

LABORATORY



ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

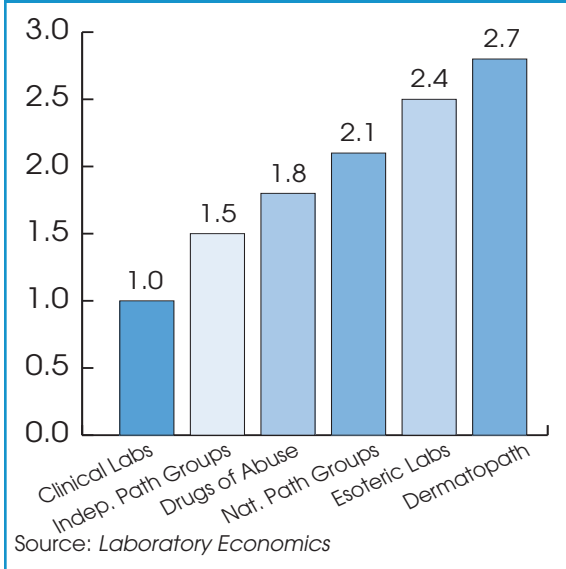
HEALTH PLANS SQUEEZING OUT INDEPENDENT LABS

Three major health plans are implementing contract changes that will make it a lot harder for independent labs to compete: 1) Aetna is sending out “termination without cause” letters that will remove many labs from its network; 2) The Blue Cross Blue Shield Association has made changes to its BlueCard program that will make it more difficult for small reference labs to get paid; and 3) Cigna has lowered its claim filing limit from 180 days to 90 days. *Continued on page 11.*

HOW MUCH IS YOUR LAB WORTH?

Dermatopathology labs attract a median acquisition multiple of 2.7 times annual collected revenue, which makes them the most highly valued type of lab, according to an *LE* analysis of over 300 deals completed between 1996 and June 2012. The historical data shows that esoteric labs have obtained the second highest median valuations (2.4 times) followed by national pathology labs (2.1 times). For a detailed analysis of lab valuation trends, see pages 5-8.

Median Lab Acquisition Price/ Revenue Multiples, 1996-June 2012



LABCORP TO BUY MEDTOX FOR \$245 MILLION

LabCorp has agreed to buy Medtox Scientific (St. Paul, MN) for \$27 per share in cash, representing a total value of \$245 million. The purchase price represents a 37% premium to Medtox’s closing price of \$19.70 per share on June 1, prior to announcement of the deal. The enterprise value of the transaction is \$241 million after adjusting for \$4 million of net cash held by Medtox. The deal values Medtox at 2.2 times its revenue of \$108.1 million and 18 times its EBITDA of \$13.2 million for 2011. *Continued on page 2*

CONTENTS

HEADLINE NEWS

Health plans squeezing independent labs	1, 11
How much is your lab worth?	1, 5-8
LabCorp to buy Medtox	1-3

FINANCIAL

LabCorp ordered to pay \$4.6M earnout for Florida lab deal.....	4
Aurora Diagnostics cancels IPO plans	4
Agendia raises \$65 million	4

MERGERS & ACQUISITIONS

Dermatopathology labs.....	5
National pathology labs	5
Independent pathology groups	5
Big clinical labs	5
Small clinical labs	6
Esoteric labs	6
Drugs-of-abuse testing labs	6
Top 25 all-time biggest lab deal.....	7
Selected pathology practice acquisitions	8

BILLING & COLLECTION

Ex-billing manager sues Quest.....	9
------------------------------------	---

IN-OFFICE PATHOLOGY LABS

Urology groups add cytology to raise lab charges	10
Aetna extends accreditation deadline.....	10

MANAGED CARE

Aetna tightens network.....	11
BCBS changes BlueCard program....	11
Cigna lowers claim filing limit.....	11

STOCKS

Lab stocks up 12% YTD.....	12
----------------------------	----

LABCORP TO BUY MEDTOX FOR \$245 MILLION (cont'd from page 1)

Medtox, which has 667 employees, specializes in drugs-of-abuse testing. Its main lab in St. Paul, Minnesota is certified by the federal Substance Abuse and Mental Health Services Administration (SAMHSA) to perform workplace drug testing.

In 2011, Medtox's revenue from drug-of-abuse testing totaled \$41.3 million (up 4.3%), while its revenue from point-of-care drug screen kits totaled \$22.3 million (up 11.1%).

Medtox also has a clinical lab testing business (\$34.9 million, up 16.5%) and a clinical trial services division (\$9.7 million, up 28.9%).

Overall, Medtox recorded net income of \$4.5 million in 2011 versus \$3 million in 2010; revenue increased 11.4% to \$108.1 million.

LabCorp operates SAMHSA-certified labs in Research Triangle Park, NC; Raritan, NJ; Houston, TX; and Southaven, MS. The company's existing drugs-of-abuse testing

business generates an estimated \$150 million per year. This business will grow to nearly \$200 million with the addition of Medtox.

