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G2 INTELLIGENCE

LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

Quest Agrees to Settle Medi-Cal Lawsuit for $241 Million

Quest Diagnostics (Madison, N.J.) said May 9 that it has agreed in principle to settle a lawsuit brought by a competitor alleging the company overcharged Medi-Cal for testing services. The lawsuit, in which the state of California intervened, alleged that the company did not comply with California's "comparable charge" regulations, resulting in overpayment by California's Medicaid program (Medi-Cal).

The company has agreed to pay $241 million to resolve the comparable charge allegations. It also has agreed to reporting obligations regarding its pricing for a limited time and, in lieu of such obligations for a transitional period, to provide Medi-Cal with a discount until the end of July 2012. The company will also be provided with a full release of all the claims alleged in the lawsuit, according to Quest officials.

The agreement in principle is subject to certain approvals by the state of California and final approval by the company's board of directors. "In the event that a settlement is not finalized, the company will continue to vigorously defend itself in the pending litigation and could incur significant costs in doing so," says Quest in a statement.

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LabCorp Results Exceed Expectations; Volume Recovery Continues

LabCorp (Burlington, N.C.) reported strong results for the first quarter, ended March 31, 2011, driven both by the acquisition of Genzyme Genetics and volume growth of almost 6 percent. The improvements in volume, which began in the fourth quarter of 2010 and continued in the first quarter of this year, could bode well for the space as a whole, say analysts.

Revenues for the quarter were $1.37 billion, an increase of 14.6 percent over the first quarter of 2010. Testing volume, measured by requisitions, increased 5.9 percent, and revenue per requisition increased 8.2 percent. Genzyme Genetics accounted for about 15 percent to 20 percent of the increase. Esoteric volumes increased 11 percent, double the 5.5 percent increase in the fourth quarter of 2010. The company's drugs-of-abuse testing increased 14 percent, up from 12 percent in the fourth quarter.

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■ **Quest Agrees to Settle Medi-Cal Lawsuit**, *from page 1*

Charges are still pending against LabCorp, Health Line Laboratory (Burbank, Calif.), Physicians Immunodiagnostic Laboratory (Burbank, Calif.), Whitefield Medical Laboratory (Pomona, Calif.), and Seacliff (Monterey Park, Calif.). The trial for LabCorp is set to begin Sept. 6, 2011.

Former California Attorney General Edmund Brown Jr. announced in March 2009 that his office had joined a whistleblower lawsuit filed against the seven labs by Chris Riedel, the CEO of Hunter Laboratories (Campbell, Calif.). The lawsuit alleged that the labs charged the state Medicaid program up to six times more for tests compared to other clients over the past 15 years. In exchange for these steep discounts, the defendants expected their customers to refer all of their other patients to the labs, Brown alleged. Under California law, this amounted to providing an illegal kickback.

Quest at a Glance ($MM)

	First Quarter		Change
	2011	2010	
Revenues	$1,822	$1,806	+1%
Gross profit	792	787	+1
Net income	148	171	-15

Source: Quest Diagnostics

Charge Reflected in First-Quarter Results

As a result of the agreement in principle, Quest Diagnostics has recorded a pretax charge of $236 million, $195 million after tax, or $1.19 per share. Due to the timing of the agreement, this charge is reflected in first-quarter 2011 result and, accordingly, updates results previously disclosed on April 20, 2011.

First-quarter 2011 adjusted income from continuing operations is $164 million, or $1 per diluted share. Adjusted results exclude the Medi-Cal charge, the estimated impact of severe weather, charges for workforce reduction, and costs associated with the Athena and Celera transactions. The Medi-Cal charge reduced previous reported income from continuing operations by $195 million or $1.19 per share, resulting in a loss of $53 million, or 33 cents per diluted share. Income from continuing operations was previously reported as $141 million or 86 cents per diluted share.

Adjusted operating income is $301 million, or 16.3 percent of revenues, for the first quarter of 2011. The Medi-Cal charge reduces previously reported operating income by $236 million and operating income as a percentage of revenues by 13 percent, to $31 million, or 1.7 percent, respectively. Operating income for the first quarter was previously reported as $267 million, or 14.7 percent of revenues.

