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VOLUME 7, NO. 8 AUGUST 2012

LABORATORY ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

INCYTE AND EASTSIDE PATHOLOGY TO MERGE

InCyte Pathology (Spokane Valley, WA) and Eastside Pathology (Bellevue, WA) have announced plans to merge in a deal expected to close January 1, 2013. All together, the combined company will have 206 employees, including 36 pathologists and 10 sales reps. The board of directors at the combined company will include six pathologists from InCyte and three pathologists from Eastside.

The deal follows InCyte's acquisition of Davis-Sameh-Meeker Laboratories (Walla Walla, WA) in April 2011. The merged company is targeting the Puget Sound-Seattle area for growth, according to Gary Gemar, chief operating officer at InCyte Pathology.

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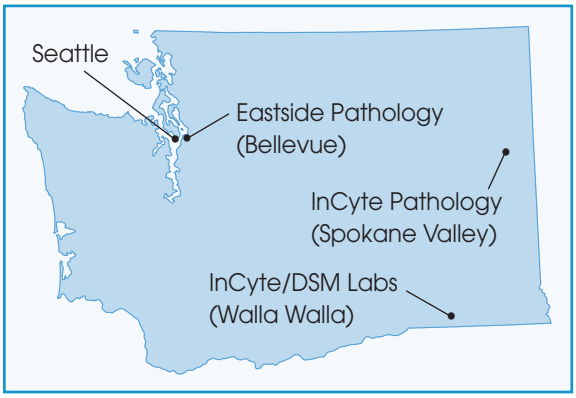

LABCORP SHOOTS DOWN TAKEOVER RUMORS

LabCorp says it has no knowledge of a planned leveraged buyout after a report surfaced that the lab-testing company is being targeted by a number of private equity firms. Speculation started after the online business publication Debtwire.com reported on July 31 that Bank of America was preparing to take LabCorp private in a "massive leveraged buyout." The publication cited sources familiar with the situation but did not identify them. On August 1, LabCorp issued a statement saying it has "no knowledge of any such plans and is not in current discussions with any firms to effect such a transaction." *Continued on page 4.*

LABS BRACE FOR CMS DECISION ON MOLECULAR TESTS

The Centers for Medicare & Medicaid Services is expected to announce some key decisions affecting molecular and genetic tests in early September. The agency is likely to decide that 100+ new molecular CPT codes will be placed on the Part B clinical lab fee schedule (as opposed to the Medicare Physician Fee Schedule), according to Bruce Quinn, MD, PhD, senior health policy specialist at the law firm Foley Hoag LLP. Quinn thinks pricing will be set near the average or median prices currently charged by labs using code stacks. *Continued on page 2.*

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LABS BRACE FOR CMS DECISION ON MOLECULAR TESTS (*cont'd from p. 1*)

The decision as to whether to place the 100+ molecular and genetic test codes on the CLFS or the MPFS is crucial. It will influence how much of a role pathologists will play and how they will be compensated in the rapidly growing fields of molecular and genetic testing.

If the tests are placed on the CLFS, then clinical labs will have the upper hand. In this case, clinical labs will bill and collect for payment of molecular and genetic tests, and then determine which portion, if any, will be paid to pathologists.

The College of American Pathologists (CAP) has argued for placing the 100+ new codes on the MPFS. CAP says that physician interpretation is required for the majority of these tests and the MPFS allows for more frequent updating, which is necessary for this rapidly changing test area. Placing the tests on the MPFS would also divide reimbursement into a technical component fee for lab services and a professional component fee for interpretive services provided by pathologists.

However, Quinn says current regulations seem to strongly favor placement of molecular and genetic tests on the CLFS, since they do not "ordinarily require" a physician. He also notes the difficulty in setting RVU valuations for these tests if they were placed on the MPFS. "The RVU system seems a poor match for the actual economics of laboratory testing," adds Quinn.

The American Clinical Laboratory Association (ACLA), which represents Quest Diagnostics, LabCorp, Myriad Genetics as well as 40 other lab companies, wants molecular and genetic tests on the CLFS. ACLA is recommending that CMS set prices for each new molecular or genetic test code at the median price now charged by labs using code stack billing. Under this scenario, molecular labs that have used conservative code stacks would see an increase in reimbursement, while more aggressive labs would face a cut.

