

# LABORATORY



# ECONOMICS

*Competitive Market Analysis For Laboratory Management Decision Makers*

## ANALYST'S REPORT HIGHLIGHTS THE HIGH COST OF HOSPITAL LAB TESTING

**A**ncedotal evidence presented in a new Wall Street research report suggests that hospital labs are charging managed care companies significantly more than the national labs.

The report written by Ralph Giacobbe at Credit Suisse compared the cost of a series of tests performed at a United Healthcare in-network hospital lab in New York City versus a nearby LabCorp location. Giacobbe found that the hospital charged over 23 times more than LabCorp (\$384 vs. \$16.25) for the same exact tests.

Given the significant upcoming changes brought on by healthcare reform, and focus on cost-effective care, Giacobbe believes managed care companies will redouble their efforts to direct patients to lower-cost labs. And with growing out-of-pocket costs, he expects more consumer attention and awareness to help drive change.

*Continued on pages 6-7.*

## DALLAS PATHOLOGIST AND AMERIPATH REACH SETTLEMENT

**M**ichael Robles, DO, and AmeriPath have reached a confidential settlement agreement that ends a lawsuit that Robles had filed challenging AmeriPath's non-compete employment restrictions.

*Cont'd on page 9.*

## AURORA DIAGNOSTICS BUYS 2 MORE PATH LABS; CEO JAMES NEW IS STEPPING DOWN

**A**urora Diagnostics (Palm Beach Gardens, FL) acquired Global Pathology Laboratory Services (Hialeah, FL) on August 1. It also purchased DermPath New England (Boston, MA) on June 2.

In other news, James New, 66, who helped found Aurora in 2006, has announced that he will retire as chief executive on September 1. John Hart has been appointed as CEO and will join the company's board.

*More details on page 2.*

## CONTENTS

### HEADLINE NEWS

Report highlights  
high cost of hospital labs.....1, 6-7  
Dallas pathologist and  
AmeriPath reach settlement .....1, 9  
Aurora Diagnostics buys two  
more path labs;  
James New is stepping down.....1-2

### MERGERS & ACQUISITIONS

Linden buys Strata Pathology.....2  
Signal Genetics buys  
DiagnoCure's lab .....8  
Poplar Healthcare expands  
into oncology .....8  
Solstas buys two more labs:  
Southern Diagnostics  
and Oracle Diagnostics .....10  
US Clinical Labs acquires  
Georgia lab .....10  
Lab acquisition summary,  
2010-2011 .....11

### MEDICARE

Medicare Part B spending  
up 4.6% last year .....2-4  
The outlook for Medicare is bleak.....4

### MANAGED CARE

BCBS of Michigan cuts rates .....8

### IN-OFFICE PATHOLOGY

Big NY gastro group opens  
onsite lab.....9

### FINANCIAL

Quest and LabCorp lag market's  
growth rate .....5  
Publicly-traded labs  
grew 2.4% in first-half 2011 .....5  
CorePlus files for bankruptcy  
reorganization .....9  
Lab stocks down 8%.....12

## **AURORA BUYS 2 MORE PATH LABS** (*cont'd from page 1*)

Since 2006, Hart was senior vice president and head of Genzyme Genetics, which was sold to LabCorp in December 2010 for \$925 million. From 1998 to 2006, he was a senior vice president of Quest Diagnostics with overall responsibility for the western region. Prior to his time at Quest, he was an executive at SmithKline Beecham Clinical Labs, which was bought by Quest in 1999.

Although he is stepping down as CEO, New will remain the chairman of Aurora.

### **More Acquisitions**

So far this year, Aurora has made four acquisitions:

- ▼ On January 1, 2011, the company acquired **Austin Pathology Associates** (Austin, TX) for \$29.9 million in cash plus contingent performance payments of up to \$14.9 million. Austin Pathology Associates has about 17 pathologists.
- ▼ On January 1, 2011, the company acquired **Western Pathology Consultants** (Reno, NV) for \$7 million in cash plus contingent performance payments of up to \$4 million. Western Pathology, which was founded in 1987, has six pathologists with subspecialties in cytopathology, gastrointestinal pathology and hematopathology.
- ▼ On June 2, 2011, the company acquired **DermPath New England** (Boston, MA) for an undisclosed amount. DermPath New England was founded by Hongmei Li, MD, PhD, in 2006. The group specializes in dermatopathology and has six pathologists.
- ▼ And on August 1, 2011, Aurora purchased **Global Pathology Laboratory Services** (Hialeah, FL) for an undisclosed amount. GPLS, which is focused on dermatopathology, has five pathologists led by its president Evangelos G. Poulos, MD.

Aurora Diagnostics has now made a total of 22 acquisitions since being formed in 2006. The company's annual revenue run rate is currently about \$300 million. Aurora registered for an IPO in April 2010 (see *LE*, May 2010, pp. 1-3) and is still seeking to go public, but the timing is uncertain.

## **LINDEN BUYS STRATA PATHOLOGY SERVICES**

**T**he private equity firm Linden LLC (Chicago, IL) has purchased a majority stake in Strata Pathology Services (Lexington, MA). Strata, which was founded in 1984, provides anatomic pathology services in the dermatology, urology, podiatry, oral pathology, gastroenterology and gynecology segments.

