

LABORATORY

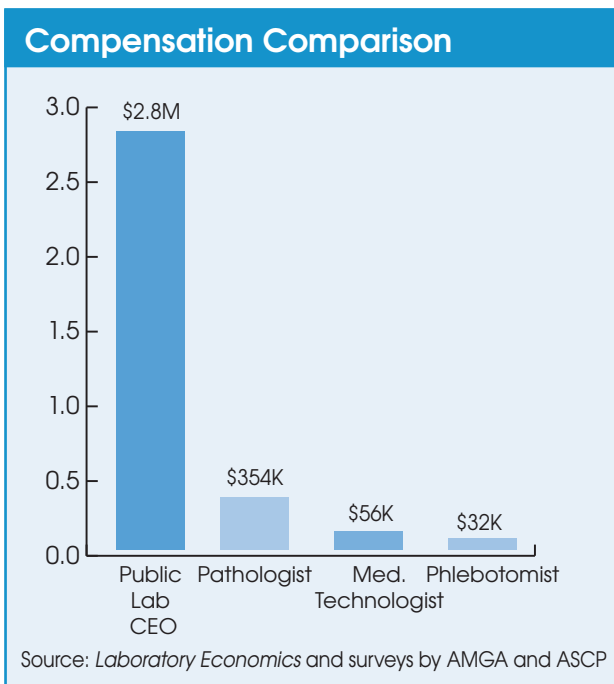


ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

PUBLICLY-TRADED LAB CEOs PAID AVERAGE OF \$2.8M

The chief executives at 15 publicly-traded lab companies were paid an average of \$2.8 million each last year, according to an analysis of shareholder proxy statements by *Laboratory Economics*. That's about 8 times the average annual compensation of \$354,054 for pathologists, 50 times the average \$56,430 per year paid to medical technologists and 86 times the average of \$32,448 for phlebotomists, according to the latest surveys from the American Medical Group Association (AMGA) and American Society for Clinical Pathology (ASCP). *Full details on pages 3-4.*



EHR VENDORS SHIFTING COSTS TO LABS

On December 27, 2013, CMS and OIG each issued rules that ended the Stark Law and Anti-kickback exceptions that have permitted independent lab companies to donate electronic health records (EHRs) to physician clients for the past eight years. The rule change became effective April 27, 2014.

The rule change was supported by all lab and pathology associations, including both CAP and ACLA. Among the concerns were that EHR vendors were gouging lab companies with above-market prices for their EHR software and interface services because physicians were not footing the bill.

The hope on the part of labs was that the expiration of the EHR donation safe harbor would remove a significant cost-of-doing-business expense from lab budgets and offset some of the pressure from Medicare rate reductions.

But the rule change has not resulted in the cost savings that many labs had expected. *Continued on page 2.*

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EHR VENDORS SHIFTING COSTS TO LABS (*cont'd from page 1*)

The problem is that physician groups have now become accustomed to labs paying for a good portion of their information technology expenses. And some EHR vendors are trying to maintain this status quo by shielding their physician clients from the true cost of their EHR software and services and making up for the difference by raising prices for the services they provide to lab companies.

It is important to note that while lab companies can no longer donate EHR software and services to physicians, they may continue to pay for the software and services required to facilitate lab test ordering and reporting to physician clients. This includes the costs to set up an interface between the Laboratory Information System (LIS) and the physician practice's EHR system.

EHR vendors are able to shield physician clients from the real cost of their EHR products by charging labs more for interfaces. For example, some lab companies and pathology groups are reporting significantly increased renewal fees being charged by EHR vendors to maintain electronic connections to physician clients.

In addition, some EHR vendors are now asking labs to pay a per-order fee for each test order the vendor transmits from a physician client to the lab. In an effort to cut this new EHR vendor shakedown tactic off at the knees, one of the national publicly-traded lab companies (most likely Quest Diagnostics or LabCorp) formally asked the Office of Inspector General (OIG) for an opinion on this type of business arrangement.

Under the arrangement, physician groups that utilize the vendor's EHR have the ability to transmit orders to, and receive results from, the lab using a bidirectional interface integrated into the EHR service. When utilizing that feature, the lab would be deemed an "in-network" laboratory. In exchange for this designation, and the ability to utilize the feature, the lab pays the vendor a per-order fee for each test requisition that the group orders from the lab through the EHR service. The per-order fee ranges from \$0.30 (for more than 1 million orders per rolling 12-month period) to \$1.00 (for 10,000 or fewer orders per rolling 12-month period).

However, when the physician group utilizes the EHR service to order tests from an "out-of-network" lab, the group (rather than the lab) must pay the vendor a per-test fee of up to \$1.00 for each order.

