

LABORATORY ECONOMICS

Competitive Market Analysis For Laboratory Management Decision Makers

MORE MEDICARE LAB CUTS EXPECTED

I've been on the hill for 18 years and the pressure for cutting is unprecedented. "I've never seen anything like it," Alan Mertz, president of the American Clinical Lab Assn., told the crowd at G2's Lab Institute in Arlington, Virginia, October 19-21.

In a keynote discussion, LabCorp CEO Dave King urged the audience to lobby against a proposed 20% lab test co-pay and other potential cuts.

As for the fallout from the recent Medi-Cal lab pricing lawsuit settlements, Pat Hooper, partner at the national healthcare law firm Hooper, Lundy & Bookman, said, "What happens in California doesn't stay in California." He noted that similar lawsuits have been filed in six other states (FL, GA, MN, MA, NV and VA). *More on page 4.*

METALMARK CAPITAL BUYS BOSTWICK LABS

Metalmark Capital (New York City) has acquired a majority interest in Bostwick Laboratories (Glen Allen, VA) for an undisclosed sum. Founder and chief executive David Bostwick, MD, will continue to own a significant minority stake. *Continued on page 8.*

HOW UNIPATH PARTNERED WITH THE UROLOGY CENTER OF COLORADO

At the recent G2 Intelligence Lab Institute, October 19-21, Karim Sirgi, MD, president of Unipath PC (Denver, CO), described how his pathology group partnered with The Urology Center of Colorado, a urology group with 17 doctors that opened an in-office histology lab in 2007. "A lot of people discouraging in-office labs are also the first to offer an RFP....Every single pathology group in Denver gave an RFP to this group," noted Sirgi. *Continued on page 9.*

QUEST DIAGNOSTICS IS LOOKING FOR A NEW CEO

Quest Diagnostics says its chief executive, Surya Mohapatra, PhD, will step down from this position as soon as a replacement is found or by April 30, 2012, whichever comes first. Mohapatra will also give up his position as chairman of the board. A Quest spokesman says the board may decide to have the chief executive and chairman positions held by different individuals. Quest has hired an executive recruiting firm and is looking at candidates from within the company and outside.

Mohapatra's pending departure was announced on October 25, and on that day Quest's stock price jumped by 11% to \$56.50 per share. The company's market capitalization increased by nearly \$1 billion to end the day at \$9 billion. *Continued on page 2.*

CONTENTS

HEADLINE NEWS

More Medicare lab cuts expected	1, 4
Metalmark buys Bostwick Labs.....	1, 8
Case study: UniPath's partnership with The Urology Center of Colorado	1, 9
Quest Diagnostics looking for a new CEO	1-2

PATHOLOGY LABS

Aureon Biosciences shuts down	3
Update on Aurora Diagnostics.....	10

MEDICARE

Medicare Part B spending on molecular diagnostics up 45% per year	5
Medicare pathology rates to decline	7
Opiate testing is fastest growing test	11

INVESTIGATIONS

Senate leaders Grassley and Baucus investigating lab billing practices.....	6
---	---

IN-OFFICE PATHOLOGY

Survey points to continued insourcing	8
No new regs for in-office labs	10
LabPulse advertising 60-square-foot lab	10

FINANCIAL

Lab stocks down 2% YTD	12
------------------------------	----

QUEST DIAGNOSTICS IS LOOKING FOR A NEW CEO (cont'd from page 1)

Mohapatra is qualified to receive a severance package totaling about \$13.6 million because Quest is terminating his employment (“a termination by the company other than for cause”). The severance includes a cash payment of \$6.2 million, accelerated vesting of stock and options worth \$6.6 million and other benefits valued at \$841,170. The payout will require Quest to record a charge of approximately \$14 million in the fourth quarter and early part of next year.

In addition to his severance package, Mohapatra will leave Quest with approximately 1.9 million shares that he accumulated during his 12+ years

with the company. His shares have a market value of about \$107 million based on Quest’s current share price of \$56.50. Interestingly, on the day that Quest announced its plan to replace Mohapatra, his share holdings increased in value by more than \$10 million.

Darren Lehrich, analyst at Deutsche Bank, says that the timing of the CEO transition could be weeks rather than months away. “Our sense is that a search may have been underway for some time before this announcement,” notes Lehrich.

