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LABORATORY INDUSTRY REPORT®

Julie McDowell, Managing Editor, jmcdowell@ioma.com

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Recent Acquisitions Spark Optimism for an Active M&A Landscape in 2010

Eight acquisitions in late 2009 and two recent acquisitions early in 2010 are leading many financial insiders involved in the lab industry to have a positive outlook on the mergers and acquisitions (M&A) landscape this year following last year's slump. The most recent acquisitions occurred in January, with the purchase of Cleveland-based OncoDiagnostic Laboratories by Predictive Biosciences (Lexington, Mass.), as well as the purchase of Jacksonville, Fla.-based anatomic pathology provider Bernhardt Laboratories by another Florida-based provider, Aurora Diagnostics. In addition to this 2010 purchase, Aurora also made two dermatopathology acquisitions in November and December 2009.

And the national labs are also on the hunt for acquisitions, according to Kemp Dolliver, managing director, Avondale Partners (Nashville, Tenn.). "Almost everyone has a war chest right now," he said. "Quest has raised some money, and I suspect that they might have been close to acquiring the Greensboro, N.C.-based Spectrum Laboratory Network [acquired by New York-based private equity firm, Welsh, Carson, Anderson & Stowe for $230 million] late last year so they have some cash on hand. In addition, Sonic recently raised some money in the U.S. for the first time."

To hear more analysis on the M&A outlook for the lab industry in 2010 from industry insiders, turn to "Inside the Lab Industry," pp. 5-8.

Quest's Q409 Revenue Grows 2.7% to $1.8 Billion, Full-Year 2009 Revenues Grow 2.8% to $7.5 Billion

For the fourth quarter of 2009, the nation's lab leader Quest Diagnostics (Madison, N.J.) reported revenues totaling $1.8 billion, an increase of 2.7 percent over the same quarter in 2008. Quest met its revenue growth targets for the full year 2009; revenue grew 2.8 percent to approximately $7.5 billion. However, this growth is significantly down from 2008's growth figures, when full-year revenue grew 8.1 percent to approximately $7.2 billion. Revenue growth for 2010 is expected to be approximately 3 percent to 4 percent, which would bring this year's revenues to between $7.7 billion and $7.8 billion. The company also announced a $750 million share repurchase plan.

Continued on page 2

■ **QUEST'S Q409 REVENUE GROWS**, *from page 1*

Volumes were a bit soft in the fourth quarter—which is not unexpected for end of the year. While clinical testing volumes, which account for over 90 percent of total revenues, were up 2.3 percent for the quarter, drug testing volumes continue to be in decline, according to Robert Hagemann, Quest's senior vice president and chief financial officer. "The decline in pre-employment drug testing continues to be a drag on volumes, but to less of an extent than it has been," he explained. "Drug testing volumes were off about 14 percent compared to last year and reduced consolidated volumes by 0.8 percent. As we enter the first quarter of 2010, we expect the impact on volumes of drug testing to anniversary."

Revenue per requisition increased 2.6 percent, which was slightly short of some Wall Street targets of 4 percent. It's also down from the third quarter of 2009's increase of over 4 percent. Other benchmarks, however, look steady, as bad debt is at 3.9 percent and days sales outstanding is 43 for the end of 2009.

Esoteric Driving Growth

Gene-based, esoteric, and anatomic pathology (AP) continue to be the key growth drivers for Quest. CEO Surya N. Mohapatra, Ph.D., reported on the earnings call that during the fourth quarter 2009, vitamin D testing grew more than 50 percent, allergy testing through the company's ImmunoCap test grew more than 10 percent, and its leukemia and lymphoma test, Leumeta, grew more than 40 percent. It's important to note, however, AP testing revenue was down 1 percent for all of 2009, which some analysts have attributed to more insourcing by community pathologists, as well as more competition from local and regional AP labs.

Quest Reports 75% Drop in H1N1 Testing at End of 2009, But Another Peak Likely

According to data compiled by Quest, rates of 2009 H1N1 influenza virus testing had dropped 75 percent by mid-December since the peak testing in late October, which could indicate that the reportedly second wave of infection is passed. However, Quest's medical director of infectious diseases, Jay M. Lieberman, M.D., warned to be prepared for another outbreak.