Linden operating partner, Richard Novak, who was previously chief operating officer at LabCorp, will serve as chairman of Strata.

Strata has a total of 100 employees, including 19 pathologists. Robin Kirby, MD, co-founder and medical director of Strata, says the investment by Linden will help Strata expand in New England and nationally.

## **MEDICARE PART B LAB SPENDING UP 4.6% TO \$8.4 BILLION**

**M**edicare Part B spending on clinical laboratory services increased by 4.6% to reach \$8.424 billion in calendar-year 2010, according to data from CMS's 2011 Medicare Trustees Report.

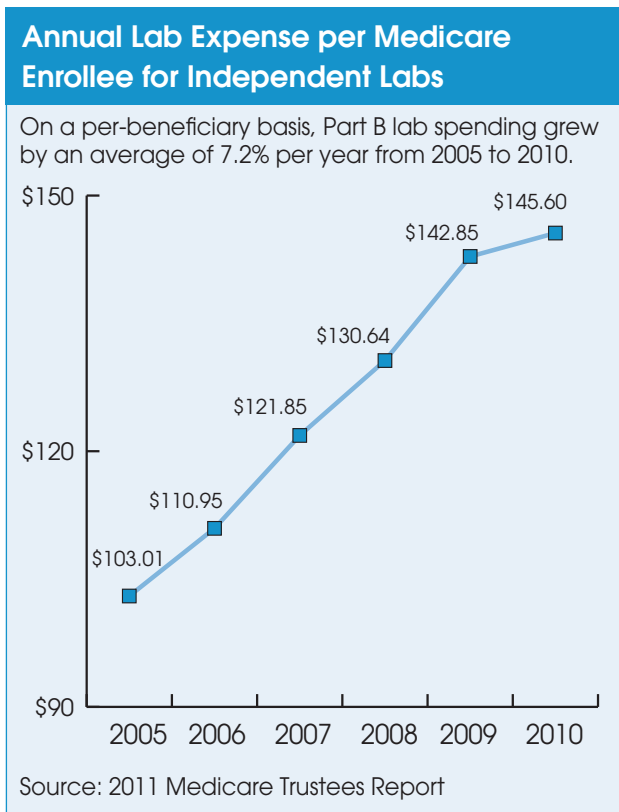
Intermediary labs (i.e., hospital lab outpatient/outreach) provided \$3.424 billion of Part B lab services in 2010—an increase of 2.8% compared with \$3.331 billion in 2009. Carrier labs (i.e., independent labs and POLs) accounted for \$5 billion, up 5.9% from \$4.723 billion.

Total Medicare spending in 2010 was \$522.8 billion, up 2.7% from \$509 billion in 2009. The number of Medicare beneficiaries increased by 2% to 47.5 million.

Part B lab services represented 1.6% of overall Medicare program expenditures in 2010.

Part B lab expenditures increased at an average rate of 5.9% per year between 2005 and 2010. This compares with an average rate of growth of 9.2% per year for total Medicare program expenditures over the same time frame.

The Medicare Trustees Report is compiled by actuaries from the Centers for Medicare and Medicaid Services (CMS). This annual report is required by law and constitutes the government’s official report on the status of the Medicare program.



### Medicare Part B Spending on Lab Services, 2005-2010 (\$ millions)

	2010	2009	2008	2007	2006	2005	5-Year CAGR*
Intermediary labs (hospitals)	\$3,424	\$3,331	\$2,967	\$2,932	\$2,941	\$2,784	4.2%
Carrier labs (independents)	5,000	4,723	4,261	4,144	3,694	3,548	7.1%
Total Part B labs	8,424	8,054	7,228	7,076	6,635	6,332	5.9%

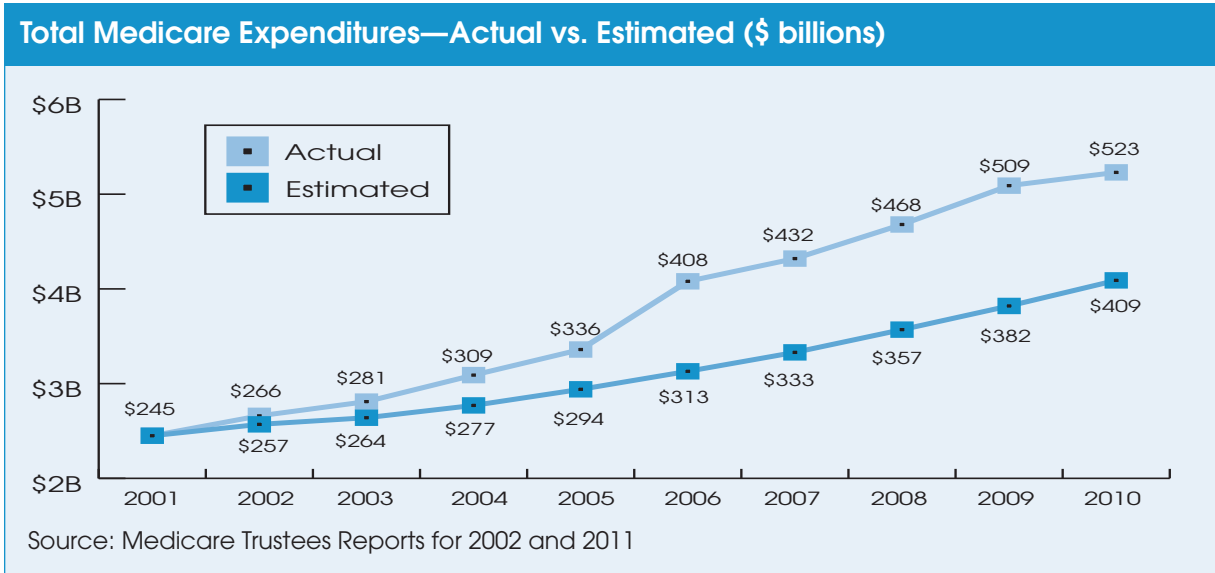
\*CAGR=compound annual growth rate  
Source: 2011 Medicare Trustees Report