Mohapatra, age 62, joined Quest in February 1999 as chief operating officer. He became chief executive in May 2004. Over the past eight years, Quest has increased its revenue from \$4.7 billion in 2003 to an estimated \$7.6 billion in 2011. However this growth was achieved mostly through acquisitions, including Quest’s largest acquisition ever: AmeriPath in May 2007 for \$2 billion. The purchase of AmeriPath and other acquisitions have been funded in large measure by borrowing. At year-end 2003, Quest’s net debt was \$948 million. This has ballooned to \$4.1 billion as of September 30, 2011.

In the past, bonuses and incentives for Quest’s top executives have been tied to earnings per share and revenue growth. Beginning in 2012, a significant portion

Surya’s Severance Package**COMPENSATION**

Cash payout.....\$6,155,610

LONG-TERM INCENTIVES

Accelerated vesting of stock options253,394

Accelerated vesting of performance shares2,755,438

Accelerated vesting of restricted shares3,550,875

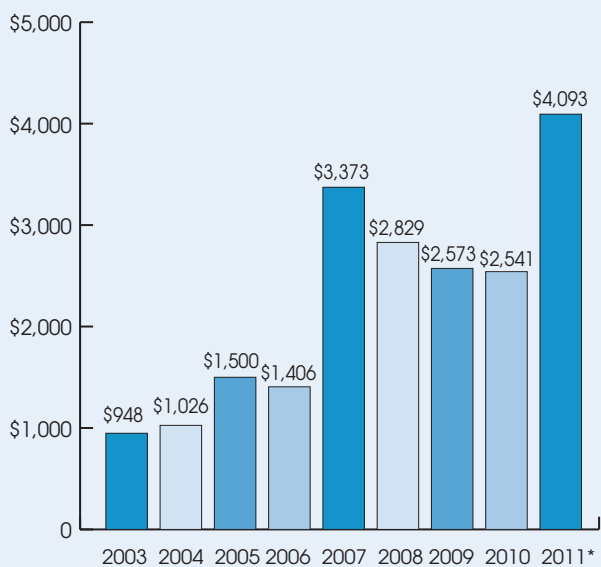
BENEFITS

SERP (supplemental executive retirement plan).....701,170

Benefits (includes medical, life, disability and 401K match)140,000

Grand Total Severance Package\$13,556,487

Source: Quest Diagnostics’ Proxy Statement, April 2011

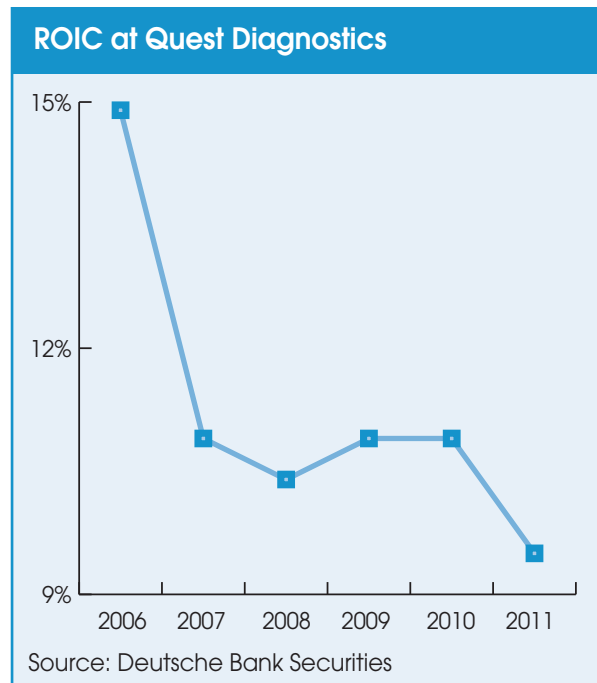
Net Debt at Quest Diagnostics (\$ millions)

*As of Sept. 30, 2011 Net Debt=Total Debt minus Cash
Source: *Laboratory Economics*

of the management incentives will be tied to improving the company's return on invested capital (ROIC).

Quest's ROIC has steadily declined since the acquisition of AmeriPath in 2007. ROIC is a calculation used to assess a company's efficiency at allocating the money under its control to profitable investments.

Quest says it is not planning to make any large acquisitions in the next few years. Instead, the company will return the majority of its future cash flow to shareholders through dividends and share repurchases. To this end, Quest announced that it is increasing its dividend by 70% to an annualized amount of \$0.68 per share beginning with its next payment in January. The hike will raise Quest's dividend yield from 0.7% to 1.2% based on its current share price (\$56.50).