"The H1N1 peak already surpassed what we see in the normal flu season, and while levels are significantly down now, it's hard to predict what will happen in 2010," he explained. "But based on history, we know that another outbreak of H1N1 is possible, and we know that there are a lot of susceptible people out there so it wouldn't be surprising if we had another wave."

Quest's PCR-based test kits received emergency use authorization from the Food and Drug Administration in December 2009. Lieberman said one opportunity of this pandemic is that it illuminated the deficiencies of some of the tests, including rapid tests that are used to diagnose influenza. "Clinicians and patients are being falsely reassured that they don't have influenza, and they are not often getting the appropriate therapy, which has a huge impact on whether they are going to get appropriate treatment or not," he added.

Surgical Pathology Leads Top Lab and Pathology Procedures Under Part B in 2008; Over $1 Billion in Allowed Charges

Surgical pathology (Level IV, code 88305) continues to rank as the highest-volume pathology procedure paid under Medicare Part B. For the calendar year 2008, this code had approximately 18 million allowed services and $1.18 billion in allowed Medicare charges—which is three times more than any other single procedure on the top 100 list. It's important to note that 88305 is the first-ever pathology or lab code to top the $1 billion mark in allowed Medicare charges for a single year, according to analysis from the forthcoming updated *Medicare Reimbursement Manual For Laboratory & Pathology Services 2010* from Washington G-2 Reports.

This data comes from analysis of the top 100 clinical laboratory and pathology procedures paid under Medicare Part B during calendar year 2008 according to the annual BESS file (Part B Extract and Summary System) for CPT codes in the 8000 series. Lab and pathology services are represented in the CPT code range 80047-89399.

For 2008, the top 100 laboratory and pathology services encompassed 317 million Medicare-allowed services. Medicare-allowed charges to both providers and suppliers for these services totaled $5.051 billion or an average allowed charge of $15.93 per test procedure. This represents a $294 million increase in allowed charges and a 49 cent rise in the average allowed charge compared to 2007, when the Medicare numbers stood at $4.757 billion and $15.44, respectively.

For 2008, Medicare expenditures were up 8.6 percent to a total of $469.2 billion, following growth of 7.1 percent in 2007, according to the latest annual spending report from CMS. Fee-for-service (FFS) Medicare spending jumped 5.3 percent, compared with the growth rate of 3.8 percent in 2007, caused in part by accelerated spending for hospitals. In addition, national health spending grew 4.4 percent in 2008, to $2.3 trillion or $7,681 per person, the slowest rate of growth since the government began tracking expenditures in 1960.

Not surprisingly, the 90 laboratory codes included among the top 100 procedures accounted for a significant majority of Medicare-allowed services (287.5 million or 90.54 percent). However, these tests constituted only 64.5 percent ($3.26 billion) of the total allowed charges, making for an average allowed charge per procedure of $11.36. This represents an increase of 25 cents per laboratory procedure compared to the $11.11 per-test average allowed charge in 2007.

The 10 pathology codes included within the top 100 listing accounted for a relatively small 9.47 percent of allowed services, or about 30 million allowed services. More importantly, these pathology services accounted for a robust 35.46 percent ($1.79 billion) of total allowed charges in 2008 that amounted to an average allowed charge of $59.68. Overall, the average allowed charge per pathology procedure rose by $1.84 in 2008 compared to the previous year when it stood at $57.84 per procedure. As a result, the average allowed charge for the 10 leading pathology procedures was about 5.3 times the average amount paid by Medicare for the top 90 lab tests.

Pathology Leads in Allowed Charges

Continuing a trend in previous years, two pathology procedures had the highest average allowed charges in 2008 among the top 100 listing: Level V – Surgical pathology (88307) had the best at $88.40 (down from $89.13 in 2007 *Cont., on p. 10*

Myriad Genetics Partners with Mammography Reporting Systems to Identify Potential Patients

Under a recently announced agreement with Mammography Reporting System (MRS), Myriad Genetics (Salt Lake City) will be able to identify more high-risk breast cancer patients—and therefore potential candidates for its BRACAnalysis test—through risk flags incorporated into cancer tracking software that service 2,400 mammography centers in the United States.