The OIG concluded that this arrangement posed more than a minimal risk of fraud and abuse, because the practices would be faced with a choice of paying or not paying a fee based on the lab receiving their referrals—and there appeared to be no reason for the lab to pay the fees to the vendor other than to secure referrals. OIG said that it could potentially impose administrative sanctions on the EHR vendor for violation of anti-kickback laws.

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COMMERCIAL LAB CEOs PAID AVERAGE OF \$2.8M (*cont'd from page 1*)

LabCorp's David King, \$9.3 million, Quest Diagnostics' Steve Rusckowski, \$8.2 million, and Myriad Genetics' Peter Meldrum, \$7.4 million, were the highest paid lab company CEOs in 2013.

LabCorp's King, 57, received four categories of compensation last year that totaled \$9.3 million. These included: 1) salary of \$1 million; 2) stock awards of \$7.5 million; 3) management incentive bonus of \$790,594; and 4) "other compensation" of \$26,667, which included financial planning services, 401K matching contributions, long-term disability insurance and personal liability insurance.

Net income at LabCorp decreased by 1.6% to \$574 million in 2013; revenue was up 2.4% to \$5.8 billion. LabCorp's stock price rose by 5% last year.

Quest's Rusckowski, age 56, received total compensation of \$8.2 million last year, including a salary of \$1 million, stock and option awards worth \$6.7 million, plus \$134,339 from a cash incentive plan. In addition, Rusckowski received "other compensation" totaling \$288,917, which included \$74,147 of expenses for personal use of a company vehicle and driver and \$93,002 for personal use of the company's jets. Net income at Quest increased by 53% to \$849 million in 2013; revenue was down 3.2% at \$7.1 billion. The total return for Quest's stock (with dividends) was -6% in 2013.

Peter Meldrum, 66, President and CEO of **Myriad Genetics**, earned \$7.4 million, including a salary of \$956,104, a bonus and cash incentives of \$1.2 million, stock option awards valued at \$5.2 million, plus other compensation of \$15,238. In the fiscal year ended June 30, 2013, Myriad reported net income of \$147.1 million, up 31% from \$112.2 million in 2012; revenue increased by 24% to \$613 million; its stock price fell by 23% in calendar-year 2013.

Panna Sharma, 43, President and CEO of **Cancer Genetics Inc.**, earned a total of \$2.8 million, including a salary of \$359,040, a bonus of \$290,000, stock options valued at \$2.1 million and other perks worth \$13,900. Cancer Genetics reported a net loss of \$12.4 million in 2013; revenue increased 42% to \$6.6 million. Its stock price increased 38% last year.

Kim Popovits, 55, Chairman and CEO of **Genomic Health**, earned \$2.1 million, including a salary of \$600,000, bonus and incentives of \$325,800 and stock and option awards of \$1.2 million. Genomic Health reported a net loss of \$12.8 million in 2013; revenue was up 11% to \$262 million. Its stock price was up 7% in 2013.

Aurora Diagnostics paid its two chief executives a combined \$1.75 million in 2013. **John Hart**, 56, who resigned on March 11, 2013, received a total of \$553,120. His replacement, **Daniel Crowley**, 66, earned a total of \$1.2 million. Aurora reported a net loss of \$73 million in 2013; revenue declined 11% to \$248.2 million.

Raymond Kubacki, Jr., 69, Chairman and CEO of the drug testing firm **Psychemedics**, was the lowest paid laboratory CEO in 2013. Kubacki earned a total of \$702,700. Psychemedics reported net income of \$3.8 million in 2013; revenue was up 6.5% to \$26.9 million. Its stock had a total return of 42% last year.