### Unrealistic Medicare Spending Growth Estimates

Over the next 10 years, 2011-2020, The Medicare Trustees Report predicts that the annual growth in total Medicare spending will slow to an average of 6% per year. The projected growth rate is unrealistically low because it is based on physician payment cuts that are unlikely to occur. For example, current law requires a reduction in Medicare payment rates for physician services (including pathologists) of 29.4% in 2012. It is nearly certain that Congress will override this scheduled cut.

Part B physician fee schedule reductions have been scheduled for every year since 2002 under the sustainable growth rate (SGR) system. The SGR system was enacted as part of the Balanced Budget Act of 1997 with the intent of limiting growth in spending on physician services to a sustainable rate, roughly in line with overall economic growth.

An update of -4.8% was required and allowed to take effect in 2002—the only historical year in which a negative update was implemented under the SGR. For the past nine years (2003-2011), scheduled physician fee cuts of at least -5% have been overridden by new legislation, which provided updates ranging between 0% and 2.2%.



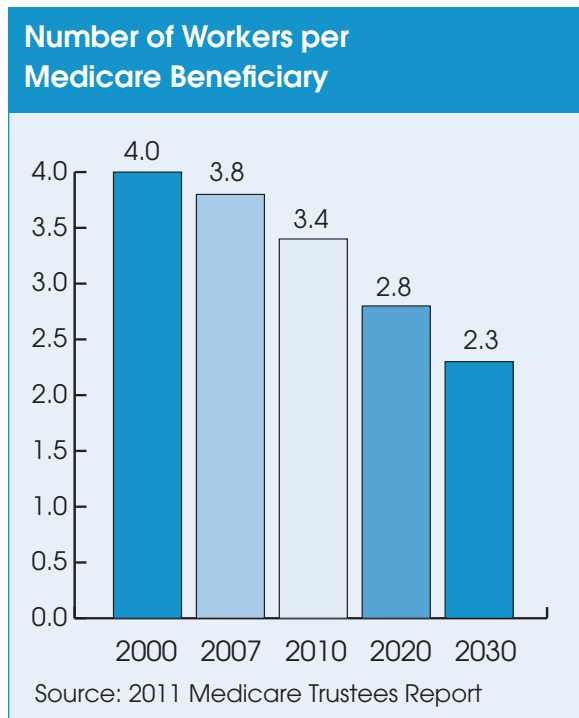
The inability of Congress to make tough and politically unpopular decisions has allowed Medicare spending to consistently rise faster than estimates. For example, the Medicare Trustees Report for 2002 had predicted that total Medicare expenditures would rise by an average of 5.9% per year to reach \$409 billion in 2010. The actual growth rate turned out to be 8.8% per year with total spending of \$523 million (*see graph above*).

Back in 2002, CMS predicted that Medicare trust fund assets would total \$702 billion at year-end 2010. The actual figure has turned out to be less than half that amount, \$344 billion, and is falling fast.

### The Outlook for Medicare

Medicare is a “pay-as-you-go” system. Payroll taxes and beneficiary premiums are used to pay for the program. But right now the Medicare program is running at a deficit. The cost of benefits paid is more than the payroll tax and premiums being collected, so the program is dipping into trust fund assets to finance the shortfall.

In 1965 when Medicare was enacted, there were 5.5 working-age Americans for every individual over 65. Today, that number has declined to 3.4. In the coming decades, as the baby boom generation continues to age and retire, the number will fall more rapidly. By the year 2030, there is projected to be only 2.3 working-age Americans to pay the benefits for each beneficiary.



## QUEST AND LABCORP NOT KEEPING PACE WITH INDUSTRY GROWTH

Medicare Part B spending on clinical lab and pathology services grew at an average annual rate of approximately 5% to 7% in the three years ended December 31, 2010, according to data from the Centers for Medicare and Medicaid Services.

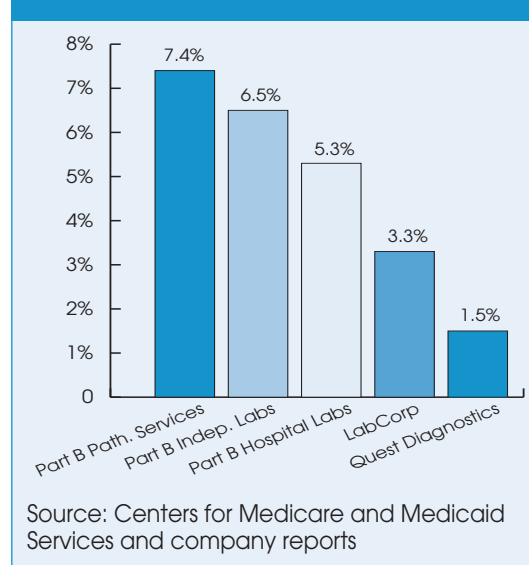
Part B spending on pathology services grew by 7.4% per year, while clinical lab expenditures were up 6.5% for independent labs and 5.3% for hospital labs. Combined, the three Part B lab spending categories grew by 6.3% per year to a total of \$10.4 billion.