"Women who are at a risk for cancer are going in and having mammograms and it's a great opportunity to ask them the questions about whether they might have a hereditary condition in their family," said Myriad's President Gregory C. Critchfield, M.D. "We can incorporate red flags that are part of the identification process that are present in the MRS software, which can be captured when patients register in a mammography center." An estimated 6 percent of women in mammography centers, or approximately 2.4 million women, are estimated to be at high risk for hereditary breast cancer. These women would be considered appropriate candidates for the BRACAnalysis test, which assesses the risk of developing cancer based on detection of mutations in the BRCA1 and BRCA2 genes.

This announcement comes at a time when Myriad is under increased scrutiny for unnecessary testing, with some national insurance providers like UnitedHealthcare and Aetna implementing prior authorization and notification, among other measures, before they will cover the BRACAnalysis test.

But Critchfield appears confident that the test is provided to the appropriate patients. "From time to time, insurance companies may want preapproval processes to be put in place, but this is a situation that is dynamic," he told *LIR*. "We've had large insurers in the past who have put the processes in place and have abandoned it, because there is too much paperwork on their side and when they look at the data, it doesn't make any difference anyway."

Future of NeoGenomics-Response Genetics Partnership in Doubt

In late 2008, Los Angeles-based molecular diagnostic testing provider Response Genetics entered into a partnership with NeoGenomics Laboratories (Fort Myers, Fla.) to develop a national sales strategy for its PCR-based testing services, but whether the venture will continue into 2010 is unclear. On Jan. 7, NeoGenomics announced today that it is "restructuring its relationship with Response Genetics," adding that the company's KRAS test was unprofitable for the company in 2009.

As a result of this restructuring, NeoGenomics will be hit with the loss of approximately $1 million in revenue from Response's FISH testing during the fourth quarter of 2009. In addition, the company announced charges of up to $500,000 related to restructuring its management team, including severance and recent recruiting costs. "Although we are still finalizing our year-end financials, we are currently expecting fourth-quarter revenue in the range of $7.7 million to $7.9 million and a net loss of approximately $1.3 million to $1.5 million as a result of all of the above factors," said NeoGenomics CEO Douglas VanOort.

Two Transactions Early in 2010 Drive up Optimism for a More Active M&A Year for Lab Industry

Following a slow 2009, the lab industry's mergers and acquisition (M&A) landscape has been the focus of increased activity in recent months. In addition to eight transactions in November and December of last year, there have been two transactions so far in 2010—the acquisition of Cleveland-based OncoDiagnostic Laboratories (ODL) by Predictive Biosciences (Lexington, Mass.) and the purchase of Jacksonville, Fla.-based anatomic pathology provider Bernhardt Laboratories by another Florida-based provider, Aurora Diagnostics.

In addition to its January acquisition of Bernhardt, Aurora Diagnostics also purchased two dermatopathology labs in late 2009—South Texas Dermatopathology Lab in San Antonio and Pinkus Dermatopathology Lab in Monroe, Mich. A spokesman for Aurora declined to comment on these acquisitions or provide financial details. Financial details on the Predictive-ODL transaction were undisclosed, although Predictive's founder Eugene Chiu told *LIR* that ODL's annual revenue in 2009 was $10 million. Based on current valuations, LIR estimates that the acquisition price was likely in the $10 million-to-$15 million range (*see box below*).

Predictive Biosciences Acquires AP Platform With OncoDiagnostic Purchase

Lexington, Mass.-based Predictive Biosciences' acquisition of the CLIA-certified anatomic pathology (AP) lab OncoDiagnostic Laboratory (ODL; Cleveland), will provide Predictive with a fully integrated laboratory to commercialize its specialty assays, particularly in the area of urology.