2013 Laboratory Executive Total Compensation

<i>Company/Executive</i>	<i>Salary</i>	<i>Bonus and Incentives</i>	<i>Value of Stock & Option Awards</i>	<i>Other Comp*</i>	<i>2013 Total Compensation</i>	<i>2013 Revenue Growth</i>	<i>2013 Stock Total Return</i>
Aurora Diagnostics Daniel Crowley, 66, Pres. & CEO Jon L. Hart, 56, former Pres. & CEO	\$1,200,000 140,192	\$0 0	\$0 0	\$0 412,928	\$1,200,000 553,120	-11%	NA
Bio-Reference Labs Marc Grodman, MD, 62, Chairman & CEO	1,136,700	70,000	0	233,832	1,440,532	16%	-11%
Cancer Genetics Inc. Panna Sharma, 43, Pres. & CEO	359,040	290,000	2,102,000	13,900	2,764,940	42%	38%
CombiMatrix Mark McDonough, 44, Pres. & CEO	252,865	35,000	301,434	123,498	712,797	19%	-56%
Enzo BioChem Elazar Rabbani, PhD, 70, Chairman & CEO	555,475	245,000	46,591	163,281	1,010,347	-9%	8%
Foundation Medicine Michael Pellini, MD, 48, Pres. & CEO	403,887	195,288	606,326	75,850	1,281,351	172%	32%
Genomic Health Kim Popovits, 55, Chairman & CEO	600,000	325,800	1,214,384	0	2,140,184	11%	7%
LabCorp David King, 57, Chairman & CEO	1,013,000	790,594	7,450,735	26,667	9,280,996	2%	5%
LipoScience Richard Brajer, 53, former Pres. & CEO Robert Greczyn, Jr., 62, former Pres. & CEO	275,333 223,335	23,624 134,000	343,756 167,752	624,266 30,375	1,266,979 555,462	-4%	-53%
Myriad Genetics Peter Meldrum, 66, President & CEO	956,104	1,242,312	5,200,520	15,238	7,414,174	24%	-23%
NeoGenomics Douglas VanOort, 58, Chairman & CEO	425,000	139,429	155,344	0	719,773	11%	46%
Psychemedics Raymond Kubacki, Jr., 69, Chairman & CEO	417,000	83,400	194,650	7,650	702,700	7%	42%
Quest Diagnostics Stephen Rusckowski, 56, President & CEO	1,050,000	134,339	6,699,959	288,917	8,173,215	-3%	-6%
Response Genetics Thomas Bologna, 65, Chairman & CEO	576,654	323,600	243,786	163,154	1,307,194	6%	-17%
Transgenomic Inc. Paul Kinnon, 51, Pres. & CEO Craig Tuttle, 61, former Pres. & CEO	87,500 262,500	0 0	939,325 69,650	125,536 138,693	1,152,361 470,843	-13%	-25%
Totals, 15 companies	9,934,585	4,032,386	25,736,212	2,443,785	42,146,968		
Averages, 15 companies	\$662,306	\$268,826	\$1,715,747	\$162,919	\$2,809,798	20%	-1%

*Other compensation includes changes in pension value plus reimbursement for financial planning services, 401K matching contributions, car allowance, personal liability insurance premiums, executive physical exams, home security systems, country club memberships, personal use of company jets and other perks.

Source: *Laboratory Economics* from shareholder proxy statements

TOP IVD EXECES TAKE HOME AVERAGE OF \$7.6 MILLION

The CEOs at twelve publicly-traded lab instrument and reagent manufacturers earned an average of \$7.6 million each last year, according to an analysis of shareholder proxy statements by *Laboratory Economics*. **Abbott Labs' Miles White**, 59, Chairman and CEO, was the highest paid IVD executive in 2013. White was paid total compensation of \$20.9 million. Next was **Johnson & Johnson's Alex Gorsky**, 54, Chairman and CEO, who received a total of \$16.9 million. **Meridian Biosciences' John Kraeutler**, 65, received the lowest compensation, at \$1.2 million.

2013 IVD Executive Total Compensation

Company/Executive	Salary	Bonus and Incentives	Value of 2013 Stock & Option Awards	2013 Comp*	2013 Total Compensation	Revenue Growth	Stock Total Return
Abaxis Inc. Clint Severson, 66, Chairman & CEO	431,250	571,875	1,024,075	13,638	\$2,040,838	19%	67%
Abbott Laboratories Miles White, 59, Chairman & CEO	\$1,900,000	\$3,486,153	\$14,399,620	\$1,079,895	20,865,668	2%	24%
Becton Dickinson Vincent Forlenza, 60, Chairman & CEO	930,000	2,009,753	6,207,322	35,958	9,183,033	4%	44%
Bio Rad Laboratories Norman Schwartz, 64, Chairman & CEO	810,000	217,700	3,521,597	16,314	4,565,611	3%	18%
Hologic Robert Cascella, 59, former Pres. & CEO	926,481	0	4,778,183	259,621	5,964,285	24%	12%
Illumina Jay T. Flatley, 61, CEO	829,386	1,236,870	5,212,140	17,878	7,296,274	24%	99%
Johnson & Johnson Alex Gorsky, 54, Chairman & CEO	1,453,846	6,606,361	8,658,974	191,779	16,910,960	6%	35%
Luminex Patrick Balthrop, Sr., 57, President & CEO	700,000	327,600	1,499,972	11,500	2,539,072	5%	15%
Meridian Bioscience John Kraeutler, 65, CEO	579,684	321,681	193,000	79,242	1,173,607	9%	34%
OraSure Technologies Douglas Michels, 57, President & CEO	563,408	469,470	1,099,802	4,000	2,136,680	13%	-12%
Quidel Douglas Bryant, 56, President & CEO	509,105	286,382	1,444,941	9,714	2,250,142	13%	65%
Thermo Fisher Scientific Marc Casper, 45, President & CEO	1,115,479	3,876,000	10,603,368	574,033	16,168,880	5%	76%
Totals, 12 executives	10,748,639	19,409,845	58,642,994	2,293,572	91,095,050		
Averages, 12 executives	895,720	1,617,487	4,886,916	191,131	7,591,254	11%	40%