The table below shows hypothetical pricing for key molecular and genetic tests assuming that CMS were to "crosswalk" to the median prices now charged by labs using code stacks.

CMS plans to announce its preliminary decisions in September, followed by a comment period, and then final ruling in early November.

Potential Pricing for Key Molecular and Genetic Tests

Code	*Lab Test*	*High Price*	*Median*	*Low Price*
81223	Cystic Fibrosis	$1,757	$1,175	$771
81225	CYP2C19 Genotype	581	379	335
81241	Factor V Leiden	117	70	65
81270	Fragile X	135	87	46
81401	BCR/ABL Quantitative	349	148	102
81210	BRAF Mutation	301	246	119
81404	C-Kit Mutation	420	343	260
81401	EGFR Mutation	1,722	792	296
81275	KRAS Mutation	637	290	256
81350	UGT1A1 Genotyping	313	70	58

Source: *Laboratory Economics'* analysis of test code stacks from 20 laboratories

INCYTE AND EASTSIDE PATHOLOGY TO MERGE (*cont'd from p. 1*)

InCyte Pathology currently has 25 pathologists, including 19 shareholder pathologists. Eastside Pathology has 11 pathologists, all of whom are shareholders. The combined 30 shareholders will own shares in the merged company.

Christopher Montague, MD, is currently chairman of InCyte. David Nordin, MD, is chairman of Eastside. The merged company will be governed by a nine-pathologist board of directors (six from InCyte/three from Eastside) which will elect a chairman and president.

The executive staff at InCyte will maintain their positions at the merged company. Gemar will continue as chief operating officer; Tom Rehwald will stay chief financial officer; and Nathan Koenig will continue as chief marketing officer.

Gemar says the main histology labs at InCyte and Eastside will maintain operations with each continuing to perform histology, cytology and molecular testing. Initially, the labs will be co-branded using both names. Eventually the merged company will be called InCyte Pathology.

InCyte and Eastside had on-again off-again merger negotiations over the past three years. One key reason for the merger is expanded breadth of subspecialty expertise. Gemar says other large pathology labs were beginning to compete in central and eastern Washington by emphasizing their molecular and subspecialty services.

Together, InCyte and Eastside will have 10 sales reps marketing pathologists with board certification and/or subspecialty expertise in 27 subspecialties. The combined staff will include, for example, six dermatopathologists, six breast specialists and four hematopathologists, according to Gemar.

In addition, Gemar says the merged company plans to grow in the Puget Sound-Seattle area. Eastside currently has a presence in the Seattle area, including lab director and anatomic pathology service contracts with Overlake Hospital (Bellevue, WA) and Valley Hospital Medical Center (Renton, WA). However, Gemar sees opportunity for expansion. The competition in Seattle will include LabCorp, Puget Sound Institute of Pathology, Cellnetix Labs and PhenoPath Laboratories.

InCyte/Eastside Pathology at a Glance

InCyte chairman	Christopher Montague, MD
Eastside chairman	David Nordin, MD
Surgical pathology cases	98,000 per/yr
Pap test volume	170,000 per/yr
Est'd Annual Revenue	>$25 million
Total employees	206
Sales reps	10
Pathologists	36
Dermatopathologists	6
Hematopathologists	4
Breast pathology	6
Gastrointestinal pathology	5

Source: *Laboratory Economics* and InCyte Pathology

Gemar says InCyte will continue to seek mergers and acquisitions with other pathology practices in the Northwest.

Last year, InCyte acquired Davis-Sameh-Meeker Laboratory located in southeast Washington. This acquisition brought a histology-cytology lab, two employed pathologists and three hospital contracts.

LABCORP SHOOTS DOWN TAKEOVER RUMORS (*cont'd from p. 1*)

LabCorp currently trades at $89 per share for a market capitalization of $8.5 billion. The company also has $2 billion of debt outstanding which pushes its enterprise value up to $10.5 billion. Assuming LabCorp sold at a 25% premium to its current share price would place a value on the company of $12.6 billion ($8.5B x 125% + $2B debt = $12.6B).

LabCorp will generate approximately $950 million in cash from operations this year. The company will also spend about $155 million on capital expenditures, so free cash from operations will be an estimated $795 million.