ODL is privately held and was founded in 1985 by a group of pathologists. The company currently has a sales staff of 15 (which is expected to expand) and seven pathologists. Its total staff is 40. ODL currently services 200 ordering urologists. Its annual revenue in 2009 was estimated at $10 million.

"Through this acquisition, we are combining the commercial traction of the ODL lab with the high-value proprietary content that Predictive brings to the table, which we believe is differentiated from other labs," explained co-founder and vice president of business development Eugene Chiu. Predictive was launched in the summer of 2006 and funded by a consortium of venture capital firms. While it does have a CLIA lab in Boston, the company has been primarily focused on research and development of biomarker-based tests for cancer diagnosis, focused primarily on prostate and bladder cancer detection.

Predictive is also looking to grow through acquisitions of other specialized pathology providers, according to Chiu. "Moving forward, we will also look at other ways to strategically grow the organization, whether it's through looking at acquiring other labs in other subspecialities, as well as brining on additional content," he explained.

While both of these transactions involve small to midsize operations, they do indicate that the M&A landscape is likely to be more active this year than in 2009, which was impacted by the recession-related capital freeze that began in late 2008. This sentiment was echoed by some financial insiders following the lab sector who were recently interviewed by *LIR*. "We're optimistic that the M&A landscape will improve this year," said Jeff Ellis, managing director of Tampa, Fla.-based Crosstree Capital Partners, an investment firm involved in small to midsize lab M&A transactions. "Capital has loosened up a bit, and more importantly, there's more of a sense of increased stability in the market right now, even though there are still health care reform and other issues on the table. But everyone seems a lot more comfortable doing deals. We certainly don't expect it to get back to 2007 levels in terms of valuations, but what we are hearing in terms from both strategic and financial buyers right now is that they plan to be very active in 2010, and this includes the larger strategic buyers who are saying that they will be doing smaller deals than in the past."

This year might also see the re-emergence of many labs that were interested in selling in 2009 but were pushed to the sidelines because of the economy, explained another analyst, Kemp Dolliver, a managing director with Avondale Partners' (Nashville, Tenn.) health care services sector. "Before the capital markets shut down in late 2008, there were likely a number of labs that were for sale or in the process of being positioned for sale, but once the markets shut, the owners held on to them," he explained. "But now that the markets have reopened somewhat, this process will likely to move forward." Many of these include hospital outreach and molecular labs, as well as private equity-backed labs that had an outreach legacy, he added.

Private Equity Remains a Player

In addition to these labs that might be ready to sell, many private equity firms may also be looking to exit their investments, believes Dolliver. "We are hearing that many private equity firms are trying to find new investments, while many of their limited partners can't or don't want to put more cash in to the funds right now, which is creating an incentive for them to sell the more attractive investments," he explained. One recent example of this type of transaction is the December 2009 sale of Greensboro, N.C.-based Spectrum Laboratory Network. Spectrum was sold by Apax Partners to Welsh, Carson, Anderson & Stowe for $230 million. Both Apax and Welsh are New York City-based private equity firms.

Private equity firms also remain very interested in making investments in the lab sector, but at the right price, emphasized Ellis. Valuations have dropped dramatically—from 2.72x in 2007 to between 1x and 1.5x in 2008 and between 1.1x to 1.3x in 2009, according to Washington G-2 Reports' estimates (see Figure, p. 7). These valuations are not likely to change in 2010—while they might inch upward a bit in response to the expected increase in demand, they aren't likely to go back to 2007 levels, according to Ellis.

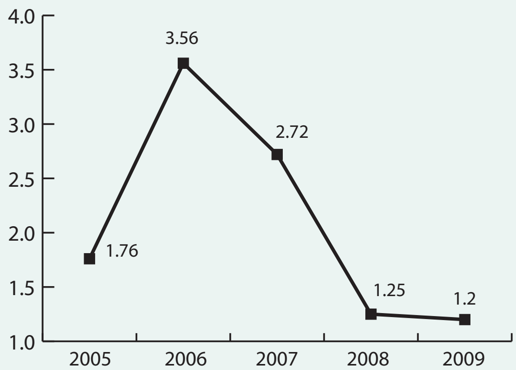
Nevertheless, some labs that want to sell their operations still have high valuations for their operations. "There is still a tremendous amount of private equity firms who wanted to invest in labs last year, but it's tough to bridge the gap when seller valuation and expectation are still relatively high and buyers perceive this as an opportunistic buyer's market," said Ellis. "The reality is that laboratories are not all that capital-intensive; many of them don't have major balance sheet issues or need to sell for some reason. The reasons to sell usually involve the owners wanting to retire or market timing, but there's no market timing right now. It can be a buyer's market, but if no one is willing to sell at a decent valuation, then it's really no one's market."