Outlook for 2011

Quest has updated its guidance from continuing operations to reflect the impact of the Medi-Cal charge. For the full year 2011, the company now expects results from continuing operations as follows:

- ❏ Revenue to grow approximately 2 percent, unchanged from previous guidance;
- ❏ Earnings per diluted share to remain between $4.25 and $4.45 on an adjusted basis and to be between $2.92 and $3.12 on a reported basis;
- ❏ Operating income as a percentage of revenues to remain between 17.5 per-

cent and 18 percent on an adjusted basis and to be between 14 percent and 14.5 percent on a reported basis; and

- ❑ Cash from operations of approximately $900 million, compared to previous guidance of approximately $1.1 billion, after reflecting the anticipated after-tax impact of the Medi-Cal charge.

Myriad Acquisition Adds Valuable Protein Biomarker Discovery Platform

Myriad Genetics' (Salt Lake City) pending acquisition of Rules Based Medicine (RBM, Austin, Texas) for $80 million is expected to give the company access to a strong protein biomarker discovery platform and the ability to leverage RBM's exisiting pharmacy/biotech industry relationships.

"The market opportunity for this test could be meaningful given there are 1.6 million patients who present with psychotic symptoms in the United States annually, and there is a desire among the physician community for a blood-based diagnostic test to aid in the identification of mental disorders."
– Amanda Murphy

The acquisition also brings a pipeline of eight molecular diagnostic tests in various phases of development—focused on infectious disease, inflammatory disease, and mental health, according to William Blair & Co., an equity research firm based in Chicago. For example, RBM is in the processes of commercializing its VeriPsych test, which is the first blood-based test to diagnose schizophrenia and is based on 51 biomarkers identified by studying 445 patients.

"The market opportunity for this test could be meaningful given there are 1.6 million patients who present with psychotic symptoms in the United States annually, and there is a desire among the physician community for a blood-based diagnostic test to aid in the identification of mental disorders," writes analyst Amanda Murphy. "We believe the majority of RBM's revenue is generated by its pharma drug discovery support (versus its diagnostic platform); thus, we view the diagnostic pipeline as providing option value for Myriad."

Myriad plans to buy RBM for $80 million in cash. RBM generated $25 million in revenue in 2010, implying a multiple of just over 3.2x, in line with previous acquisitions of labs with proprietary test services. Given that Myriad intends to operate RBM as a separate entity, Blair expects the deal to be slightly dilutive in the first year (by 1 cent to 2 cents) and slightly accretive in the second year (by a few pennies).

RBM spun off from Luminex in 2002 and is focused on providing protein biomarker discovery platforms (based on Luminex's xMap technology) to pharma throughout the clinical trials process and commercializing related diagnostics via its CLIA-certified lab.

Third-Quarter Results Better Than Expected

In separate news, the company May 3 reported better-than-expected fiscal third-quarter results. Revenue of $102 million exceeded analysts' consensus target of

$98 million. Earning per share (EPS) of 31 cents were 6 cents per share better than estimates, driven by strength in BRACAnalysis revenue (particularly in oncology), strong margin performance, as well as a lower tax rate and share buybacks.

Management has raised guidance to reflect the recently announced acquisition of RBM, which adds $2 million in revenue per month. Revenue is now expected to be $396 million to $402 million (prior guidance was $380 million to $400 million), and EPS are expected to be $1.06 to $1.09 (prior guidance was 95 cents to $1).

Myriad's oncology revenue in the third quarter increased 13.5 percent year-over-year to $73 million, and women's health revenue rose 11 percent to $29.3 million. Revenue from the BRACAnalysis product was $90.3 million, compared to $79.8 million in the same period last year. Revenue from COLARIS and COLARIS AP products grew 7 percent to $7.4 million. Myriad's remaining six products contributed $4.7 million to third-quarter revenue, an increase of 14 percent over the same period last year.

