

LABORATORY CORP OF AMERICA HOLDINGS  
Form 10-K  
February 24, 2012  
Index

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number - 1-11353

LABORATORY CORPORATION OF AMERICA HOLDINGS  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

13-3757370  
(I.R.S. Employer Identification No.)

358 South Main Street,  
Burlington, North Carolina  
(Address of principal executive offices)

27215  
(Zip Code)

(Registrant's telephone number, including area code) 336-229-1127

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No .

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Index

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No .

As of June 30, 2011, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$9.8 billion, based on the closing price on such date of the registrant's common stock on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 97.2 million shares as of February 17, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

Portions of the Registrant's Notice of Annual Meeting and Proxy Statement to be filed no later than 120 days following December 31, 2011 are incorporated by reference into Part III.

Index

Index

	Page
	<u>Part I</u>
Item 1.	<u>Business</u> 4
	<u>The Clinical Laboratory Testing Industry and Competition</u> 4
	<u>Effect of Market Changes on the Clinical Laboratory Business</u> 5
	<u>Company Strategy</u> 6
	<u>Laboratory Testing Operations and Services</u> 8
	<u>Testing Services</u> 8
	<u>Clients</u> 11
	<u>Payers</u> 12
	<u>Seasonality</u> 12
	<u>Investments in Joint Venture Partnerships</u> 12
	<u>Sales, Marketing and Client Service</u> 13
	<u>Information Systems</u> 13
	<u>Billing</u> 13
	<u>Quality</u> 14
	<u>Intellectual Property Rights</u> 15
	<u>Employees</u> 15
	<u>Regulation and Reimbursement</u> 15
	<u>Compliance Program</u> 21
Item 1A.	<u>Risk Factors</u> 21
Item 1B.	<u>Unresolved Staff Comments</u> 28
Item 2.	<u>Properties</u> 29
Item 3.	<u>Legal Proceedings</u> 30
Item 4.	<u>Mine Safety Disclosures</u> 32
	<u>Part II</u>
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u> 33
Item 6.	<u>Selected Financial Data</u> 36
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 38
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 50
Item 8.	<u>Financial Statements and Supplementary Data</u> 51
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 51
Item 9A.	<u>Controls and Procedures</u> 51
Item 9B.	<u>Other Information</u> 52
	<u>Part III</u>
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 52
Item 11.	<u>Executive Compensation</u> 52
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 52
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u> 52
Item 14.	<u>Principal Accountant Fees and Services</u> 52
	<u>Part IV</u>
Item 15.	<u>Exhibits and Financial Statement Schedules</u> 53



Index

PART I

Item 1. BUSINESS

Laboratory Corporation of America Holdings and its subsidiaries (the “Company”), headquartered in Burlington, North Carolina, is the second largest independent clinical laboratory company in the United States based on 2011 net revenues. Since the Company’s founding in 1971 as a Delaware corporation, it has grown into a national network of 54 primary laboratories and over 1,700 patient service centers (“PSCs”) along with a network of branches and STAT laboratories (which are laboratories that have the ability to perform certain routine tests quickly and report the results to the physician immediately). Through its national network of laboratories, the Company offers a broad range of clinical laboratory tests that are used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty testing operations, such as oncology testing, HIV genotyping and phenotyping, diagnostic genetics and clinical trials.

With over 31,000 employees worldwide, the Company processes tests on more than 450,000 patient specimens daily and provides clinical laboratory testing services to clients in all 50 states, the District of Columbia, Puerto Rico, Belgium, Japan, the United Kingdom, China, Singapore and three provinces in Canada. Its clients include physicians, hospitals, managed care organizations, governmental agencies, employers, pharmaceutical companies and other independent clinical laboratories that do not have the breadth of its testing capabilities. Several hundred of the Company’s tests are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or to search for an otherwise undiagnosed condition. The most frequently-requested of these routine tests include blood chemistry analyses, urinalyses, blood cell counts, thyroid tests, Pap tests, HIV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. The Company performs this core group of routine tests in its major laboratories using sophisticated and computerized instruments, with most results reported within 24 hours. In addition, the Company provides specialty testing services in the areas of allergy, clinical trials, diagnostic genetics, identity, forensics, infectious disease, oncology and occupational testing.

The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available free of charge through the Investor Relations section of the Company’s internet website at [www.labcorp.com](http://www.labcorp.com) as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The matters discussed in this "Business" section should be read in conjunction with the Consolidated Financial Statements found under Item 8 of Part II of this annual report, which include additional financial information about the Company's total assets, revenue, measures of profit and loss, and other important financial information.

The Company is committed to providing the highest quality laboratory services to its clients in full compliance with all federal, state and local laws and regulations. The Company’s Code of Business Conduct and Ethics outlines ethics and compliance policies adopted by the Company to meet this commitment. These policies apply to all employees of the Company as well as the Company’s Board of Directors. The Code of Business Conduct and Ethics, as well as the Charters for the Audit, Compensation, Quality and Compliance, and Nominating and Corporate Governance Committees, and the Company’s Corporate Governance Guidelines, are posted on the Company’s website [www.labcorp.com](http://www.labcorp.com). The Company has established a Compliance Action hotline (1-800-801-1005), which provides a confidential and anonymous method to report a possible violation of a LabCorp compliance policy or procedure, or a federal or state law or regulation; a HIPAA Privacy hotline (1-877-234-4722), which provides a confidential and anonymous method to report a possible violation of a HIPAA privacy, security or billing policy or procedure; and an Accounting hotline (1-866-469-6893), which provides a confidential and anonymous method to report a possible violation of internal accounting controls or auditing matters.

## The Clinical Laboratory Testing Industry and Competition

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, therapy selection, monitoring and treatment of diseases and other medical conditions through the examination of substances in the blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical pathology testing, which is performed on body fluids including blood, or anatomical pathology testing, which is performed on histologic or cytologic samples (e.g., tissue and other samples, including human cells). Clinical and anatomical pathology procedures are frequently ordered as part of regular physician office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used in the diagnosis and management of a wide variety of medical conditions such as cancer, infectious disease, endocrine disorders, cardiac disorders and genetic disease.

The clinical laboratory industry consists primarily of three types of providers: hospital-based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company. The Company believes that in 2010, the United States clinical laboratory testing industry generated revenues of approximately \$55 billion based on Washington G-2 reports

Index

and other industry publications. The Centers for Medicare and Medicaid Services (“CMS”) of the Department of Health and Human Services (“HHS”) has estimated that in 2010 there were approximately 5,400 independent clinical laboratories in the United States.

The clinical laboratory business is intensely competitive. There are presently two major national independent clinical laboratories: the Company and Quest Diagnostics Incorporated (“Quest”), which had approximately \$7.5 billion in revenues in 2011. In addition, the Company competes with many smaller independent clinical and anatomical laboratories as well as laboratories owned by hospitals and physicians. The Company believes that health care providers in selecting a laboratory often consider the following factors, among others:

- accuracy, timeliness and consistency in reporting test results;
- reputation of the laboratory in the medical community or field of specialty;
- contractual relationships with managed care companies;
- service capability and convenience offered by the laboratory;
- number and type of tests performed;
- connectivity solutions offered; and
- pricing of the laboratory’s services.

The Company believes that consolidation will continue in the clinical laboratory testing business. In addition, the Company believes that it and the other large independent clinical laboratory testing companies will be able to increase their share of the overall clinical laboratory testing market due to a number of external factors including cost efficiencies afforded by large-scale automated testing, reimbursement reductions and managed health care entities that require cost efficient testing services and large service networks. In addition, legal restrictions on physician referrals and their ownership of laboratories as well as increased regulation of laboratories are expected to contribute to the continuing consolidation of the industry.

Effect of Market Changes on the Clinical Laboratory Business

Many market-based changes in the clinical laboratory business have occurred over the past several years, primarily as a result of the shift away from traditional, fee-for-service medicine to managed-cost health care. The growth of the managed care sector and consolidation of managed care companies present various challenges and opportunities to the Company and other independent clinical laboratories. During 2006, the Company signed a ten-year agreement with UnitedHealthcare to become its exclusive national laboratory. This agreement represented an industry first in terms of its length and exclusivity at a national level. In September of 2011, the Company extended this agreement for an additional two years through the end of 2018. The various managed care organizations (“MCOs”) have different contracting philosophies. Some MCOs contract with a limited number of clinical laboratories and negotiate fees charged by such laboratories. Other MCOs allow any willing provider to be contracted at specified rates. The Company’s ability to attract and retain managed care clients is critical given these evolving models. In addition, some MCOs have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and the managed care organization agree to a per member, per month payment to pay for all authorized laboratory tests ordered during the month by the physician for the members, regardless of the number or cost of the tests actually performed. The Company makes significant efforts to ensure that its services are adequately compensated in its capitated arrangements, including in some instances provisions to reimburse esoteric tests (which are more sophisticated tests used to obtain information not provided by routine tests and generally involve a higher level of complexity and more substantial human involvement than routine tests) on a fee-for service basis, as an exclusion to the capitated payment. Capitated payment contracts shift the risks of increased test utilization to the clinical laboratory. For the year ended December 31, 2011, such capitated contracts accounted for approximately \$163.4 million, or 2.9%, of the Company’s net sales.



In addition, Medicare (which principally services patients 65 and older), Medicaid (which principally services low-income patients) and insurers have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices, added costs and decreased test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules, and the Company believes that pressure to reduce reimbursement for Medicare services will continue. In March 2010 comprehensive health care reform legislation, the Patient Protection and Affordable Care Act ("ACA"), was enacted, and among its provisions were reductions in the Medicare clinical laboratory fee schedule updates, one of which is a permanent reduction and the other to be applied in 2011 through 2015. On February 17, 2012, Congress passed legislation that will reduce payment rates under the Medicare clinical laboratory fee schedule by 2% effective January 1, 2013. This reduction will apply after adjustment of the fee schedule by the annual CPI update as reduced by the productivity adjustment (1.1-1.3%) and the 1.75% reduction under the ACA, and before the

## Index

scheduled 2% sequestration reduction mandated by the Budget Control Act of 2011, which is also effective January 1, 2013. Similar pressure for reductions in the reimbursement rates of other third-party payers is likely to occur as well.

Despite the potential market changes discussed above, the Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including an expanded insured population under ACA, increased knowledge of the human genome leading to an enhanced appreciation of the value of gene-based diagnostic assays and the development of new therapeutics that have a “companion diagnostic” to help identify the sub-set of the population for whom it is effective or that may suffer adverse events.

The Company believes its enhanced esoteric menu and geographic footprint provide a strong platform for growth. Additional factors that may lead to future volume growth include an increase in the number and types of tests that are readily available (due to advances in technology and increased cost efficiencies) for testing and diagnosis of disease and the general aging of the population in the United States. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare and other third-party payers, particularly MCOs. In addition, movement by patients into consumer driven health plans may have an impact on the utilization of laboratory testing.

### Company Strategy

The Company's strategic plan focuses on the disciplined execution of a five-pillar strategy to grow the business and increase shareholder value. These five strategic pillars are:

- Deploy capital first to acquisitions that enhance the Company's footprint and test menu, then to repurchase shares,
- Enhance IT capabilities to improve the physician and patient experience,
- Continue to improve efficiency to remain the most efficient and highest value provider of laboratory services,
- Continue scientific innovation to offer new tests at reasonable and appropriate pricing, and
- Participate in the development of alternative delivery models to improve patient outcomes and reduce the cost of care.

The Company believes that the successful execution of this five-pillar strategy will allow it to fulfill its core mission - to offer the highest quality laboratory testing and most compelling value to its customers.

**Pillar One:** Deploy capital first to acquisitions that enhance the Company's footprint and test menu, then to repurchase shares

The Company remains committed to growing its business through strategic acquisitions and licensing agreements. The Company has invested a total of \$1,531.2 million over the past three years in strategic business acquisitions. These acquisitions have helped strengthen the Company's geographic presence along with expanding capabilities in the specialty testing operations. The Company believes the acquisition market remains attractive with a number of opportunities to strengthen its scientific capabilities, grow esoteric testing capabilities and increase presence in key geographic areas.

The Company believes that its acquisition of Genzyme Genetics<sup>1</sup> in December of 2010, combined with its existing genomic capabilities, created one of the premier genetics and oncology businesses in the laboratory industry. The acquisition allowed the Company to offer significant customer benefits in areas such as prenatal genetic tests, which are performed during pregnancy to screen for birth defects. The acquisition also provided its customers with broad access to novel testing technologies such as the SMA molecular genetics assay and the entire Reveal family of SNP Microarrays. As market demand for prenatal genetics increases, the Company believes it is well positioned to provide the broadest range of offerings, including the services of approximately 150 genetic counselors. In oncology, the

Company's broad molecular oncology test menu and specialized sales force complemented the strong pathology expertise of Genzyme Genetics.