Outreach Market Continues to Be Attractive

Of course to get a true sense of the M&A landscape—both in 2009 and looking now to 2010—it's important to get a sense of the national labs' strategies. Both Madison, N.J.-based Quest Diagnostics and LabCorp (Burlington, N.C.) made two acquisitions each last year, and each purchased a hospital or health system-affiliated outreach operations.

And we're likely to see continued interest in the hospital outreach sector by both Quest and LabCorp in 2010, explained David Nichols, president of Nichols Management Group (NMG; York Harbor, Maine), a consulting firm that recently worked on behalf of Predictive Biosciences on its acquisition of OncoDiagnostic Laboratory. Their interest in the hospital outreach market—which he estimates comprises about 45 percent of the lab market—is largely because organic growth is becoming increasingly difficult and acquisition prospects in the direct clinical lab and anatomic pathology lab business have dwindled. "We need to ask whether this will be the year that Quest and/or LabCorp launch into allied industries, such as health information and/or point-of-care testing, or will this be the year that they decide to get serious in their attempts to penetrate the sector of the lab market that is served by hospital and health system labs," he explained, adding that the national labs may decide to enter into more collaborative relationships with hospitals, which could eventually turn into an acquisition.

Average Revenue Multiple Paid for Reported M&A Transactions (2005-2009)



"I believe that we will see more of a relationship that will begin as a joint venture, which turns into a joint equity venture, then to a management agreement, and ultimately acquisition. In a $52 billion industry, 45 percent is serviced by hospital labs. That is where the growth is and where the frontier is for the clinical laboratory reference testing market," explained Nichols, who added that LabCorp is particularly well positioned to be active in this market segment.

Despite the current economic challenges, Nichols is optimistic, especially since the industry did experience growth in 2009, despite a 10 percent unemployment rate. Nevertheless, he sees significant challenges for the industry this year, especially with the looming 1.9 percent reduction in the national fee schedule. This means that labs need to keep an eye on cost savings while improving their competitive market position. "Now more than ever, labs need to be low-cost producers who have a differentiated service offering to present to the market," he said.

PathGroup's $100 Million Recapitalization Will Enable Growth Strategy

Now that Brentwood, Tenn.-based PathGroup has raised $100 million through recapitalization, the clinical laboratory and anatomic pathology testing provider is set to embark on an ambitious growth strategy, which includes expanding sales and marketing efforts as well as managed care relationships. In addition, the funding will allow for potential acquisitions of labs in new markets, especially the East Coast, according to PathGroup's CEO, Ben Davis.

The recapitalization, which was under the advisement of Brentwood Capital Investors LLC (Brentwood, Tenn.), also allowed PathGroup's 50 pathologists to become majority owners (75 percent) of the laboratory. "We are a predominantly pathologist-owned, operated, and controlled enterprise, which tends to set us apart when competing for clients," said Davis. "Our pathologists are directly involved in sales efforts, and this ability to establish directly physician relationships allows us to win clients." The remaining 25 percent of the business is owned by Brentwood and Primus Capital Funds (Cleveland).

In addition to the ownership shift, the growth strategy includes expanding the current sales staff of 20 to cover more of the eastern part of the United States. Growth through acquisitions is also under consideration, said Davis. "It makes more sense for us to establish a foothold in a new market by acquiring a business that has state certification, licensure, and managed care contracts that we currently do not have," he explained.