Consequently, any hypothetical takeout buyer would have to be willing to pay a multiple of 16 times free cash flow ($12.6B/$795M = 16). That seems like a high price especially given the huge potential liabilities the national labs face from Medicare and Medicaid pricing investigations, observes *Laboratory Economics*.

Of course, the calculations above are likely to be moot given that LabCorp has denied it is involved with takeover negotiations. And a hostile takeover (without LabCorp's cooperation) seems unlikely.

LabCorp Completes Acquisition of Medtox

LabCorp completed its purchase of Medtox Scientific effective July 31. The price was $27 per share in cash, or $240 million after adjusting for $6 million of net cash held by Medtox. The price was equal to 2.0 times Medtox's estimated revenue of $118.6 million for 2012.

Lazard Middle Market LLC acted as financial advisor to Medtox and Leonard, Street and Deinard P.A. was legal counsel. Ten strategic buyers and 10 financial buyers had expressed an interest in buying Medtox. However, LabCorp was the only one to make a written offer, initially bidding $26 per share and later raising that offer to $27.

The transaction triggered "golden parachute" payouts for the top executives at Medtox.

Chairman and CEO Richard Braun, age 67, got a golden parachute package worth $5.96 million, including a cash payment of $2.2 million, supplemental retirement plan and incentive plan payments of $3.7 million, and 24 months of health plan and other benefits worth $29,099. He also owns 370,680 shares of Medtox worth $10 million.

James Schoonover, 55, chief marketing officer, received a golden parachute valued at $2.8 million. He also owned 142,325 shares that were cashed in for $3.8 million.

Kevin Wiersma, 50, chief administrative officer, got a $2.8 million golden parachute. He also owned 131,917 shares valued at $3.6 million.

REDPATH FILES FOR PRIVATE OFFERING OF $1.4 MILLION

RedPath Integrated Pathology (Pittsburgh, PA) is seeking to raise $1.4 million through a private offering of stock, according to documents filed with the Securities & Exchange Commission. RedPath operates a CLIA-certified lab in Pittsburgh that specializes in "difficult to diagnose" cancers, such as pancreatic, brain and liver cancer. RedPath is owned by a group of private equity investors, including NewSpring Health Capital, CID Capital, Seneca Health Partners and Inflexion Fund. These firms have invested a total of approximately $15 million into RedPath since the company was founded as a University of Pittsburgh spinoff in 2004.

QUEST DIAGNOSTICS MID-YEAR REPORT

Quest Diagnostics (Madison, NJ) reported net income of $336.8 million for the six months ended June 30, 2012, versus $109.3 million in the same period a year earlier; revenue was up 3.2% to $3.843 billion. "Organic" revenue growth was an estimated 1%, after adjusting for the acquisitions of Celera Corp., Athena Diagnostics and SED Medical Labs.

Quest now expects revenue growth of 1% to 2% for full-year 2012, down from its prior outlook of between 2% and 2.5%.

On a July 19 conference call, Quest's new chief executive Steve Rusckowski fielded questions from Wall Street analysts. Here are some highlights:

The Consequences of the Affordable Care Act

"We do expect a net positive on our company and the industry growth rates. And we believe this will start in 2014. First of all, the number of insured lives will increase. We know that, and that will drive volumes. That's good news. But what's not clear yet is what will happen with those newly insured lives and which insurance products they will move to. Our sense is that some, if not a large majority, will go to lower-price-point products."

Continued Pricing Pressure

"Price pressure will continue. The question is how does that unfold and how does that relate to the lab market, specifically with the changes that we see going forward? We are seeing people [e.g. Aetna] wanting to narrow their networks. Therefore, there should be more consolidation in the volumes around fewer suppliers of laboratory testing services and that plays nicely into what we are all about and what this industry is all about."

Smaller Managed Care Lab Networks

"We do have an opportunity with some of our health plan partners to help them narrow the network. We're working together with the health plans to get more volume and they see an opportunity in their cost structure, and we see an opportunity with our volumes to do that with them."