INVESTORS PULL THE PLUG ON AUREON BIOSCIENCES

Aureon Biosciences (Yonkers, NY) closed its lab and laid off all 95 of its employees on October 4, according to a notice filed with The New York State Department of Labor. The company cited "economic reasons" for shutting down.

Aureon was founded in 2002 and raised a total of more than \$100 million from a group of investors led by Atlas Venture, New Leaf Venture Partners and Pfizer Strategic Investments Group. After a decade of losses, these investors have chosen to stop funding Aureon and put its intellectual property up for sale.

The company had marketed two laboratory-developed tests for prostate cancer: Post-Op Px, a molecular test that estimates the risk of post-prostatectomy disease recurrence; and Prostate Px+, a tissue-based test that assesses whether a patient's disease is likely to metastasize and therefore should be treated aggressively.

However, Aureon had difficulty getting insurance plans to cover its tests. For example, WellCare Health Insurance of New York issued an updated coverage decision for Post-Op Px (priced at \$1,968) in February 2011 that stated:

Adoption of this technology would likely have little or no effect on inpatient and outpatient facility utilization for management of patients who have prostate cancer. The available data suggests that the Prostate Px test [now called Post-Op Px] provides information that is essentially identical to the information provided by standard methods for prediction of prostate cancer recurrence. Demand for the Prostate Px test for prediction of prostate cancer recurrence will likely rise slowly or decline since this test has not been found more accurate than standard methods of risk prediction (Hayes, 2010).

MORE MEDICARE LAB CUTS EXPECTED (*cont'd from p. 1*)

Hooper said, “The real impact will be if this [Medi-Cal lab test pricing lawsuit] is lifted to the Medicare level.” But rather than file lawsuits for overcharging against specific labs, Hooper believes the Medicare program will simply cut Part B clinical lab fees.

Hooper reviewed over 30 years of case law and policy positions that showed the government has been inconsistent with its interpretation of terms such as “substantially in excess” and “usual charge” for lab test pricing to the Medicare and Medicaid programs.

Regarding the Medi-Cal settlements, Hooper said, “It’s a settlement agreement. It’s not binding to any other parties and it doesn’t establish precedent. But it may give guidance on how the government views pricing.”

“I wanted to reform what was happening in California. It was not about the money,” said Chris Riedel, chief executive of Hunter Labs. “When deep discounts go away, everyone in this room is going to be much more successful in capturing market share from Quest and LabCorp,” he told the applauding Lab Institute audience.

In the aftermath of the Medi-Cal settlements, David Nichols, president of Nichols Management Group (York Harbor, ME), noted that Quest and LabCorp have not gone back to their California clients and raised prices. “But they are not soliciting new business at lower prices,” he added. In the long run, Nichols expects Quest and LabCorp to slightly raise their managed care prices and slightly lower their Medi-Cal prices.

Separately, Nichols displayed an interesting table comparing the trend in Part B lab test reimbursement to the prices of other goods. For example, between 1984 and 2011, Part B lab test reimbursement has decreased by 13%, while the price of a box of Kellogg’s Cornflakes has increased by 325%.

In addition to the risk of new Part B clinical lab fee cuts, the American Medical Association’s coding initiative could drastically reduce reimbursement for some molecular diagnostic tests, noted Rina Wolf, vice president of commercialization strategies at Xifin.

The AMA is in the process of developing new CPT codes for molecular diagnostic testing with the goal of eliminating “code stacking.”

Wolf said 192 new codes (including 101 for molecular pathology) will be introduced in 2012. Reimbursement changes will become effective in 2013. Based on discussions with the AMA’s

Lab Test Price Inflation Comparison

	2011	1984	Change
Dodge RAM 50 Truck	\$25,000	\$8,995	178%
Gallon of Gas	3.50	1.10	218%
Movie Ticket	10.00	2.50	300%
McDonald’s Hamburger	1.00	0.50	100%
Kellogg’s Cornflakes	3.79	0.89	325%
Part B Lab Test	8.71	10.00	-13%

Source: Nichols Management Group

Relative Value Scale Update Committee (RUC), Wolf said some codes could be reduced by as much as 30%+. The RUC, which is comprised of 29 physicians, provides recommendations to CMS on Part B physician fee schedule rates.

In particular, CMS is concerned with spending on

21 molecular diagnostic codes (CPT 83890-83914) and three array codes (CPT 88384-88386). These codes have become controversial because they are used in code stacking. This billing process involves using a series of CPT codes to describe a molecular test that does not have a specific designated code. Code stacking makes it difficult for payers to know exactly what is being tested and what they are reimbursing.

