis	\$1,545.00	\$116.25	8%
Average				34%

*Based on XIFIN processed claims from UHC, Aetna and Cigna in 2012
Source: XIFIN Inc.

MDx Pricing Comparison: Code Stacks vs. Palmetto

Code	Lab Test Description	Sample Size	Code-Stack High Price	Code-Stack Median	Code-Stack Low Price	Palmetto Pricing	% of Median
81200	Canavan Disease Mutation	7	\$236	\$134	\$106	\$94	70%
81201	APC Gene Sequencing	5	\$1,934	\$1,222	\$852	750	61%
81206	BCR/ABL 1 Gene Major	13	349	121	61	108	90%
81207	BCR/ABL 1 Gene Minor	6	138	90	61	90	100%
81210	BRAF Gene Mutation	8	259	84	59	58	68%
81223	Cystic Fibrosis Full Sequence	8	2,552	1,365	771	1,554	114%
81225	CYP2C19 Genotype	13	731	379	178	135	36%
81226	CYP2D6 Genotype	7	819	563	290	148	26%
81227	CYP2C9 Genotype	7	641	344	88	97	28%
81235	EGFR Mutation Analysis	8	1,722	524	102	116	22%
81241	Factor V Mutation Analysis	7	117	65	41	69	106%
81243	Fragile X DNA Test	7	135	83	46	61	73%
81255	Tay-Sachs DNA Analysis	7	390	294	177	94	32%
81256	Hereditary Hemochromatosis	9	129	82	23	70	86%
81267	Chimerism Analysis	5	480	273	41	150	55%
81270	JAK2 Mutation Analysis	7	165	83	65	73	88%
81275	KRAS Mutation Analysis	7	637	284	256	226	80%
81291	MTHFR DNA Analysis	7	147	82	52	93	114%
81301	Microsatellite Instability	6	477	311	173	321	103%
81310	NPM1 Gene	8	141	59	59	59	100%
81321	PTEN Gene Analysis	6	443	837	1554	605	72%
81342	T-Cell Gene Rearrangement	8	273	169	106	148	88%
81350	UGT1A1 Genotyping	10	592	108	58	59	54%
81401	TPMT Genotype	5	130	117	82	103	89%
81404	c-Kit Mutation Analysis	7	634	343	112	NA	NA
Unweighted Average							73%

Note: *Laboratory Economics* calculated code-stack rates by analyzing published test menu catalogues of various labs (e.g., LabCorp Quest Diagnostics, ARUP, Mayo, Cleveland Clinic, GenPath, etc.) and the national 2012 Medicare lab fee schedule. Source: *Laboratory Economics* and Palmetto GBA

The exact methodology used by Palmetto to determine its MDx test fees has not been revealed. Palmetto says all services to produce a MDx test result, including the work for microdissection, are included in its listed rates. Therefore, Palmetto says labs should not bill for additional services (e.g., microdissection) on top of the appropriate CPT code. In other words, one code for one test—no more code stacking.

The methodology used by Medicare carriers to make rate determinations remains a Black Box.

There is no obligation on the part of the Medicare carriers to publish their pricing prior to the end of April when they must give their new rates to CMS. However, Cahaba GBA, which covers Alabama, Georgia and Tennessee, has posted its new MDx test rates. Overall, Cahaba's rates are down, on average, by 20% to 25% compared with the reimbursement labs had previously received under code-stack billing.

An analysis by *Laboratory Economics* shows the huge variation in pricing between what Quest and LabCorp had billed under code stacking compared with the reimbursement rates determined by Palmetto and Cahaba.

For example, Palmetto is now paying \$58 for BRAF testing (CPT 81210) while Cahaba's rate is more than double at \$123. Meanwhile, Quest had been billing for BRAF testing using a code stack equal to \$259 and LabCorp's code stack was equal to \$221.

In the case of PTEN Gene Analysis (CPT 81321), Palmetto has set its fee at \$605, which is nearly five times Cahaba's rate of \$123. Quest's code-stack sum is \$539, while *LE* was unable to calculate LabCorp's fee for this particular test.

Some MDx tests have little variation in pricing. For example, Palmetto has set NPM1 mutation analysis (CPT 81310) at \$59, which is exactly what LabCorp had billed under code stacking. Cahaba's fee is \$50. *LE* was unable to calculate Quest's fee.

Even so the vast majority of MDx test rates were all over the map when *LE* compared fees from Quest, LabCorp, Palmetto and Cahaba (see table next page).