International Opportunities

Myriad has completed its analysis of the European market and, after evaluating 150 potential acquisition/distributor relationships, has decided to build its own reference lab located in Munich and develop its own direct sales force, according to Blair. The investment is expected to cost $5 million in 2012.

Myriad continues to focus on Germany, France, Spain, Italy, and Switzerland, where the number of tests performed in the five countries is roughly one-third that of the United States, even though from a population perspective, the two regions are similar. These countries were selected based on favorable reimbursement and physician usage patterns.

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Although Myriad has five granted patents in Europe, the company has opted to compete on turnaround time and its proprietary database of genetic variants. Myriad's turnaround time would be less than two weeks versus current turnaround times of six to nine months in Germany, nine to 12 months in France, and 12 months in the United Kingdom. In terms of its proprietary database of genetic variants, Myriad's variant of unknown significant rate is 2 percent to 3 percent, versus 20 percent to 40 percent in the countries discussed.

Genetic predisposition tests are reimbursed in these countries, but there appears to be general dissatisfaction with long turnaround times, which precludes BRAC results from being incorporated into surgical decisionmaking as they are in the United States.

The BRCA testing market is fairly fragmented outside the United States, and Myriad's analysis suggests a relatively high cost base for labs performing the test currently (in the range of 1,500 euros to 2,500 euros). Thus, in addition to trying to secure private payer coverage, Myriad is also focused on attempting to secure outsourced test volume form large testing networks such as the BRAC network in Germany.

Inside The Lab Industry

Strong Growth in Esoteric Testing Helping Drive Industry Consolidation

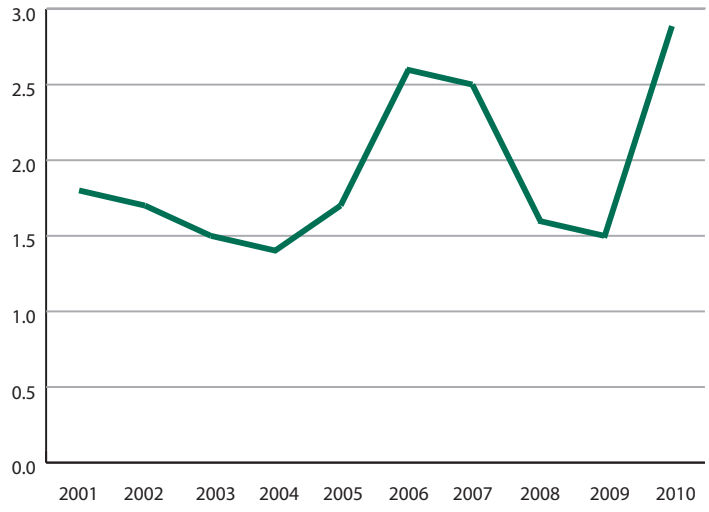
Esoteric testing continues to be the fastest-growing segment of laboratory testing, with an average annual growth rate of almost 20 percent between 2006 and 2010, according to G2 Intelligence. This growth, and the associated revenues, is one of the key factors driving consolidation in the laboratory industry.

Labs specializing in esoteric testing—defined as tests that are too high in complexity and too low in volume to be regularly performed by a hospital or routine independent lab—have in recent years been targets of interest for mergers and acquisitions, partly because it's a strong area of test volume growth, and partly because esoteric tests tend to be more highly reimbursed than routine tests.

Notable 2010 deals include the acquisition of Genzyme Genetics by LabCorp for $925 million, GE Healthcare's acquisition of Clarient Inc. for $587 million, and Sonic Healthcare's $124 million acquisition of CBL Path. According to Haverford Health Advisors, 2010 was the most active year for M&A transactions in the lab space in the past decade, driven by an ongoing economic recovery, interest by new or re-entrants to the lab market (such as pharma), and concerns about future reimbursement and the impact of health care reform.

Lab valuations are at their highest level in a decade and will likely remain high given the fragmented nature of the market (relatively few labs that have greater than $25 million in revenue), positive underlying fundamentals (labs poised to benefit from reform, personalized medicine, demographics), and an increased number of significant buyers, concludes Haverford.