In 2011, the Company continued to deploy cash and return value to shareholders through share repurchase. During the year, the Company acquired approximately 7.4 million LabCorp shares for \$643.9 million. Since 2004, the Company has repurchased more than \$3.9 billion in shares at an average price of approximately \$65 per share.

1. Genzyme Genetics and its logo are trademarks of Genzyme Corporation and used by Esoterix Genetic Laboratories, LLC, a wholly-owned subsidiary of LabCorp, under license. Esoterix Genetic Laboratories and LabCorp are operated independently from Genzyme Corporation.

Index

Pillar Two: Enhance IT capabilities to improve the physician and patient experience

The Company introduced LabCorpBeacon order entry nationally in the third quarter, which enables customers to place electronic orders for essentially all of its brands and services. Combined with Beacon results delivery capability, customers can now place orders and receive results through a simple, customer-friendly portal. There has been significant growth in adoption of Beacon in 2011, making it the Company's fastest growing external software offering. With the addition of Apple and Android versions, Beacon capabilities are being introduced to the fast growing mobile device customer base.

Additionally, the Company completed development of the Beacon Patient Portal. This portal is a secure and easy-to-use online solution that enables patients to receive and share lab results, make lab appointments, pay bills, set up automatic alerts and notifications and manage health information for the entire family. The Company currently has active pilot participation and plans to launch nationwide during 2012.

The Company continues to improve its Electronic Medical Record ("EMR") connectivity with more than 500 current EMR connections. The Company is working closely with leading EMR partners to streamline connectivity and enhance lab workflow, ensuring that clients can take advantage of these solutions. Over 6,000 new client EMR interfaces were added during 2011 - a 71% increase over 2010.

For 2012, the Company will continue its efforts to enhance the physician and patient experience by enhancing Beacon, Patient Portal, EMR connectivity and mobile solutions. Key enhancements will include decision support, enhanced results reporting and services aimed at speeding up the lab ordering and resulting process.

Pillar Three: Continue to improve efficiency to remain the most efficient and highest value provider of laboratory services

The Company's emphasis on continually improving productivity extends throughout all phases of its operations - from specimen collection to processing and testing, result reporting and billing. LabCorp Touch™ accessioning provides leading-edge automation at the Company's patient service center ("PSC") locations. LabCorp Touch allows the Company to deploy personnel more productively, and it is now installed in more than 1,100 sites, representing approximately 75 percent of the Company's PSC volume.

The Company's automation initiatives, improvements to its logistics network, and enhancements to its supply chain operations have increased its per-employee throughput in core laboratories by 40 percent since 2007. The Company has also improved its call center operations by improving call response time while reducing the number of facilities by over 65%. Further, the Company's service metrics, customer satisfaction ratings, and turnaround times are at historically high levels.

The Company's expansion of the Powell Center for Esoteric Testing in Burlington, North Carolina leverages LEAN principles to conduct testing more efficiently and consolidate satellite locations. LEAN strategies have also proven effective in creating process improvements in the Company's billing and collection operations.

Pillar Four: Continue scientific innovation to offer new tests at reasonable and appropriate pricing

Innovative tests continue to be an important growth driver for the Company. In 2011, the Company introduced a total of 104 new assays, collaborating with leading companies and academic institutions to provide physicians and patients with the most scientifically advanced testing in the industry.

The Company is playing an important role in many aspects of this emerging model of care in which treatments and therapeutics are tailored to an individual, often based on his or her genetic signature (or that of a particular tumor/strain of virus). LabCorp was a leader in HIV genotyping, one of the first major advances in personalized medicine, which was used to test for resistance to specific drugs. The Company continues to build on this legacy through the development of new tests and/or resources such as the January 2011 release of the Virology Report on the Company's research web page, the acquisition of new and/or expanded capabilities such as the 2010 and 2009 acquisitions of Genzyme Genetics and Monogram Biosciences, Inc. ("Monogram"), respectively.

In 2011, the Company added to its industry-leading suite of companion diagnostic testing by being the first national lab to introduce assays that can help physicians appropriately prescribe the drugs Zelboraf™ and XALKORI® in the treatment of certain types of cancer. The FDA recently approved Zelboraf for use with patients with metastatic melanoma that carry the BRAF V600E gene mutation. The companion diagnostic test the Company provides is essential for identifying patients who have this mutation and may benefit from this therapy. Also in 2011, XALKORI received FDA approval for use in a subset of non-small cell lung

## Index

cancer patients classified as ALK-positive. The Company's clinically validated companion diagnostic identifies these ALK-positive patients that should benefit from XALKORI.

In 2011, the Company launched a series of hepatitis C ("HCV") drug resistance assays developed to support the clinical evaluation of anti-viral agents and their effective use in the management of HCV infection. These tests add to the Company's industry leading suite of HCV testing.

Through its clinical trials division, the Company has taken a leadership role in working with pharmaceutical companies to develop companion diagnostics. The Company's capabilities in assay development, its access to a broad spectrum of testing platforms, and its experience with clinical trials has positioned LabCorp as a market leader. The Company continues to add capabilities to strengthen this companion diagnostics offering. The Company opened a new state-of-the-art biorepository for sample storage and retention in 2009. In 2011, the Company acquired Clearstone Central Laboratories, a global central laboratory specializing in drug development and pharmaceutical services. This acquisition provides the Company with access to Clearstone's global network of labs, including China, Europe, Singapore and Canada. The pharmaceutical industry is increasingly conducting work outside of North America and the Company is expanding its ability to perform work internationally.

Beyond clinical trials, there are also many examples where companion diagnostics have moved into the commercial setting and are helping improve care, such as: (1) assisting in determining the efficacy of a drug for an individual; (2) helping the physician select the correct dosage; and (3) reducing adverse events. The Company will continue to play an important role in both bringing new companion diagnostics to the market and making them commercially available once the drug has been approved.

Pillar Five: Participate in the development of alternative delivery models to improve patient outcomes and reduce the cost of care

With new health policy mandates and a need to control costs, the Company believes the healthcare system will continue to move away from traditional fee-for-service payment models. As the most efficient, highest value provider of laboratory services, the Company believes it is positioned to prosper in a market environment increasingly focused on the efficient delivery of quality services.

### Laboratory Testing Operations and Services

The Company has a national network of primary testing laboratories, specialty testing laboratories, branches, PSCs and STAT laboratories. A branch is a central facility that collects specimens in a region for shipment to one of the Company's laboratories for testing. A branch is also frequently used as a base for sales and distribution staff. Generally, a PSC is a facility maintained by the Company to serve the patients of physicians in a medical professional building or other strategic location. The PSC collects the specimens for testing if requested by the physician. The specimens are collected from physicians offices and PSCs and sent, principally through the Company's in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company's primary testing facilities for testing. Some of the Company's PSCs also function as STAT labs, which are laboratories that have the ability to perform certain routine tests quickly and report results to the physician immediately. Patient specimens are typically delivered to the Company accompanied by a test request form (electronic or hard copy). These forms, which are completed by the client or transcribed by a Company patient service technician from a client order, indicate the tests to be performed and provide the necessary billing information.

Each specimen and related request form is checked for completeness and then given a unique identification number. The unique identification number assigned to each specimen helps to ensure that the results are attributed to the

correct patient. The test request forms are sent to a data entry operator who ensures that a file is established for each patient and the necessary testing and billing information is entered. Once this information is entered into the software system, the tests are performed and the results are entered through an electronic data interchange interface or manually, depending upon the tests and the type of equipment involved. Most of the Company's automated testing equipment is connected to the Company's information systems. Most routine testing is completed by early the next morning and test results are in most cases electronically delivered to clients via LabCorp Beacon, smart printers, personal computer-based products or computer interfaces.

#### Testing Services

##### Routine Testing

The Company offers a broad range of clinical laboratory tests and procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication, or to search for an otherwise undiagnosed condition. The most frequently requested tests include blood chemistry analyses, urinalyses, blood cell

## Index

counts, thyroid tests, Pap tests, microbiology cultures and procedures and alcohol and other substance-abuse tests. These routine procedures are most often used by physicians in their outpatient office practices. Physicians may elect to send such procedures to an independent laboratory or they may choose to establish their own laboratory to perform some of the tests.

The Company performs this core group of routine tests in each of its primary laboratories. This testing constitutes a majority of the tests performed by the Company. The Company generally performs and reports most routine procedures within 24 hours, utilizing a variety of sophisticated and computerized laboratory testing instruments.

### Specialty Testing

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures are more specialized. One of the growth strategies of the Company is the continued expansion of its specialty testing operations, which involve certain types of unique testing capabilities and/or client requirements. In general, the specialty testing operations serve two market segments: (i) markets that are not typically served by the standard clinical testing laboratory; and (ii) markets that are served by the clinical testing laboratory and offer the possibility of adding related services (such as clinical trials or occupational drug testing) from the same supplier. The Company's research and development group continually seeks new and improved technologies for a variety of diagnostic and prognostic indications. For example, the Company's Center for Molecular Biology and Pathology ("CMBP") is a leader in molecular diagnostics, utilizing the polymerase chain reaction ("PCR") as well as other molecular technologies, which are often able to provide earlier, more reliable and detailed information about cancer, genetic diseases, HIV and other viral and bacterial diseases. The Company's subsidiary, National Genetics Institute, Inc. ("NGI"), is a leader in the development of PCR assays for detection of pathogens in biologic products, and its Viro-Med Laboratories, Inc. subsidiary offers molecular microbial testing using real time PCR platforms. DIANON Systems, Inc. is a leader in anatomic pathology testing and US LABS is a leader in anatomic pathology and oncology testing services. The Company's subsidiary, Esoterix, is a leading provider of specialty reference testing and Litholink is a nationally-recognized kidney stone analysis laboratory known for its extensive stone management program. The Company believes these technologies represent potential significant savings to the healthcare system either by increasing the detection of early stage (treatable) diseases or by more effectively managing chronic disease conditions. In August 2009, the Company acquired Monogram, an industry leader in HIV resistance testing, which has developed new technologies in oncology such as the accurate measurement of proteins involved in cancer development and/or progression. In December 2010, the Company acquired Genzyme Genetics, a leading provider of complex reproductive and oncology testing services and the preferred provider for such services to maternal fetal medicine specialists and obstetrician/gynecologists nationally. The Company now provides reproductive genetic testing services under the name Integrated Genetics, and oncology genetic testing services under the name Integrated Oncology. The Company's expansive menu of complex tests offered includes technologies that span the continuum of care, ranging from maternal serum screening and prenatal diagnostics to carrier screening and postnatal testing services. Integrated Genetics also has a broad network of board-certified geneticists and genetic counselors, offering infertility and prenatal genetic counseling expertise to physicians and patients.

The following are some of the specific areas of specialty testing provided by the Company.

**Infectious Disease.** The Company provides complete HIV testing services including viral load measurements, genotyping and phenotyping and host genetic factors (e.g., such as its HLAB5701 test) that are all important tools in managing and treating HIV infections. The addition of the Monogram resistance tests, PhenoSense, PhenoSenseGT and Trofile, complement the existing HIV GenoSure assay and provide an industry leading, comprehensive portfolio of HIV resistance testing services. The Company also provides extensive testing services for HCV infections including both viral load determinations and strain genotyping and host genetic factors (e.g., such as its IL-28B test) at



CMBP, NGI and ViroMed. The Company continues to develop other molecular assays for influenza viruses including H1N1. In January 2011, the Company published on its website a comprehensive virology report that detailed the results from hundreds of thousands of infectious disease tests performed every year. The report analyzes the vast amount of data gathered at the Company to inform clinicians, public health authorities and other laboratory scientists regarding viral frequencies, distributions, trends, genotypes and associations.

Endocrinology. The Company has emerged as a leading provider of advanced hormone/steroid testing including comprehensive services for the Endocrine specialist. The Company has expanded its menu in esoteric endocrine testing and has launched a companywide initiative to develop steroid testing utilizing Mass Spectrometry technology. Mass Spectrometry is quickly becoming the gold standard for detection of low levels of small molecule steroids including testosterone in women, children and Hypogonadal men. The Company additionally offers several endocrine related genetic tests that include CYP21 mutation for Congenital Adrenal Hyperplasia, SHOX gene for short stature, as well as the RET mutation for thyroid cancer.

Diagnostic Genetics. The Company offers cytogenetic, molecular cytogenetic, biochemical and molecular genetic tests. The biochemical genetics offerings include a variety of prenatal screening options including integrated and sequential prenatal assays for more sensitive assessment of Down syndrome risk. The Company has expanded its cytogenetics offerings through

## Index

the use of whole genome SNP microarray technology, which provides enhanced detection of subtle chromosomal changes associated with the etiology of mental retardation, developmental delay and autism. The molecular genetics services have been expanded to include multiplex analyses of a variety of disorders and a focus on gene sequencing applications for both somatic and germ-line alterations. The addition of Genzyme Genetics in December 2010 provides the Company with the most comprehensive genetic test menu in the industry as well as a complement of approximately 150 genetic counselors to work with the Company's physician clients in optimizing patient outcomes.