Palmetto has lost its contract to process Medicare claims for the Jurisdiction E region (California, Nevada and Hawaii). This contract will be transitioned to Noridian Administrative Services. Noridian and Palmetto are awaiting further direction from CMS on the transition plan, including a transition date.

Palmetto's contract for MolDx is separate from the administrative contract for the JE region. Palmetto executives have asserted that the MolDx program is likely to be expanded nationally, both through CMS contractors and potentially to commercial payers who are negotiating to use the system.

In addition to setting prices, Palmetto's MolDx program includes making coverage decisions. And Palmetto's fee schedule includes a positive coverage determination for only 80 of the 133 codes. Many of the MDx tests denied coverage are for prenatal screening tests which are not a covered Medicare benefit.

However, many common cancer tests, such as UGT1A1 genotyping (CPT 81350) for irinotecan toxicity, have also been denied coverage.

Palmetto could become the national contractor for making MDx test coverage and pricing decisions for CMS.

MDx Pricing Comparison: Quest and LabCorp vs. Palmetto and Cahaba

Code	Lab Test	Quest Diagnostics	LabCorp	Palmetto California	Cahaba Alabama	Range
81200	Canavan Disease Mutation	\$207	\$152	\$94	\$123	\$113
81201	APC Gene Sequencing	1,659	NA	750	123	\$1,536
81206	BCR/ABL 1 Gene Major	61	NA	108	123	\$62
81207	BCR/ABL 1 Gene Minor	162	NA	90	123	\$72
81210	BRAF Gene Mutation	259	221	58	123	\$201
81223	Cystic Fibrosis Full Sequence	1,145	1,175	1,554	1,200	\$409
81225	CYP2C19 Genotype	76	349	135	305	\$273
81226	CYP2D6 Genotype	290	563	148	50	\$513
81227	CYP2C9 Genotype	218	140	97	50	\$168
81235	EGFR Mutation Analysis	302	533	116	123	\$417
81241	Factor V Mutation Analysis	83	65	69	50	\$33
81243	Fragile X DNA Test	135	83	61	123	\$74
81255	Tay-Sachs DNA Analysis	379	197	94	123	\$285
81256	Hereditary Hemochromatosis	94	93	70	50	\$44
81267	Chimerism Analysis	41	273	150	123	\$232
81270	JAK2 Mutation Analysis	88	70	73	90	\$20
81275	KRAS Mutation Analysis	258	379	226	235	\$153
81291	MTHFR DNA Analysis	130	76	93	50	\$80
81301	Microsatellite Instability	321	349	321	235	\$114
81310	NPM1 Gene	NA	59	59	50	\$9
81321	PTEN Gene Analysis	539	NA	605	123	\$482
81342	T-Cell Gene Rearrangement	106	130	148	205	\$99
81350	UGT1A1 Genotyping	151	58	59	123	\$93
81401	TPMT Genotype	93	NA	NA	140	\$47
81404	c-Kit Mutation Analysis	515	260	NA	305	\$255

Note: *Laboratory Economics* calculated code-stack rates by analyzing published test menu catalogues of Quest Diagnostics and LabCorp with pricing for each code from the national 2012 Medicare lab fee schedule.

Source: *Laboratory Economics*, Palmetto GBA and Cahaba

CAHABA SETS MYRIAD'S BRACANALYSIS AT \$2,900

Medicare carrier Cahaba has set pricing at \$2,900 for Myriad Genetics' BRACAnalysis test (CPT 81211). That is 13% below the list price of \$3,340 for BRACAnalysis, which is used to help predict the risk of hereditary breast and ovarian cancer. Cahaba's reimbursement rate for BRACAnalysis Large Rearrangement Technology (BART) has been set at \$650, which is 7% below Myriad's list price of \$700. BART is a predictive test that detects additional large genomic rearrangement in both the BRCA1 and BRCA2 genes. Cahaba's combined reimbursement for the BRACAnalysis and BART, which are often ordered together, is \$3,550, or 12% below Myriad's list price.

Salt Lake City-based Myriad submits claims to Noridian, not Cahaba. However, Amanda Murphy, an analyst with the investment bank William Blair & Company, notes that Cahaba's rates may be factored into the overall median calculation that CMS uses to calculate national rates for 2014.

Palmetto has not established payment for BRACAnalysis and BART yet.

Laboratory Economics notes that Cahaba's 13% cut on BRACAnalysis is a lot better than the 20+% cut most other MDx codes received. Cahaba's cut is in line with the 10% discount that most private health insurance companies get for BRACAnalysis.