*Other compensation includes changes in pension value plus reimbursement for financial planning services, 401K matching contributions, car allowance, personal liability insurance premiums, executive physical exams, home security systems, country club memberships, personal use of company jets and other perks.

Source: *Laboratory Economics* from shareholder proxy statements

EVOLVING TOWARD PERFORMANCE-BASED PART A COMPENSATION

Hospital-based pathologists are facing increasing pressure from hospital administrators to reduce—and in some cases eliminate—their Part A compensation for professional services. Robert Tessier, Principal at HBP Services (Woodbridge, CT), advises that pathologists take a proactive approach with hospital administration that involves incorporating performance-based incentives into their Part A compensation. Tessier says initial steps taken by pathologists today will pay off in the long term as physician compensation shifts away from fee-for-service toward ACO-shared-savings type reimbursement over the next 3-5 years.

Tessier gives the example of a hospital-based pathology group that receives a total of \$400,000 per year in Part A compensation. The group includes 4 full-time pathologists that are facing pressure from their hospital to have their Part A support reduced to \$375,000 per year.

Tessier recommends that this hypothetical group propose a counter offer for a new 3-year contract that accepts the \$375,000 but also adds 5 performance-based incentives. Each of the five incentives, if achieved, would earn the group a year-end payment of \$10,000 for a total of up to \$50,000, which would raise the group's total Part A compensation to as much as \$425,000 per year.

For example, Tessier says the incentives in the first year could include:

- Obtain CAP certificate for Medical Directorship (\$10,000)
- Evaluate AP and CP send-out testing and present plan for reducing cost to hospital (\$10,000)
- Reconcile professional component billing with technical billing for AP services to assure that the counts are 99% accurate (\$10,000)
- Achieve turnaround time for frozen sections of 90% or better within 20 minutes (\$10,000)
- Create detailed marketing plan for AP and CP outreach (\$10,000)

After 9 months, the pathologists and hospital administration would meet to discuss progress on achieving the first year's incentives. They would also negotiate new incentives for the next year, according to Tessier.

At the end of the year, the pathology group would present what they've accomplished and the hospital would pay the bonus within 30 days after verifying the data.

Tessier says the key is to open a dialogue with hospital administration and start the negotiation at least three months (preferably six months) prior to the end of the current contract. He also stresses the need to propose a variety of goals that are more than just "reduce test utilization."

Other potential goals might include designing a medical staff satisfaction survey for the lab and then achieving certain survey goals. Meeting specific turnaround time goals for general surgical pathology, complex surgical pathology (e.g. resections) and autopsy. Another goal might include utilizing voice or template reporting.

Tessier says it's important for pathologists to take the first step toward developing performance-based incentives now, rather than have hospital administrators impose generic metrics that diminish the value of pathology and lab services later.

COUNSYL RAISES \$28 MILLION FROM INVESTORS

The genetic testing lab company Counsyl (South San Francisco) has raised \$28 million from Goldman Sachs and Rosemont Seneca Technology Partners. Counsyl has now raised a total of \$93 million since being formed in 2007. Other investors include Founders Fund, Felicis Ventures and individual investors.

Counsyl says it will use the new money to develop products, and expand its marketing across the United States.

Counsyl markets prenatal genetic testing services, under the brand name Family Prep Screen, to couples planning to have a baby. The company uses targeted genotyping and next-gen sequencing to screen for inherited diseases such as cystic fibrosis, sickle cell anemia, Tay-Sachs and Fragile X Syndrome. Counsyl's Family Prep Screen also includes tests for more than 100 other diseases, many of which are extremely rare.

For example, Andermann syndrome, which causes mental disability, is included on the test panel. Andermann syndrome affects 1 in 2,117 births in the Saguenay-Lac-St-Jean region of Québec, Canada, but is rarely seen in any other population. Counsyl also tests for GRACILE syndrome, which is a fatal inherited disorder caused by a mutation in a gene necessary for providing cells with energy. GRACILE syndrome has only been reported in Finland, where researchers estimate that 1 in 47,000 babies are affected.