Medicare Part B carrier spending on these 24 molecular diagnostic and array codes grew by an average annual rate of 44.7% between 2007 and 2010, according to an analysis of claims data by *Laboratory Economics*. In comparison, Medicare Part B carrier spending on routine clinical lab tests grew by 7.3% during the same time period (see page 11).

However, despite the rapid growth in spending, Part B carrier spending on these codes totaled only \$100 million in 2010. *Laboratory Economics* estimates that total payer spending (Medicare, Medicaid, private payers, etc.) was \$500 million in 2010 (or about 5 times the size of Part B carrier expenditures).

MEDICARE PART B CARRIER SPENDING ON MOLECULAR DIAGNOSTICS

CPT Code	Short Descriptor	2010 Payment	2007 Payment	3-Year CAGR*
83890	Molecule isolate	\$178,868	\$85,491	27.9%
83891	Molecule isolate nucleic	1,883,658	623,503	44.6%
83892	Molecular diagnostics	3,289,389	1,077,132	45.1%
83893	Molecule dot/slot/blot	290,112	231,580	7.8%
83894	Molecule gel electrophor	241,810	308,942	-7.8%
83896	Molecular diagnostics	7,424,338	3,479,347	28.7%
83897	Molecule nucleic transfer	2,678	3,477	-8.3%
83898	Molecule nucleic ampli, each	23,250,543	10,817,361	29.1%
83900	Nuclear antigen antibody	3,029,822	912,021	49.2%
83901	Immunoassay, tumor qual	8,067,955	1,042,480	97.8%
83902	Molecular diagnostics	1,050,454	428,542	34.8%
83903	Molecule mutation scan	8,673,164	1,823,563	68.2%
83904	Molecule mutation identify	14,715,657	9,205,725	16.9%
83905	Molecule mutation identify	15,213	6,249	34.5%
83906	Molecule mutation identify	1,267	3,337	-27.6%
83907	Lyse cells for nucleic ext	644,122	53,739	128.9%
83908	Nucleic acid, signal ampli	3,377,710	368,141	109.3%
83909	Nucleic acid, high resolute	14,824,246	476,270	214.6%
83912	Genetic examination	2,759,338	1,290,722	28.8%
83913	Molecular, rna stabilization	243,462	12,874	166.4%
83914	Mutation ident ola/sbce/aspe	4,335,099	610,743	92.2%
88384	Array-based eval, 11-50 probes	274	29	111.5%
88385	Array-based eval, 51-250 probes	651,383	4,204	437.1%
88386	Array-based eval, 251-500 probes	586,490	5,981	361.1%
	Total, 24 Test Codes	\$99,537,053	\$32,871,453	44.7%

*CAGR=compound annual growth rate

Source: Laboratory Economics from CMS's Part B Extract and Summary System (BESS), 2007-2010

SENATE LEADERS INVESTIGATING LAB BILLING PRACTICES

Senate Judiciary Committee Ranking Member Chuck Grassley (R-Iowa) and Senate Finance Committee Chairman Max Baucus (D-Mont.) have sent letters to Quest Diagnostics, LabCorp and three major health insurance companies asking for information about their pricing practices.

In particular, Grassley and Baucus are interested in “pull-through” practices, where insurers receive discounted pricing from labs in exchange for referrals, including lab tests for Medicare beneficiaries.

In the November 8 letters, the senators noted that the Inspector General for the Department of Health and Human Services previously had issued advisory opinions expressing concerns about “pull-through” and calling such discount arrangements “particularly suspect.”

The letter cited three OIG advisory opinions, including an opinion issued on November 18, 2004 (OIG Advisory Opinion No. 04-16) that stated:

The OIG’s position on the provision of free or below-market goods or services to actual or potential referral sources is longstanding and clear: such arrangements are suspect and may violate the anti-kickback statute, depending on the circumstances.

Grassley and Baucus also cited the Medi-Cal fraud lawsuits that involved allegations that Quest and LabCorp overcharged the California Medicaid program. Quest recently settled this lawsuit for \$241 million and LabCorp settled for \$49.5 million. Both companies denied any wrongdoing.

The senators have asked Quest and LabCorp for copies of lab service agreements, correspondence related to negotiation of the contracts, presentations made at board of director and sales meetings that refer to “pull-through” practices, and all reports that track “pull-through” business by payer and client. Also among the long list of requested documents were pricing schedules comparing the price per test for the ten most commonly ordered lab tests, showing the price per test charged to each of the five largest managed care clients, and the Medicare payment per test.