**Oncology Testing.** The Company offers an extensive series of testing technologies that aid in diagnosing and monitoring certain cancers and predicting the outcome of certain treatments, including hematopathology, dermatopathology and uropathology. Applications for molecular diagnostics continue to increase in oncology for both the analysis of leukemia as well as the assessment of solid tumors. In cancers such as colon and lung cancer, assays such as K-ras, BRAF and EGFR mutation analysis are associated with appropriate therapy choices for a given patient.

**Clinical Trials Testing.** The Company regularly performs clinical laboratory testing for pharmaceutical and diagnostics companies conducting clinical research trials on new drugs or diagnostic assays. This testing often involves periodic testing of patients participating in the trial over several years. In 2011, the Company acquired Clearstone Central Laboratories, a global central laboratory specializing in drug development and pharmaceutical services. The Company has made a concerted effort in companion diagnostics to translate predictive biomarkers used in clinical trials into clinical practice.

**Identity Testing.** The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in determining parentage for child support enforcement proceedings and determining genetic relationships for immigration purposes. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father. The Company also provides testing services in reconstruction cases, which assist in determining parentage without the presence of the parent in question. In 2011, the Company acquired Orchid Cellmark, Inc. ("Orchid"), a leader in the forensic and paternity testing business for over 30 years.

**Occupational Testing Services.** The Company provides testing services for the detection of drug and alcohol abuse for private and government customers. These testing services are designed to produce forensic quality test results that satisfy the rigorous requirements for admissibility as evidence in legal proceedings. The Company also provides other analytical testing and a variety of management support services.

The specialized testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the resources for performing these procedures so that quality and efficiency can be most effectively monitored. CMBP, NGI, ViroMed, Dianon, Integrated Oncology, Esoterix, Monogram and Integrated Genetics also specialize in new test development and related education and training.

### Development of New Tests

Advances in medicine continue to fundamentally change diagnostic testing, and new tests are allowing clinical laboratories to provide unprecedented amounts of health-related information to physicians and patients. New molecular diagnostic tests that have been introduced over the past several years, including a gene-based test for human papillomavirus, HIV drug resistance assays, and molecular genetic testing for cystic fibrosis, have now become part of standard clinical practice. The Company continued its industry leadership in gene-based and esoteric testing in 2011, generating \$2.1 billion in revenue and growing this category of testing approximately 21%. As science continues to advance, the Company expects new testing technologies to emerge; therefore, it intends to continue to invest in advanced testing capabilities so that it can remain on the cutting edge of diagnostic laboratory testing. The Company

has added, and expects to continue to add, new testing technologies and capabilities through a combination of internal development initiatives, technology licensing and partnership transactions and selected business acquisitions. Through its national sales force, the Company rapidly introduces new testing technologies to physician customers. This differentiation is important in the retention and growth of business.

In 2011, the Company continued its emphasis on scientific vision and leadership with the introduction of approximately 104 significant test menu and automation enhancements. The Company is focused on the expansion of existing programs in molecular diagnostics as well as the introduction of new assay and assay platforms through licensing partnerships, acquisitions and internal development. Evidence of the commitment to the development of new diagnostics and applications for those diagnostics was provided in the more than 135 scientific publications (articles, book chapters, books and abstracts) and presentations at scientific meetings authored by the Company's scientific team in 2011. Examples of new tests and services introduced in 2011 include:

## Index

Enhanced cytogenetic microarrays. Microarrays have been shown to detect genetic changes in blood disorders that traditional technologies like cytogenetics and FISH may miss, including copy number alterations and copy neutral changes or acquired uniparental disomy. Pathologists can use the arrays to aid in the evaluation of leukemia and myelodysplastic syndrome cases as well as solid tumors.

Oncology companion diagnostics. Non-small cell lung cancer (Anaplastic Lymphoma Kinase - ALK Break Apart FISH Probe), for use in combination with targeted therapy XALKORI® (Crizotinib).

Melanoma ((BRAF V600 Mutation Test) identifies patients eligible for treatment with Zelboraf® (vemurafenib).

Infectious disease. NuSwab<sup>SM</sup> is a single-swab collection system that allows testing for bacterial vaginosis (Atopobiumvaginae, BVAB-2, Megashaera-1, C albicans, C glabrata, Trichomonas and/or sexually transmitted disease (Chlamydia, Gonorrhea, Trichomonas, HSV ½).

HCV Resistance testing - HCV GenoSure® NS3/4A, is a nucleic acid sequencing assay that reports NS3 and NS4A mutations and NS3 associated resistance to the recently approved HCV protease inhibitors INCIVEK™ (telaprevir) and Victrelis™ (boceprevir).

The Company continues its collaboration with university, hospital and academic institutions such as Duke University, The Johns Hopkins University, the University of Minnesota and Yale University to license and commercialize new diagnostic tests.

## Clients

The Company provides testing services to a broad range of health care providers. During the year ended December 31, 2011, no client or group of clients under the same contract accounted for more than 10% of the Company's consolidated net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups. Physicians requiring testing for their patients are one of the Company's primary sources of testing services. Fees for clinical laboratory testing services rendered for these physicians are billed either to the physician, to the patient or the patient's third-party payer such as an insurance company, Medicare or Medicaid. Billings are typically on a fee-for-service basis. If the billings are to the physician, they are based on a customer fee schedule and are subject to negotiation. Otherwise, the patient or third-party payer is billed at the laboratory's patient fee schedule, subject to third-party payer limitations and negotiation by physicians on behalf of their patients. Revenues received from Medicare and Medicaid billings are based on government-set fee schedules and reimbursement rules.

Hospitals. The Company provides hospitals with services ranging from routine and specialty testing to contract management services. Hospitals generally maintain an on-site laboratory to perform immediately needed testing of patients receiving care. However, they also refer less time sensitive procedures, less frequently needed procedures and highly specialized procedures to outside facilities, including independent clinical laboratories and larger medical centers. The Company typically charges hospitals for any such tests on a fee-for-service basis which is derived from the Company's customer fee schedule. Fees for management services are billed monthly at contractual rates.

Managed Care Organizations. The Company serves many MCOs. The various MCOs have different contracting philosophies. Some MCOs contract with a limited number of clinical laboratories and negotiate fees charged by such laboratories. Other MCOs allow any willing provider to be contracted at specified rates. The majority of the Company's managed care testing is negotiated on a fee-for-service basis. Testing is sometimes reimbursed on a

capitated basis for MCOs. Under a capitated payment contract, the Company agrees to be paid a flat monthly fee for each covered member for certain laboratory tests performed for covered members during that month. The tests covered under agreements of this type are negotiated for each contract. Many of the national and large regional MCOs prefer to use large independent clinical labs such as the Company because the MCOs can monitor service and performance on a national basis.

Other Institutions. The Company serves other institutions, including government agencies, large employers and other independent clinical laboratories that do not have the breadth of the Company's testing capabilities. The institutions typically pay on a negotiated fee-for-service basis.

Index

## Payers

Testing services are billed to private patients, Medicare, Medicaid, commercial clients, MCOs and other insurance companies. Tests ordered by a physician may be billed to different payers depending on the medical benefits of a particular patient. Most testing services are billed to a party other than the physician or other authorized person who ordered the test. For the year ended December 31, 2011, requisitions (based on the total volume of requisitions excluding the Ontario, Canada joint venture) and average revenue per requisition by payer are as follows:

	Requisition Volume as a % of Total	Revenue per Requisition
Private Patients	1.7%	\$178.41
Medicare and Medicaid	17.6%	\$52.27
Commercial Clients	31.1%	\$39.52
Managed Care	49.6%	\$42.69

A portion of the managed care fee-for-service revenues are collectible from patients in the form of deductibles, copayments and coinsurance.

## Seasonality

The Company experiences seasonality in its testing business. The volume of testing generally declines during the year-end holiday periods and other major holidays. Volume can also decline due to inclement weather, reducing net revenues and cash flows. Given the seasonality of the testing business, comparison of results for successive quarters may not accurately reflect trends or results for the full year.

## Investments in Joint Venture Partnerships

Effective January 1, 2008, the Company acquired additional partnership units in its Ontario, Canada joint venture, bringing the Company's percentage interest owned to 85.6%. Concurrent with this acquisition, the terms of the joint venture's partnership agreement were amended. Based upon the amended terms of this agreement, the Company began including the consolidated operating results, financial position and cash flows of the Ontario, Canada joint venture in the Company's consolidated financial statements on January 1, 2008. The amended joint venture's partnership agreement also enabled the holders of the noncontrolling interest to put the remaining partnership units to the Company in defined future periods, at an initial amount equal to the consideration paid by the Company in 2008, and subject to adjustment based on market value formulas contained in the agreement.

In November 2011, the Company acquired an additional 12.6% ownership interest from the holders of the noncontrolling interest in the Ontario joint venture in accordance with the terms of the joint venture's partnership agreement, bringing the Company's ownership interest to 98.2%. These units were acquired on November 28, 2011 for \$147.9 million. The contractual value of the remaining put, in excess of the current noncontrolling interest of \$3.6 million, totals \$16.6 million at December 31, 2011.

The Company also holds investments in two other joint venture partnerships, located in Milwaukee, Wisconsin, and Alberta, Canada. These businesses represent partnership agreements between the Company and other independent diagnostic laboratory investors. Under these agreements, all partners share in the profits and losses of the businesses in

proportion to their respective ownership percentages. All partners are actively involved in the major business decisions made by each joint venture.

Each of the Canadian partnerships owns licenses to conduct diagnostic testing services in its respective provinces. Substantially all of their revenues are received as reimbursement from the provincial governments' health care programs. While the Canadian licenses guarantee the joint ventures the ability to conduct diagnostic testing in their respective provinces, they do not guarantee that the provincial governments will continue to reimburse diagnostic laboratory testing in future years at current levels. If the provincial governments decide to limit or reduce their reimbursement of laboratory diagnostic services, it could have a negative impact on the profits and cash flows the Company derives from these Canadian joint ventures.

## Index

### Sales, Marketing and Client Service

The Company offers its services through a sales force focused on serving the specific needs of customers in different market segments. These market segments generally include Primary Care, Obstetrics-Gynecology, Specialty Medicine (e.g. Infectious Disease, Endocrinology, Gastroenterology and Rheumatology), Oncology and Hospitals.

The Company's sales force is compensated through a combination of salaries, commissions and bonuses at levels commensurate with each individual's qualifications, performance and responsibilities. The general sales force is responsible for both new sales and customer retention. This general sales force is also supported by a team of Clinical Specialists who focus on selling esoteric testing and meeting the unique needs of the specialty medicine markets.

The Company competes primarily on the basis of quality of testing, breadth of menu, price, innovation of services, convenience and access points throughout the nation.

### Information Systems

The Company has developed and implemented information management systems ("IS") supporting its operations as well as positioning the Company for long-term growth. The Company has implemented standard platforms for its core business services including laboratory, billing, financial and reporting systems. These standard systems ensure consistency and availability on a national scale. Additionally, the Company continues to expand its core lab capabilities with services supporting digital pathology and enhanced specialty lab solutions. With approximately 86% of the Company's consolidated revenue processed through these systems, the Company's centralized IS platforms provide tremendous operational efficiencies, enabling the Company to provide consistent, structured, and standardized laboratory results and superior patient care at a national level.

In response to continued market demand around the need for electronic consumption of laboratory data and a commitment to improving the patient experience, the Company continues to expand its platforms with new capabilities and services. The Company continues to leverage information technology advancements to deliver enhanced services through its new patient portal product and expanded access to AccuDraw capabilities. Additionally, the Company will continue to improve client connectivity through its client platform designed to improve lab related workflow such as ordering tests and sharing, viewing and analyzing lab results. The client platform is also available in a mobile edition accessible via iPhone, iPad and Android. This product is a key component of the Company's connectivity portfolio, whereby the Company provides physicians a choice of tailored solutions that also include robust integration with electronic medical records/electronic health records and personal health records ("PHR") applications.

The focus on the advancement of health information technology is a reflection of the growing demand for self-service, integrated healthcare data and decision support capabilities. The Company's centralized analytic platform is well positioned to deliver enhanced analytic services and decision support to physicians, hospitals, local communities, state agencies and national networks. The Company believes that this standardized laboratory data will be even more important and valuable to its customers as the Company continues to develop and refine disease management programs that reduce costs and enable better patient care.

### Billing



Billing for laboratory services is a complicated process involving many payers such as MCOs, Medicare, Medicaid, doctors, patients and employer groups, all of which have different billing requirements. In addition, billing process arrangements with third-party administrators may further complicate the billing process.