The Potential for Hospital Lab Outsourcing

"As hospital systems are acquiring physician practices, they're looking at what they need to do in terms of what their capabilities are, strategic and non-strategic. And as they start to look at forming Accountable Care Organizations and what they will do with their laboratory operations, they are starting to have more conversations with us in terms of how we can help them with laboratory management services, where we could potentially look at outsourcing and where we can look at reference testing."

Quest Diagnostics Mid-Year 2012 Financial Summary ($ Millions)

	First-Half 2012	*First-Half 2011*	*% Chg*
Revenue	$3,843.3	$3,724.8	3.2
Pretax income	568.5	280.8	102.5
Net income	336.8	109.3	208.1
Diluted EPS	2.10	0.67	213.4
Est'd Requisition volume	75.3	73.8	2.0
Est'd Price per req.	46.77	46.12	1.4
Days sales outstanding (DSOs)	44	54	-18.5
Bad-Debt %	3.8%	3.9%	-2.6

Source: Quest Diagnostics (requisition volumes and prices are estimated by *Laboratory Economics*)

LABCORP MID-YEAR REPORT

LabCorp (Burlington, NC) reported net income of $314.9 million for the six months ended June 30, 2012, versus $250 million in the same period a year earlier; revenue was up 2.7% to $2.847 billion. "Organic" revenue growth was an estimated 1%, after adjusting for the acquisitions of Clinical Laboratory Management, Clearstone Central Labs, Orchid Cellmark and Millennium Laboratory.

LabCorp currently expects revenue growth of 2% to 3% for full-year 2012, down slightly from its initial forecast made earlier this year.

On a July 19 conference call, LabCorp executives answered questions from Wall Street analysts. Here are some highlights:

Reasons for Slower-than-Expected Revenue Growth
"The Vitamin D test, as you know, grew quickly for several years, and it has since flattened out. So I think that is challenging to the growth rate of overall volume. The other is in our histology area. We see continued weakness from a volume perspective in the histology category of our business. And I think there are some trends [i.e., histology insourcing at specialty physician groups] that we talked about in the past that are still with us and impacting our experience there," according to Brad Hayes, chief financial officer.

Managed Care Contract Negotiations
"Humana is coming up at the end of the year, and we're deep in discussions with Humana. Cigna is the middle of next year, and we're in discussions with Cigna as well. And we extended WellPoint on a multi-year basis with stable pricing and retaining exclusivity in all our key markets," according to chief executive David King.

The Consequences of the Affordable Care Act
"I think it's too early to hypothesize about what's going to happen to price. There are too many variables that are in play. For example, it's been widely discussed that employers may decide not to continue to extend coverage and pay the penalty instead. If that happened and employees go to the exchanges, then that has one potential pricing impact. You have potentially more patients in Medicaid, which has unit pricing implications if they're uninsured now or if they're outside the system. So I just think it's too early to tell what implications the ACA would have for price because there are too many moving pieces," said King.

Update on the Senate Finance Committee Pricing Investigation
"LabCorp continues to work closely with the staff of the Senate Finance Committee to respond to their request for information. We were the first company to meet with the committee staff shortly after receiving their letter asking us to provide a responsive overview of how our contracts with managed care organizations work," according to Stephen Anderson, vice president, investor relations.

LabCorp Mid-Year 2012 Financial Summary ($ Millions)

	First-Half 2012	*First-Half 2011*	*% Chg*
Revenue	$2,846.7	$2,771.7	2.7
Pretax income	525.8	421.0	24.9
Net income	314.9	250.0	26.0
Diluted EPS	3.19	2.44	30.7
Est'd Requisition volume	61.9	62.2	-0.5
Est'd Price per req.	45.21	44.59	1.4
Days sales outstanding (DSOs)	47	46	2.2
Bad-Debt %	4.4%	4.7%	-6.4

Source: LabCorp (requisition volumes and prices are estimated by *Laboratory Economics*)

HOW DOES BIO-REFERENCE CONSISTENTLY GROW BY 20%?

Bio-Reference Laboratories (Elmwood Park, NJ) recently reported net income of $16.7 million for the six months ended April 30, 2012, versus $15.8 million in the same period a year earlier; revenue was up 20.8% to $313.3 million. The company processed 3.8 million patient cases during the six-month period ended April 30, 2012, which was 19% greater when compared to the same period a year earlier; revenue per patient case was up 2% to $81.12.