Counsyl operates a CLIA-certified lab in South San Francisco that received CAP accreditation in May 2012. Its lab director is Hyunseok P. Kang, MD, who specializes in molecular pathology and informatics.

Initially, Counsyl sold its prenatal test panel directly to consumers, but the company now requires patients to get a physician's order. The company has shifted to traditional lab test marketing that relies on sales reps pitching lower prices. Counsyl is hiring sales reps to sell to physician offices and fertility clinics across the country, including California, New York, Virginia, Ohio and Pennsylvania.

Counsyl is in the process of rolling out a second testing service that analyzes the BRCA1 & BRCA2 genes. Counsyl is marketing the test to both women and men to determine risk for hereditary breast, ovary, pancreas and prostate cancer.

Counsyl says that insured patients can expect to pay between \$150 and \$300 for its testing services. Some insurance companies do not cover expanded prenatal test panels. The list price for patients without insurance is \$999 for either its Family Prep Screen (combined cost per couple) or its Inherited Cancer Screen.

CMS Increases BRCA Reimbursement by 52%

Meanwhile, on April 1, 2014, CMS announced new updated pricing for the sequencing of the BRCA1 & BRCA2 genes. The new pricing for BRCA 1&2 sequencing (CPT 81211) is \$2,184, up 52% from the \$1,438 that had been in effect between Jan. 1 and March 30, 2014. CMS based its revision on data from three Medicare contractors, indicating that the prices for CPT code 81211 ranged from \$2,000 to \$2,500. CMS took the median price of \$2,200 and applied the -0.75% update factor for 2014 to get to its National Limit Amount (NLA) of \$2,184. The new rate is more than double the \$999 list price that Counsyl is charging for its BRCA 1&2 sequencing test.

CLARIENT IS DOMINANT DIGITAL PATHOLOGY LAB

Clarient Diagnostic Services (Aliso Viejo, CA), which is owned by GE Healthcare, is far and away the leader when it comes to the volume of digital pathology services as measured by CPT 88361, according to Medicare Part B data recently released by CMS. CPT 88361 is used to bill Medicare for the preparation and reading of digital HER2, ER and PR slides from a computer monitor. These tests are used as prognostic indicators for breast cancer and to make treatment decisions for Genentech's drug Herceptin.

Clarient was paid for 19,601 claims for CPT 88361 (including global, TC-only and PC-only claims) in 2012. This represented 32% of all 61,963 claims paid to all 108 clinical labs that performed CPT 88361 in 2012.

LabCorp's Accupath Diagnostic Labs (Irvine, CA) was paid for 3,248 units of service for CPT 88361 in 2012. In total, LabCorp had five different lab locations performing CPT 88361 with combined volume of 5,304 claims in 2012.

Quest Diagnostics and its subsidiary Ameripath had a total of eight lab locations that performed CPT 88361 with a combined volume of 6,205 claims in 2012.

TOP 20 CLINICAL LABS IN DIGITAL PATHOLOGY BY VOLUME OF CPT 88361

LABORATORY	CITY	ST	2012 VOLUME	AVG. ALLOWED
CLARIENT DIAGNOSTIC SERVICES	ALISO VIEJO	CA	19,601	\$110.91
LABCORP/ACCUPATH DIAGNOSTIC LABS	IRVINE	CA	3,248	121.27
BIO-REFERENCE LABORATORIES	ELMWOOD PARK	NJ	2,721	141.89
GENOPTIX, INC.	CARLSBAD	CA	2,210	147.63
AMERIPATH FLORIDA	ORLANDO	FL	2,102	104.25
CYTOMETRY SPECIALISTS, INC.	ALPHARETTA	GA	1,725	101.47
AMERIPATH TEXAS	DALLAS	TX	1,462	95.51
LABCORP/ACCUPATH DIAGNOSTIC LABS	BRENTWOOD	TN	1,460	89.01
PROFESSIONAL PATHOLOGY SERVICES PC	COLUMBIA	SC	1,194	67.93
AMERIPATH FLORIDA	FORT MYERS	FL	986	138.54
ORAL CANCER PREVENTION INTERNATIONAL	AIRMONT	NY	796	174.36
SONIC/CLINICAL PATHOLOGY LABS	AUSTIN	TX	719	141.51
THE LAB OF PATH, PA	SEARCY	AR	690	135.74
AMERIPATH INDIANAPOLIS PC	INDIANAPOLIS	IN	678	100.22
ALLIANCE LABS LLC.	LEESBURG	FL	678	130.76
MIRACA LIFE SCIENCES	IRVING	TX	671	105.77
AMARILLO PATHOLOGY ASSOCIATES	AMARILLO	TX	658	137.50
THE DELTA PATHOLOGY GROUP LLC	SHREVEPORT	LA	999	84.28
HEARTLAND PATHOLOGY CONSULTANTS	EDMOND	OK	568	134.28
QUEST DIAGNOSTICS	LAS VEGAS	NV	548	93.09
TOTAL TOP 20 CLINICAL LABS			43,714	\$114.75
TOTAL ALL 108 CLINICAL LABS			61,963	\$99.92