Clinical/Specialty Labs Valuation Multiples



Source: Haverford Advisors

The increase in valuations has been driven by a few large transactions of highly proprietary or larger laboratories (e.g., greater than $50 million). However, valuations in the anatomic pathology space have been negatively affected by the onslaught of insourcing of lab testing by physicians. In addition, there is a clear focus on specialty labs—these deals have outnumbered routine transactions by 18 to 11 in the past four quarters.

The acquisition trend is going strong in 2011, with a number

of significant deals in just the first half of the year, including the acquisition of Genoptix by Swiss pharmaceutical giant Novartis for $470 million, Quest Diagnostics' acquisitions of Athena Diagnostics for $740 million and Celera Corp. for $671 million, and LabCorp's recently announced planned acquisition of Orchid Cellmark for $85.4 million.

25 Most Frequent Test Referrals

Test Name	% Cited As Top 4 Send-Outs
Vitamin D	15.2%
Chlamydia/GC DNA Probe	6.5%
Antinuclear Antibody (ANA)	5.5%
AFP/Quad	3.7%
HIV	3.7%
Methyl Malonic Acid	2.3%
Cystic Fibrosis	2.3%
Lead	2.3%
Hepatitis ABC Panel	2.3%
Varicella Zoster Virus	1.8%
Folate	1.4%
Vitamin B12	1.4%
BCR-ABL	1.4%
Chromosome Analysis	1.4%
Flow Cytometry	1.4%
Hepatitis B	1.4%
Drug Screen	1.4%
Testosterone	1.4%
Thrombin/Antithrombin	1.4%
PTH Intact	1.0%
Hepatitis A	1.0%
C-Reactive Protein (CRP)	1.0%
Human Papilloma Virus (HPV)	1.0%
Epstein-Barr Virus (EBV)	1.0%
Cytomegalovirus (CMV)	1.0%

Source: G2 Intelligence U.S. Laboratory Reference Testing: Market Profile & Pricing Trends 2010

Esoteric Testing Trends

G2 Intelligence estimates that in 2010 the esoteric testing market was worth about $14.3 billion, or about 23.1 percent of the overall lab market, up from $11 billion (20 percent) of the market in 2008. Esoteric testing shows the greatest growth of all laboratory market segments, rising 104.3 percent between 2006 and 2010.

Esoteric testing largely remains the purview of specialty testing companies or large reference testing laboratories. The vast majority of clinical laboratories continue to offer routine tests and send out their specialized testing to reference labs, such as Quest, LabCorp, ARUP, and Mayo. Among labs responding to G2 Intelligence's *U.S. Laboratory Reference Testing: Market Profile and Pricing Trends 2010*, 39.5 percent offer a test menu with 100 to 400 different tests while 26.3 percent offer fewer than 100 tests.

In contrast, the major reference laboratories have test menus of several thousand tests each. For example, both Quest and LabCorp maintain test menus exceeding 4,000 tests.

Of those who responded to the survey, 78.2 percent reported that they were actively seeking to broaden their esoteric test menus and, as a result, reduce send-out tests to reference laboratories. The biggest barrier to expanding esoteric testing, according to 38.5 percent of respondents, was that "low volume did not justify bring testing in-house."

Vitamin D is the most frequently referred test among survey participants, cited by 15.2 percent. Chlaymydia/gonorrhea was second, followed by anti-nuclear antibody tests (ANA). Also frequently referred are AFP/Quad prenatal tests, HIV viral load, Methyl malonic acid (MMA), cystic fibrosis, lead, and hepatitis ABC panel (*see table*).