Over the same three-year period, LabCorp increased its revenue by 3.3% (after adjustments for acquisitions) and Quest Diagnostics grew by 1.5%.

### Publicly Traded Labs Grew 2.4% In First Half

Twelve publicly traded labs grew their revenue by an annualized rate of 2.4% to \$7.3 billion in the first six months of 2011 (after adjustments for acquisitions), according to financial reports collected by *Laboratory Economics*. This rate of growth is slightly higher than the 2.3% recorded in full-year 2010. Revenue growth was fastest at Bio-Reference Labs (up 23.7%) and Psychemedics (also up 23.7%). Excluding Quest Diagnostics and LabCorp, the 10 remaining publicly-traded labs grew by an average of 17% in the first six months of 2011.

Lab Industry Growth Rates, 2008-2010



### Revenue Growth at 12 Publicly-Traded Lab Companies (\$000)

Company	First-Half Revenue 2011	First-Half Revenue 2010	Reported Change	Pro Forma Change*
Quest Diagnostics	3,724,778	3,680,230	1.2%	-0.1%
LabCorp	2,771,700	2,432,000	14.0%	2.0%
Bio-Reference <sup>1</sup>	259,317	209,709	23.7%	23.7%
Myriad Genetics	209,786	184,759	13.5%	13.5%
Aurora Diagnostics	130,470	101,105	29.0%	8.7%
Genomic Health	100,656	84,667	18.9%	18.9%
Medtox Scientific	53,657	46,346	15.8%	15.8%
Orchid Cellmark	33,151	29,814	11.2%	11.2%
Enzo Clinical Labs <sup>2</sup>	26,087	21,385	22.0%	22.0%
NeoGenomics	19,271	16,908	14.0%	14.0%
Psychemedics	12,228	9,886	23.7%	23.7%
Combimatrix	2,122	1,736	22.2%	22.2%
Total, 12 companies	7,343,223	6,818,545	7.7%	2.4%
Total, 10 companies (excluding Quest and LabCorp)	846,745	706,315	19.9%	17.0%

\*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, 2011; <sup>2</sup>Enzo's revenue is for lab services only for six months ended April 30, 2011.

Source: *Laboratory Economics* from company reports

**THE HIGH COST OF HOSPITAL LAB TESTING** (*cont'd from page 1*)

In his down-to-earth research report (*My Wife's Trip to the Lab*, June 17, 2011), Giacobbe noted that his wife has been getting periodic lab tests in a hospital outpatient setting in New York City. However, on a recent visit Mrs. Giacobbe asked her physician for a script rather than walking down the hall and having her blood drawn at the hospital. Instead, she went to a nearby LabCorp patient service center.

In comparing the costs of the same series of tests, Giacobbe found that the hospital collected \$384 compared with \$16.25 for LabCorp for the same exact tests. Both the hospital and LabCorp are in-network providers in for the United Healthcare network for New York City. The research report broke down the cost difference in a table (*see below*) without naming the specific tests.

Pricing Comparison of Hospital Lab vs. LabCorp for Selected Tests			
	<i>Hospital</i>	<i>LabCorp</i>	<i>Difference</i>
Test A	\$82.00	\$4.82	1601%
Test B	169.00	6.55	2480%
Test C	51.00	1.67	2954%
Test D	82.00	3.21	2455%
<b>Total</b>	\$384.00	\$16.25	2263%

Source: Credit Suisse

Giacobbe emphasized that this is only one series of tests and is not meant to imply that the magnitude of cost differential for every test across all hospitals compared to any independent labs is as large. “Nonetheless, it’s an example of the stark cost difference based simply on location of the blood draw,” he added.

So Giacobbe says, “The obvious question is ‘Why would managed care reimburse at such different rates?’” *Laboratory Economics* contacted several billing experts for their perspectives. Here is a summary of their views:

I agree with the premise that healthcare reform will result in greater cost pressure for all types of laboratories. I expect that over time, hospital labs will be forced to migrate to the independent lab fee schedule for outpatients and outreach specimens to be competitive ... Because they have the fixed costs of facilities, staff and equipment to support inpatients, hospitals should be able to accept independent lab fee schedules for outpatients/outreach and still make a profit. In fact, it could be argued that they are better positioned to gain market share because of existing lab infrastructure and the continuity of testing. Pricing changes are several years out in my opinion, so there is plenty of time to prepare.