The transaction is expected to close by September 30. The largest shareholder of Medtox is Kopp Investment Advisors (Bloomington, MN), which owns 794,464 shares worth \$21 million at the \$27 per share takeover price.

Medtox chairman and CEO Richard Braun, age 67, owns 516,931 shares valued at \$14 million. Company director Samuel Powell, PhD, 59, owns 334,157 shares valued at \$9 million. B. Mitchell Owens, 55, chief operating officer of Medtox Diagnostics, owns 177,744 shares valued at \$4.8 million and James Schoonover, 55, chief marketing officer, owns 173,963 shares valued at \$4.7 million.

LabCorp's purchase price of \$241 million, or 2.2 times acquired revenue, is in line with previous multiples paid for drug testing labs. The weighted average multiple paid for 10 major acquisitions of drug testing labs made over the past 15 years has been 2.1 times annual revenue.

Medtox Scientific at a Glance (\$ 000)

	2011	2010	% Chg
Segments:			
Drugs-of-abuse testing	\$41,343	\$39,624	4.3%
Clinical lab testing	34,852	29,923	16.5%
Clinical trial services	9,667	7,500	28.9%
POCT product sales	22,287	20,054	11.1%
Total revenue	108,149	97,101	11.4%
EBITDA	13,232	10,670	24.0%
Pretax income	7,011	4,845	44.7%
Net income	4,452	3,017	47.6%
Diluted EPS	0.49	0.34	44.1%

Source: Medtox Scientific

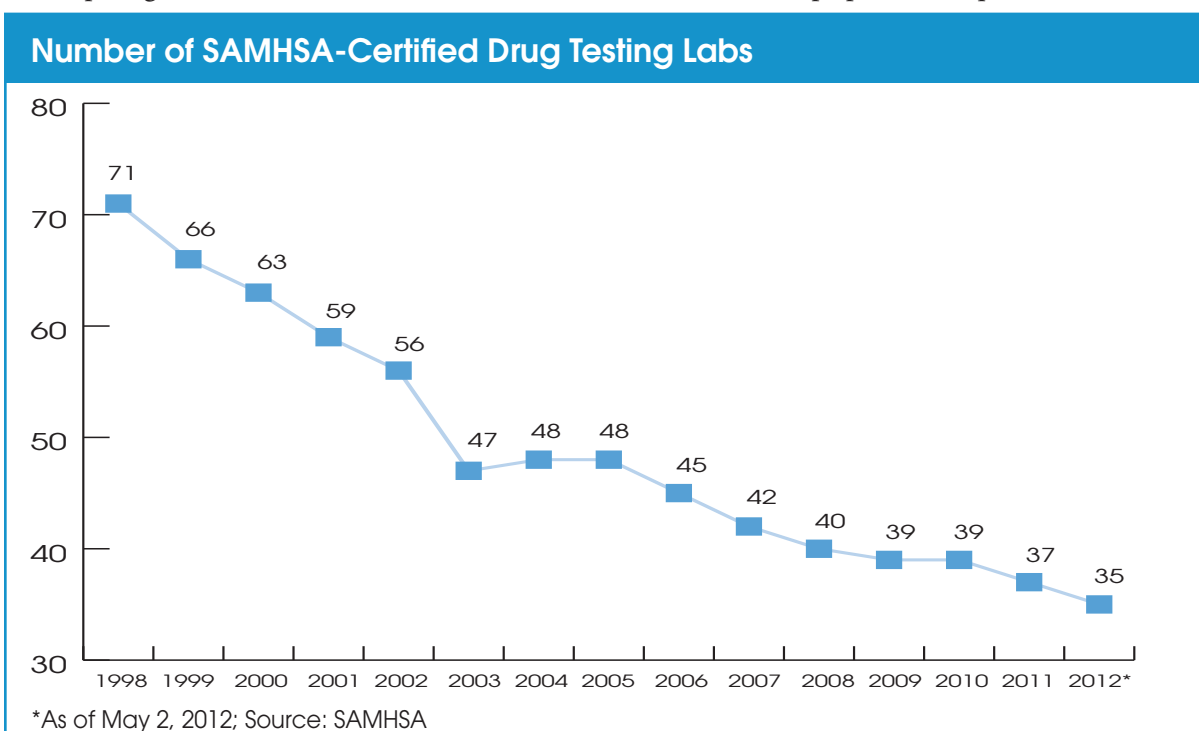
Selected Acquisitions of Drug Testing Labs (\$ millions)

Date	Buyer	Target	Purchase Price	Acquired Revenue	Price/Revenue
Pending	LabCorp	Medtox	\$241	\$108.1	2.2
Feb-10	Inverness Medical	Kroll Laboratory	110	41	2.7
Dec-07	Inverness Medical	Redwood Toxicology	99	44	2.3
Apr-06	American Capital Strategies	Redwood Toxicology	119	36	3.3
Mar-04	LabOne	Northwest Toxicology	10	11.5	0.9
Oct-01	Medtox	Leadtech Corp	6.1	2	3.1
Aug-01	LabOne	Osborn Group	50	37	1.4
Dec-98	Kroll-O'Gara	Laboratory Specialists	35.7	16.1	2.2
Jan-96	Edittek	Medtox Labs	24	20	1.2
Jun-95	LabCorp	MedExpress	26	22	1.2
Weighted Avg.					2.1

Source: Laboratory Economics

Will the FTC intervene?