Bio-Reference's organic growth was an estimated 20% after taking into account a small acquisition (The Genetics Center) completed in August 2011.This growth was substantially higher than the 1% organic growth posted so far this year by Quest Diagnostics and LabCorp.

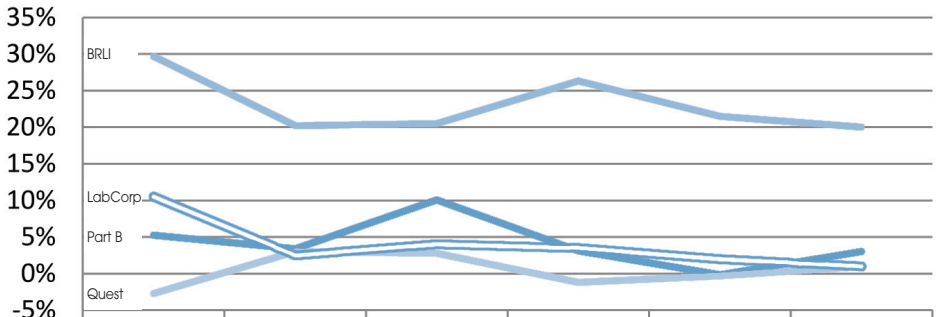
Bio-Reference's long-term growth rate is so much higher than its competitors that it almost defies belief. Earlier this year, Wall Street analyst Amanda Murphy from William Blair & Company even went so far as to hire a forensic accountant, Dr. Michael Sandretto from the University of Illinois Urbana-Champaign and author of *Cases in Financial Reporting*, to investigate the company's financial statements. Sandretto did not find any red flags that would suggest the company's growth has been driven by financial reporting manipulation.

Laboratory Economics observes that Bio-Reference's high comparative growth rate might simply be explained by its focus on organic growth rather than acquisitions. In contrast, the national labs have pursued an acquisition-driven strategy that has resulted in high client turnover rates.

In an effort to explain Bio-Reference's reluctance to pursue non-accretive acquisitions, Marc Grodman, MD, chief executive, told investors on a recent conference call, "Money doesn't burn a hole in our pocket, much to the consternation of people who make a living burning money."

Organic Revenue Growth Rate Comparison

Over the past five years, Bio-Reference has grown substantially faster than its bigger rivals as well as the overall lab market (as measured by Medicare Part B expenditures).



	2007	2008	2009	2010	2011	June 2012
Medicare Part B Lab Spending	5.3%	3.4%	10.1%	3.1%	-0.2%	3.0%
Quest Diagnostics	-2.7%	3.0%	2.8%	-1.2%	-0.3%	1.0%
LabCorp	10.5%	2.5%	4.0%	3.5%	2.0%	1.0%
Bio-Reference Labs	29.7%	20.2%	20.5%	26.3%	21.5%	20.0%

Source: CMS and *Laboratory Economics'* estimates

GAUGING THE FALLOUT FROM THE TC GRANDFATHER EXPIRATION

The technical component "grandfather" clause expired effective July 1, 2012. Now independent pathology labs that provide technical services to hospitals for certain surgical pathology procedures must bill the hospital directly as opposed to billing Medicare. The billing requirement change means that most independent pathology labs are now receiving far less than the $70 that the Medicare Physician Fee Schedule (MPFS) pays for the technical component of CPT 88305. *Laboratory Economics* asked six experts to describe what independent pathology labs are now able to collect from hospitals for 88305-TC:

JOHN OUTLAW, VICE PRESIDENT, PSA, LLC: Most arrangements are settling at a percentage of the Ambulatory Payment Classification (APC) rate, which is what the hospital would get paid for the service under the Outpatient Prospective Payment System (OPPS). However, even if the hospital wants to discuss the arrangement in terms of the APC, we advise all of our clients to make sure that the discussion starts at 100% of the Physician Fee. We are not suggesting that our clients hold out any real hope that they will be able to negotiate a rate anywhere close to that--but we do think that it is very important that the hospital understand right out of the gate just how much the lab is giving up in the arrangement.

The APC for an 88305 is about $37, so even if the hospital agrees to pay at 100% of the APC, the lab is taking about a 45% cut off of the MPFS allowable.