—*Kathleen Murphy, chief executive, Chi Solutions Inc. (Ann Arbor, MI)*

Because of weak billing processes many hospital labs are actually not getting paid for many of the tests they do and the managed care organizations (MCOs) know this. So if I’m the MCO, I look at how many CPTs the hospital billed me vs. how many I actually paid (or did not have to pay because of incorrect or untimely billing). If the MCO got billed for 10,000 CPTs, but only had to pay for 8,000 CPTs because of poor billing procedures the net effect is that the MCO may actually have an average reimbursement per test that is below what they are paying the national labs. If that’s true, why would the MCO want to disturb that arrangement? That being said I believe that

smart hospital outreach programs will continue to focus on becoming more efficient so that they can compete at reduced reimbursements.

—*Larry Siedlick, chief executive, The ARx Group (Hauppauge, NY)*

The majority of hospitals that follow the practice demonstrated in the Credit Suisse report are large, big-name medical centers or health systems. I have visited with many that are charging as much as 250% to 350% of the Medicare clinical lab fee schedule. While many may applaud that they are ‘sticking it’ to the health plans, the real loser is the health plan member since many health insurance products require coinsurance.

Where a medical center is critical to a plan due to their primary services (e.g. surgery, inpatient, etc.), the plans have found traction in ‘steering’ lab business away from these higher-cost centers by sending letters to doctors and patients that describe the differences in out-of-pocket expense when they utilize the lower-cost provider. This is proving to be effective since consumers are watching their wallets.

The winners will not necessarily be the ‘lowest’ cost providers but instead, the labs (hospital outreach included) that participate in ancillary contracts (with competitive pricing) and that ‘partner’ with the plans to bring new value to issues that are important to the plans (e.g. molecular diagnostic utilization).

—*Michael Snyder, president of laboratory services, Medical Spend Management Systems (Cherry Hill, NJ)*

I think [the report] caught the attention of some managed care companies and validated a lot of what we’ve been saying historically ... And I also think what we’ll start to see in 2012 is some pilot programs by managed care companies in various markets to see if there are ways that they can influence hospital utilization and move work out of the hospitals.

—*Dave King, chief executive of LabCorp, from July 20 conference call with investors*

Hospital labs historically have had much higher costs than independent labs, yet they still hold the majority of the lab market. Independent labs might take the lead as the cost differential is brought to light by managed care entities and savvy patient consumers seek to lower their out-of-pocket expenses.

What is most important to the success of hospital outreach labs is the ability to have separate fee schedules for their outreach patients. Many hospitals may be limited in their ability to offer multiple fee schedules and end up utilizing their outpatient fee schedule for their outreach patients. This OP fee schedule is often fairly high and includes the same fees used for emergency department patients which can be detrimental to growing market share. This is in some part due to the technology limitation of their legacy HIS and billing system software, which may not have the extensive capabilities that the national labs have to offer customize pricing and discounting.

Having the ability to technically compete with the national labs on pricing is a start, and utilizing an outsourced billing vendor to accommodate this important need is certainly a viable option. In addition, some hospitals may decide to set their outreach lab up as an independent lab which would operate under its own negotiated contracts.

—*Donna Beasley, national director, McKesson Revenue Management Solutions (Alpharetta, GA)*

At the end of the day, I would not bet against hospitals that proactively manage their labs and accept lower reimbursement levels. Managed care will push these institutions to lower their costs, but they ultimately need the hospitals in their network more than they need Quest and LabCorp.

—*Tom Hirsch, president, Laboratory Billing Solutions (Portsmouth, NH)*

## BCBS OF MICHIGAN CUTS RATES

**B**lue Cross Blue Shield of Michigan cut its reimbursement fee for the professional component of CPT 88305 by 10.6% to \$53.32 effective July 1, 2011, according to data from the pathology practice management firm Vachette Pathology (Blissfield, MI). CPT 88305 (tissue exam by pathologist) is the most frequently billed anatomic pathology procedure. BCBSM has changed other pathology codes in the range of +1% and -2.5%. BCBSM covers a total of 4.6 million health plan members.

### Reimbursement Changes at BCBS of Michigan

Code	Modifier	July 1, 2011	July 1, 2010	% Chg
88300	26	\$6.34	\$6.28	1.0%
88302	26	\$9.26	\$9.42	-1.7%
88304	26	\$15.60	\$15.71	-0.7%
88305	26	\$53.32	\$59.65	-10.6%
88307	26	\$114.05	\$114.12	-0.1%
88309	26	\$199.83	\$199.45	0.2%
88321	0	\$116.98	\$116.74	0.2%
88331	26	\$85.30	\$86.38	-1.3%
88342	26	\$58.98	\$59.68	-1.2%
88360	26	\$75.06	\$76.95	-2.5%

Source: Vachette Pathology

## SIGNAL GENETICS BUYS DIAGNOCURE LAB

**S**ignal Genetics (New York City) and DiagnoCure (Quebec City, Canada) have announced a partnership agreement valued at \$13.3 million over five years. Terms call for Signal to acquire DiagnoCure's CLIA-certified lab in West Chester, Pennsylvania (about 25 miles west of Philadelphia) for \$5.7 million in cash. The lab currently generates less than \$1 million per year of revenue.

In addition, Signal will make a minimum of \$5.1 million in royalty payments over the next five years in exchange for an exclusive license to DiagnoCure's Previstage GCC Colorectal Cancer Staging Test. The test, which has not been cleared by the FDA, has a list price of \$3,500.

Signal will also pay DiagnoCure \$2.5 million in cash under an R&D agreement to help DiagnoCure develop certain genomic tests.