Intense competition has forced many drug testing labs out of business. Currently there are 35 SAMHSA-certified lab facilities, including five owned by LabCorp (including Medtox) and five owned by Quest Diagnostics. This compares with 71 SAMHSA-certified labs in 1998. The decreasing number of competing labs in this market could lead the FTC to review LabCorp's planned acquisition of Medtox.



LABCORP ORDERED TO PAY \$4.6M EARNOUT FOR FLORIDA LAB

A U.S. District Court has ordered LabCorp to pay \$4.6 million to the former owners of a small Florida lab named Suncoast Labs (Ocala, FL). LabCorp purchased Suncoast from Drs. Devaiah and Rudrama Pagidipati, for a base price of \$13 million in August 2008. The agreement also called for earnout payments of up to \$4 million based on client retention and revenue goals for the next two years.

However, LabCorp refused to pay a dime of the earnouts and claimed that “mutual mistakes” had been made in the asset purchase agreement when developing the client list. The Pagidipatis said the agreement had taken a year to negotiate and was valid. They filed a lawsuit against LabCorp in September 2010.

On May 4, 2012, the U.S. District Court for the Middle District of North Carolina ordered LabCorp to pay the Pagidipatis the full \$4 million earnout plus interest and other costs of \$551,013. LabCorp has posted bond and is planning to appeal the decision.

AURORA DIAGNOSTICS WITHDRAWS PLANS FOR \$150 MILLION IPO

Aurora Diagnostics (Palm Beach Gardens, FL) has canceled its plans for an IPO. Aurora had filed a registration statement with the Securities & Exchange Commission in April 2010 to raise as much as \$150 million.

Since being formed in 2006, Aurora has completed 22 acquisitions, paying approximately \$500 million in cash plus potential contingent consideration of more than \$150 million.

Aurora reported a net loss of \$2.1 million in the three months ended March 31, 2012, versus a net loss of \$2 million for the same period last year; revenue increased 15% to \$72.1 million. Aurora’s organic revenue growth was 3.5%, after adjusting for acquisitions.

As of March 31, 2012, Aurora had \$322 million of total debt outstanding (not including contingent consideration) borrowed at an average interest rate of 10.2%.

AGENDIA RAISES \$65 MILLION FROM PRIVATE INVESTORS

Agendia (Irvine, CA and Amsterdam, The Netherlands) has raised \$65 million from a series F round of equity financing. The move comes a year after Agendia canceled a planned IPO because of weak stock market conditions. The company had hoped to raise approximately 75 million euros (US \$ 100 million) and list its shares on the Euronext stock exchange in Amsterdam.

Agendia is ramping up its ColoPrint recurrence test to determine the prognosis for stage II colon cancer. It also wants to broaden the commercialization of its Symphony line of breast cancer tests, including its FDA-cleared MammaPrint test for measuring risk of breast cancer recurrence.

Swiss drug development company Debiopharm led the financing round. Current investors--the Van Herk Group, ING Corporate Investments, Breedinvest and Gilde Healthcare--also participated.

Agendia has now raised a total of more than \$150 million since being founded in 2003 as a spin-off of the Netherlands Cancer Institute.

HOW MUCH IS YOUR LAB WORTH? (*cont'd from page 1*)

Dermatopathology Labs: Twenty dermatopathology groups and labs were acquired between 1996 and 2012. AmeriPath and Aurora Diagnostics have been the primary buyers. Acquisition multiples have ranged from 1.4 times revenue (AmeriPath's purchase of Freeman-Cockerell Labs for \$4.8 million in October 1996) to 3.3 times revenue (Aurora Diagnostics' purchase of Twin Cities Dermatopathology for \$27.3 million in March 2008). The absolute highest price paid was AmeriPath's \$44 million acquisition of Pathology Associates (New Rochelle, NY) in December 2004.

National Pathology Labs: Fifteen national pathology lab companies have been sold at acquisition multiples ranging from 1.5 times revenue (Sonic Healthcare's purchase of CBLPath for \$124 million in December 2010) to 5 times (GE Healthcare's acquisition of Clariant Inc. for \$585 million in November 2010). The biggest deal ever was Quest's purchase of AmeriPath for \$2 billion in May 2007.