The most important thing we caution our clients about is to be sure that they know their cost for each procedure, and that whatever rate that wind up settling on with the hospital at a minimum covers their actual costs plus a reasonable profit margin. This is critically important from an anti-kickback statute standpoint, which affects both the lab and the hospital.

MICK RAICH, PRESIDENT, VACHETTE PATHOLOGY: The pricing for this is all over the board, we have some groups that are getting paid 75% to 80% of the MPFS (~$54), other practices are getting paid 40% or 50% of the APC fee schedule (~$17). There are no set benchmarks for this compensation. The bottom line is that most administrators do not want to pay out anything more for these services. The key to getting paid well is using this change to find a win-win strategy for the practice; often this means looking into other areas of compensation such as Part A compensation or billing for clinical pathology. We have several practices that have used this to add other revenue streams or open new discussions between the parties. The overall goal is for both parties to try and remain budget neutral and it takes some creative thinking to make this happen.

JANE PINE WOOD, ATTORNEY, MCDONALD HOPKINS: I am seeing pricing for the TC covering a very large range, often depending upon the payor mix (some labs sell all work to the hospital, others just the government work) as well as the financial position of the hospital. Most pricing hovers just below or above the APC rates, although I have clients who are paid at the MPFS rates, too. I am aware of one hospital system that is demanding pricing of 30% of the APC rates (~$11), which I believe presents very serious compliance concerns. It is my understanding that few if any labs could provide the services at that rate, which would be below cost for most labs.

DOUGLAS VANOORT, CHIEF EXECUTIVE, NEOGENOMICS: NeoGenomics provides technical services to between 140 and 150 hospital clients representing 16% to 18% of the company's total annual revenue of $60 million. NeoGenomics has incurred a 20% to 50% reduction in its technical fees for services provided to hospitals. Overall, we expect a 5% to 8% reduction in our overall average unit price per test as a result of this regulatory change.

BARRY PORTUGAL, PRESIDENT, HEALTH CARE DEVELOPMENT SERVICES: I helped negotiate new technical service contracts between hospitals and pathology groups in about seven or eight situations this past spring. The pricing was disparate. The highest I saw was 80% of the MPFS (~$56) for 88305-TC. However, most of the contracts were set at about 85% of the OPPS (~$31).

DONNA BEASLEY, NATIONAL DIRECTOR, MCKESSON REVENUE MANAGEMENT SOLUTIONS: Reference/pathology labs may see more competitive pricing to the hospitals and may need to trim back their fees for the TC in the future--both to keep the hospital as a client and also to help the hospital client stay viable. Labs should also consider discussing other options outside of a rate for the TC services, meaning if you are not billing professional component, now may be the time to include that in the discussion. Other negotiating levers include increasing the medical directorship fee and adding new tests and services to offset TC fee losses. Make this more than just a TC negotiation.

MEDICARE LAB FEES DUE FOR 5% CUT

The Medicare Part B lab fee schedule will be cut by approximately 5% next year, according to the latest inflation figures released by the Bureau of Labor Statistics. Under the new health-care reform law, Part B lab reimbursement changes are based on the consumer price index for urban consumers (CPI-U) minus a productivity adjustment and a fixed cut of 1.75%.

For the purposes of the Part B lab fee schedule, the CPI-U is based on 12 months ended June 30 of the year preceding the new update. The CPI-U applicable to 2013 is +1.7%. This will be reduced by a productivity adjustment that is currently estimated at -0.9%. The update will then be cut by a fixed 1.75%.

Part B Lab Fee Schedule Adjustments for 2013

Consumer Price Index (12 months through June 2012)	+1.7%
Productivity Adjustment	-0.9%
Affordable Care Act Fixed Cut	-1.75%
SGR Fix Cut	-2.0%
Sequestration Cut	-2.0%
Part B CLFS Adjustment for 2013	**-4.95%**

Source: *Laboratory Economics*

As part of the Sustainable Growth Rate fix, the Part B lab fee schedule will be re-baselined an additional 2% lower effective January 1, 2013. Furthermore, absent any congressional activity, mandatory sequestration will impose an additional 2% reduction.

Together, these adjustments add up to an approximate 5% cut to the Part B lab fee schedule effective January 1, 2013.