But Davis emphasized that the company will be selective when it comes to acquisition. They are also looking at expanding relationships with hospitals and health systems. Currently, PathGroup has 50 hospital provider service agreements for pathology services. "Our main focus is not on acquisition; we will be looking at it where it adds to our organic growth strategy," he explained. "What we would be looking for is a fold-in type of acquisition within our core market area or an opportunity to add to our menu of services. This is a more efficient way to grow, compared to a slower build-your-own approach, particularly in genetics where intellectual capital is in high demand."

PathGroup At A Glance

Location: Brentwood, Tenn.; core region is the mid-South
Company: Five hundred full-time employees, including 50 pathologists and 20 sales staff; subsidiaries include PathGroup Labs and Associated Pathologists.
Specialties: Expertise in nearly all pathology subspecialties, looking to expand offerings in oncology and infectious disease-related genetic testing.
Growth Projections: "Ten years ago, our goal was to double in size over the next five years, and we grew by 2.5 times, and five years ago, our goal was to double and we grew over 2.5 times. Our goal now is to double our earnings over the next five years," said CEO Ben Davis.

Orchid Cellmark Consolidates Forensics Testing Services at Dallas Location

In order to save an estimated $1.4 million in annual cost savings, Princeton, N.J.-based DNA testing provider Orchid Cellmark will fold its Nashville, Tenn., operations into its Texas facility in Dallas. This is the second consolidation announced by the company within the past year. In October, Orchid announced that paternity testing operations at its East Lansing, Mich., location would be transferred to its Dayton, Ohio, facility. Expected annual cost savings of this consolidation was $1 million.

Siedlick's Focus Now on Growing Billing Venture

After engineering the sale of his company, Sunrise Medical Laboratories (Happauge, N.Y.), to Australia-based Sonic Healthcare in 2007 for $168 million, CEO Larry Siedlick began to plot his next move in the lab industry. He soon realized that there was a role for him in leveraging his experience to target one of the industry's primary vulnerabilities: weak billing operations.

"Going to industry meetings and talking to people from hospital outreach and independent labs as well as pathologists, I realized that one of the things that made Sunrise very successful was the fact that we were able to bill and collect a greater percentage of the money than most of the industry," explained Siedlick. With $72 million in annual revenue and 1.5 million in annual accessions, Sunrise's average days sales outstanding was an impressive 38 days—very low by industry standards.

With that knowledge and experience in mind, Siedlick formed the billing and accounts receivable management company the ARx Group, which officially launched under this name in 2008. As Siedlick is now CEO, the company is his sole focus and is owned and operated independently from Sunrise.

ARx is focused on outreach hospital and independent laboratories, as well as pathology groups whose billing suffers because their billing systems fail to do validation and following up on denied or unbilled claims, and in some cases write off low-dollar claims. This results in loss of significant dollars in revenue for labs. "I don't think we've done an audit yet on an existing book of business where a lab isn't leaving significant money on the table," said Siedlick. "It's typically at least 10 percent of their annual revenue, so if they are collecting $3 million annual, that means $300,000 left on the table every year."

Digital Pathology Association to Focus on Market Adoption, IT Challenges

Since its launch in October 2009, the Digital Pathology Association (DPA) has been focused on achieving market acceptance, as well as information technology (IT) challenges, including the role of this technology in health IT, according to the organization's president, Dirk Soenksen, founder and CEO of Aperio Technologies (Vista, Calif.). The DPA currently has 17 members, also known as sponsors, and is led by a board of directors from seven companies, including Olympus, Sunquest, Omnyx, and BioImagene.

"There is lots of activity in the digital pathology space, but there are some common challenges among all the providers, including how to drive adoption, which really comes through education," he explained. "These challenges are independent of who is making what product." One of the key challenges to growth is in the IT sector, specifically determining the appropriate interface between digital pathology and an electronic medical records (EMR) system.

Soenksen estimates that the digital pathology industry has the potential to bring in $2 billion in annual revenue to companies and services providers but estimates that the industry is still in its early stages and is currently valued at approximately $100 million.

■ **Surgical Pathology**, *from page 1*

and noticeably down from $95.72 in 2005) and cytopathology, selective cellular enhancement technique, with interpretation (88112) came in second at $72.23 (down from $75.03 in 2007 and still below its $80.97 in 2005).