Independent Pathology Groups: More than 100 independent pathology groups have been sold over the past 17 years. Valuations have varied widely (from 0.7 to 4.1 times annual revenue) depending on the type of group. Large pathology groups with outpatient technical labs have received valuations of more than 2 times annual revenue. For example, Aurora Diagnostics purchased Greensboro Pathology for \$144.7 million in October 2007—a valuation of 4.1 times the group's annual revenue of \$35 million. Meanwhile, smaller hospital-based pathology groups have typically been valued at less than 1 times annual revenue.

Big Clinical Labs: Twenty big clinical labs (defined as having annual revenue greater than \$100 million) were acquired between 1996 and 2012. Acquisition multiples have ranged from 0.7 times revenue (Quest's purchase of Smithkline Beecham Clinical Labs for \$1.2 billion in August 1999) to 2.4 times (Quest's purchase of Unilab for \$1 billion in February 2003).

Small Clinical Labs: More than 100 small clinical labs (annual revenue less than \$100 million) were sold during the period. Valuations have ranged between 0.2 and 2.2 times annual revenue.

Lab Valuation Summary, 1996-2012

	<i>Median</i>	<i>Simple Average</i>	<i>Weighted Average</i>	<i>Range</i>
All Pathology Groups/Labs	1.8	2.0	2.4	0.7 to 5.7
Dermatopathology Groups/Labs	2.7	2.4	2.4	1.4 to 3.3
National Pathology Labs	2.1	2.5	2.5	1.5 to 5.0
Independent Path Groups	1.5	1.6	1.7	0.7 to 4.1
All Clinical Labs	1.0	1.1	1.1	0.2 to 2.4
Big Clinical Labs (>\$100m)	1.6	1.6	1.4	0.7 to 2.4
Small Clinical Labs (<\$100m)	0.9	0.9	1.0	0.2 to 2.2
Esoteric Labs	2.4	2.5	2.4	0.3 to 6.7
Drugs-of-Abuse Testing Labs	1.8	1.9	2.1	0.8 to 3.3
TOTAL ALL LAB TYPES	1.6	1.7	1.8	0.2 to 6.7

Note: Valuation multiples are based on enterprise value (purchase price plus assumed debt) divided by collected revenue for 12 months prior to acquisition.

Source: *Laboratory Economics*

The three highest valuations: 1) Sonic's purchase of Sunrise Medical Labs for \$168 million, or 2.2 times annual revenue, in July 2007; 2) LabCorp's purchase of Path Lab for \$108 million, or 2.1 times, in April 2001; and 3) LabCorp's acquisition of DSI Laboratories for \$76 million, or 1.9 times, in August 2007.

Esoteric Labs: Forty-eight esoteric labs have been acquired during the past 17 years. Acquisition multiples have ranged from 0.3 times and 6.7 times annual revenue. The all-time highest acquisition multiple paid for any type of lab was Quest's purchase of Athena Diagnostics for \$740 million, or 6.7 times annual revenue, in April 2011.

Drugs-of-Abuse Testing Labs: Twenty drug testing labs were acquired between 1996 and 2012. Acquisition multiples have ranged from 0.8 times revenue (Editek's purchase of Princeton Diagnostic Labs for \$3.9 million in February 1994) to 3.3 times (American Capital's purchase of Redwood Toxicology for \$119 million in April 2006).

The Big Labs Depend on Acquisitions for Growth

Together, Quest Diagnostics and LabCorp have spent more than \$11 billion on acquisitions since 1996.

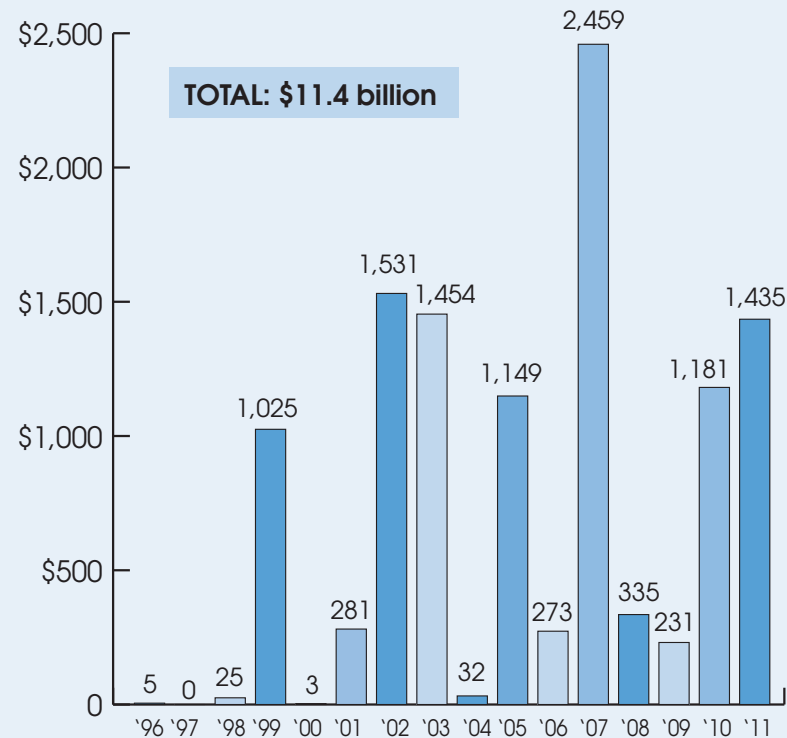
Quest Diagnostics alone has spent \$7.1 billion. Its largest acquisitions have included AmeriPath (\$2 billion), Smithkline Beecham Clinical Labs (\$1.2 billion), Unilab (\$1 billion), LabOne (\$950 million) and Athena Diagnostics (\$740 million).