In addition, the senators have asked Aetna, Cigna and UnitedHealth Group for copies of their agreements with each of their five largest lab providers, all correspondence with physicians regarding bonuses and bonus arrangements related to clinical labs, and documents pertaining to network physician utilization of in- and out-of-network labs.

Grassley and Baucus want the information by December 1.

Meanwhile, lab industry lawyers and billing experts say that over 30 years of case law and policy positions show that the government has been inconsistent with regard to the question of whether or not labs can charge managed care companies less than they charge Medicare.

Laboratory Economics believes that the most immediate risk posed by the Grassley and Baucus investigation could be an across-the-board reduction to the Part B clinical lab fee schedule in 2012. In other words, the senators could use the pricing information gained from their investigation to justify new cuts.

MEDICARE PATHOLOGY RATES SET TO DECLINE

Pathologists will see a small decrease in Medicare reimbursement rates for most pathology codes in 2012, assuming the conversion factor remains at 33.9764. The conversion factor (CF) is used to translate the relative value units (RVUs) of the Part B Physician Fee Schedule into reimbursement rates.

The CF is scheduled to be cut by 27.4% effective January 1, 2012. This cut is mandated 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. But Congress has always stepped in to block cuts mandated by the SGR (except in 2002).

The most likely scenario for this year is a last-minute fix by Congress that keeps the CF at 33.9764 in 2012. Under this scenario, global reimbursement for CPT 88305 (tissue exam by pathologist)—the most frequently billed anatomic pathology procedure—will be decreased by 3.8% to a global rate of \$101.93 for 2012. The technical component would be reduced by 4.9% to \$66.25, and the professional component would be cut by 1.9% to \$35.68.

The bottom line for pathologists would be an average cut of 1.3% in Medicare reimbursement for the most common pathology procedures, according to a tabulation from McKesson Revenue Management Solutions (*see table below*).

Global Medicare Reimbursement* for Key Pathology Codes, 2012 vs. 2011

CPT Code (Description)	2012	2011	% Chg
88108 (cytopath, concentrate tech)	\$74.41	\$75.43	-1.4%
88112 (cytopath, cell enhance tech)	98.87	102.61	-3.6%
88120 (FISH, manual)	464.80	456.30	1.9%
88121 (FISH, computer-assisted)	399.22	385.29	3.6%
88173 (cytopath eval FNA)	135.23	137.60	-1.7%
88184 (flow cytometry, 1 marker)	78.83	83.92	-6.1%
88185 (flow cytometry, add-on)	47.91	50.29	-4.7%
88189 (flow cytometry)	101.59	103.29	-1.6%
88300 (surgical pathology)	27.86	26.84	3.8%
88302 (tissue exam by pathologist)	55.04	53.34	3.2%
88304 (tissue exam by pathologist)	58.10	62.52	-7.1%
88305-technical component	66.25	69.65	-4.9%
88305-professional component	35.68	36.35	-1.9%
88305-global component	101.93	106.01	-3.8%
88307 (tissue exam by pathologist)	232.06	226.28	2.6%
88309 (tissue exam by pathologist)	352.68	342.82	2.9%
88312 (special stains)	107.71	106.69	1.0%
88313 (special stains)	77.81	77.81	0.0%
88321 (microslide consultation)	89.02	90.72	-1.9%
88323 (microslide consultation)	131.49	142.70	-7.9%
88331 (pathology consult during surgery)	91.74	91.40	0.4%
88342 (immunochemistry)	103.29	103.97	-0.7%
88346 (immunofluorescent study)	100.57	101.93	-1.3%
88348 (electron microscopy)	682.59	680.89	0.2%
88361 (digital pathology)	146.10	151.53	-3.6%
Overall Unweighted Average			-1.3%

*Assumes conversion factor will remain at 33.9764; Unadjusted for geographic practice cost differences

Source: McKesson Revenue Management Solutions based on proposed Physician Fee Schedule Rule for 2012

METALMARK CAPITAL BUYS BOSTWICK LABS (*cont'd from page 1*)

Metalmark has not revealed the new management structure at Bostwick Labs, including who will be chairman and chief executive. Dr. Bostwick is expected to remain with the company, but his new role and title have not been announced.