The Company utilizes a centralized billing system in the collection of approximately 93% of its domestic revenue (86% of consolidated revenue). This system generates bills to customers based on the payer type. Client billing is typically generated monthly, whereas patient and third-party billing are typically generated daily. Agings of accounts receivable are then monitored by billing personnel and re-bills and follow-up activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level, based on the Company's experience with its accounts receivable. The Company writes off accounts against the allowance for doubtful accounts when accounts receivable are deemed to be uncollectible. For client billing, third party and managed care, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred and the account has been transferred to a third-party collection agency.

A significant portion of the Company's bad debt expense is related to accounts receivable from patients. This portion of the Company's bad debt expense is from the patient's unwillingness or inability to pay. In 2011, the Company continued its focus on

## Index

process initiatives to reduce the negative impact of patient accounts receivable by collecting payment at the point of service and refining its internal patient collection cycle. The Company also provides ongoing training for billing personnel to improve collections during phone calls.

Another component of the Company's bad debt expense is the result of non-credit related issues that slow the billing process, such as missing or incorrect billing information on requisitions. The Company vigorously attempts to obtain any missing information or rectify any incorrect billing information received from the health care provider. However, the Company does perform the requested tests and returns the test results regardless of whether billing information is incorrect or incomplete. The Company believes that this experience is similar to that of its primary competitors. The Company continues to focus on process initiatives aimed at reducing the impact of these non-credit related issues by reducing the number of requisitions received that are missing billing information or have incorrect information. This is accomplished through on-going identification of root-cause issues, training provided to internal and external resources involved in the patient data capture process, and an emphasis on the use of electronic requisitions.

## Quality

The Company has established a comprehensive quality management program for its laboratories and other facilities designed to assure quality systems and processes are in place to facilitate accurate and timely test results. This includes licensing, credentialing, training and competency of professional and technical staff, and process audits. In addition to the external inspections and proficiency testing programs required by CMS and other regulatory agencies, systems and procedures are in place to emphasize and monitor quality. All of the Company's regional laboratories are subject to on-site regulatory evaluations, external proficiency testing programs (e.g., the College of American Pathologists - "CAP"), state surveys and the Company's own quality audit programs.

Quality also encompasses all facets of the Company's service, including turnaround time, client service, patient satisfaction, and billing. The Company's quality assessment program includes measures that compare its current performance against desired performance goals detailed in its quality improvement plan. Using quality assessment techniques, the Company's laboratories employ a variety of programs to monitor critical aspects of service to its clients and patients.

In addition, the Company's supply chain management department provides oversight to monitoring and controlling vendor products and performance, and plays an essential role in the Company's approach to quality through improvements in automation.

**Customer Interaction.** Processes to continually improve the customers' experience with the Company are essential. Use of technology and improvements in workflow within the Company's PSCs are helping to reduce patient wait times by expediting the patient registration process (LabCorp Patient Appointment Scheduling) and ensuring that appropriate specimens are obtained based upon requested test requirements (LabCorp Touch).

**Specimen Management.** The use of logistics and specimen tracking technology allows the timely transportation, monitoring, validation and storage of specimens. The Company is continually improving its ability to timely collect, transport and track specimens from clients and between LabCorp locations.

**Quality Control.** The Company regularly performs quality control testing by running quality control samples with known values at the same time patient samples are tested. Quality control test results are entered into the Company's computerized quality control database. This allows for real-time monitoring for any statistically and clinically significant analytical differences, and enables technologists and technicians to take immediate and appropriate corrective action prior to release of patient results.

**Internal Proficiency Testing.** The Company has an extensive internal proficiency testing program in which each laboratory receives samples to test. This internal proficiency program serves to test the Company's analytical and post-analytical phases of laboratory testing service including order entry, requisitioning systems, accuracy, precision of its testing protocols, and technologist/technician performance. This program supplements the external proficiency programs required by the laboratory accrediting agencies.

**Accreditation.** The Company participates in numerous externally-administered quality surveillance programs, including the CAP program. CAP is an independent non-governmental organization of board-certified pathologists which offers an accreditation program to which laboratories voluntarily subscribe. CAP has been granted deemed status authority by CMS to inspect clinical laboratories to determine adherence to the Clinical Laboratory Improvement Amendments of 1988 ("CLIA") standards. The CAP program involves both on-site inspections of the laboratory and participation in CAP's proficiency testing

## Index

program for all categories in which the laboratory is accredited. All of the Company's major laboratories are accredited by CAP. A laboratory's receipt of accreditation by CAP satisfies the CMS requirement for certification.

The Company's forensic crime laboratories, located in Research Triangle Park, NC and Dallas, TX, are accredited by the American Society of Crime Laboratory Directors, Laboratory Accreditation Board ("ASCLD/LAB") under the International program in the category of Biology and subcategories of nuclear DNA, mitochondrial DNA and Serology testing. Under the International Accreditation Program managed by the ASCLD/LAB, a crime laboratory undergoes a comprehensive and in-depth inspection to demonstrate that its management, operations, employees, procedures and instruments, physical plant, and security and personnel safety procedures meet stringent quality standards. The Company is one of 102 ASCLD-International accredited crime laboratories worldwide and is one of only 9 private crime laboratories holding the accreditation.

The Company's Tampa, Florida primary testing laboratory and CMBP received ISO 15189:2007 accreditation in January 2010 and February 2011, respectively. The Company's Integrated Genetics laboratory in Arizona is also ISO 15189:2007 accredited. ISO 15189:2007 standard recognizes the technical competence of medical laboratories, thus providing a ready means for customers to find reliable high quality testing.

## Intellectual Property Rights

The Company relies on a combination of patents, trademarks, copyrights, trade secrets and nondisclosure and non-competition agreements to establish and protect its proprietary technology. The Company has filed and obtained numerous patents in the U.S. and abroad, and regularly files patent applications, when appropriate, to establish and protect its proprietary technology. From time to time, the Company also licenses U.S. and non-U.S. patents, patent applications, technology, trade secrets, know-how, copyrights or trademarks owned by others. The Company believes, however, that no single patent, technology, trademark, intellectual property asset or license is material to its business as a whole.

## Employees

As of January 31, 2012, the Company had over 31,000 full-time equivalent employees worldwide. Subsidiaries of the Company have three collective bargaining agreements, which cover approximately 620 employees. The Company's success is highly dependent on its ability to attract and retain qualified employees, and the Company believes that it has good overall relationships with its employees.

## Regulation and Reimbursement

### General

The clinical laboratory industry is subject to significant governmental regulation at the federal, state and local levels. As described below, these regulations concern licensure and operation of clinical laboratories, payment for laboratory services, health care fraud and abuse, security and confidentiality of health information, quality, and environmental and occupational safety.

### Regulation of Clinical Laboratories

CLIA extended federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. CLIA requires that all clinical laboratories meet quality assurance, quality control and personnel standards. Laboratories also must undergo proficiency testing and are subject

to inspections.

Standards for testing under CLIA are based on the complexity of the tests performed by the laboratory, with tests classified as "high complexity," "moderate complexity," or "waived." Laboratories performing high complexity testing are required to meet more stringent requirements than moderate complexity laboratories. Laboratories performing only waived tests, which are tests determined by the Food and Drug Administration to have a low potential for error and requiring little oversight, may apply for a certificate of waiver exempting them from most of the requirements of CLIA. All major and many smaller Company facilities hold CLIA certificates to perform high complexity testing. The Company's remaining smaller testing sites hold CLIA certificates to perform moderate complexity testing or a certificate of waiver. The sanctions for failure to comply with CLIA requirements include suspension, revocation or limitation of a laboratory's CLIA certificate, which is necessary to conduct business, cancellation or suspension of the laboratory's approval to receive Medicare and/or Medicaid reimbursement, as well as significant fines and/or criminal penalties. The loss or suspension of a CLIA certification, imposition of a fine or other penalties, or future changes in the CLIA law or regulations (or interpretation of the law or regulations) could have a material adverse effect on the Company.

## Index

On July 26, 2007, the Food and Drug Administration (“FDA”) issued Draft Guidance for Industry, Clinical Laboratories, and FDA Staff: In Vitro Diagnostic Multivariate Index Assays (“the Draft Guidance”). The Draft Guidance announced that devices deemed In Vitro Diagnostic Multivariate Index Assays (“IVDMIA”) are Class II or Class III devices requiring, among other things, pre-market notification clearance or pre-market approval from FDA. This guidance would change the agency’s historical practice regarding regulation of certain laboratory-developed tests. While the Draft Guidance is still in place, FDA indicated in June 2010 that they would not be issuing final guidance at this time but would, instead, consider exercising greater oversight of laboratory developed test using a risk-based approach. In July 2010 FDA held a series of public meetings regarding issues and stakeholder concerns related to lab developed tests but has taken no further action and issued no further guidance at this time. There are other regulatory and legislative proposals that would increase general FDA oversight of clinical laboratories and laboratory-developed tests. The outcome and ultimate impact of such proposals on the business is difficult to predict at this time.

The Company is also subject to state and local laboratory regulation. CLIA provides that a state may adopt laboratory regulations different from or more stringent than those under federal law, and a number of states have implemented their own laboratory regulatory schemes. State laws may require that laboratory personnel meet certain qualifications, specify certain quality controls, or require maintenance of certain records.

The Company believes that it is in compliance with all applicable laboratory requirements. The Company's laboratories have continuing programs to ensure that their operations meet all such regulatory requirements, but no assurances can be given that the Company's laboratories will pass all future licensure or certification inspections.

### Payment for Clinical Laboratory Services

In 2011, the Company derived approximately 19.0% of its net sales directly from the Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation in these programs and in other government healthcare programs, in part because clients often want a single laboratory to perform all of their testing services. In recent years, both governmental and private sector payers have made efforts to contain or reduce health care costs, including reducing reimbursement for clinical laboratory services.

Reimbursement under the Medicare program for clinical diagnostic laboratory services is subject to a clinical laboratory fee schedule that sets the maximum amount payable in each Medicare carrier's jurisdiction. This clinical laboratory fee schedule is updated annually. Laboratories bill the program directly for covered tests performed on behalf of Medicare beneficiaries. State Medicaid programs are prohibited from paying more than the Medicare fee schedule limit for clinical laboratory services furnished to Medicaid recipients. Approximately 14.7% of the Company’s revenue is reimbursed under the Medicare clinical laboratory fee schedule.

Payment under the Medicare fee schedule has been limited from year to year by Congressional action, including imposition of national limitation amounts and freezes on the otherwise applicable annual Consumer Price Index (“CPI”) updates. For most diagnostic lab tests, the national limitation is now 74.0% of the national median of all local fee schedules established for each test. Under a provision of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (“BIPA”), the cap is set at 100.0% of the median for tests performed after January 1, 2001 that the Secretary of Health and Human Services determines are new tests for which no limitation amount has previously been established.

Following a five year freeze on CPI updates to the clinical lab fee schedule, there was a 1.2% increase in the fee schedule in 2003. In late 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“MMA”) again imposed a freeze in the CPI update of the clinical lab fee schedule from 2004 through 2008. The MMA freeze

expired December 31, 2008. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), the CPI update for labs for the years 2009 through 2013 would have been reduced by 0.5%. After such reduction, the 2009 CPI update to the clinical laboratory fee schedule was an increase of 4.5% and the 2010 CPI update was a reduction of 1.9%. The comprehensive health care reform legislation enacted in 2010, the ACA included numerous provisions that may fundamentally change the health care delivery system in the United States. Many of the most significant changes will not take effect until 2014, and their details will be shaped by regulatory efforts that have not yet been proposed. However, the ACA did include provisions that impose Medicare payment reductions on most health care providers, including clinical laboratories. The ACA replaced the MIPPA provisions that would have reduced the CPI update in 2011 to 2013 with a new provision. Beginning in 2011, the annual CPI update to the lab fee schedule will be reduced by a "productivity adjustment" that is estimated to be 1.1% to 1.4% each year. In addition, the CPI update will be further reduced by 1.75% in each of 2012 through 2015. On February 17, 2012, Congress passed legislation that will reduce payment rates under the clinical lab fee schedule by 2% effective January 1, 2013. This reduction will apply after the productivity adjustment and the 1.75% reduction, and before the scheduled 2% sequestration reduction mandated by the Budget Control Act of 2011, which is also effective January 1, 2013.