Cahaba Pricing for BRACAnalysis

Test	CPT Code	Myriad List Price	Cahaba Pricing	% Reduction
BRACAnalysis	81211	\$3,340.....	\$2,900.....	-13%
BART	81213	\$700.....	\$650.....	-7%
Integrated BRACAnalysis.....	81211, 81213	\$4,040.....	\$3,550.....	-12%

Source: Cahaba, Myriad Genetics and William Blair & Co.

On a Feb. 5 conference call, Mark Capone, president of Myriad Genetic Laboratories, said that the company had provided information to Noridian consistent with the four elements of the gap-fill process, including Medicare payment history, median private-payer reimbursement, stack-code comparisons, and accumulated resources expended. All four methodologies support BRACAnalysis pricing in the \$3100 to \$3300 range, according to Capone. He anticipates hearing preliminary rates from Noridian by April.

Myriad generates more than \$400 million per year in revenue from BRACAnalysis, accounting for three quarters of the company's overall revenue.

Medicare represents only 10% of Myriad's overall payer mix. However, Myriad has spent extensive time with Noridian and Palmetto (given the influence of Palmetto's coverage and pricing decisions) in an effort to provide information to support reimbursement rates, according to Murphy. The assumption is that whatever Medicare pays, private payers will follow suit.

Finally, Murphy notes that Myriad faces the risk of losing some patent protection for BRACAnalysis as a result of a long-running legal battle with the American Civil Liberties Union (ACLU), which alleges that Myriad's patents are illegal and restrict scientific research and patients' access to medical care. However, Murphy says the real question is what happens when whole genome or single molecule sequencing becomes a clinical reality (which would make the single gene isolation/screening technique irrelevant and enable workaround of Myriad's patents).

THE NEW MOLECULAR TEST REIMBURSEMENT PARADIGM

On February 15, *Laboratory Economics* sponsored a teleconference: Finding Success in the New Molecular Test Reimbursement Paradigm. The teleconference featured two expert speakers: Charles Root, PhD, Chief Executive of CodeMap LLC, and Rina Wolf, Vice President of Commercialization Strategies, Consulting & Industry Affairs at XIFIN Inc. Here are some highlights:

The Timeline for Pricing the MDx Test Codes

CHARLES ROOT: Medicare carriers have been asked to submit their gap-fill prices to CMS by April 1. CMS will post interim contractor-specific amounts on the CMS website by April 30. A 60-day comment period will follow. Here is an opportunity for any stakeholder to submit any comment or concern directly to CMS. Everyone should use the 60-day comment period to tell CMS exactly what is wrong or inappropriate for any of the payments.

After considering the public comments, CMS will post final contractor-specific amounts and the national limitation amounts (NLAs) in August or September. These rates should be based not only on the median rates submitted by the contractors, but also on all of the comments they receive. The NLA for each CPT code will be set at the median of the contractor-specific amounts.



Charles Root, PhD

After a 30-day reconsideration period, which offers labs a last ditch opportunity to comment, CMS will publish the NLAs in the final Part B clinical lab fee schedule for 2014. The final NLAs will become effective January 1, 2014 and will be uniform throughout the country regardless of what individual contractors may have been paying.

This process is going to take most of 2013 to complete and that's why it's very important for labs to get started submitting their comments as soon as possible. The sooner it gets closer to reality and reasonableness, the better we'll all be.

Payment for Molecular Pathology Test Interpretation

CHARLES ROOT: CMS has created a new temporary code, G0452, for the pathologist interpretation of the new molecular test codes. The unadjusted payment for 2013 is \$18.38.

G0452 is considered a clinical laboratory interpretative service, which is really a consult. It has to be requested and it has to result in a written narrative report that requires medical judgment by the consulting physician. Standing orders for G0452 are allowed.

A pathologist can obviously do these interpretations, but they have to be requested. For example, an oncologist that has the test results can't do the interpretation because he/she would be consulting with themselves.

The rational assumption is that, if ordered, one G0452 code can be used per specimen as opposed to billing G0452 multiple times for each molecular test done for a patient case.

CMS is going to monitor utilization to see how it fits with the reality of what they think should be interpreted and what shouldn't. And it may truly be a temporary code if they don't see what they want.

RINA WOLF: I might add that we are seeing a lot of denials from Palmetto for the G0452 code.