Signal was founded in 2010 by John Shaughnessy, Jr., MD, who is a professor of medicine and biostatistics at the University of Arkansas for Medical Sciences Little Rock. Signal operates a CLIA-certified lab in Little Rock that performs a proprietary molecular test for multiple myeloma patients. The test is branded MyPRS (Myeloma Prognostic Risk Signature) and has not been cleared by the FDA.

## POPLAR HEALTHCARE EXPANDS INTO ONCOLOGY MARKET

**P**oplar Healthcare (Memphis, TN) has formed a new division, OncoMetrix, that will focus on hematology and oncology testing. Robert Walker has been named president of OncoMetrix. Walker was a founding partner of OralDNA Labs, which was sold to Quest Diagnostics in May 2009. Poplar Healthcare was recently formed as the parent company of GI Pathology, D-Path Dermatopathology and most recently OncoMetrix.

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**DALLAS PATHOLOGIST AND AMERIPATH REACH SETTLEMENT** (*cont'd from page 1*)

Robles is former director of gastrointestinal pathology at AmeriPath North Texas (Dallas). However, he resigned at the end of July to form a new professional group named Pathology Health Associates of Texas and lab company named Alliance Health Sciences (both located in Flower Mound, TX). Robles has partnered with Joe Zimmerman, former vice president of anatomic pathology services at AmeriPath, to create the new companies.

One of AmeriPath's largest clients in the Dallas area is Digestive Health Associates of Texas (DHAT). DHAT is a 77-doctor gastroenterology group with more than 30 offices in the Dallas area. The group opened its own 3,300-square-foot histology lab in 2007 (see *LE*, July 2007, page 1) and contracted with AmeriPath for professional services. Over the past four years, Robles had been one of the primary pathologists at AmeriPath providing slide-interpretation services to DHAT.

Robles had hoped that DHAT would switch from AmeriPath to his new professional group (see *LE*, May 2011, page 3). However, *LE* hears that AmeriPath, which is owned by Quest Diagnostics, made an aggressive bid to maintain its contract with DHAT. AmeriPath's Margaret Bell, PhD, MD, is serving as the primary pathologist for DHAT. Bell is director of AmeriPath's Center of Excellence in Genitourinary Pathology in Dallas.

**COREPLUS FILES FOR CHAPTER 11 BANKRUPTCY**

**C**orePlus LLC (Miami) filed for Chapter 11 bankruptcy protection on August 1. The bankruptcy filing follows a recent foreclosure lawsuit filed by Executive National Bank in an attempt to collect \$5.8 million in loans.

CorePlus is a pathology lab founded by Mariano De Socarraz in 2001. In mid-2010, the lab had employed six pathologists and processed more than 200,000 slides per year (see *LE*, June 2010, page 9). In a statement to the South Florida Business Journal, De Socarraz said, "CorePlus ... has sought Chapter 11 bankruptcy protection due to economic conditions in the marketplace and other factors which are a matter of public record. It is the intention of the company to move quickly through the reorganization process and to emerge a strong and profitable entity."

On its bankruptcy petition, CorePlus declared \$4.96 million in assets and \$2.58 million in debt. The company's largest unsecured creditors include Total Bank (owed \$1.78 million), Miami-Dade County Tax Collector (\$96,510) and Qiagen-Digene (\$53,998).

**BIG NEW YORK GI GROUP OPENS IN-OFFICE PATHOLOGY LAB**

**T**he in-office histology lab trend continues. New York Associates in Gastroenterology (Bronx, NY), which has 12 gastroenterologists, recently opened their own histology lab. The group had formerly used a national GI pathology lab company, but will now process its own slides and has contracted with a local pathologist for professional interpretations.

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## SOLSTAS BUYS SOUTHERN DIAGNOSTICS

Solstas Lab Partners (Greensboro, NC), the for-profit lab company that was formed last year by the merger of Carilion Clinic's lab business and the larger Spectrum Laboratory Network, has acquired Southern Diagnostics (Birmingham, AL).

Southern Diagnostics is an independent lab formed by its president Steve Boyd in mid-2003.



Steve Boyd

Boyd was previously vice president of business development at Dynacare for the southeastern United States. Dynacare was acquired by LabCorp in 2002.

"Gaining physician office clients was tough in the first year, but has picked up now that we're not considered the new kid on the block anymore," Boyd told *Laboratory Economics* back in April 2006.

Southern Diagnostics now has 180 employees and annual revenue of more than \$20 million. The company operates clinical and pathology labs in Birmingham that serve all of Alabama and part of Mississippi.

Boyd will become a senior vice president for Solstas, managing the company's southern region.

Terms of the deal were not disclosed, but *LE* estimates that Solstas paid about 1.5 times revenue, or \$30 million, for Southern Diagnostics.

### Solstas Buys South Florida Lab

Effective August 3rd, Solstas also acquired Oracle Diagnostic Laboratories (Davie, FL). Oracle is a full-service clinical lab with a recent emphasis in the toxicology sector. The company was owned by its president James Banner, who will continue to manage the south Florida market for Solstas. Oracle has 100 employees and estimated annual revenue of between \$10 million and \$15 million.