Revenue Growth at Eight Esoteric Testing Laboratories, 2005-2010 ($MM)							
Company	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**5-Year CAGR**
ARUP	$285.0	$264.0	$249.0	$240.0	$235.0	$230.0	4.4%
Genzyme*	370.0	371.0	321.2	285.4	241.6	222.3	10.7%
Prometheus+	80.6	84.2	82.1	77.3	68.2	55.0	7.9%
Myriad Genetics	362.6	326.5	222.9	145.3	100.6	71.3	38.4%
Bio-Reference	419.4	362.7	301.1	250.4	193.1	163.9	20.7%
Genoptix*	196.7	184.4	116.2	59.3	24.0	5.2	106.8%
Genomic Health	169.3	149.5	100.6	64.0	29.2	5.2	100.7%
NeoGenomics	33.8	29.5	20.0	11.5	6.5	2.9	63.4%
Totals	$1,917.4	$1,771.8	$1,413.1	$1,133.2	$898.2	$755.8	20.5%
*Genzyme Genetics was acquired by LabCorp in December 2010. Revenues are estimated for the full year. Genoptix was acquired by Novartis in February 2011.							
+Revenue numbers refer to Prometheus Labs' estimated diagnostic revenues							
Source: G2 Intelligence from companies							

A comparison of market shares held by the national reference laboratories from G2 surveys conducted in 2002, 2004, 2006, and 2009 suggests that market shares of Quest Diagnostics, ARUP Laboratories, and Specialty Labs are largely stable. The market shares of Mayo Labs and "other" labs appears to be rising, while LabCorp's market share appears to be declining slightly. In 2009, 26 percent of survey respondents who use reference labs said they used Quest, 24 percent used "other," 19 percent used ARUP Laboratories, 16 percent used Mayo Medical Labs, 11 percent used LabCorp, and 4 percent used Specialty Labs.

Laboratories whose primary focus is esoteric testing have shown significant growth in the last decade, with an average growth rate of 20.5 percent. Genoptix, which was acquired by Novartis in February of this year, posted the biggest gains, with a five-year cumulative annual growth rate of 106.8 percent.

In the G2 Intelligence *U.S. Laboratory Reference Testing: Market Profile and Pricing Trends 2010*, 26.9 percent of respondents cited ARUP as the esoteric testing laboratory that offers the best value (i.e., service plus price). Next was Quest Diagnostics, cited by 25.4 percent of survey respondents. "Other" labs were cited by 20.9 percent of respondents; Mayo was cited by 14.9 percent; and LabCorp by 10.4 percent.

Laboratories whose primary focus is esoteric testing have shown significant growth in the last decade, with an average growth rate of 20.5 percent. Genoptix, which was acquired by Novartis in February of this year, posted the biggest gains, with a five-year cumulative annual growth rate (CAGR) of 106.8 percent, followed by Genomic Health at 100.7 percent. The eight largest esoteric-testing labs (excluding Quest and LabCorp) generated combined revenue of $1.9 billion in 2010.

■ **LabCorp Results Exceed Expectations**, *from page 1*

LabCorp's net earnings were $127.1 million compared to $132.7 million in the first quarter of 2010. Earnings per diluted share (EPS) were $1.23 compared to $1.25 in 2010, while adjusted EPS were $1.52 and $1.40, respectively. The adjusted EPS for the first quarter exceeded most analyst's expectations by about 6 cents.

Operating income for the first quarter was $235.8 million, compared to $234.2 million in the first quarter of 2010. Adjusted operating income was $263.7 million, an increase of 8.3 percent over the same quarter the previous year.

LabCorp at a Glance ($MM)

	First Quarter		Change
	2011	2010	
Total net revenue	1,368.4	1,193.6	14.6%
Gross profit	568.4	506.9	12.1
Net income	127.1	132.7	-4.4

Source: LabCorp

Operating cash flow for the quarter was $215.3 million. The balance of cash at the end of the quarter was $195.4 million, and there was $40 million outstanding under the company's $500 million revolving credit facility. During the quarter, the company repurchased approximately $265 million of stock, representing about 2.9 million shares. As of March 31, 2011, about $469 million of repurchase authorization remained under the company's approved share repurchase plan. LabCorp recorded restructuring and other special charges of $27.9 million during the first quarter of 2011. The charges included $4 million in severance and other personnel costs, along with $9.8 million in facility-related costs associated with the integration of Genzyme Genetics.