The investment follows a \$43 million loan that Bostwick Labs received from Healthcare Finance Group LLC (New York City) in July (see *LE*, July 2011, page 1).

In 2008, Bostwick Labs sought to raise \$100 million from an IPO (see *LE*, March 2008, page 1). At that time, the company had 753 employees and annual revenue of more than \$100 million. However the IPO was never completed and Bostwick Labs remained private.

Over the past year, Bostwick Labs has been consolidating its operations, including shutting down labs in Tempe, Arizona, and Nashville, Tennessee.

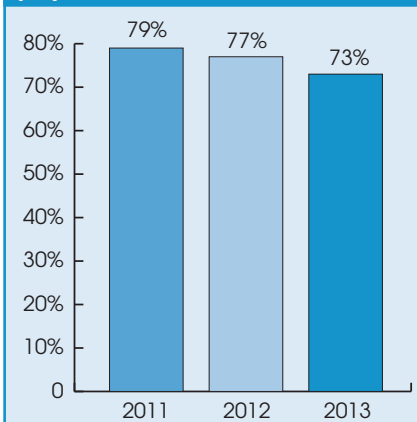
The Bostwick acquisition is Metalmark's second lab company investment in the past two years. In October 2010, the private equity firm made a majority investment in Aegis Sciences Corp. (Nashville, TN), which performs drug testing services for sports teams and pain management physicians as well as pre-employment screening.

SURVEY POINTS TO CONTINUED HISTOLOGY LAB INSOURCING

At some point, the in-office lab trend will crest (meaning all specialty practices that have the size and desire to insource will have done so). However, insourcing by gastroenterology, urology and dermatology groups appears to be increasing versus moderating, based on the results from a recent survey conducted by the investment firm William Blair and The Dark Report. The survey was completed by 124 hospital-based and independent pathology groups/labs in early October. The overwhelming majority of respondents expect insourcing of AP testing by office-based physicians to increase over the next two years (77% and 73% in 2012 and 2013, respectively).

The American Clinical Lab Association, College of American Pathologists and other lab trade organizations are lobbying to remove in-office pathology from the Stark in-office ancillary services exception. However, ACLA president Alan Mertz says CMS is afraid of unintended consequences.

"They fixed pod labs and it morphed into another problem: in-office histology labs." Furthermore, Mertz says the three medical specialties doing the insourcing—urology, gastroenterology and dermatology—have a lot of political clout.

Do you expect insourcing of AP testing by office-based physicians to increase?

Source: William Blair & The Dark Report Insourcing Survey, October 2011

Trade Organization	Lobby Spending for 2011*
American Academy of Dermatology	\$1,110,000
College of American Pathologists	1,058,689
American Clinical Laboratory Assn.	492,432
American College of Gastroenterology	434,023
American Gastroenterological Assn.	240,000
Large Urology Group Practice Assn.	160,000
American Urological Assn.	148,700

*As of October 24, 2011

Source: Center for Responsive Politics

HOW UNIPATH PARTNERED *(continued from page 1)*

Here is a summary of Dr. Sirgi's presentation: *Realities of Handling Pathology In-Sourcing: How UniPath Created a Successful Practice Model.*

Background

In 2005, Sirgi said that a urologist client walked into his office and announced that two urology groups in Denver (Western Urologic Associates and Colorado Urology Associates) were merging to form The Urology Center of Colorado (TUCC). The merged group planned to consolidate its offices into a full-service facility that would include an ambulatory surgery center, radiology services and pathology lab.

The Proposal

TUCC asked Sirgi to leave UniPath and join TUCC as an equal partner. Sirgi would help design, build and medically direct the new pathology lab. The advantages of joining TUCC would have included higher income and a better lifestyle (regular working hours with no call duties and no autopsies). The disadvantages included becoming one pathologist within a large urology practice with the potential for professional and political isolation. Sirgi also risked alienating the local pathology community and uncertainty about how payers and regulators would react.

The Counter-Offer

Sirgi chose to remain with UniPath. And UniPath offered to contract with TUCC to provide professional services and medical directorship to their histology lab. TUCC accepted the UniPath offer.

The Structure of the Deal

UniPath helped design TUCC's lab, select equipment and pick histotechnologists. TUCC paid UniPath a consulting fee for its help in building the new lab.

The 60,000-square-foot TUCC facility was opened in February 2007, at cost of \$15 million. The histology lab and offices occupy the third floor.

TUCC owns the histology lab and employs the histotechs, clinical lab personnel and department secretary. TUCC bills for technical services.