Solstas Lab Partners has now made six acquisitions in the southeast in the past year, including Doctors Laboratory (September 2010), Select Diagnostics (June 2011), NextWave Diagnostic Labs and Wilmington Pathology Laboratory (both in July 2011), and Southern Diagnostics and Oracle Diagnostics (both in August 2011).

Solstas is majority-owned by the private investment firm Welsh Carson (New York City). The company now has about 4,000 employees and annual revenue of more than \$400 million.

## US CLINICAL LABS BUYS AUGUSTA LAB

On August 1, US Clinical Laboratories (Houston, TX) purchased Augusta Lab (Augusta, GA), which is its second Georgia-based lab acquisition in a five-week span. The first was Vidalia Lab Services (see *LE*, July 2011, page 7). Both labs specialize in lab testing for nursing homes; Augusta Labs services northeastern Georgia, while VLS services southern Georgia. Augusta Labs president and founder, Jan Schuler, MD, will remain as president and manage an expansion of US Clinical Labs operations into Georgia and neighboring states to new customer markets, such as hospitals. U.S. Clinical Labs now has a total of 119 employees, including 20 from the newly acquired Augusta Lab, and annual revenue of more than \$8 million.

**Laboratory Acquisition Summary, 2010 - August 2011 (\$ millions)**

DATE	BUYER	TARGET	PURCHASE PRICE	ACQUIRED REVENUE	PRICE/REVENUE
Jan-10	Aurora Diagnostics	Pinkus Dermatopathology Lab	NA	NA	NA
Jan-10	Aurora Diagnostics	Bernhardt Laboratories	NA	NA	NA
Jan-10	Predictive Biosciences	OncoDiagnostic Laboratory	NA	NA	NA
Feb-10	Solstas Lab Partners	Carilion Labs	NA	110	NA
Feb-10	Inverness Medical	Kroll Laboratory	110	41	2.7
Mar-10	Aurora Diagnostics	Pathology Solutions	22.5*	16.5	1.4
Mar-10	Mainsail Partners	Path Logic	NA	NA	NA
Apr-10	Bio-Reference Labs	Lenetix Medical Screening Lab	5.5	NA	NA
Apr-10	EndoChoice	Pathworks Anatomic Pathology Lab	NA	NA	NA
Apr-10	LabCorp	Diamond Reference Lab	NA	NA	NA
May-10	PerkinElmer	Signature Genomic Labs	90	30	3.0
Jun-10	LabCorp	Westcliff Medical Labs	57.5	97	0.6
Jul-10	LabCorp	DCL Medical Labs	NA	NA	NA
Jul-10	US Clinical Labs	Elite Clinical Labs	NA	NA	NA
Aug-10	Iris International	AlliedPath	6.0	NA	NA
Aug-10	LabCorp	Medical Diagnostic Laboratory	NA	NA	NA
Sep-10	Solstas Lab Partners	Doctors Laboratory Inc.	NA	50	NA
Oct-10	Aurora Diagnostics	Biopsy Diagnostics	14*	NA	NA
Oct-10	Exagen Diagnostics	Cypress BioSciences Lab Operations	4.0	1	4.0
Oct-10	LabCorp	FirstSource Laboratory Services	NA	10	NA
Oct-10	Metalmark Capital	Aegis Sciences Corp.	NA	NA	NA
Oct-10	Pacific Diagnostics Lab	Medical Group Pathology Lab	NA	NA	NA
Nov-10	Sonic Healthcare	CBLPath	124	85	1.5
Dec-10	American Pathology Partners	Palm Beach Pathology Lab	NA	NA	NA
Dec-10	GE Healthcare	Clariant Inc.	580	115	5.0
Dec-10	LabCorp	Genzyme Genetics	925	370	2.5
Dec-10	Riverside Partners	Dominion Diagnostics	NA	NA	NA
Dec-10	Sonic Healthcare	Physicians Automated Lab	NA	20	NA
Jan-11	Aurora Diagnostics	Austin Pathology Associates	30*	NA	NA
Jan-11	Aurora Diagnostics	Western Pathology Consultants	7*	NA	NA
Feb-11	Novartis	Genoptix	330	195	1.7
Feb-11	Pathology Inc.	Central Coast Clinical Laboratories	NA	NA	NA
Feb-11	Sonic Healthcare	Central Coast Pathology Consultants	NA	20	NA
Mar-11	LabCorp	Clinical Laboratory Management	NA	NA	NA
Mar-11	Quest Diagnostics	Celera Corp.	341	128	2.7
Apr-11	Quest Diagnostics	Athena Diagnostics	740	110	6.7
May-11	Myriad Genetics	Rules Based Medicine	80	25	3.2
Jun-11	Aurora Diagnostics	DermPath New England	NA	NA	NA
Jun-11	LabCorp	Clearstone Central Laboratories	NA	NA	NA
Jun-11	Signal Genetics	DiagnoCure US Laboratory	6	NA	NA
Jul-11	Nestle Health Science	Prometheus Laboratories	NA	519	NA
Jun-11	Solstas Lab Partners	Select Diagnostics	NA	15	NA
Jul-11	Linden LLC	Strata Pathology Services	NA	NA	NA
Jul-11	Solstas Lab Partners	NextWave Diagnostic Labs	NA	5	NA
Jul-11	Solstas Lab Partners	Wilmington Pathology Laboratory	NA	NA	NA
Jul-11	US Clinical Labs	Vidalia Lab Services	NA	NA	NA
Aug-11	Aurora Diagnostics	Global Pathology Laboratory Services	NA	NA	NA
Aug-11	Solstas Lab Partners	Southern Diagnostics	NA	20	NA
Aug-11	Solstas Lab Partners	Oracle Diagnostics	NA	10	NA
Aug-11	US Clinical Labs	Augusta Lab	NA	NA	NA
Pending	LabCorp	Orchid Cellmark	65	65	1.0