The New Multianalyte Assays with Algorithm (MAAA) Codes

CHARLES ROOT: These are defined as procedures that utilize multiple results and then incorporate them into an algorithm which produces a risk factor or a prognostic value that is useful in the clinical management of the patient. Often times they are going to be a panel of genes that have been used to create the algorithm factor that comes out of the test.

Right now, CMS has chosen essentially to ignore these codes for this year and simply pay for the underlying tests. This leads to a Catch 22 in that if you don't have a way to code your underlying genes in a MAAA, then it's very difficult to report them.

So this is another brewing issue that should be resolved by CMS. We've heard rumors that they may decide to recognize these codes in the future. They certainly should, because the whole purpose of developing the new molecular codes was to be able to identify lab-developed tests and come up with reasonable payment values.

Palmetto's Rate Determinations

RINA WOLF: One of the concerns expressed by Palmetto was that the old code stacks used by some labs did not truly represent the work done. And if you look at Palmetto's new rates with that in mind, Palmetto says its pricing is not as far off as it might appear.

However, Palmetto has reaffirmed that they are willing to look at any data that laboratories submit in response to their pricing. And if we're successful at making a case that any pricing should be



Rina Wolf

mitigated, not only will they change the price, but they will go back and reprocess claims paid at the originally posted price. Palmetto would like to receive information from as many labs as possible so they can see the broad impact. XIFIN is acting as an honest broker for this information for any lab licensed in the state of California. The information needs to include a validation of what the old stack used was, as well information on cost.

For example, in our conversation with Palmetto they admitted that they were not aware that EGFR was still under patent and the cost of that kit alone is between \$200 and \$300, which makes their rate of \$116 unacceptable and below cost.

Labs Should Respond to the New MDx Test Rates

RINA WOLF: In addition to contacting Palmetto [or XIFIN as an information aggregator], you should be reaching out to your congressmen and senators and making the case that if this pricing remains in effect, some labs are questioning their ability to stay in business and keep providing access to these services....And once this pricing is established, we're still going to be hit with statutorily mandated cuts over the next five years that could add an additional 10% reduction. It's really important to keep the noise level as high as possible on how significant an issue this is.

Special Teleconference Recording Available

If you couldn't attend our February 15 teleconference—*Finding Success in the New Molecular Test Reimbursement Paradigm*—you can still listen in on a recorded playback and get a complete written transcript for \$195.

Online purchase is available at www.laboratoryeconomics.com

QUEST DIAGNOSTICS 2012: PROFITS UP, REVENUE DOWN

Quest Diagnostics (Madison, NJ) reported net income of \$556 million for full-year 2012, up 18% from \$471 million in 2011.

Quest's reported revenue decreased by 0.1% to \$7.383 billion in 2012. *Laboratory Economics* estimates that Quest's organic revenue was down 1.5% after adjusting for the acquisitions of Athena Diagnostics (April 2011), Celera Corp. (May 2011) and SED Medical Labs (January 2012).

On January 28, the company held a conference call with analysts and investors to discuss its year-end results. Here's a summary of some key topics:

Pricing Pressure

Chief executive Steve Rusckowski said that commercial pricing pressures, coupled with Medicare cuts, will lead to an approximate 3% reimbursement decline in 2013. Its largest national contract up for renewal this year is Cigna.

Anatomic Pathology

Quest reported that its anatomic pathology revenue decreased by 8.6% to \$886 million in 2012. Rusckowski said it's too early to tell how Medicare's 52% rate cut to 88305-TC will impact the pathology lab insourcing trend at physician groups.

Affordable Care Act

Rusckowski said the ACA will increase lab testing volumes. "The question is what's going to be the insurance product for those volumes....States are still deciding what their plans are going to be."

Quest Diagnostics Financial Summary (\$ millions)

Revenue by product	2012	2011	% Chg
Gene-based and esoteric	\$1,940	\$1,843	5.3%
Anatomic pathology	886	969	-8.6%
Routine	3,807	3,820	-0.3%
Drugs of abuse	187	180	3.9%
Other*	563	580	-2.9%
Total revenue	7,383	7,392	-0.1%
Pretax income	1,068	849	25.9%
Net income (GAAP)	556	471	18.1%
Diluted EPS (GAAP)	3.46	2.92	18.5%
Total debt	3,364	4,025	-16.4%
Cash & securities	296	165	79.3%
Shareholders' equity	4,186	3,715	12.7%
Bad debt %	3.6%	3.7%	-2.7%
Days sales outstanding	47	45	4.4%
Est'd number of requisitions	146.8	146.5	0.2%
Est'd revenue per requisition	\$46	\$46	0.0%

*Other revenue includes clinical trials testing, information technology services and testing services for life insurance companies
Source: Quest Diagnostics and requisition estimates from *Laboratory Economics*

LABCORP 2012: PROFITS UP 12%; REVENUE UP 2% ON ACQUISITIONS

LabCorp (Burlington, NC) reported net income of \$583.1 million for full-year 2012, up 12% from \$519.7 million in 2011.