Source: 2012 Medicare Fee-for-Service Provider Utilization & Payment Data

MANY NON-PATHOLOGISTS BILLING FOR DIGITAL PATHOLOGY

There were 908 physicians in the United States reading and billing for digital pathology slides (CPT 88361) in 2012, according to Medicare Part B Provider Utilization data recently released by CMS. Among these physicians were 835 pathologists and 73 oncologists. The data suggest that approximately 5% of all 17,000 board-certified pathologists in the United States were performing digital pathology in clinical practice in 2012. The percentage could be higher given that some pathologists use their Medicare NPI to bill for other pathologists as well.

The data also show that a significant percentage of Part B claims for CPT 88361 were paid directly to oncologists in 2012. Of the total 80,685 claims paid to physicians, 14,092 claims were paid to 73 physicians specializing in hematology/oncology or medical oncology in 2012. In these cases it is likely that a large reference lab such as Clariant or NeoGenomics performed and billed for the technical component of digitizing the slide, while the oncologist billed for the professional interpretation, observes *Laboratory Economics*.

TOP 20 PHYSICIANS IN DIGITAL PATHOLOGY BY VOLUME OF CPT 88361

FIRST	LAST NAME	AFFILIATED FACILITY/GROUP	CITY	ST	SPECIALTY	2012 VOLUME
OSSAMA	TAWFIK, MD, PHD	KU MEDICAL CENTER	KANSAS CITY	KS	PATHOLOGY	1,641
KAREL	DICKE, MD, PHD	ARLINGTON CANCER CENTER	ARLINGTON	TX	ONCOLOGY	1,396
TERENCE	CUDAHY, MD	AMERIPATH	INDIANAPOLIS	IN	PATHOLOGY	1,085
JEFFREY	VACIRCA, MD	NORTH SHORE HEMATOLOG/ONCOL	E SETAUKET	NY	ONCOLOGY	1,055
STEPHEN	DAVIDSON, MD	MONTGOMERY CANCER CENTER	MONTGOMERY	AL	ONCOLOGY	807
MAYUR	PATEL, MD	CANCER CARE OF CENTRAL PA	SELINGSGROVE	PA	ONCOLOGY	772
HARRY	BARNES, MD	MONTGOMERY CANCER CENTER	MONTGOMERY	AL	ONCOLOGY	708
WILLIAM	BALANCE, MD	GREENVILLE PATHOLOGY	GREENVILLE	NC	PATHOLOGY	627
CYNTHIA	COHEN, MD	EMORY UNIVERSITY HOSPITAL	ATLANTA	GA	PATHOLOGY	523
ROBERT	PURVIS, MD	YOSEMITE PATHOLOGY MEDICAL	MODESTO	CA	PATHOLOGY	520
MICHAEL	CURRY, MD, PHD	BOYCE & BYNUM PATHOLOGY LAB	COLUMBIA	MO	PATHOLOGY	506
REGINA	JABLONSKI, MD	NORTH SHORE HEMATOLOG/ONCOL	E SETAUKET	NY	ONCOLOGY	471
NOSHIR	DACOSTA, MD	NORTH SHORE HEMATOLOG/ONCOL	SMITHTOWN	NY	ONCOLOGY	438
CLARKE	LAMBE, MD	WESTERN PATHOLOGY ASSOCS.	PHOENIX	AZ	PATHOLOGY	412
MITUAL	AMIN, MD	WILLIAM BEAUMONT HOSPITAL	ROYAL OAK	MI	PATHOLOGY	406
MICHAEL	LOVELL, MD	SOUTH TEXAS PATHOLOGY ASSOCS.	SAN ANTONIO	TX	PATHOLOGY	401
WILLIAM	KINCAID, MD	MCLEOD CANCER & BLOOD CENTER	JOHNSON CITY	TN	ONCOLOGY	399
STANLEY	OSTROW, MD	NORTH SHORE HEMATOLOG/ONCOL	E SETAUKET	NY	ONCOLOGY	399
MICHAEL	THEODORAKIS, MD	NORTH SHORE HEMATOLOG/ONCOL	E SETAUKET	NY	ONCOLOGY	385
LESLIE	TAYLOR, MD	HOSPITAL PHYSICIAN PARTNERS	SMITHFIELD	NC	PATHOLOGY	384
TOTAL	TOP 20 PHYSICIANS					13,335
TOTAL	835 PATHOLOGISTS					66,593
TOTAL	73 ONCOLOGISTS					14,092
TOTAL	ALL 908 PHYSICIANS					80,685