Quest grew its revenue from \$1.6 billion in 1996 to \$7.5 billion in 2011 for a compound annual growth rate (CAGR) of 10.8%. Of the \$5.9 billion in revenue growth during this period, acquisitions accounted for \$4 billion of added revenue, while internal or organic growth accounted for \$1.9 billion. Two-thirds of Quest's 10.8% CAGR over the 15-year period was achieved through acquisitions.

LabCorp has spent \$4.3 billion on acquisitions since 1996. Its largest acquisitions have been Genzyme Genetics (\$925 million), Dynacare (\$685 million) and Dianon (\$600 million).

LabCorp grew its revenue from \$1.6 billion in 1996 to \$5.5 billion in 2011 for a compound annual growth rate (CAGR) of 8.6%. Of the \$3.9 billion in revenue growth during this period, acquisitions accounted for approximately 1/2 of added revenue. One-half of LabCorp's 8.6% annual revenue growth over the 15-year period was achieved through acquisitions.

Quest and LabCorp Spending on Acquisitions (\$ millions)



Source: Laboratory Economics

Top 25 All-Time Biggest Lab Acquisitions (\$ millions)

<i>Date</i>	<i>Buyer</i>	<i>Target</i>	<i>Purchase Price*</i>	<i>Acquired Revenue</i>	<i>Price/Revenue</i>
May-07	Quest Diagnostics	AmeriPath	\$2,000	\$752	2.7
Aug-99	Quest Diagnostics	Smithkline Beecham Clinical Labs	1,187	1,590	0.7
Feb-03	Quest Diagnostics	Unilab	1,000	425	2.4
Apr-95	LabCorp	Roche-NHL merger	950	1,700	0.6
Nov-05	Quest Diagnostics	LabOne	947	500	1.9
Dec-10	LabCorp	Genzyme Genetics	925	370	2.5
Mar-03	Welsh Carson	AmeriPath	839	480	1.7
Apr-11	Quest Diagnostics	Athena Diagnostics	740	110	6.7
Nov-11	Miraca Holdings	Caris Diagnostics	725	207	3.5
Jul-02	LabCorp	Dynacare	685	238	2.9
Jan-03	LabCorp	Dianon	600	190	3.2
Nov-10	GE Healthcare	Clariant Inc.	585	117	5.0
Jul-93	Quest Diagnostics	Damon Corp.	575	330	1.7
Mar-02	Quest Diagnostics	American Medical Labs	500	300	1.7
Nov-99	Kelso & Co.	Unilab	450	285	1.6
Nov-05	Sonic Healthcare USA	Clinical Pathology Labs	380	187	2.0
Mar-11	Quest Diagnostics	Celera Corp	341	128	2.7
Feb-11	Novartis	Genoptix	330	195	1.7
Jan-06	AmeriPath	Specialty Laboratories	330	152	2.2
Jul-94	Quest Diagnostics	Nichols Institute	325	280	1.2
Jun-06	Fisher Scientific	Athena Diagnostics	283	55	5.1
Pending	LabCorp	Medtox	241	108	2.2
Nov-09	Welsh Carson	Spectrum Laboratory	230	182	1.3
Jun-94	National Health Labs	Allied Clinical Labs	220	163	1.3
May-04	Genzyme Genetics	Impath	215	125	1.7
TOTALS			\$15,603	\$9,169	1.7

*Purchase price includes assumed debt.

Source: *Laboratory Economics*

Selected Pathology Practice Acquisitions (\$ millions)