The 5% decrease in Part B lab reimbursement for 2013 will be the largest cut since 1998. The 5% cut will follow the 0.65% increase for 2012, the 1.75% cut for 2011, and the 1.9% cut in 2010.

CBO SCORE WOULD DECIDE FATE OF IN-OFFICE LABS

The Centers for Medicare and Medicaid Services' Part B physician fee schedule proposed rule contained no new rules for in-office pathology labs for 2013. That means the biggest chance for tightening up self-referral rules in the coming year is through specific legislation. But Congressional leaders have been slow to move toward a policy change given the political wrath they would incur from eliminating the millions of dollars that urologists, gastroenterologists and dermatologists are now generating from in-office pathology labs. The stakes are high given that any potential legislation would also cut specialty group revenue from a host of other services including radiology, radiation oncology and physical therapy.

The first step toward new legislation would be obtaining a score from the Congressional Budget Office (CBO) that would estimate the amount of savings that might be achieved by changing the self-referral rules. Significant potential savings could help ease political concerns for enacting new legislation. Senate Finance Committee Chairman Max Baucus (D-MT) and Rep. Pete Stark (D-CA), the ranking minority member on the House Ways and Means health subcommittee, have asked the CBO to score a change to the self-referral rules. However, there is no timetable set for conducting the evaluation or releasing its results.

Specialty Groups Continue To Insource Pathology Services

In the meantime, urologists, gastroenterologists and dermatologists continue to build in-office pathology labs to add revenue.

For example, Southern Tier Dermatology & Aesthetics (Endwell, NY) recently moved into a new three-floor $1.5 million facility. The new office features a full-service pathology and blood testing lab. The group (two dermatologists) invested $200,000 to build the lab, which includes an Avantik RVG-1 Tissue Processor. The lab will employ two to three full-time histotechs and is expected to process more than 9,000 biopsy specimens and produce approximately 12,000 slides and stains per year.

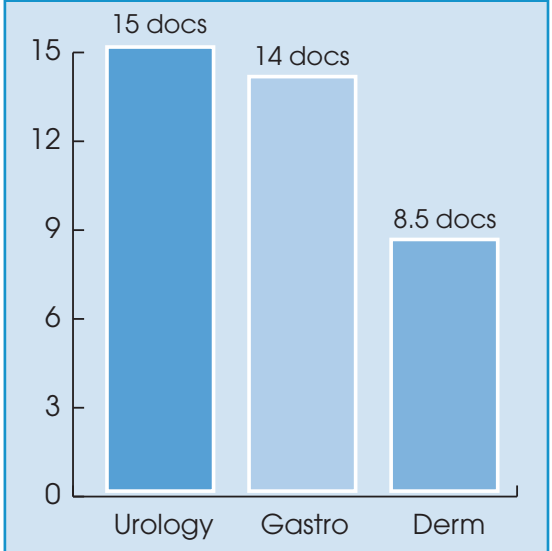
Other groups that have recently opened in-office pathology labs include Southern California Gastroenterology Associates (Pasadena, CA), Raleigh Medical Group (Raleigh, NC), St. Pete Urology (St. Petersburg, FL), Greater Boston Urology (Norwood, MA) and Gastroenterology Associates (Newark, DE).

Putting Numbers On The In-Office Pathology Lab Trend

Altogether, *Laboratory Economics* estimates that there are now 300+ urology groups and 250+ gastroenterology groups with in-office pathology labs. In addition, some 3,000+ dermatology groups have in-office pathology labs for Mohs surgery and between 500 and 1,000 of these groups also have full-service histology labs.

The average urology group with an in-office pathology lab has 15 doctors; the average gastroenterology group has 14 doctors; and the average dermatology group has 8-9 doctors, according to a *LE* analysis of 327 specialty groups with in-office pathology labs.

Average Size Specialty Group With In-Office Pathology Lab



Source: *Laboratory Economics* based on sample of 109 urology groups, 110 GI groups and 108 derm groups

TOP 25 INDEPENDENT LABORATORY LIST

Quest Diagnostics' laboratory in Horsham, Pennsylvania, is the largest independent lab facility in the nation, according to an analysis of CLIA lab survey files by *Laboratory Economics*. Quest's Horsham lab performs 196.9 million tests per year.