Source: 2012 Medicare Fee-for-Service Provider Utilization & Payment Data

XIFIN SEEKS \$5M FROM PAML FOR BREACH OF CONTRACT

The billing management firm XIFIN Inc. (San Diego, CA) has filed a lawsuit against Pathology Associates Medical Laboratories (PAML-Spokane, WA) claiming breach of contract. XIFIN claims that PAML owes \$5 million to XIFIN in unpaid minimum service fees related to a contract to provide billing management services. Furthermore, XIFIN alleges that a PAML executive made false defamatory statements about XIFIN causing it to lose a potential new client (Integra Imaging in Seattle).

PAML, one of the nation's largest reference labs, is owned by Providence Health & Services and Catholic Health Initiative. XIFIN is one of the largest healthcare billing firms and processes approximately 200 million claims per year.

PAML initially contracted with XIFIN for billing services in December 2012. In a press release that announced the agreement, PAML's President Francisco Velazquez, MD, stated, "We are very excited to be partnering with XIFIN. With the accelerating rate of change we are seeing in today's healthcare billing and payer environment, we made the strategic decision to partner with XIFIN for the technology infrastructure, rather than trying to keep pace using legacy software and manual processes."

However, XIFIN's lawsuit suggests that the business partnership got off to a rocky start and went south from there. XIFIN claims that it treated PAML as a top-priority client and placed a tremendous amount of resources into the implementation of its billing system at PAML. But XIFIN alleges that because of management turnover and a lack of leadership at PAML, the company repeatedly failed to provide the necessary cooperation needed by XIFIN to install its billing system in a timely manner. XIFIN says that PAML then sought to terminate the contract without paying \$5 million in minimum service fees.

XIFIN is seeking \$5 million plus attorneys' fees from PAML. In addition, XIFIN is seeking damages for the alleged loss of business resulting from PAML's alleged defamation of XIFIN's reputation.

PAML has not yet filed a response to XIFIN's lawsuit. In the latest available court filing, dated April 28, 2014, both XIFIN and PAML agreed to an extension of the deadline for PAML's response "in an effort to explore more fully the possibility of resolving this dispute through mediation."

The lawsuit (case # 14CV0671 GPC RBB) was filed in U.S. District Court for the Southern District of California on March 24, 2014.

LABCORP WINS DISMISSAL OF VIRGINIA FALSE CLAIMS SUIT

A Virginia federal judge has dismissed with prejudice a whistleblower suit charging that LabCorp defrauded the state's Medicaid program by charging it higher rates than it did other payers. On May 13, U.S. District Judge Gerald Bruce Lee said that realtors Hunter Labs and Chris Riedel failed to adequately plead their case and, even after being given explicit instructions to do so, failed "to identify at least a single false claim." Meanwhile, Quest Diagnostics was also a defendant in this case but had reached a provisional settlement with the realtors in late 2013. The tentative settlement covers Virginia as well as three other states where Riedel has filed similar whistleblower suits. Quest's Virginia case has been under a stay as the parties work to reach a final settlement agreement.

VERMILLION OPENS SMALL LAB FOR OVA1 TESTING

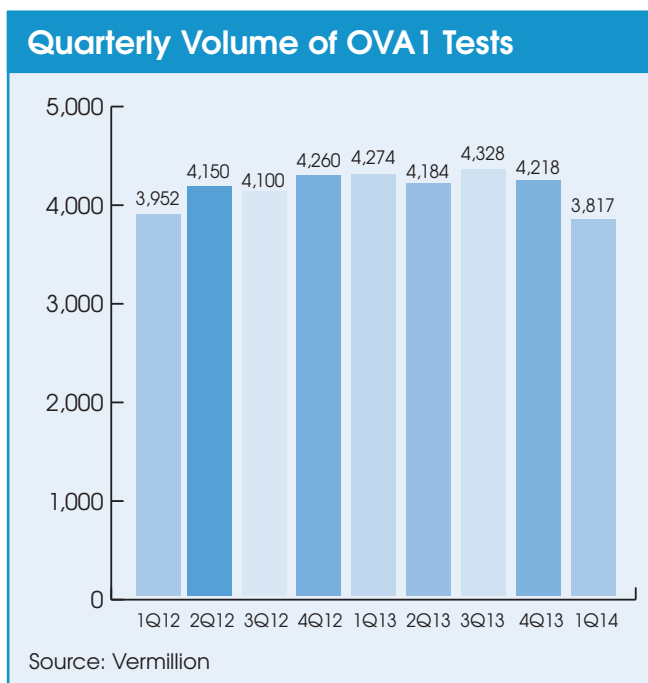
Vermillion Inc. (Austin, TX) has opened a three-person 900-square-foot laboratory in Austin, Texas. The lab, which has been branded Aspira Labs, received its CLIA certificate in February and is expected to be operational by June 30. Up until now, Quest Diagnostics had been the exclusive marketer of Vermillion's OVA1 test for ovarian cancer.