<i>Date</i>	<i>Buyer</i>	<i>Target</i>	<i>Purchase Price*</i>	<i>Annual Revenue</i>	<i>Price/Revenue</i>
Aug-11	Aurora Diagnostics	Global Pathology Lab Services	\$26.5	\$16.0	1.7
Jun-11	Aurora Diagnostics	DermPath New England	14.7	5.5	2.7
Jan-11	Aurora Diagnostics	Austin Pathology Associates	29.9	14.4	2.1
Mar-10	Aurora Diagnostics	Pathology Solutions	22.5	16.5	1.4
Nov-09	Aurora Diagnostics	South Texas Dermatopathology Lab	15.3	8.0	1.9
Mar-08	Aurora Diagnostics	Twin Cities Dermatopathology	27.3	8.4	3.3
Dec-07	Aurora Diagnostics	Laboratory Medical Consultants	49.3	18.0	2.7
Oct-07	Aurora Diagnostics	Greensboro Pathology Consultants	144.7	35.0	4.1
Oct-07	Aurora Diagnostics	Mark & Kambour	18.7	10.0	1.9
Apr-07	Aurora Diagnostics	Cunningham Pathology	56.1	22.5	2.5
Dec-04	AmeriPath	Pathology Associates	44.0	15.0	2.9
Sep-99	AmeriPath	Associated Lab Physician Services	10.5	6.3	1.7
Jul-99	AmeriPath	Ocmulgee Medical Pathology	14.9	7.3	2.0
Jul-99	AmeriPath	Consulting Pathologists PA	3.9	4.4	0.9
Jan-99	AmeriPath	Harper Pathology Group	2.0	1.8	1.1
Oct-98	AmeriPath	Consultant Pathology Associates	9.6	7.7	1.2
Oct-98	AmeriPath	Texoma Pathology Associates	1.1	0.9	1.2
Aug-98	AmeriPath	H.M. Jones Pathology	0.8	0.8	1.0
Aug-98	AmeriPath	Shoals Pathology	2.6	2.6	1.0
Jul-98	AmeriPath	Severance & Associates	15.0	11.5	1.3
Jul-98	AmeriPath	Pasadena Pathology	2.0	1.5	1.3
Jun-98	AmeriPath	Indian River Pathology	2.0	1.1	1.8
Jun-98	AmeriPath	RMC Pathology	1.0	0.6	1.7
Feb-98	AmeriPath	Anatomic Pathology Associates	11.1	6.1	1.8
Sep-97	AmeriPath	CoLab Inc.	32.5	11.8	2.8
Sep-97	AmeriPath	Unipath Ltd.	42.5	20.2	2.1
Sep-97	AmeriPath	Sturgis Pathology Lab	3.1	3.3	0.9
Nov-96	AmeriPath	Gulf Coast Pathology	16.7	8.8	1.9
Oct-96	AmeriPath	Richfield Laboratory	17.7	6.2	2.9
Oct-96	AmeriPath	Drs. Seidenstein, Levine & Assoc.	15.7	6.2	2.5
Oct-96	AmeriPath	Beno Cutaneous Pathology	8.8	3.8	2.3
Oct-96	AmeriPath	Freeman-Cockerell Labs	4.8	3.5	1.4
Oct-96	AmeriPath	Volusia Pathology Group	7.3	5.8	1.3
Aug-96	AmeriPath	SkinPath	5.3	1.8	2.9
Aug-96	AmeriPath	Pathology Associates	6.8	4.9	1.4
Jul-96	AmeriPath	Derrick and Associates	16.8	21.7	0.8
Jun-96	AmeriPath	Florida Pathology Associates	6.3	3.1	2.0
Jan-96	AmeriPath	Demaray and Poulos	1.7	2.5	0.7
TOTALS			\$711.6	\$325.5	2.2

*Purchase prices include assumed debt

Source: *Laboratory Economics*

EX-BILLING MANAGER SUES QUEST FOR FALSE CLAIMS

A former billing manager at Quest Diagnostics has filed a whistleblower lawsuit claiming that the company sought to reduce its accounts receivable balance by improperly billing Medicare, Medicaid, private health plans and patients, according to court documents filed in Maryland federal court. U.S. District Judge Ellen Hollander unsealed the case (1:10-cv-00631) on May 29 after the U.S. government declined to intervene.

The case was filed by Elizabeth Huff-Meeks in March 2010. Huff-Meeks was a manager of front end billing operations for Quest in Baltimore from 2003 until she was fired in September 2007. Altogether, she worked at Quest for 13 years.

The Huff-Meeks lawsuit alleges that throughout the East region, namely Virginia, District of Columbia, Maryland and New Jersey, Quest routinely and systematically employed fraudulent billing practices, such as “duplicate billing” and “flipping,” in order to reduce its accounts receivable (AR).

For example, the lawsuit contends that Quest’s billing department would routinely send out duplicate bills to patients when payment was not received immediately from Medicare, Medicaid or private insurance.

According to the suit:

Instead of researching the claims and working them internally, Quest intentionally misrepresented the status of payments by automatically flipping accounts that it did not research and resolve within 60 days to reflect bill codes 1248 and 1249, which indicated “no response” and falsely informed the patient that the claim has been sent to their insurance carrier, that Quest has not received a payment or reply from the carrier, and that the patient was fully responsible for the entire amount....Quest did not confirm the presence of a signed ABN before automatically flipping to codes 1248 and 1249 and billing Medicare patients directly. Critically, at the same time, Quest would send bills to Medicare for payment as well. This oftentimes resulted in both Medicare and a patient paying duplicate amounts for the same service, yielding a credit that was not refunded to either Medicare or the patient....In total, 14 bill codes were pre-set by Quest to automatically flip to the patient at 60 days, including Medicare and Medicaid, and despite the absence of a signed ABN.