Index

Separate from clinical laboratory services, which generally are reimbursed under the Medicare laboratory fee schedule, many pathology services are reimbursed under the Medicare physician fee schedule. The physician fee schedule assigns relative value units to each procedure or service, and a conversion factor is applied to calculate the reimbursement. The physician fee schedule is also subject to adjustment on an annual basis. The formula used to calculate the fee schedule conversion factor would have resulted in significant decreases in payment for most physician services for each year since 2003. However, since that time Congress has intervened repeatedly to prevent these payment reductions, and the conversion factor has been increased or frozen for the subsequent year. Decreases would continue in future years unless Congress acts to change the formula used to calculate the fee schedule or continues to mandate freezes or increases each year. In late 2008, Congress acted to provide a 1.1% increase in physician fee schedule payments in 2009. The calendar year 2010 update to the conversion factor for the physician fee schedule, based on the statutory formula, was a reduction of 21.2%. To temporarily prevent this reduction to the physician fee schedule, an extension of the 2009 conversion factor through February 28, 2010 was included in the Department of Defense Appropriations Act of 2010 (H.R. 3326), which was passed on December 19, 2009. On February 17, 2012, Congress passed legislation to avert significant payment reductions in March, and extended existing Medicare physician rates through December 31, 2012. It is not clear when or how Congress will address this issue in the long term. If Congress does not continue to block payment reductions under the statutory formula, significant reductions in the physician fee schedule rates could have an adverse effect on the Company. Approximately 2.1% of the Company's revenue is reimbursed under the physician fee schedule.

In 1999, CMS announced a change in the requirements applicable to billing by independent laboratories for the Technical Component ("TC") of anatomic pathology services furnished to hospital inpatients and outpatients who are Medicare beneficiaries. That change would have required laboratories to bill the hospital, rather than Medicare, for the TC of pathology services provided to the hospital's Medicare inpatients and outpatients. However, the Benefits Improvement and Protection Act ("BIPA") enacted a special grandfather provision that exempted certain hospitals from this provision. The provision has been consistently extended but is now scheduled to permanently expire on June 30, 2012. At that time, independent laboratories will be required to bill the hospital, rather than Medicare, for the TC of physician pathology services performed for the hospital's Medicare inpatients and outpatients.

Because a significant portion of the Company's costs are relatively fixed, Medicare, Medicaid and other government program payment reductions could have a direct adverse effect on the Company's net earnings and cash flows. The Company cannot predict whether changes that will result in such reductions will be implemented.

Congressional action in 1997 required HHS to adopt uniform coverage, administration and payment policies for many of the most commonly performed lab tests using a negotiated rulemaking process. Consensus was reached by the negotiated rulemaking committee which, among other things, established uniform policies limiting Medicare coverage for certain tests to patients with specified medical conditions or diagnoses, and replacing local Medicare coverage policies which varied around the country. Since the final rules generally became effective in 2002, the use of uniform policies has improved the Company's ability to obtain necessary billing information in some cases, but Medicare, Medicaid and private payer diagnosis code requirements continue to negatively impact the Company's ability to be paid for some of the tests it performs. Due to the range of payers and policies, the extent of this impact continues to be difficult to quantify.

Future changes in federal, state and local laws and regulations (or in the interpretation of current regulations) affecting government payment for clinical laboratory testing could have a material adverse effect on the Company. Based on currently available information, the Company is unable to predict what type of changes in legislation or regulations, if any, will occur.

Standard Electronic Transactions, Security and Confidentiality of Health Information



The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was designed to address issues related to the security and confidentiality of health insurance information. In an effort to improve the efficiency and effectiveness of the health care system by facilitating the electronic exchange of information in certain financial and administrative transactions, new regulations were promulgated to protect the privacy and security of certain information. These regulations apply to health plans, health care providers that conduct standard transactions electronically and health care clearinghouses ("covered entities"). Five such regulations have been finalized: (i) the Transactions and Code Sets Rule; (ii) the Privacy Rule; (iii) the Security Rule; (iv) the Standard Unique Employer Identifier Rule, which requires the use of a unique employer identifier in connection with certain electronic transactions; and (v) the National Provider Identifier Rule, which requires the use of a unique health care provider identifier in connection with certain electronic transactions.

The Company's HIPAA project plan has three phases: (i) assessment of current systems, applications, processes and procedure testing and validation for HIPAA compliance; (ii) remediation of affected systems, applications, processes and procedure testing and validation for HIPAA compliance; and (iii) testing and validation.

Index

The Privacy Rule regulates the use and disclosure of protected health information (“PHI”) by covered entities. It also sets forth certain rights that an individual has with respect to his or her PHI maintained by a covered entity, such as the right to access or amend certain records containing PHI or to request restrictions on the use or disclosure of PHI. The Privacy Rule requires covered entities to contractually bind third parties, known as business associates, in the event that they perform an activity or service for or on behalf of the covered entity that involves access to PHI. The Security Rule establishes requirements for safeguarding patient information that is electronically transmitted or electronically stored. The Company believes that it is in compliance with all HIPAA requirements of the Privacy and Security Rules.

The Company believes that it is in compliance in all material respects with the current Transactions and Code Sets Rule. The Company is within the testing and validation phase of Version 5010 Transactions and is moving to adopt the ICD-10-CM Code Set issued by HHS on January 16, 2009. The compliance date for Version 5010 is January 1, 2012 but CMS has delayed enforcement until March 31, 2012. The compliance date for ICD-10-CM is October 1, 2013, but on February 16, 2012, HHS announced that it will postpone compliance to a date not yet specified. The Company will continue its assessment of computer systems, applications and processes for compliance with these requirements.

The federal Health Information Technology for Economic and Clinical Health (“HITECH”) Act, which was enacted in February 2009, strengthens and expands the HIPAA Privacy and Security Rules and its restrictions on use and disclosure of PHI. HITECH includes, but is not limited to, prohibitions on exchanging patient identifiable health information for remuneration, restrictions on marketing to individuals and obligations to agree to provide individuals an accounting of virtually all disclosures of their health information. HITECH also fundamentally changes a business associate’s obligations by imposing a number of Privacy Rule requirements and a majority of Security Rule provisions directly on business associates that were previously only directly applicable to covered entities. Moreover, HITECH requires covered entities to provide notice to individuals, HHS, and, as applicable, the media when unsecured protected health information is breached, as that term is defined by HITECH. Business associates are similarly required to notify covered entities of a breach. Most of the HITECH provisions were effective February 17, 2010 and it is expected that HHS will issue regulations to clarify many of the new provisions. HHS has already issued regulations governing breach notification, which were effective in September 2009. The Company has revised its policies and procedures and its business associate agreements to comply with the new HITECH Act requirements.

The standard unique employer identifier regulations require that employers have standard national numbers that identify them on standard transactions. The Employer Identification Number also known as a Federal Tax Identification Number, issued by the Internal Revenue Service, was selected as the identifier for employers and was adopted effective July 30, 2002. The Company believes it is in compliance with these requirements.

The administrative simplification provisions of HIPAA mandate the adoption of standard unique identifiers for health care providers. The intent of these provisions is to improve the efficiency and effectiveness of the electronic transmission of health information. The National Provider Identification rule requires that all HIPAA-covered health care providers, whether they are individuals or organizations, must obtain a National Provider Identifier (“NPI”) for use to identify themselves in standard HIPAA transactions. NPI replaces the unique provider identification number - as well as other provider numbers previously assigned by payers and other entities - for the purpose of identifying providers in standard electronic transactions. The Company believes that it is in compliance with the HIPAA National Provider Identification Rule in all material respects.

The total cost associated with the requirements of HIPAA is not expected to be material to the Company’s operations or cash flows. There are, however, many unresolved issues in these areas and future regulations and interpretations of HIPAA and HITECH could impose significant costs on the Company.

In addition to the federal HIPAA regulations described above, there are a number of state laws regarding the confidentiality of medical information, some of which apply to clinical laboratories. These laws vary widely and new laws in this area are pending, but they most commonly restrict the use and disclosure of medical and financial information. In some cases, state laws are more restrictive than the HIPAA Privacy Rule and, therefore, are not preempted by HIPAA. Penalties for violation of these laws may include sanctions against a laboratory's licensure, as well as civil and/or criminal penalties. Violations of the HIPAA provisions after the applicable compliance dates could result in civil and/or criminal penalties, including significant fines and up to 10 years in prison. HITECH also significantly strengthened HIPAA enforcement. It increased the civil penalty amounts that may be imposed, required HHS to conduct periodic audits to confirm compliance and also authorized state attorneys general to bring civil actions seeking either injunctions or damages in response to violations of the HIPAA privacy and security regulations that affect the privacy of state residents. Additionally, numerous other countries have or are developing similar laws governing the collection, use, disclosure and transmission of personal or patient information.

Index

Fraud and Abuse Laws and Regulations

Existing federal laws governing federal health care programs, including Medicare and Medicaid, as well as similar state laws, impose a variety of broadly described fraud and abuse prohibitions on health care providers, including clinical laboratories. These laws are interpreted liberally and enforced aggressively by multiple government agencies, including the U.S. Department of Justice, HHS' Office of Inspector General ("OIG"), and various state agencies. Historically, the clinical laboratory industry has been the focus of major governmental enforcement initiatives. The federal government's enforcement efforts have been increasing over the past decade, in part as a result of the enactment of HIPAA, which included several provisions related to fraud and abuse enforcement, including the establishment of a program to coordinate and fund federal, state and local law enforcement efforts. The Deficit Reduction Act of 2005 also included new requirements directed at Medicaid fraud, including increased spending on enforcement and financial incentives for states to adopt false claims act provisions similar to the federal False Claims Act. Recent amendments to the False Claims Act, as well as other enhancements to the federal fraud and abuse laws enacted as part of the ACA, are widely expected to further increase fraud and abuse enforcement efforts.

The federal health care program's anti-kickback law (the "Anti-Kickback Law") prohibits knowingly providing anything of value in return for, or to induce, the referral of Medicare, Medicaid or other federal health care program business. Violations can result in imprisonment, fines, penalties, and/or exclusion from participation in federal health care programs. The OIG has published "safe harbor" regulations which specify certain arrangements that are protected from prosecution under the Anti-Kickback law if all conditions of the relevant safe harbor are met. Failure to fit within a safe harbor does not necessarily constitute a violation of the Anti-Kickback Law; rather, the arrangement would be subject to scrutiny by regulators and prosecutors and would be evaluated on a case by case basis. Many states have their own Medicaid anti-kickback laws and several states also have anti-kickback laws that apply to all payers (i.e., not just government health care programs).

From time to time, the OIG issues alerts and other guidance on certain practices in the health care industry that implicate the Anti-Kickback Law or other federal fraud and abuse laws. Examples of such guidance documents particularly relevant to the Company and its operations follow.

In October 1994, the OIG issued a Special Fraud Alert on arrangements for the provision of clinical laboratory services. The Fraud Alert set forth a number of practices allegedly engaged in by some clinical laboratories and health care providers that raise issues under the federal fraud and abuse laws, including the Anti-Kickback Law. These practices include: (i) providing employees to furnish valuable services for physicians (other than collecting patient specimens for testing) that are typically the responsibility of the physicians' staff; (ii) offering certain laboratory services at prices below fair market value in return for referrals of other tests which are billed to Medicare at higher rates; (iii) providing free testing to physicians' managed care patients in situations where the referring physicians benefit from such reduced laboratory utilization; (iv) providing free pick-up and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; (v) providing general-use facsimile machines or computers to physicians that are not exclusively used in connection with the laboratory services; and (vi) providing free testing for health care providers, their families and their employees (i.e., so-called "professional courtesy" testing). The OIG emphasized in the Special Fraud Alert that when one purpose of such arrangements is to induce referrals of program-reimbursed laboratory testing, both the clinical laboratory and the health care provider (e.g., physician) may be liable under the Anti-Kickback Law, and may be subject to criminal prosecution and exclusion from participation in the Medicare and Medicaid programs.

Another issue the OIG has expressed concern about involves the provision of discounts on laboratory services billed to customers in return for the referral of federal health care program business. In a 1999 Advisory Opinion, the OIG concluded that a proposed arrangement whereby a laboratory would offer physicians significant discounts on

non-federal health care program laboratory tests might violate the Anti-Kickback Law. The OIG reasoned that the laboratory could be viewed as providing such discounts to the physician in exchange for referrals by the physician of business to be billed by the laboratory to Medicare at non-discounted rates. The OIG indicated that the arrangement would not qualify for protection under the discount safe harbor to the Anti-Kickback Law because Medicare and Medicaid would not get the benefit of the discount. Similarly, in a 1999 correspondence, the OIG stated that if any direct or indirect link exists between a discount that a laboratory offers to a skilled nursing facility ("SNF") for tests covered under Medicare's payments to the SNF and the referral of tests billable by the laboratory under Medicare Part B, then the Anti-Kickback Law would be implicated.

The OIG also has issued guidance regarding joint venture arrangements that may be viewed as suspect under the Anti-Kickback Law. These documents have relevance to clinical laboratories that are part of (or are considering establishing) joint ventures with potential sources of federal health care program business. The first guidance document, which focused on investor referrals to such ventures was issued in 1989 and another concerning contractual joint ventures was issued in April 2003. Some of the elements of joint ventures that the OIG identified as "suspect" include: arrangements in which the capital invested by the physicians is disproportionately small and the return on investment is disproportionately large when compared to a typical investment; specific selection of investors who are in a position to make referrals to the venture; and arrangements in which one of the parties to the

Index

joint venture expands into a line of business that is dependent on referrals from the other party (sometimes called "shell" joint ventures). In a 2004 advisory opinion, the OIG expressed concern about a proposed joint venture in which a laboratory company would assist physician groups in establishing off-site pathology laboratories. The OIG indicated that the physicians' financial and business risk in the venture was minimal and that the physicians would contract out substantially all laboratory operations, committing very little in the way of financial, capital, or human resources. The OIG was unable to exclude the possibility that the arrangement was designed to permit the laboratory to pay the physician groups for their referrals, and therefore was unwilling to find that the arrangement fell within a safe harbor or had sufficient safeguards to protect against fraud or abuse.

