



OVERVIEW

With the implementation of government reform looming over the healthcare industry and laboratory testing in particular, major questions have surfaced regarding the future of both the public and private laboratory community. With an estimated one trillion dollar healthcare reform budget, providers are trying to determine how their business will be affected, what will be expected of them to adhere to the changes that are made and what the role of government will be in regards to reimbursement decisions.

Attention has also been focused on the expanding role of Health Information Technology (HIT), and the use of Electronic Health Records (EHRs). Investment attention has already been paid to improving healthcare information technology platforms from the Obama administration, with \$19.2 billion being allocated through the American Recovery and Reinvestment Act of 2009. While the benefits of this online accessibility are great, problems have already begun to arise regarding information usage and consistency.

(HIT) AND THE ECONOMIC STIMULUS BILL

Through the nearly \$20 billion dollars that are being allocated to health information technology, incentive plans are being put in place to try and drive change and promote cooperation. In an effort to promote timely adoption of the Health Information Technology infrastructure, it is estimated that independent pathologists could receive over \$40 thousand in incentive payments over the next five years by implementing a certified HIT system.

Roadblocks to implementation and industry growth concerns have increased as independent labs struggle to come up with the necessary capital to invest in IT systems in this economic climate. It is also estimated that a meager 4% of physicians utilize a EHR system that is connected to a Laboratory Information System (LIS). There are also issues with the systems themselves concerning interoperability and the exchange of data and patient information.

Along with the challenges of re-working the face of information technology (IT) in the laboratory industry come the benefits of it as well, which in the long run will greatly outweigh the initial problems. IT has been increasingly used for innovative research, improvement of patient care, streamlining of operations, and maximization of efficiency. Laboratory research goes hand in hand with the current administration's heavy focus on prevention and wellness, as well as targeted therapy and personalized medicine. With the current stimulus bill directed at increasing efficiencies and promoting growth, organizations have been forced to focus on cost-savings to help pay for IT integration and implementation as the industry moves into the future.

INDUSTRY REIMBURSEMENT

With industry growth expected to continue through 2009 at a much slower pace than the average historic yearly growth rate (2-3 percent), government reimbursements continue to be at the forefront of discussions for testing facilities, as it is one of the more reliable sources of revenue. With a troubled economy and rising unemployment, labs are experiencing an increased number of patients that are uninsured and thus using self-pay as a means for treatment. With non-reimbursed care comes inherent liability and usually an increase in days sales outstanding (DSO). To preemptively combat this problem, organizations nationwide are undergoing efficiency tests and refining business operations as much as possible. According to a survey performed by Laboratory Industry Reports of more than 100 laboratories, 59.8% of respondents noted reductions in human resource-related fields to cut back on non-essential costs. The graph below highlights other areas in which costs are being proactively cut.

Reduced travel, training and other HR costs	59.8%
Reduced/held off on equipment and supply purchases	53.3%
Held the line on salary increases	41.8%
Reduced staffing	38.5%
Changed pricing	17.2%
Changed test mix	13.1%
Other	22.1%

Source: G2 Reports' March Survey on Lab Trends: The Effects of Recession on Test Volume

Month	Acquirer	Company Acquired	Details
May 2009	Management Buyout	Parkway Clinical Laboratories	Rosetta Genomics has sold the Parkway Clinical Laboratories portion of its business in a management buyout for \$2.5 million despite having purchased the company just one year ago for \$2.9 million. Rosetta's continued focus will be paid to its core operations, and Parkway's expertise in drugs of abuse and pre-employment drug testing does not fit into Rosetta's long-term business plan. Payment will be made as a fixed percentage of revenues over the next six years.
April 2009	Enzo Biochem, Inc.	Assay Designs, Inc.	Enzo Biochem, Inc. has acquired the assets of Assay Designs, Inc. an Ann Arbor, Mich.-based provider of immunoassay (ELISA) kits and a variety of other products for the life sciences research market. The deal was valued at approximately \$12.2 million in cash. This acquisition will help Enzo build their research product line which already has a strong market and brand position.