Also following a trend in recent years, the highest-volume laboratory procedure in 2008 was blood count, CBC, automated (Hgb, Hct, RBC, WBC, and platelet count) and automated differential WBC count (85025), with 31.4 million allowed services. This code generated $337.3 million in allowed charges, up 1.3 percent from 2007, and had an average allowed charge per test of $10.74, essentially unchanged from the prior year.

Highest-Volume Lab Tests, 2008

Test	*Average allowed services*	*Allowed charges*	*Average allowed charges*
CBC (85025)	31.4 million	$337.3 million	$10.74
TSH (84443)	13.7 million	$322.2 million	$23.41
Lipid panel (80061)	20.7 million	$298.6 million	$14.39
Comprehensive metabolic panel (80053)	25.5	$295.3	$11.57
Hemoglobin; glycosylated (83036)	11.6	$156.3	$13.52
Prothrombin time (85610)	21.7	$119.0	$5.48
Basic metabolic panel (80048)	9.5	$93.8	$9.83

The best paying high-volume (1 million or more in allowed services) laboratory test in 2008 continues to be TSH (84443), with some 13.7 million allowed services that paid $322.2 million in allowed charges and $23.41 in average allowed charge per procedure. Meantime, high-volume lab tests having the lowest average allowed charge per procedure were Albumin, serum (82040) at $2.17 and Bilirubin, direct (82248) at $2.16. In addition to the CBC and TSH, the five other laboratory tests that generated the highest volume in annual Medicare-allowed charges in 2008 include lipid panel (80061) and comprehensive metabolic panel (80053) (*see Table*).

Over 40% of Office-Based Physicians Used EHRs in 2009

Preliminary estimates from a mail survey conducted by the Centers for Disease Control and Prevention (CDC) indicate that 43.9 percent of physicians reported using all or partial electronic health record (EHR) or electronic medical record (EMR) systems in their office-based practices. This figure is up from 41.3 percent in 2008 and 34.8 percent in 2007 (see Figure; note: the CDC did not collect data on some features of computerized systems prior to 2006; the trends for basic and fully functional systems start in 2006). These results are part of the National Ambulatory Medical Care Survey (NAMCS), conducted by the CDC's National Center for Health Statistics (NCHS).

About 20.5 percent reported having systems that met the criteria of a basic system, and 6.3 percent reported that of a fully functional system. "These data indicate that physicians have been increasingly adopting EMR/EHR systems," stated a report detailing these preliminary results. "From 2007 to 2008, physicians' use of any EMR system increased by 18.7 percent. Within the same period, the percentage of physicians reporting having systems that met the criteria of a basic system increased by 41.5 percent."

Lab Index Has Rough Time in Early 2010; Down 4% Last Five Weeks

After a strong finish at the end of 2009, the 13 publicly traded labs tracked by G-2 Reports' Laboratory Stock Index have had a bit of a slow start in 2010. Over the past five weeks, the index is down 4 percent, and down 8 percent over the past 13 weeks for the week ended Jan. 22, 2010. The Nasdaq and S&P 500 is also down slightly at the beginning of the year. The S&P is down 3.6 percent, while the Nasdaq is down 4.5 percent.

Leading the gainers over the past four weeks for the week ended Jan. 22 is **Psychemedics** (Acton, Mass.), which is up 28 percent to $8.01 for a market cap of $40.85 million.