Huff-Meeks and other employees raised their concerns about Quest’s billing practices to company managers repeatedly in 2006 and 2007, according to the lawsuit. After reviewing claims over a one-year period ending April 2006, Huff-Meeks contended that 64% of the claims sent to patients could have been resolved. However, Huff-Meeks and those employees that complained the loudest, including Rennie Chan, billing director, and Tawana Wills, supervisor of patient billing, were each written up and eventually fired by Quest.

Huff-Meeks is seeking 15% to 25% of any proceeds resulting from her lawsuit plus two times back pay with interest.

As of June 6, 2012, Quest had not yet filed a response to the lawsuit.

UROLOGY GROUPS ADD CYTOLOGY TO RAISE LAB CHARGES

Some urology groups with in-office pathology labs are now routinely performing cytology testing on the preservative fluid from each prostate biopsy jar they process. This questionable practice allows urology groups to bill for an additional \$70 per prostate biopsy jar, or a total of \$840 in extra charges per 12-prostate-biopsy case.

Bob De La Torre, chief operating officer at Pathology Specialists of Arizona (Phoenix, AZ), believes there is little diagnostic value added by testing the same patient specimen twice using two different methods (tissue analysis and cytology). De La Torre says that he has seen examples of this type of cytology billing at most big urology groups with in-office pathology labs in Arizona, including Urology Associates (Phoenix), Affiliated Urologists (Phoenix), Northwest Urology (Phoenix), Southwestern Urology (Tucson) and Arizona Urology Specialists (Scottsdale).

Traditionally, a urology group would send their prostate biopsy cases to an independent pathology group such as Pathology Specialists. The CPT codes charged on a typical 12-prostate-biopsy case would include 12 x CPT 88305 (\$105 each) for a total charge of approximately \$1200. On occasion, an immunohistochemical stain might be performed by the pathologist to assist in the diagnosis of inconclusive cases.

However, urology groups with in-office pathology labs that perform cytology testing on prostate biopsy jar fluid are adding 12 x CPT 88108 (\$70 each) to the cost of each patient case. As a result, the average pathology charge per patient prostate biopsy case rises to more than \$2,000.

De La Torre says that his pathology group, which includes 60 pathologists, provides service to most hospitals in Arizona and has had the opportunity to review both the pathology reports from in-office labs as well as associated specimens. “We find ourselves in a very uncomfortable situation, when we must review cytology slides for which there seems no credible value,” he notes.

De La Torre says Pathology Specialists reported its concerns to the OIG about two years ago. After an initial follow-up inquiry, no further communication occurred.

AETNA EXTENDS ACCREDITATION DEADLINE

Aetna has extended its accreditation deadline for in-office pathology labs to January 1, 2013. Specialty groups with pathology labs will need to be certified under the Clinical Laboratory Improvement Amendments (CLIA) AND an accrediting organization (e.g., CAP, COLA or The Joint Commission) in order to get paid by Aetna for pathology services. The previous deadline had been August 1, 2012. Dermatology groups are exempt from Aetna’s accreditation requirement. All other physician practices with in-office pathology labs, including urology and gastroenterology groups, will need CLIA certification and accreditation in order to get paid by Aetna for the technical and professional components of CPT codes 88300-88314 and 88342.

Copyright warning and notice: It is a violation of federal copyright law to reproduce or distribute all or part of this publication to anyone (including but not limited to others in the same company or group) by any means, including but not limited to photocopying, printing, faxing, scanning, e-mailing and Web-site posting. If you need access to multiple copies of our valuable reports then take advantage of our attractive bulk discounts.

HEALTH PLANS SQUEEZING OUT INDEPENDENT LABS (cont'd from p. 1)

Aetna Tightens Network

Aetna sent out “termination without cause” letters to various independent labs around the country in early March. The letters gave labs 180 days notice that their participation in the Aetna network was ending effective September 15. At least half a dozen major independent labs, including Sonic’s Sunrise Medical Lab, Shiel Medical Lab, Alere Toxicology Lab and Hunter Labs, received the termination notices. The change appears designed to drive more lab tests to Aetna’s preferred national lab Quest Diagnostics.

BCBS Removes Lab Services from BlueCard Program

The Blue Cross Blue Shield Assn. and many of its member plans recently placed new billing requirements on out-of-network labs. Previously, BCBS PPO members with a BlueCard could receive testing services from an out-of-network lab if they were traveling. This lab would then bill and receive payment from their local BCBS plan. However, now the lab must bill the BCBS plan for which the traveling member belongs.

For example, a Florida lab that provides testing services to a BCBS member visiting from New York, must now bill the New York plan. And these out-of-network claims are being denied.