Outlook for 2011

LabCorp is reaffirming its 2011 revenue guidance, expecting revenue growth of about 9.5 percent to 11.5 percent. The company has also raised its 2011 adjusted EPS to a range of $6.17 to $6.32, excluding the impact of any share repurchase activity after March 31. Analysts are projecting 2011 adjusted EPS of $6.35 to $6.37 and 2012 adjusted EPS of $7.12 to $7.27. LabCorp is also reaffirming its 2011 operating cash flow guidance of approximately $900 million and capital expenditures in the range of $140 million to $150 million.

Genomic Health Reports Strong Revenues Driven by Volume Growth

Genomic Health (Redwood City, Calif.) reported revenues of $50 million for the first quarter of 2011, a 21 percent increase of revenues of $41.2 million in the same quarter of 2010. Product revenue was $49.5 million for the quarter, an increase of 23 percent compared to the first quarter of last year.

Net loss was $0.3 million, an improvement of $1.6 million compared with a net loss of $1.9 million in the first quarter of 2010. Basic and diluted net loss per share was 1 cent in the first quarter of 2011, compared with 7 cents in the same period last year. EPS missed analysts' targets slightly, driven primarily by increased spending on research and development.

During the quarter, more than 16,230 Oncotype DX tests were delivered, an increase of 22 percent compared to the first quarter of 2010. Volume strength was driven in part by growth internationally, which was up 50 percent and made up 8 percent of revenue.

Management is maintaining its previously announced guidance of $200 million to $210 million in revenue, with net income of $3 million to $5 million. The company expects to deliver 63,000 to 66,000 Onctotype DX tests.

Genomic Health at a Glance
(in thousands)

	First Quarter		Change
	2011	2010	
Total revenues	$49,810	$41,229	+21%
Net loss	-286	-1,932	-85%

Source: Genomic Health

According to equity research firm William Blair Inc. (Chicago), the international market represents a viable mechanism to offset potential revenue growth deceleration in the node-negative market as it becomes more saturated. The company has increased covered lives outside of the United States to more than 42 million through reimbursement arrangements now including payers and institutions in Canada, Germany, Greece, Ireland, Israel, Mexico, Spain, Venezuela, and the United Kingdom.

In addition, AOK Rheinland/Hamburg, a national health insurance provider in Germany, announced it will reimburse Oncotype DX as part of a treatment study being conducted by the West German Study Group. The company also has initiated a decision impact study of Oncotype DX in Australia, launched a Spanish language version of the Oncotype DX breast cancer Web site, and established a distribution agreement to provide the Oncotype DX breast and colon cancer tests in South Africa, Botswana, Namibia, and Kenya.

Colon Cancer Test

Although Oncotype DX for colon cancer is still in the early phases of adoption, the launch seems to be progressing well, note analysts. The test has added modestly to growth, with roughly two-thirds of physicians ordering the colon test existing customers of Genomic Health.

While the company did not add new payer coverage for colon cancer during the quarter, it did secure contracts with Kaiser and Group Health Cooperative in the United States and Clalit in Israel (covering 65 percent of the population). Management believes additional data from ongoing studies will be key for the acceleration of payer acceptance in both the United States and worldwide, which represents 50 percent of the potential patient base for the colon cancer test.

According to Blair, the addition of chemotherapy benefits is critical to the widespread adoption of the colon cancer test (as was the case for breast). The company has secured a larger number of tumor samples from two clinical trials, expects to start a validation study next year, and is targeting commercial launch of an assay that provides both recurrence and predictive power (oxaliplatin sensitivity) information by 2013. This indication would also expand the addressable market to Phase III patients (the test currently applies only to Phase II patients).

"We believe the colon test could start ramping up in 2012, driven by the publication of QUASAR validation data and potential reimbursement coverage by [the Centers for Medicare and Medicaid Services]," writes Amanda Murphy, an analyst with Blair. "We believe the addition of chemotherapy predictive power is key to widespread adoption of Oncotype DX in colon, however."