UniPath has four pathologists (out of 25 pathologists) dedicated to the TUCC lab. They read pathology cases on-site at TUCC. UniPath independently bills for its professional services. Special stains are decided 100% by the pathologists. Cytology specimens are sent to UniPath for processing and reading; UniPath bills globally for these cases.

UroVysion bladder cancer tests are sent to a third-party reference lab (Vitro Molecular Labs) for processing and reading. UniPath stays out of the billing process for these cases and just consolidates the information by integrating the results into the UniPath LIS and then into TUCC's EMR.

Ninety-seven percent of patient cases are reported within 24 hours of receipt. Pathology results are seamlessly integrated into TUCC's EMR. "There is a direct line of communication between the pathologists, urologists and radiologists....Quality is at a level we rarely see at a hospital setting," noted Sirgi.

The Bottom Line

UniPath lost technical service revenue from TUCC. However, its professional service revenue has increased from \$300,000 in 2005 to approximately \$1 million in 2010. Sirgi said most of the increase has come from TUCC consolidating its pathology service needs from several labs to strictly UniPath.

Note: UniPath sold its technical lab operations to American Pathology Partners (Brentwood, TN) in December 2008. As part of the deal, APP signed a long-term agreement to receive professional services from UniPath's pathologists.

NO NEW REGS FOR IN-OFFICE LABS IN 2012

On November 1, CMS released the Medicare Physician Fee Schedule Final Rule for 2012, which included no changes to the in-office ancillary services exception to the Stark rule. This means that urology, gastroenterology and dermatology groups can continue to build in-office histology labs to capture pathology technical and professional fees.

AURORA DIAGNOSTICS PROVIDES DETAILS IN NEW SEC FILING

Aurora Diagnostics (Palm Beach Gardens, FL) incurred a net loss of \$1.6 million on revenue of \$130.5 million in the six months ended June 30, 2011, according to a recent filing with the Securities & Exchange Commission. Revenue growth was 29% (organic revenue growth was 8.7%).

The SEC filing revealed that Aurora paid \$26.5 million in cash to acquire Global Pathology Laboratory Services (Hialeah, FL) in August. In addition, Aurora will pay up to \$19 million over the next five years based on the practice's performance. GPLS, which is focused on dermatopathology, has five pathologists led by its president Evangelos G. Poulos, MD. GPLS had net income of \$2.3 million on revenue of \$15.5 million in 2010.

Since being formed in 2006, Aurora has made 22 acquisitions and now employs 118 pathologists. Summit Partners owns approximately 50% of Aurora, KRG Capital Partners owns 33%, and company management owns 17%. Aurora registered for an IPO in April 2010 (see *LE*, May 2010, pp. 1-3) but the company has delayed the offering.

Aurora Diagnostics at a Glance (\$000)

	Six months ended June 30		% Chg
	2011	2010	
Revenue	\$130,470	\$101,105	29.0
Pretax income	-290	423	NA
Net income	-1,642	-1,654	NA
Accessions	1,101	948	16.1
Revenue per accession	106	103	2.9
Total debt	358,599	255,652	40.3
Cash & securities	36,488	2,618	1,293.7
Shareholder's equity	209,701	216,047	-2.9

Source: Aurora Diagnostics, Form S-4, November 1, 2011

LABPULSE MARKETING 60-SQ-FT IN-OFFICE PATHOLOGY LAB

LabPulse Medical (East Granby, CT) is marketing in-office histology lab installations that take up as little as 60-square-feet of office space. The company has displayed its compact pathology lab setup at the 2011 Digestive Disease Week and American Urological Association conferences and the American Academy of Dermatology Summer Symposium in New York City. "Clinicians were amazed by the compact design and scalable nature of the LabPulse lab," said chief executive Michael Nesta. "We were able to show them in person how small yet functional our lab setups can be and how easily this could fit into even a small practice setting." LabPulse is a new consulting division of Energy Beam Sciences—a company that sells tissue processors and microscopes.

OPIATE TESTING IS FASTEST-GROWING PART B TEST

Opiate testing (CPT 83925), which is typically performed to monitor patients on chronic pain medication, has been the fastest-growing test among the top 30 clinical lab tests ranked by Medicare Part B carrier spending. Between 2007 and 2010, Part B carrier spending on CPT 83925 grew by an average annual rate of 90.7%.

The second fastest-growing test was vitamin D (CPT 82306), which grew by 76.4% per year, followed by testing for cannabinoids (CPT 82542), up 71.3% per year.