LabCorp's facility in Raritan, New Jersey, with 147.3 million tests per year, is the second largest independent lab.

Overall, Quest and LabCorp own 20 of the top 25 independent labs in the nation. The remaining five are operated by Bio-Reference Labs (Elmwood Park, NJ), Sonic Healthcare USA (Austin, TX), Spectra East (Rockleigh, NJ), Solstas Laboratory (Greensboro, NC) and Davita Labs (DeLand, FL).

TOP 25 INDEPENDENT LAB FACILITIES

LABORATORY NAME	LOCATION	TOTAL TEST VOLUME*
Quest Diagnostics	Horsham, PA	196,930,554
LabCorp	Raritan, NJ	147,323,627
Quest Diagnostics/LabOne	Lenexa, KS	126,546,505
Quest Diagnostics	West Hills, CA	99,454,161
Quest Diagnostics	Teterboro, NJ	99,151,240
LabCorp	Birmingham, AL	86,868,941
LabCorp	Tampa, FL	78,560,459
Bio-Reference Laboratories	Elmwood Park, NJ	78,056,594
Sonic/Clinical Pathology Labs	Austin, TX	68,625,886
LabCorp	Dublin, OH	64,636,643
Quest Diagnostics	Houston, TX	62,956,286
LabCorp	Houston, TX	62,439,033
LabCorp	San Diego, CA	56,370,000
Quest Diagnostics	Irving, TX	55,799,000
LabCorp	Dallas, TX	53,525,156
LabCorp	Burlington, NC	49,283,228
Sonora Quest Laboratories	Tempe, AZ	37,811,072
Quest Diagnostics	Tampa, FL	37,736,516
Spectra East Inc.	Rockleigh, NJ	33,062,229
Solstas Laboratory	Greensboro, NC	31,565,739
LabCorp	Kansas City, MO	29,999,969
Quest Diagnostics	Sacramento, CA	29,971,911
Quest Diagnostics	Auburn Hills, MI	24,172,805
LabCorp	Englewood, CO	23,937,865
Davita Labs	DeLand, FL	23,397,025

*Test volume figures are for reportable test results (each analyte in a profile counts as one test). Quality control, quality assurance and proficiency testing assays are not counted.

Source: *Laboratory Economics* from CLIA lab survey files/August 2012

LAB STOCKS UP 21% YEAR TO DATE

Ten lab stocks have risen by an unweighted average of 21% so far this year. The combined market capitalization for the group is unchanged at $22 billion. In comparison, the S&P 500 Index is up 12% and the Nasdaq is up 16% year to date through August 14. Shares of Medtox Scientific, which has been acquired by LabCorp, have performed best (up 92%). In terms of valuation, Quest Diagnostics is currently trading at 1.2x its annual revenue and 8.3x its trailing EBITDA (earnings before interest, taxes, depreciation and amortization). LabCorp trades at 1.6x annual revenue and 8.0x trailing EBITDA.

Company (ticker)	Stock Price 8/14/12	Stock Price 12/30/11	2012 Price Change	Market Capitalization ($ millions)	Enterprise Value/ EBITDA	Price/ Sales
Bio-Reference (BRLI)	$27.14	$16.27	67%	$751	9.1	1.2
CombiMatrix (CBMX)	0.68	2.00	-66%	7	NA	1.5
Enzo Biochem (ENZ)	1.49	2.24	-33%	58	NA	0.6
Genomic Health (GHDX)	35.04	25.39	38%	1,067	62.7	4.7
LabCorp (LH)	88.57	85.97	3%	8,494	8.0	1.6
Medtox Scientific (MTOX)*	27.00	14.05	92%	242	16.6	2.1
Myriad Genetics (MYGN)	25.47	20.94	22%	2,162	9.2	4.3
NeoGenomics (NGNM)	2.28	1.40	63%	103	22.9	1.8
Psychemedics (PMD)	11.53	9.10	27%	61	9.2	2.4
Quest Diagnostics (DGX)	59.37	58.06	2%	9,425	8.3	1.2
Unweighted Averages			21%	$22,370	18.3	2.1

*Medtox was acquired by LabCorp on July 31 for $27 per share. Source: Bloomberg

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