Pathology Group Required to Arbitrate Dispute With Aetna

A pathology group affiliated with a university faculty practice is required to arbitrate a billing dispute with a health insurer, a federal trial court ruled May 4 (*OSU Pathology Services LLC v. Aetna Health Inc.*).

The U.S. District Court for the Southern District of Ohio ruled that OSU Pathology Services LLC was bound by an arbitration provision contained in a 2005 participating provider agreement between Ohio State University Physicians Inc. (OSU Physicians) and Aetna Health Inc. Even though OSU Pathology was not a signatory to the agreement, as a named participating provider and as a subsidiary of OSU Physicians it was bound by the provision, the court ruled. The court also found that the terms of the provision applied even though a similar contract that went into effect in September 2010 did not contain an arbitration provision.

The decision means that Aetna is allowed to pursue through arbitration its claim for breach of contract and fraudulent billing of services related to more than 165,000 claims submitted by an OSU Pathology subsidiary—OSU Path Component LLC—on which Aetna allegedly paid more than $1 million.

Underlying Dispute

According to the court, the reimbursement dispute involves claims by OSU Path Component submitted between June 17, 2009, and Aug. 31, 2010, for reimbursement for certain charges for services rendered by OSU Pathology's physicians. The charges—known as "Modifier 26" charges—attach to certain pathology services and are recoverable by out-of-network providers of pathology services.

OSU physicians members, as in-network providers under the 2005 agreement, were not able to seek reimbursement for such charges. Although the services to Aetna's insured beneficiaries were provided by OSU Pathology's physicians, because the claims were submitted electronically by OSU Path Component under its identification number, Aetna paid the claims as if they were submitted by an out-of-network provider.

After Aetna became aware of the situation, it filed its fraudulent billing and breach of contract claims with the American Arbitration Association (AAA) in December 2010. OSU Pathology responded by filing a lawsuit in federal court seeking an injunction to block the AAA action based on its contention that the arbitration provision did not survive the termination of the 2005 agreement in August 2010.

Aetna countered with a motion for summary judgment based on its claim that the arbitration provision continued to apply to all claims arising under the prior agreement. The court agreed that while it was a "close call," the insurer, based on the cases it reviewed, had the better argument. The court concluded that because it was not absolutely certain that the termination of the 2005 agreement terminated the agreement to arbitrate, it was required to enforce the arbitration agreement with respect to claims that arose under the 2005 agreement.

Lab Index Holding Steady; Myriad Posts Large Gains

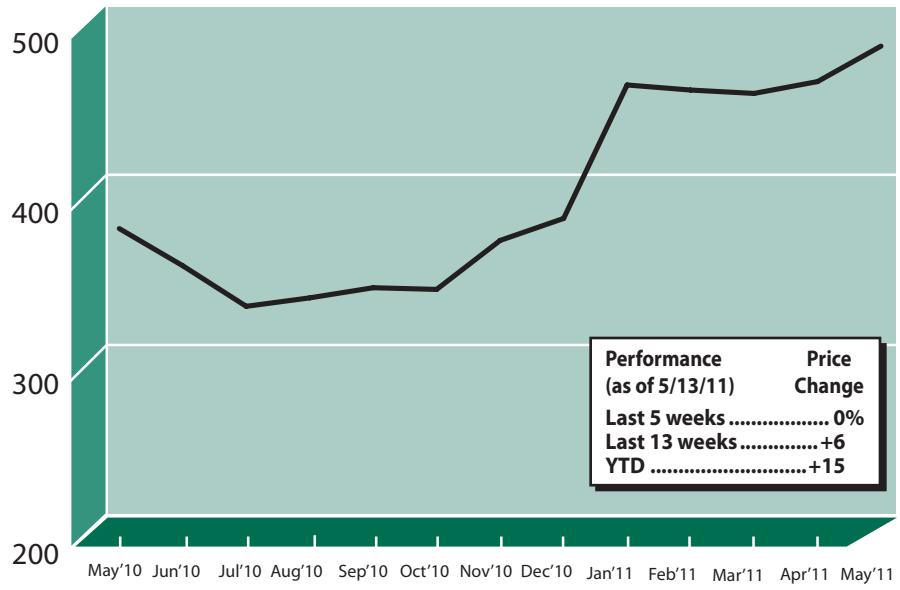
The G2 Intelligence Laboratory Stock Index showed virtually no change in the five weeks ended May 13, 2011, with nine stocks gaining in price and one declining. Since the beginning of the year, the index is up 15 percent. In comparison, the Nasdaq composite is up about 7 percent, and the S&P 500 is up about 6 percent.