OVA1 is an ovarian cancer blood test for pre-surgical identification of women who are at high risk of having a malignant ovarian tumor. It uses the results of five immunoassays (B-2 microglobulin, apolipoprotein A1, CA 125, transferrin and prealbumin) to generate a numerical score of 0-10 that correlates with the likelihood of malignancy.

Quest has been marketing the test since March 2010 at a list price of \$650. Quest pays \$50 to Vermillion per OVA1 test performed as well as 33% of its gross margin profit from performing OVA1.

However, physician adoption of OVA1 has been slow. In the three months ended March 31, 2014, Quest processed only 3,817 OVA1 tests versus 4,274 tests in the same period a year ago.

Vermillion reported a net loss of \$4 million in first-quarter 2014 compared with a net loss of \$2.6 million in first-quarter 2013; revenue declined to \$305,000 from \$328,000. Since being founded in 1993, Vermillion has accumulated losses that total a staggering \$336 million.



PERKINELMER TO SHUT DOWN SIGNATURE GENOMIC LABS

PerkinElmer (Waltham, MA) paid \$90 million in cash to acquire Signature Genomic Laboratories (Spokane, WA) in May 2010 in an effort to expand its genetic testing lab business. Now, four years later, PerkinElmer has announced plans to shut the lab down.

An e-mail from PerkinElmer's communications company said: "Changing market conditions, including a highly unfavorable reimbursement environment, combined with a significant decline in demand for invasive procedures due to the uptake of non-invasive prenatal testing, contributed to this decline." Signature Genomic Labs had specialized in cytogenetic and FISH testing for prenatal and newborn disorders such as Down's Syndrome.

At its height in 2010-2011, Signature Genomics had about 120 employees and annual revenue of roughly \$25 million. Layoffs have reduced SGL's recent staff to fewer than 80 employees.

PerkinElmer continues to operate two other prenatal/newborn screening labs: PerkinElmer Labs/NTD (Melville, NY) and PerkinElmer Genetics (Bridgeville, PA).

LAB STOCKS UP 1% YTD

Fourteen lab stocks increased an average of 1% year to date through May 19. In comparison, the S&P 500 Index is up 2% and the Nasdaq is down 2%. The top-performing lab stock so far this year is Myriad Genetics, up 79%, followed by Enzo Biochem, up 25%. LabCorp is up 9% and Quest Diagnostics is up by 7%.

Company (ticker)	Stock Price 4/19/14	Stock Price 12/31/13	2014 Price Change	Market Capitalization (\$ millions)	P/E Ratio	Price/Sales	Price/Book
Bio-Reference (BRLI)	\$26.60	\$25.54	4%	\$737	18.3	1.0	2.7
Cancer Genetics Inc. (CGIX)	10.35	13.78	-25%	96	NA	13.0	2.0
CombiMatrix (CBMX)	2.11	2.30	-8%	23	NA	3.6	1.4
Enzo Biochem (ENZ)	3.66	2.92	25%	156	NA	1.7	4.9
Foundation Medicine (FMI)	21.24	23.82	-11%	599	NA	17.0	4.7
Genomic Health (GHDX)	25.60	29.27	-13%	800	NA	3.0	5.7
LabCorp (LH)	99.88	91.37	9%	8,470	16.6	1.5	3.4
LipoScience (LPDX)	3.12	4.25	-27%	48	NA	0.9	1.0
Myriad Genetics (MYGN)	37.58	20.98	79%	2,810	15.9	3.6	3.8
NeoGenomics (NEO)	3.63	3.62	0%	180	88.5	2.5	7.8
Psychemedics (PMD)	14.54	14.69	-1%	77	20.8	2.8	6.1
Quest Diagnostics (DGX)	57.40	53.54	7%	8,290	10.5	1.2	2.1
Response Genetics (RGDX)	0.88	1.16	-24%	34	NA	1.9	14.0
Sonic Healthcare (SHL.AX)	17.10	16.58	3%	6,854	18.8	1.9	2.2
Unweighted Averages			1%		27.0	4.0	4.4

Source: Bloomberg and Zacks

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