NA=Not available; \*Purchase prices for Aurora Diagnostics are cash only and do not include potential performance payouts. Source: Company reports and estimates by *Laboratory Economics*

## LAB STOCKS DOWN 8% YEAR TO DATE

Ten lab stocks have fallen by an unweighted average of 8% so far this year through August 19. The combined market capitalization for the group is currently \$18.5 billion. In comparison, the S&P 500 Index is down 11% and the Nasdaq is down 12%. The top-performing lab stocks so far this year are CombiMatrix, up 30%, followed by Genomic Health, up 6%. Meanwhile, the stock price of LabCorp is down 10% and Quest is down 14%.

Company (ticker)	Stock Price 12/31/10	Stock Price 8/19/11	2011 Price Gain	Market Capitalization (\$ millions)	Earnings Past 12 Months	Price-to- Earnings Ratio
Bio-Reference (BRLI)	\$22.18	\$18.26	-18%	\$510	\$1.16	15.7
CombiMatrix (CBMX)	2.15	2.79	30%	30	-0.87	NA
Enzo Biochem (ENZ)	5.28	2.68	-49%	103	-0.35	NA
Genomic Health (GHDX)	21.39	22.68	6%	669	0.25	90.7
LabCorp (LH)	87.92	79.09	-10%	8,020	5.72	13.8
Medtox Scientific (MTOX)	13.10	12.94	-1%	115	0.47	27.5
Myriad Genetics (MYGN)	22.84	18.82	-18%	1,601	1.11	17.0
Neogenomics (NGNM)	1.30	1.11	-15%	48	-0.09	NA
Psychemedics (PMD)	8.20	8.58	5%	45	0.61	14.1
Quest Diagnostics (DGX)	53.97	46.48	-14%	7,357	2.88	16.1
Averages			-8%	18,498		27.9

Source: Bloomberg

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## 1: Anatomic Pathology Market Size & Structure

- F Anatomic Pathology Market Size
- F Test Volume Growth for Anatomic Pathology
- F Anatomic Pathology Company Market Share
- F Top 50 Independent Histology Labs
- F Average Annual Collected Revenue per Pathologist
- F Revenue for Subspecialties in the Pathology Market
- F Estimated New Cancer Cases, 2007-2010

## 2: Medicare Claims Trends

- F Medicare Reimbursement History for CPT 88305
- F Medicare Reimbursement for Key Codes in 2011
- F Reimbursement Changes for UroVysion
- F Submitted Claims Volume from 2000-2009 for CPT 88305, 88342, 88185, 88367, 88312, 88307, 88112, 88313, 88304, 88361
- F Market Share Changes for Key CPT Codes

## 3: The Cervical Cancer Screening Market

- F Lab Service Revenues from Cervical Cancer Screening
- F Medicare Reimbursement for Pap Testing
- F U.S. Sales of Gardasil
- F Deaths from Cervical Cancer, 1998-2009

## 4: In-Office AP Laboratories

- F Number of Urology Groups Starting In-Office Labs
- F Medicare Reimbursement for Colonoscopy with Biopsy
- F Number of Gastroenterology Groups Starting In-Office Labs
- F Profiles of 31 Specialty Groups that Insourced Pathology
- F List: 101 Specialty Groups with In-Office Labs
- F In-Office AP Labs Effect on Pathology Groups
- F Compensation: Urologists vs. Pathologists

## 5: Mergers & Acquisitions

- F Quest and LabCorp Cash Payments for Acquisitions
- F Average Purchase Price to Revenue Multiples
- F Laboratory Acquisition Summary, 2007-2010
- F Aurora Diagnostics Acquisition Summary

## 6. Digital Pathology

- F Percentage of Pathology Groups Using Digital Pathology
- F How Labs Are Using Digital Pathology
- F Why Some Labs Don't Use Digital Pathology
- F U.S. Market Size for Digital Pathology
- F Medicare Claims for CPT 88361 for 2009
- F Vendor Market Share for Digital Pathology

## 7. The Business Outlook for Anatomic Pathology

- F Anatomic Pathology Market Size, 2010-2015
- F Fastest-Growing Subspecialties in Pathology
- F Biggest Challenges Facing Pathology Groups
- F Managed Care Reimbursement for Key Codes
- F APF Survey Results on In-Office Histology Labs
- F Competitiveness of Quest and LabCorp
- F Pharmacogenomics in Cancer Treatment

## Appendix: Pathology Lab Company Profiles

Agendia, Aurora Diagnostics, Bio-Reference Labs, Bostwick Labs, Caris Life Sciences, CBLPath, Clariant Inc., Genomic Health, Genoptix, Genzyme Genetics, HealthTronics/ClariPath, LabCorp, med fusion, Myriad Genetics, NeoGenomics, PathGroup, Quest Diagnostics

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