LabCorp's reported revenue increased by 2.3% to \$5.671 billion in 2012. *Laboratory Economics* estimates that LabCorp's organic revenue was flat after adjusting for the acquisitions of Medtox Scientific (July 2012), Millennium Laboratory (January 2012) and Orchid Cellmark (December 2011).

On February 8, the company held a conference call with analysts and investors to discuss its year-end results. Here's a summary of some key topics:

Molecular Test Pricing

Chief executive David King said that 4% to 5% of LabCorp's revenue is affected by Medicare's MDx coding changes. "We have been saying all along that we did not expect a material impact. And in fact, we expect these Medicare repricing and molecular codes to be a slight positive for us. We're continuing to discuss the appropriate payment rates with our managed care partners. And whether that's a headwind or a tailwind remains to be determined."

In-Office Pathology Labs

"I do think that the reduction in the technical component of 88305 will discourage physician insourcing because it becomes considerably less of a profit center. But the reduction only occurred on January 1, so it's really too early to call it a trend," said King.

The Outlook for Esoteric Tests

King said, "I think the Ariosa test [noninvasive prenatal screening] will be a significant contributor. I think that we're going to continue to see some growth in specialized testing around hepatitis C as more of these compounds are successful and come to market and there are tests associated with the efficacy of the new compounds. I think that the next-generation sequencing and the cardio seq will continue to grow. I also think that even though they would not be described as esoteric, the chronic kidney, cardiovascular, bone, all of the services that we've launched through Litholink that help physicians manage patients will continue to see nice growth."

LabCorp Financial Summary (\$ millions)

	2012	2011	% Chg
Total revenue	\$5,671	\$5,542	2.3%
Pretax income	944	866	9.0%
Net income	583	520	12.2%
Diluted EPS	5.99	5.11	17.2%
Total debt	2,655	1,660	59.9%
Cash & securities	467	159	193.0%
Shareholders' equity	2,717	2,504	8.5%
Bad debt %	4.3%	4.6%	-6.5%
Days sales outstanding	46	46	0.0%
Est'd number of requisitions	126	123.9	1.7%
Est'd revenue per requisition	\$45.00	\$44.75	0.6%

Source: LabCorp and requisition estimates from *Laboratory Economics*

LAB STOCKS UP 3% YTD

Ten lab stocks have risen by an unweighted average of 3% year to date through Feb. 15. In comparison, the S&P 500 Index is up 7% and the Nasdaq is up 6%. The top-performing lab stocks so far this year are NeoGenomics, up 29%, followed by LipoScience, which had an IPO on Jan. 25 and is up 22%. LabCorp shares are up 4% and Quest Diagnostics is down 2%.

Company (ticker)	Stock Price 2/15/13	2013 Price 12/31/12	Market Price Change	Capitalization (\$ millions)	P/E Ratio	Price/Sales	Price/Book
Bio-Reference (BRLI)	\$26.53	\$28.63	-7%	\$735	17.7	1.1	3.2
CombiMatrix (CBMX)	3.21	5.28	-39%	3	NA	0.7	1.3
Enzo Biochem (ENZ)	3.02	2.70	12%	119	NA	1.1	2.6
Genomic Health (GHDX)	28.77	27.24	6%	885	115.1	3.7	7.0
LabCorp (LH)	89.84	86.62	4%	8,499	14.4	1.5	3.1
LipoScience (LPDX)	11.00	9.00	22%	153	NA	3.0	NA
Myriad Genetics (MYGN)	24.39	27.25	-10%	1,965	16.7	3.7	3.0
NeoGenomics (NEO)	3.20	2.48	29%	145	NA	2.4	15.7
Psychemedics (PMD)	12.35	10.75	15%	65	20.6	2.6	5.6
Quest Diagnostics (DGX)	57.32	58.27	-2%	9,112	12.9	1.2	2.2
Unweighted Averages			3%	\$21,681	32.9	2.1	4.8

Source: Bloomberg

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