Violations of other fraud and abuse laws also can result in exclusion from participation in federal health care programs, including Medicare and Medicaid. One basis for such exclusion is an individual or entity's submission of claims to Medicare or Medicaid that are substantially in excess of that individual or entity's usual charges for like items or services. In 2003, the OIG issued a notice of proposed rulemaking that would have defined the terms "usual charges" and "substantially in excess" in ways that might have required providers, including the Company, to either lower their charges to Medicare and Medicaid or increase charges to certain other payers to avoid the risk of exclusion. On June 18, 2007, however, the OIG withdrew the proposed rule, saying it preferred to continue evaluating billing patterns on a case-by-case basis. In its withdrawal notice, the OIG also said it "remains concerned about disparities in the amounts charged to Medicare and Medicaid when compared to private payers," that it continues to believe its exclusion authority for excess charges "provides useful backstop protection for the public fisc," and that it will continue to use "all tools available ... to address instances where Medicare or Medicaid are charged substantially more than other payers." Thus, although the OIG did not proceed with its rulemaking, an enforcement action under this statutory exclusion basis is possible and, if pursued, could have an adverse effect on the Company. The enforcement by Medicaid officials of similar state law restrictions also could have a material adverse effect on the Company.

Under another federal statute, known as the "Stark Law" or "self-referral" prohibition, physicians who have an investment or compensation relationship with a clinical laboratory may not, unless an exception applies, refer Medicare patients for testing to the laboratory, regardless of the intent of the parties. Similarly, laboratories may not bill Medicare or any other party for services furnished pursuant to a prohibited self-referral. There are several Stark law exceptions that are relevant to arrangements involving clinical laboratories, including: 1) fair market value compensation for the provision of items or services; 2) payments by physicians to a laboratory for clinical laboratory services; 3) an exception for certain ancillary services (including laboratory services) provided within the referring physician's own office, if certain criteria are satisfied; 4) physician investment in a company whose stock is traded on a public exchange and has stockholder equity exceeding \$75.0 million; and 5) certain space and equipment rental arrangements that are set at a fair market value rate and satisfy other requirements. All of the requirements of a Stark Law exception must be met to take advantage of the exception. Many states have their own self-referral laws as well, which in some cases apply to all patient referrals, not just Medicare.

There are a variety of other types of federal and state fraud and abuse laws, including laws prohibiting submission of false or fraudulent claims. The Company seeks to conduct its business in compliance with all federal and state fraud and abuse laws. The Company is unable to predict how these laws will be applied in the future, and no assurances can be given that its arrangements will not be subject to scrutiny under such laws. Sanctions for violations of these laws may include exclusion from participation in Medicare, Medicaid and other federal health care programs, significant criminal and civil fines and penalties, and loss of licensure. Any exclusion from participation in a federal health care program, or any loss of licensure, arising from any action by any federal or state regulatory or enforcement authority, would likely have a material adverse effect on the Company's business. In addition, any significant criminal or civil penalty resulting from such proceedings could have a material adverse effect on the Company's business.

Environmental, Health and Safety

The Company is subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety and laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials. All Company laboratories are subject to applicable federal and state laws and regulations relating to biohazard disposal of all laboratory specimens and the Company generally utilizes outside vendors for disposal of such specimens. In addition, the federal Occupational Safety and Health Administration (“OSHA”) has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens.

On November 6, 2000, Congress passed the Needlestick Safety and Prevention Act, which required, among other things, that companies include in their safety programs the evaluation and use of engineering controls such as safety needles if found to be effective at reducing the risk of needlestick injuries in the workplace. The Company has implemented the use of safety needles at

## Index

all of its service locations.

Although the Company is not aware of any current material non-compliance with such federal, state and local laws and regulations, failure to comply could subject the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions.

### Drug Testing

Drug testing for public sector employees is regulated by the Substance Abuse and Mental Health Services Administration (“SAMHSA”) (formerly the National Institute on Drug Abuse), which has established detailed performance and quality standards that laboratories must meet to be approved to perform drug testing on employees of federal government contractors and certain other entities. To the extent that the Company’s laboratories perform such testing, each must be certified as meeting SAMHSA standards. The Company’s laboratories in Research Triangle Park, North Carolina, Raritan, New Jersey, Houston, Texas, and Southaven, Mississippi laboratories are all SAMHSA certified.

### Controlled Substances

The use of controlled substances in testing for drugs of abuse is regulated by the Federal Drug Enforcement Administration.

### Compliance Program

The Company maintains a comprehensive, company-wide compliance program. The Company continuously evaluates and monitors its compliance with all Medicare, Medicaid and other rules and regulations. The objective of the Company’s compliance program is to develop, implement, and update compliance safeguards as necessary. Emphasis is placed on developing compliance policies and guidelines, personnel training programs and various monitoring and audit procedures to attempt to achieve implementation of all applicable rules and regulations.

The Company seeks to conduct its business in compliance with all statutes, regulations, and other requirements applicable to its clinical laboratory operations. The clinical laboratory testing industry is, however, subject to extensive regulation, and many of these statutes and regulations have not been interpreted by the courts. There can be no assurance that applicable statutes and regulations will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company. Potential sanctions for violation of these statutes and regulations include significant fines and the loss of various licenses, certificates, and authorizations, which could have a material adverse effect on the Company’s business.

## Item 1A. Risk Factors

### Risks Associated with the Company’s Business

Changes in federal, state, local and third-party payer regulations or policies (or in the interpretation of current regulations or policies), insurance regulation or approvals or changes in other laws, regulations or policies may adversely affect governmental and third-party coverage and reimbursement for clinical laboratory testing and may have a material adverse effect upon the Company’s business.

Government payers, such as Medicare and Medicaid, as well as insurers, including MCOs, have increased their efforts to control the cost, utilization and delivery of health care services. From time to time, Congress has considered and



implemented changes in the Medicare fee schedules in conjunction with budgetary legislation. Further reductions of reimbursement for Medicare services or changes in policy regarding coverage of tests or other requirements for payment, such as a physician or qualified practitioner's signature on test requisitions, may be implemented from time to time. Reimbursement for the pathology services component of the Company's business is also subject to statutory and regulatory reduction. Reductions in the reimbursement rates of other third-party payers may occur as well. Such changes in the past have resulted in reduced prices as well as added costs and have decreased test utilization for the clinical laboratory industry by adding more complex new regulatory and administrative requirements. Further changes in federal, state, local and third-party payer regulations or policies may have a material adverse impact on the Company's business. Actions by agencies regulating insurance or changes in other laws, regulations, or policies may also have a material adverse effect upon the Company's business.

The Company could face significant monetary damages and penalties and/or exclusion from the Medicare and Medicaid programs if it violates health care anti-fraud and abuse laws.

The Company is subject to extensive government regulation at the federal, state and local levels. The Company's failure to

Index

meet governmental requirements under these regulations, including those relating to billing practices and financial relationships with physicians and hospitals, could lead to civil and criminal penalties, exclusion from participation in Medicare and Medicaid and possible prohibitions or restrictions on the use of its laboratories. While the Company believes that it meets all statutory and regulatory requirements, there is a risk that government authorities might take a contrary position. Such occurrences, regardless of their outcome, could damage the Company's reputation and adversely affect important business relationships it has with third parties.

The Company's business could be harmed from the loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or interpretations of, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988 or those of Medicare, Medicaid or other federal, state or local agencies.

The clinical laboratory testing industry is subject to extensive regulation, and many of these statutes and regulations have not been interpreted by the courts. CLIA extends federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. The sanction for failure to comply with CLIA requirements may be suspension, revocation or limitation of a laboratory's CLIA certificate, which is necessary to conduct business, as well as significant fines and/or criminal penalties. In addition, the Company is subject to regulation under state law. State laws may require that laboratories and/or laboratory personnel meet certain qualifications, specify certain quality controls or require maintenance of certain records.

Applicable statutes and regulations could be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company's business. Potential sanctions for violation of these statutes and regulations include significant fines and the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on the Company's business. In addition, compliance with future legislation could impose additional requirements on the Company which may be costly.

Failure to comply with environmental, health and safety laws and regulations, including the federal Occupational Safety and Health Administration Act and the Needlestick Safety and Prevention Act, could result in fines and penalties and loss of licensure, and have a material adverse effect upon the Company's business.

The Company is subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials, as well as regulations relating to the safety and health of laboratory employees. All of the Company's laboratories are subject to applicable federal and state laws and regulations relating to biohazard disposal of all laboratory specimens, and they utilize outside vendors for disposal of such specimens. In addition, the federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These requirements, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. In addition, the Needlestick Safety and Prevention Act requires, among other things, that the Company include in its safety programs the evaluation and use of engineering controls such as safety needles if found to be effective at reducing the risk of needlestick injuries in the workplace.

Failure to comply with federal, state and local laws and regulations could subject the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions which would have a material adverse effect on its business. In addition, compliance with future legislation could impose additional requirements on the

Company which may be costly.

Regulations requiring the use of “standard transactions” for health care services issued under HIPAA may negatively impact the Company’s profitability and cash flows.

Pursuant to HIPAA, the Secretary of HHS has issued regulations designed to improve the efficiency and effectiveness of the health care system by facilitating the electronic exchange of information in certain financial and administrative transactions while protecting the privacy and security of the information exchanged.

The HIPAA transaction standards are complex, and subject to differences in interpretation by payers. For instance, some payers may interpret the standards to require the Company to provide certain types of information, including demographic information not usually provided to the Company by physicians. As a result of inconsistent application of transaction standards by payers or the Company’s inability to obtain certain billing information not usually provided to the Company by physicians, the Company could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in reimbursements and net

Index

revenues. In addition, new requirements for additional standard transactions, such as claims attachments, Version 5010 of the HIPAA Transaction Standards and the ICD-10-CM Code Set, could prove technically difficult, time-consuming or expensive to implement. The Company is working closely with its payers to establish acceptable protocols for claim submission and with its trade association and an industry coalition to present issues and problems as they arise to the appropriate regulators and standards setting organizations.

Failure to maintain the security of customer-related information or compliance with security requirements could damage the Company's reputation with customers, cause it to incur substantial additional costs and to become subject to litigation.

The Company receives certain personal and financial information about its customers. In addition, the Company depends upon the secure transmission of confidential information over public networks, including information permitting cashless payments. A compromise in the Company's security systems that results in customer personal information being obtained by unauthorized persons or the Company's failure to comply with security requirements for financial transactions could adversely affect the Company's reputation with its customers and others, as well as the Company's results of operations, financial condition and liquidity. It could also result in litigation against the Company or the imposition of penalties.

Failure of the Company, third party payers or physicians to comply with Version 5010 Transactions by the CMS delayed enforcement date of March 31, 2012 or to comply with the ICD-10-CM Code Set by the compliance date to be determined by the Department of Health and Human Services which will be sometime after October 1, 2013, could negatively impact the Company's reimbursement and profitability.

The Company is within the testing and validation of phase of Version 5010 Transactions and is moving to adopt the ICD-10-CM Code Set issued by HHS on January 16, 2009. The compliance date for Version 5010 is January 1, 2012 although CMS announced an enforcement delay until March 31, 2012. The compliance date for ICD-10-CM Code Set is October 1, 2013, but on February 16, 2012, HHS announced that it will postpone compliance to a date not yet specified. The Company will continue its assessment of information systems, applications and processes for compliance with these requirements. Clinical laboratories are typically required to submit health care claims with diagnosis codes to third party payers. The diagnosis codes must be obtained from the ordering physician. The failure of the Company, third party payers or physicians to transition within the required timeframe could have an adverse impact on reimbursement, days sales outstanding and cash collections.

The Administrative Simplification provisions of HIPAA have required the Department of Health and Human Services to establish national standards for electronic health care transactions and NPI. CMS requires the NPI on Part B professional claims after March 1, 2008. The failure of the Company or third parties to meet the NPI requirements for Medicare claims or other covered health plans could have a material adverse impact on the Company's reimbursement and profitability.

Compliance with the HIPAA security regulations and privacy regulations may increase the Company's costs.