The change in payment policy has been especially hard on specialized reference labs that market their services nationally and receive samples from distant BCBS members. These labs are finding it hard to collect payment from BCBS plans that they are not contracted with.

The billing policy is easier for the national labs to deal with because they generally have contracts with most BCBS plans across the country.

Cigna Lowers Claim Filing Limit

Late last year, Cigna changed its filing time limit for contracted providers from 180 days to 90 days. Cigna now only pays claims received within 90 days of the date of service. This change has been particularly hard on labs because they do not see the patient the majority of the time and have difficulty obtaining both billing demographic information as well as diagnosis codes from ordering physicians. Approximately 30% to 40% of lab orders have incomplete billing information and require the lab to contact either the ordering physician and/or the patient multiple times to obtain additional data needed, according to the billing firm Xifin (San Diego, CA).

Greater Emphasis on Cost Savings from Quest Diagnostics and LabCorp

Health plans and employer groups are now aggressively marketing the lower co-insurance that members will pay when using an in-network lab, especially Quest or LabCorp. For example, a one-page flyer distributed by Cigna to its members shows that Quest and LabCorp charge about one-fifth the price for commonly ordered lab tests compared with outpatient hospital labs. The prices listed for Quest and LabCorp are also about 50% of Medicare Part B lab fees, notes *LE*.

Cigna Asks, “Why Pay More?”

<i>Description</i>	<i>Average Cost LabCorp and Quest</i>	<i>Average Cost Outpatient Hospital Labs</i>	<i>Average Cost Other Outpatient Labs</i>
General Health Panel	\$22.62	\$165.73	\$77.28
Blood Cell Count (CBC)	\$5.65	\$37.78	\$13.31
Prostate Screen (PSA)	\$13.85	\$67.40	\$32.07
Strep Throat	\$7.71	\$33.79	\$19.75
Cholesterol	\$3.00	\$19.91	\$8.39
Hemoglobin A1C	\$7.05	\$47.57	\$18.64

Source: Cigna “Why Pay More?” flyer, January 2011

LAB STOCKS UP 12% YEAR TO DATE

Ten lab stocks have risen by an unweighted average of 12% so far this year. The combined market capitalization for the group is unchanged at \$22 billion. Shares of Medtox Scientific, which is being acquired by LabCorp, have performed best (up 91%). In comparison, the S&P 500 Index is up 6% and the Nasdaq is up 10% year to date through June 15. In terms of valuation, Quest Diagnostics is currently trading at 1.2x its annual revenue and 8.2x its trailing EBITDA (earnings before taxes, interest, depreciation and amortization). LabCorp trades at 1.6x annual revenue and 8.2x trailing EBITDA.

Company (ticker)	Stock Price 6/15/12	Stock Price 12/30/11	2012 Price Change	Market Capitalization (\$ millions)	Enterprise Value/ EBITDA	Price/ Sales
Bio-Reference (BRLI)	\$24.50	\$16.27	51%	\$691	8.3	1.1
CombiMatrix (CBMX)	0.81	2.00	-60%	9	NA	1.8
Enzo Biochem (ENZ)	1.68	2.24	-25%	65	NA	0.6
Genomic Health (GHDX)	33.22	25.39	31%	998	55.0	4.6
LabCorp (LH)	87.68	85.97	2%	8,487	8.2	1.6
Medtox Scientific (MTOX)	26.78	14.05	91%	240	16.2	2.1
Myriad Genetics (MYGN)	23.67	20.94	13%	2,009	8.4	4.3
NeoGenomics (NGNM)	1.65	1.40	18%	83	23.6	1.4
Psychemedics (PMD)	9.73	9.10	7%	51	7.6	2.1
Quest Diagnostics (DGX)	56.40	58.06	-3%	8,945	8.2	1.2
Unweighted Averages			12%	\$21,578	16.9	2.1

Source: Bloomberg

Subscribe to Laboratory Economics

YES! Please enter my subscription to *Laboratory Economics* at \$375 for one year. Subscription includes 12 monthly issues sent both electronically and by regular mail plus access to all back issues at www.laboratoryeconomics.com/archive.

Check enclosed
(payable to *Laboratory Economics*)

Charge my: MC Amex Visa (circle one)

Card # _____

Name _____

Expiration Date _____

Title _____

Company _____

Cardholder's name _____

Mailing Address _____

Signature _____

City, State, Zip _____

Billing address _____

Phone _____

Fax _____

e-mail address _____

Mail To: Laboratory Economics, 195 Kingwood Park, Poughkeepsie, NY 12601;
Fax order to 845-463-0470; or call 845-463-0080 to order via credit card.

CC2012

100% Satisfaction Guaranteed! If at anytime you become dissatisfied with your subscription to *Laboratory Economics* drop me an e-mail and I'll send you a refund for all unmailed issues of your subscription, no questions asked.
Jondavid Klipp, labreporter@aol.com