CPT 84999 (unspecified chemistry test) grew by an average of 37.5% per year. This code is being used for a variety of new complex tests that have not received specific CPT codes.

MEDICARE PART B CARRIER SPENDING ON TOP 30 CLINICAL LAB TESTS

CPT Code	2010	2007	3-Year CAGR*
84443 (TSH)	\$352,458,946	\$310,645,098	4.3%
85025 (CBC)	349,653,828	332,689,647	1.7%
80053 (metabolic panel)	318,770,152	285,424,913	3.8%
80061 (lipid panel)	309,441,479	291,262,445	2.0%
82306 (vitamin D)	222,848,003	40,581,633	76.4%
83970 (parathormone)	211,295,265	165,954,286	8.4%
83036 (A1C)	174,384,990	152,869,189	4.5%
85610 (prothrombin time)	122,737,331	118,799,886	1.1%
84153 (PSA)	95,558,653	94,109,547	0.5%
80048 (metabolic panel)	93,958,136	96,470,549	-0.9%
82728 (ferritin)	84,786,054	66,932,499	8.2%
82607 (vitamin B12)	71,712,705	48,620,247	13.8%
83880 (BNP)	54,296,251	42,847,452	8.2%
87086 (urine culture)	53,005,095	45,542,568	5.2%
83550 (TIBC)	52,555,725	42,833,121	7.1%
84439 (thyroxine, free)	51,552,723	39,861,338	9.0%
83540 (iron)	49,875,219	40,671,020	7.0%
83925 (opiates)	45,790,112	6,599,159	90.7%
82746 (folate)	43,045,372	30,233,659	12.5%
84999 (unspecified chemistry test)	43,023,141	16,533,132	37.5%
80101 (drug screen)	42,904,109	49,395,668	-4.6%
82570 (creatinine)	31,772,791	20,940,096	14.9%
87186 (MIC)	30,908,064	21,250,899	13.3%
81001 (urinalysis)	30,233,015	25,702,593	5.6%
84403 (testosterone, total)	29,417,647	17,865,079	18.1%
85027 (CBC)	27,259,409	25,636,176	2.1%
87340 (HBsAg)	27,237,821	25,773,939	1.9%
87088 (urine culture)	27,161,428	23,481,621	5.0%
82542 (cannabinoids)	26,467,993	5,264,176	71.3%
86235 (nuclear antigen antibody)	25,478,637	21,226,108	6.3%
Total, 30 Tests			7.3%

*CAGR=compound annual growth rate

Source: *Laboratory Economics* from CMS's Part B Extract and Summary System (BESS), 2007-2010

LAB STOCKS DOWN 2% YEAR TO DATE

Ten lab stocks have fallen by an unweighted average of 2% so far this year through November 7. The combined market capitalization for the group is currently \$20.8 billion. In comparison, the S&P 500 Index is down 0.4% and the Nasdaq is up 1%. The top-performing lab stock so far this year is Genomic Health, up 24%. Meanwhile, the stock price of LabCorp is down 6% and Quest is up 5%.

Company (ticker)	Stock Price 12/31/10	Stock Price 11/7/11	2011 Price Gain	Market Capitalization (\$ millions)	Earnings Past 12 Months	Price-to-Earnings Ratio
Bio-Reference (BRLI)	\$22.18	\$16.00	-28%	\$447	\$1.23	13.0
CombiMatrix (CBMX)	2.15	2.40	12%	26	-0.87	NA
Enzo Biochem (ENZ)	5.28	2.70	-49%	104	-0.34	NA
Genomic Health (GHDX)	21.39	26.59	24%	784	0.22	120.9
LabCorp (LH)	87.92	82.96	-6%	8,480	5.00	16.6
Medtox Scientific (MTOX)	13.10	14.32	9%	127	0.48	29.8
Myriad Genetics (MYGN)	22.84	20.52	-10%	1,750	1.15	17.8
Neogenomics (NGNM)	1.30	1.45	12%	63	-0.04	NA
Psychomedics (PMD)	8.20	9.22	12%	48	0.61	15.1
Quest Diagnostics (DGX)	53.97	56.83	5%	8,940	2.72	20.9
Averages			-2%	20,769		33.4

Subscribe to Laboratory Economics

YES! Please enter my subscription to *Laboratory Economics* at \$349 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 _____

Cardholder's name _____

Company _____

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.

CC2011

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