The HIPAA privacy and security regulations, including the expanded requirements under HITECH, establish comprehensive federal standards with respect to the use and disclosure of protected health information by health plans, healthcare providers and healthcare clearinghouses, in addition to setting standards to protect the confidentiality, integrity and security of protected health information. The regulations establish a complex regulatory framework on a variety of subjects, including:

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the circumstances under which the use and disclosure of protected health information are permitted or required without a specific authorization by the patient, including but not limited to treatment purposes, activities to obtain payments for the Company's services, and its healthcare operations activities;

- a patient's rights to access, amend and receive an accounting of certain disclosures of protected health information;
- the content of notices of privacy practices for protected health information;
- administrative, technical and physical safeguards required of entities that use or receive protected health information;
- and
- the protection of computing systems maintaining ePHI.

The Company has implemented policies and procedures related to compliance with the HIPAA privacy and security regulations, as required by law. The privacy and security regulations establish a "floor" and do not supersede state laws that are more stringent. Therefore, the Company is required to comply with both federal privacy and security regulations and varying state privacy and security laws. In addition, for healthcare data transfers from other countries relating to citizens of those countries, the Company must comply with the laws of those other countries. The federal privacy regulations restrict the Company's ability to use or disclose patient identifiable laboratory data, without patient authorization, for purposes other than payment, treatment or healthcare operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined

Index

in the privacy regulations. HIPAA, as amended by HITECH, provides for significant fines and other penalties for wrongful use or disclosure of protected health information in violation of the privacy and security regulations, including potential civil and criminal fines and penalties. Due to the enactment of HITECH, it is not possible to predict what the extent of the impact on business will be; however, if the Company does not comply with existing or new laws and regulations related to protecting the privacy and security of health information it could be subject to monetary fines, civil penalties or criminal sanctions. In addition, other federal and state laws that protect the privacy and security of patient information may be subject to enforcement and interpretations by various governmental authorities and courts resulting in complex compliance issues. For example, the Company could incur damages under state laws pursuant to an action brought by a private party for the wrongful use or disclosure of confidential health information or other private personal information.

HITECH may impose additional obligations on health care entities with respect to data privacy and security. The Company is unable to predict the extent to which these new obligations may prove technically difficult, time-consuming or expensive to implement.

Increased competition, including price competition, could have a material adverse impact on the Company's net revenues and profitability.

The clinical laboratory business is intensely competitive both in terms of price and service. Pricing of laboratory testing services is often one of the most significant factors used by health care providers and third-party payers in selecting a laboratory. As a result of the clinical laboratory industry undergoing significant consolidation, larger clinical laboratory providers are able to increase cost efficiencies afforded by large-scale automated testing. This consolidation results in greater price competition. The Company may be unable to increase cost efficiencies sufficiently, if at all, and as a result, its net earnings and cash flows could be negatively impacted by such price competition. The Company may also face increased competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry. Additionally, the Company may also face changes in fee schedules, competitive bidding for laboratory services or other actions or pressures reducing payment schedules as a result of increased or additional competition.

Discontinuation or recalls of existing testing products; failure to develop, or acquire, licenses for new or improved testing technologies; or the Company's customers using new technologies to perform their own tests could adversely affect the Company's business.

From time to time, manufacturers discontinue or recall reagents, test kits or instruments used by the Company to perform laboratory testing. Such discontinuations or recalls could adversely affect the Company's costs, testing volume and revenue.

The clinical laboratory industry is subject to changing technology and new product introductions. The Company's success in maintaining a leadership position in genomic and other advanced testing technologies will depend, in part, on its ability to develop, acquire or license new and improved technologies on favorable terms and to obtain appropriate coverage and reimbursement for these technologies. The Company may not be able to negotiate acceptable licensing arrangements and it cannot be certain that such arrangements will yield commercially successful diagnostic tests. If the Company is unable to license these testing methods at competitive rates, its research and development costs may increase as a result. In addition, if the Company is unable to license new or improved technologies to expand its esoteric testing operations, its testing methods may become outdated when compared with the Company's competition and testing volume and revenue may be materially and adversely affected.

In addition, advances in technology may lead to the development of more cost-effective technologies such as point-of-care testing equipment that can be operated by physicians or other healthcare providers in their offices or by patients themselves without requiring the services of freestanding clinical laboratories. Development of such technology and its use by the Company's customers could reduce the demand for its laboratory testing services and negatively impact its revenues.

Currently, most clinical laboratory testing is categorized as "high" or "moderate" complexity, and thereby is subject to extensive and costly regulation under CLIA. The cost of compliance with CLIA makes it impractical for most physicians to operate clinical laboratories in their offices, and other laws limit the ability of physicians to have ownership in a laboratory and to refer tests to such a laboratory. Manufacturers of laboratory equipment and test kits could seek to increase their sales by marketing point-of-care laboratory equipment to physicians and by selling test kits approved for home or physician office use to both physicians and patients. Diagnostic tests approved for home use are automatically deemed to be "waived" tests under CLIA and may be performed in physician office laboratories as well as by patients in their homes with minimal regulatory oversight. Other tests meeting certain FDA criteria also may be classified as "waived" for CLIA purposes. The FDA has regulatory responsibility over instruments, test kits, reagents and other devices used by clinical laboratories and has taken responsibility from the Centers for Disease Control for classifying the complexity of tests for CLIA purposes. Increased approval of "waived" test kits could lead to increased testing by

Index

physicians in their offices or by patients at home, which could affect the Company's market for laboratory testing services and negatively impact its revenues.

Health care reform, changes in government payment and reimbursement systems, or changes in payer mix, including an increase in capitated reimbursement mechanisms or new national or network managed care purchasing models, could have a material adverse impact on the Company's net revenues and profitability.

Testing services are billed to private patients, Medicare, Medicaid, commercial clients, MCOs and other insurance companies. Tests ordered by a physician may be billed to different payers depending on the medical insurance benefits of a particular patient. Most testing services are billed to a party other than the physician or other authorized person that ordered the test. Increases in the percentage of services billed to government and managed care payers could have an adverse impact on the Company's net revenues. For the year ended December 31, 2011, requisitions (based on the total volume of requisitions excluding the Ontario, Canada joint venture) by payer were:

private patients – 1.7%  
Medicare and Medicaid – 17.6%  
commercial clients – 31.1%  
managed care – 49.6%.

MCOs have different contracting philosophies. Some MCOs contract with a limited number of clinical laboratories and negotiate fees charged by such laboratories. Other MCOs allow any willing provider to be contracted at specified rates. The majority of the Company's managed care testing is negotiated on a fee-for-service basis at a discount from its patient prices. Such discounts have historically resulted in price erosion and have negatively impacted the Company's operating margins. In addition, MCOs have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and MCO agree to a per member, per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed. Such contracts shift the risk of increased test utilization to the clinical laboratory. For the year ended December 31, 2011, capitated contracts accounted for approximately \$163.4 million, or 2.9%, of the Company's net sales.

A portion of the managed care fee-for-service revenues are collectible from patients in the form of deductibles, copayments and coinsurance. As patient cost-sharing increases, collectibility may be impacted.

Recently, certain managed care companies have adopted or expressed interest in adopting new national or laboratory network purchasing models. If the Company is unable to participate in these new models, or if the Company loses a material contract, it could have a material adverse impact on the Company's net revenues and profitability.

In addition, Medicare and Medicaid and private insurers have increased their efforts to control the cost, utilization and delivery of health care services, including clinical laboratory services. Measures to regulate health care delivery in general, and clinical laboratories in particular, have resulted in reduced prices, added costs and decreased test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. Pursuant to legislation passed in late 2003, the percentage of Medicare beneficiaries enrolled in Medicare managed care plans has increased. The percentage of Medicaid beneficiaries enrolled in Medicaid managed care plans has also increased. Implementation of the ACA, the health care reform legislation passed last year, also may affect coverage, reimbursement, and utilization of laboratory services, as well as administrative requirements.

The Company expects efforts to impose reduced reimbursement and more stringent cost controls by government and other payers to continue. If the Company cannot offset additional reductions in the payments it receives for its services



by reducing costs, increasing test volume and/or introducing new procedures, it could have a material adverse impact on the Company's net revenues and profitability.

As an employer, health care reform legislation also contains numerous regulations that will require the Company to implement significant process and record keeping changes to be in compliance. These changes increase the cost of providing healthcare coverage to employees and their families. Given the uncertainty of the evolving legislation, lack of clarity on the status of reforms, and limited release of regulations to guide compliance, the exact impact to employers including the Company is uncertain.

Index

A failure to obtain and retain new customers and alliance partners, a loss of existing customers or material contracts, or a reduction in tests ordered or specimens submitted by existing customers, could impact the Company's ability to successfully grow its business.

To offset efforts by payers to reduce the cost and utilization of clinical laboratory services, the Company needs to obtain and retain new customers and alliance partners. In addition, a reduction in tests ordered or specimens submitted by existing customers, without offsetting growth in its customer base, could impact the Company's ability to successfully grow its business and could have a material adverse impact on the Company's net revenues and profitability. The Company competes primarily on the basis of the quality of testing, reporting and information systems, reputation in the medical community, the pricing of services and ability to employ qualified personnel. The Company's failure to successfully compete on any of these factors could result in the loss of customers and a reduction in the Company's ability to expand its customer base.

In addition, the Company relies on developing alliances with hospitals to expand its business through appropriate collaborative agreements. The Company's ability to expand the number of alliances with hospitals and maintain current alliances, many of which are terminable on short notice, could impact its ability to successfully grow its business.

The integration of the acquired assets of Genzyme Genetics will be complex and involve a number of risks, and failure to successfully integrate the respective operations could significantly harm the Company's business and results of operations.

Integrating the operations of Genzyme Genetics will be complex and there is no assurance that the Company will not encounter material delays or unanticipated costs that could adversely affect its business and results of operations. Successful integration involves numerous risks, including:

- Maintaining and transitioning relationships with key payers and other customers;
- Retaining and attracting customers following a period of significant uncertainty associated with the acquired business;
- Diversion of management attention from business and operational matters;
- Integrating information technology, enterprise management and administrative systems which may be difficult or costly;
- Making significant cash expenditures that may be required to retain personnel or eliminate unnecessary resources; and
- Maintaining uniform standards, procedures and policies to ensure efficient and compliant administration of the organization.

The Company could also encounter unanticipated or additional integration-related costs or fail to realize all of the benefits of the acquisition that are included in the Company's financial model and that drive expectations for future growth and profitability.

A failure to integrate newly acquired businesses and the costs related to such integration could have a material adverse impact on the Company's net revenues and profitability.

The successful integration of any business that the Company may acquire entails numerous risks, including, among others:

- Issues related to revenue recognition and/or cash collections;
- Loss of key customers or employees;

• difficulty in consolidating redundant facilities and infrastructure and in standardizing information and other systems;  
• failure to maintain the quality of services that such companies have historically provided;  
• coordination of geographically-separated facilities and workforces; and  
• diversion of management's attention from the day-to-day business of the Company.

The Company cannot assure that current or future acquisitions, if any, or any related integration efforts will be successful, or that the Company's business will not be adversely affected by any future acquisitions. Even if the Company is able to successfully integrate the operations of companies or businesses that it may acquire in the future, the Company may not be able to realize the benefits that it expects to result from such integration, including projected cost savings.

Adverse results in material litigation matters could have a material adverse effect upon the Company's business.

The Company may become subject in the ordinary course of business to material legal action related to, among other things, intellectual property disputes, professional liability and employee-related matters, as well as inquiries from governmental agencies

Index

and Medicare or Medicaid carriers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. Legal actions could result in substantial monetary damages as well as damage to the Company's reputation with customers, which could have a material adverse effect upon its business.

An inability to attract and retain experienced and qualified personnel could adversely affect the Company's business.

The loss of key management personnel or the inability to attract and retain experienced and qualified employees at the Company's clinical laboratories and research centers could adversely affect the business. The success of the Company is dependent in part on the efforts of key members of its management team. Success in maintaining the Company's leadership position in genomic and other advanced testing technologies will depend in part on the Company's ability to attract and retain skilled research professionals. In addition, the success of the Company's clinical laboratories also depends on employing and retaining qualified and experienced laboratory professionals, including specialists, who perform clinical laboratory testing services. In the future, if competition for the services of these professionals increases, the Company may not be able to continue to attract and retain individuals in its markets. The Company's revenues and earnings could be adversely affected if a significant number of professionals terminate their relationship with the Company or become unable or unwilling to continue their employment.

A significant increase in the Company's days sales outstanding could increase bad debt expense and have an adverse effect on the Company's business.

Billing for laboratory services is a complex process. Laboratories bill many different payers including doctors, patients, hundreds of insurance companies, Medicare, Medicaid and employer groups, all of which have different billing requirements. In addition to billing complexities, the Company is experiencing more billing to patients as a result of the growth in billings to managed care fee-for-service plans which have patient copayments, coinsurance and deductibles and an increase in high deductible health plans. With these high deductible health plans, the patient is responsible for more payments prior to insurance covering the cost of care. A material increase in the Company's days sales outstanding level ("DSO") resulting in an increase in the Company's bad debt expense could have an adverse effect on the Company's business.