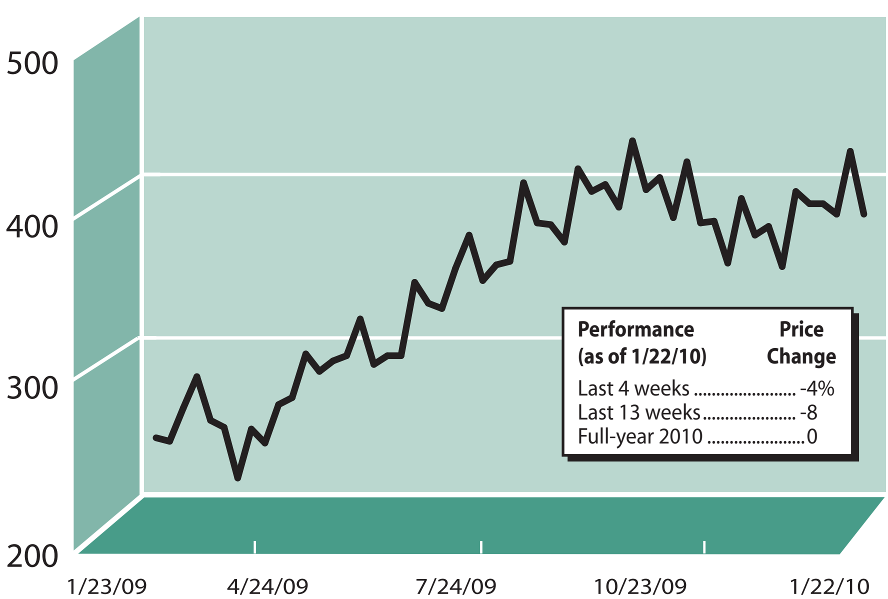
Following is **Genzyme** (Cambridge, Mass.), up 12 percent to $54.38 per share for a market cap of $14.42 billion. Rounding out this group is **Orchid Cellmark** (Princeton, N.J.), up 8 percent to $1.69 per share for a market cap of $50.34 million.

The list of top three lab posting losses over the past four weeks for the week ended Jan. 22 is lead by **Genomic Health** (Redwood City, Calif.), down 19 percent to $16.97 per share for a market cap of $471.78 million.

Following is a tie. **Enzo Biochem** (New York City) is down 13 percent to $5.09 per share for a market cap of $192.32 million. **Myriad Genetics** (Salt Lake City) is also down 13 percent to $22.79 per share for a market cap of $2.15 billion. Rounding out this group is **Genoptix** (San Diego), which is down 12 percent to $33.56 per share for a market cap of $557.49 million.

For up-to-the-minute laboratory and diagnostic firm data, financial news and company podcasts—go to **www.g2reports.com**

G-2 Laboratory Stock Index



Source: The G-2 Laboratory Stock Index is tabulated weekly by *Laboratory Industry Report* from the average percentage change in the price of 13 laboratory testing service stocks.

Top Gains and Losses Over Past Four Weeks Percent price change, week ended 1/22/10

	Percent Change	*Price*
UP		
Psychemedics	28%	$8.01
Genzyme	12	54.38
Orchid	8	1.69
DOWN		
Genomic Health	19	16.97
Myriad Genetics	13	5.09
Enzo	13	22.79
Genoptix	12	33.56

INDUSTRY *buzz*

AHA Backs Revival of $750 Million Lab Tax

The American Hospital Association has called for reviving the $750 million lab tax or annual tax to replace the 1.75 percent reductions in the Medicare lab fee schedule contained in the Senate health care reform bill. However, industry sources tell G-2 Reports that in checking around on Capitol Hill, they get no sign the idea has traction and doubt that legislators would reverse course to resurrect a notion they previously rejected.

In their letter detailing the recommendation to House speaker Nancy Pelosi and Senate majority leader Harry Reid, the AHA said that the Medicare cuts would penalize hospital-based labs more than the new fee would.

The lab tax was a $750 million nondeductible annual fee on all clinical lab testing providers allocated by market share (except testing for hospital inpatients and labs with revenues under $500,000), which was in the original Senate Finance Committee reform bill but dropped after drawing swift fire from the clinical lab industry. In its place, however, the update to the lab fee schedule is reduced 1.75 percent from 2011 to 2015, on top of a cut in the update to account for productivity gains.

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American Hospital Association 202-638-1100
The ARx Group 800-581-4943
Aurora Diagnostics 866-420-5512
Avondale Partners 615-467-3500
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Digital Pathology Association 760-539-1162
Enzo Biochem 212-583-0100
Genoptix 760-268-6200
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PathGroup 615-221-4500
Predictive Biosciences 781-402-1780
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