Shares of **Myriad Genetics** (Salt Lake City) climbed 19 percent to $24.19. Myriad announced recently that it is acquiring Rules Based Medicine (Austin, Texas) for $80 million, giving it access to a strong protein biomarker discovery platform. The company also reported stronger-than-expected fiscal third-quarter results (*see related story on p. 3*).

Genomic Health (Redwood City, Calif.) shares rose 2 percent to $26.80 after the company reported a 21 percent increase in revenues for the first quarter of 2011. Net loss was $0.3 million, an improvement of $1.6 million compared to the same period last year (*see related story on p. 8*).

Shares of **Psychemedics** (Acton, Mass.) gained slightly, climbing 1 percent to $10.89. Company officials reported revenues of $6 million for the first quarter, ended March 31, 2011, an increase of 34 percent over revenues for the same quarter in 2010. Net income for the quarter was $858,000, or 16 cents per diluted share, versus $506,000, or 10 cents per diluted share, for the comparable period last year, an increase of 60 percent. Revenue was the highest of any first quarter in the company's history, according to Raymond Kubacki, chairman and chief executive officer. He attributed the increase both to new business as well as increased volumes from existing customers.

G2 Laboratory Stock Index



Source: The G2 Laboratory Stock Index is tabulated weekly by Laboratory Industry Report *from the average percentage change of 10 laboratory testing service stocks.*

Percent Price Change, Five weeks ended 5/13/2011

	Price	Percent Change
UP		
Bio-Reference	$25.21	+10
Enzo Biochem	3.99	+6
Genomic Health	26.80	+2
LabCorp	99.73	+7
Medtox	16.51	+3
Myriad Genetics	24.19	+19
Psychemedics	10.89	+1
Orchid Cellmark	2.79	+1
Neogenomics	1.48	+2
DOWN		
Quest	57.40	-1

INDUSTRY BUZZ

Biggest Lab Companies Not Worried About Molecular Pathology Coding Changes

Despite the fact that the American Medical Association (AMA) is close to finalizing the most significant change to pathology coding since 1991, when surgical pathology codes were revised, the two largest national laboratory companies say they don't expect reimbursement levels to change significantly.

The AMA in March released two sets of new CPT codes covering more than 90 percent of current molecular pathology procedures, along with a framework to add new ones. Comments were due April 15, and the AMA plans to publish the final codes as part of the CPT 2012 code set. The Centers for Medicare and Medicaid Services (CMS) will then review the codes and determine reimbursement levels under Medicare.

The new codes will largely replace the current system that uses "stacking codes" (83890-83914). Management of both Quest (Madison, N.J.) and LabCorp (Burlington, N.C.) have said recently that they don't believe the changes represent a risk to their companies' revenues. Although CMS is not expected to release proposed rates for the new codes until the fall, management is not expecting that reimbursement levels will change significantly.

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Bio-Reference 201-791-3600
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Celera 510-749-4200
Clarient 888-443-3310
GE Healthcare 800-682-5327
Genomic Health 650-556-9300
Genoptix 760-268-6200
Genzyme Genetics 617-252-7500
Haverford Health Advisors 610-407-4028
LabCorp 336-436-5274
Mayo Medical Laboratories 507-284-2511
Myriad Genetics 801-584-3600
Neogenomics 239-768-0600
Novartis +41 61 324 80 01
Orchid Cellmark 800-362-8378
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