Failure in the Company's information technology systems could significantly increase testing turn-around time or billing processes and otherwise disrupt the Company's operations.

The Company's laboratory operations depend, in part, on the continued performance of its information technology systems. Despite network security measures and other precautions the Company has taken, its information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. In addition, the Company is in the process of integrating the information technology systems of its recently acquired subsidiaries, and the Company may experience system failures or interruptions as a result of this process. Sustained system failures or interruption of the Company's systems in one or more of its laboratory operations could disrupt the Company's ability to process laboratory requisitions, perform testing, provide test results in a timely manner and/or bill the appropriate party. Failure of the Company's information technology systems could adversely affect the Company's business, profitability and financial condition.

Operations may be disrupted and adversely impacted by the effects of natural disasters such as hurricanes and earthquakes, or labor unrest or acts of terrorism, or other criminal activities, or disease pandemics.

Such events may result in a temporary decline in the number of patients who seek laboratory testing services. In addition, such events may temporarily interrupt the Company's ability to transport specimens, the Company's information technology systems, the Company's ability to utilize certain laboratories, and/or the Company's ability to

receive material from its suppliers.

A significant deterioration in the economy could negatively impact testing volumes, cash collections and the availability of credit.

The Company's operations are dependent upon ongoing demand for diagnostic testing services by patients, physicians, hospitals, MCOs, and others. A significant downturn in the economy could negatively impact the demand for diagnostic testing as well as the ability of patients and other payers to pay for services ordered. In addition, uncertainty in the credit markets could reduce the availability of credit and impact the Company's ability to meet its financing needs in the future.

Changes in reimbursement by foreign governments and foreign currency exchange fluctuations could have an adverse impact on the Company's business.

The Company has business and operations outside the United States. Changes by foreign governments in reimbursement for the Company's services and foreign currency fluctuations could have an adverse impact on the Company's business.

Index

The Company's growing international operations could subject it to additional risks and expenses that could adversely impact the business or results of operations.

The expansion of the Company's international operations exposes it to risks from failure to comply with foreign laws and regulations that differ from those under which the Company operates in the United States. In addition, the Company may be adversely affected by other risks of expanded operations in foreign countries, including export controls and trade regulations, changes in tax policies or other foreign laws, restrictions on currency repatriation, judicial systems that less strictly enforce contractual rights, countries that provide less protection for intellectual property rights, and procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services. Further, international operations could subject the Company to additional expenses that the Company may not fully anticipate, including those related to enhanced time and resources necessary to comply with foreign laws and regulations, difficulty in collecting accounts receivable and longer collection periods, and difficulties and costs of staffing and managing foreign operations. In some countries, the Company's success will depend in part on its ability to form relationships with local partners. The Company's inability to identify appropriate partners or reach mutually satisfactory arrangements could adversely affect the business and operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Index

## Item 2. PROPERTIES

The Company operates through a national network of primary laboratories, branches, PSCs and STAT laboratories. The table below summarizes certain information as to the Company's principal operating and administrative facilities as of December 31, 2011.

Location	Nature of Occupancy
Primary Laboratories:	
Birmingham, Alabama	Leased
Phoenix, Arizona	Leased
Calabasas, California	Leased
Dayton, Ohio	Leased
Irvine, California	Leased
Los Angeles, California	Leased
Monrovia, California	Leased
San Diego, California	Leased
San Francisco, California	Leased
Denver, Colorado	Leased
Shelton, Connecticut	Leased
Waltham, Connecticut	Leased
Ft. Myers, Florida	Owned
Tampa, Florida	Leased
Temple Terrace, Florida	Leased
Chicago, Illinois	Leased
Indianapolis, Indiana	Leased
Westborough, Massachusetts	Leased
Eden Prairie, Minnesota	Leased
Southaven, Mississippi	Owned
Kansas City, Missouri	Owned
Cranford, New Jersey	Leased
Raritan, New Jersey	Owned
South Brunswick, New Jersey	Leased
Santa Fe, New Mexico	Owned
New Hartford, New York	Leased
New York, New York	Leased
Burlington, North Carolina	Owned
Research Triangle Park, North Carolina	Leased
Dublin, Ohio	Owned
Oklahoma City, Oklahoma	Leased
Brentwood, Tennessee	Leased
Knoxville, Tennessee	Leased
Austin, Texas	Leased
Dallas, Texas	Leased
Houston, Texas	Leased
San Antonio, Texas	Leased
Salt Lake City, Utah	Leased
Seattle, Washington	Leased
Milwaukee, Wisconsin	Leased

Charleston, West Virginia  
Mechelen, Belgium

Leased  
Leased



Index

Edmonton, Canada	Leased
Ontario, Canada	Owned
Mississauga, Canada	Leased
Beijing, China	Leased
Singapore	Leased
Chorley, United Kingdom	Leased
Oxfordshire, United Kingdom	Leased
Corporate Headquarters Facilities:	
Burlington, North Carolina	Owned
Burlington, North Carolina	Leased

All of the Company's primary laboratory facilities have been built or improved for the single purpose of providing clinical laboratory testing services. The Company believes that these facilities are suitable and adequate and have sufficient production capacity for its currently foreseeable level of operations. The Company believes that if it were unable to renew a lease or if a lease were to be terminated on any of the facilities it presently leases, it could find alternate space at competitive market rates and readily relocate its operations to such new locations without material disruption to its operations.

## Item 3. LEGAL PROCEEDINGS

The Company is involved in a number of judicial, regulatory, and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the Company's business activities. Many of these proceedings are at preliminary stages, and many of these cases seek an indeterminate amount of damages.

The Company records an aggregate legal reserve, which is determined using actuarial calculations around historical loss rates and assessment of trends experienced in settlements and defense costs. In accordance with ASC 450 "Contingencies", the Company establishes reserves for judicial, regulatory, and arbitration matters outside the aggregate legal reserve if and when those matters present loss contingencies that are both probable and estimable and would exceed the aggregate legal reserve. When loss contingencies are not both probable and estimable, the Company does not establish separate reserves.

The Company is unable to estimate a range of reasonably possible loss for cases described below in which damages either have not been specified or, in the Company's judgment, are unsupported and/or exaggerated and (i) the proceedings are in early stages; (ii) there is uncertainty as to the outcome of pending appeals or motions; (iii) there are significant factual issues to be resolved; and/or (iv) there are novel legal issues to be presented. For these cases, however, the Company does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Company's financial condition, though the outcomes could be material to the Company's operating results for any particular period, depending, in part, upon the operating results for such period.

A subsidiary of the Company, DIANON Systems, Inc. ("DIANON"), is the appellant in a wrongful termination lawsuit originally filed by G. Berry Schumann in Superior Court in the State of Connecticut. After a jury trial, the state court entered judgment against DIANON, with total damages, attorney's fees, and pre-judgment interest payable by DIANON, of approximately \$10.0 million, plus post-judgment interest that continues to accrue since the entry of judgment. DIANON has disputed liability and has contested the case vigorously on appeal. DIANON filed a notice of appeal in December 2009, and the case was transferred to the Connecticut Supreme Court. The Court heard oral argument on May 18, 2011 and the parties await the Court's decision on DIANON's appeal.

As previously reported, the Company reached a settlement in the previously disclosed lawsuit, California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al., to avoid the uncertainty and costs associated with prolonged litigation. The original lawsuit was brought against the Company and several other major laboratories operating in California and alleged that the defendants improperly billed the state Medicaid program and, therefore, violated the California False Claims Act. The complaint against the Company sought a refund of alleged overpayments made to the Company from November 7, 1995 through November 2009, plus simple interest of 7% per year, calculated as of the filing date to total \$97.5. In addition, the suit sought continuing damages past November 2009, plus treble damages, civil penalties of \$0.01 per each alleged false claim, recovery of costs, attorney's fees, and legal expenses, and pre- and post-judgment interest. Pursuant to the executed settlement agreement, the Company recorded a litigation settlement expense of \$34.5 (net of a previously recorded reserve of \$15.0) in the second quarter of 2011. The Company also agreed to certain reporting obligations regarding its pricing for a limited time period and, at the option of the Company in lieu of such reporting obligations, to provide Medi-Cal with a discount from November 1, 2011 through October 31, 2012. The Medi-Cal discount is not expected to have a material impact on the Company's consolidated revenues or results of

Index

operations.

As previously reported, the Company responded to an October 2007 subpoena from the United States Department of Health & Human Services Office of Inspector General's regional office in New York. On August 17, 2011, the Southern District of New York unsealed a False Claims Act lawsuit, United States of America ex rel. NPT Associates v. Laboratory Corporation of America Holdings, which alleges that the Company offered UnitedHealthcare kickbacks in the form of discounts in return for Medicare business. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. The United States government has not intervened in the lawsuit. The Company will vigorously defend the lawsuit.

In addition, the Company has received three other subpoenas since 2007 related to Medicaid billing. In June 2010, the Company received a subpoena from the State of Florida Office of the Attorney General requesting documents related to its billing to Florida Medicaid. In February 2009, the Company received a subpoena from the Commonwealth of Virginia Office of the Attorney General seeking documents related to the Company's billing for state Medicaid. In October 2009, the Company received a subpoena from the State of Michigan Department of Attorney General seeking documents related to its billing to Michigan Medicaid. The Company also responded to a September 2009 subpoena from the United States Department of Health & Human Services Office of Inspector General's regional office in Massachusetts regarding certain of its billing practices. The Company is cooperating with these requests.

In April 2011, the Company and Orchid announced that they had entered into a definitive agreement and plan of merger under which the Company would acquire all of the outstanding shares of Orchid in a cash tender offer. The Company received a request for additional information (commonly referred to as a "Second Request") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act") from the Federal Trade Commission ("FTC") in connection with the proposed merger with Orchid. On December 8, 2011, the Company announced that it had reached an agreement with the FTC that allowed the Company to complete its acquisition of Orchid, which closed on December 15, 2011. Under the terms of the proposed consent decree that was accepted by the FTC for public comment, the Company is required to divest certain assets of Orchid's U.S. government paternity business. On December 16, 2011, the Company sold those assets to DNA Diagnostics Center ("DDC"), a privately held provider of DNA paternity testing. Subsequent to the closing of the Orchid transaction, the Company has received three notices of demand for appraisal rights for shares.

On April 11, 2011, a putative class action lawsuit, Ballard v. Orchid Cellmark, Inc., et al., was filed in the Superior Court of New Jersey Chancery Division, Mercer County against Orchid, individual members of Orchid's Board of Directors, the Company, and one of the Company's wholly-owned subsidiaries. This action challenged the Orchid acquisition on grounds of alleged breaches of fiduciary duty and/or other violations of state law. Two similar putative class action lawsuits, Kletzel v. Orchid Cellmark, Inc., et al. and Greenberg v. Orchid Cellmark Inc., et al., were subsequently filed in the same court. On August 15, 2011, all three actions were voluntarily dismissed.

On May 2, 2011, a putative class action lawsuit, Tsatsis v. Orchid Cellmark, Inc., et al. was filed in the United States District Court for the District of New Jersey against Orchid, individual members of Orchid's Board of Directors, the Company, and a subsidiary of the Company. This federal court action challenged the Orchid acquisition on grounds of alleged breaches of fiduciary duty and violations of the federal securities laws. On May 12, 2011, the plaintiff filed a motion for preliminary injunction seeking to enjoin the transaction. On May 13, 2011, the Court denied the plaintiff's request for an expedited hearing. On June 27, 2011, the action was voluntarily dismissed.

Three similar shareholder class actions, Silverberg v. Bologna, et al., Nannetti v. Bologna, and Locke v. Orchid Cellmark, Inc., et al., were filed in the Court of Chancery of the State of Delaware and subsequently consolidated into one action, In re Orchid Cellmark Shareholder Litig. On May 4, 2011, the plaintiffs in the consolidated action filed a motion for preliminary injunction seeking to enjoin the transaction. On May 12, 2011, the Court of Chancery denied the motion for preliminary injunction, and plaintiffs' motion for an expedited appeal was subsequently denied on May

16, 2011. Since that time, there has been no substantive activity in the Delaware litigation.

In October 2011, a putative stockholder of the Company made a letter demand through his counsel for inspection of documents related to policies and procedures concerning the Company's Board of Directors' oversight and monitoring of the Company's billing and claim submission process. The letter also seeks documents prepared for or by the Board regarding allegations from the California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al., lawsuit and documents reviewed and relied upon by the Board in connection with the settlement of that lawsuit. The Company is responding to the request pursuant to applicable Delaware law.

On November 18, 2011, the Company received a letter from United States Senators Baucus and Grassley requesting information regarding the Company's relationships with its largest managed care customers. The letter requests information about the Company's

Index

contracts and financial data regarding its managed care customers. The Company is cooperating with the request.

The Company is a defendant in two putative class actions related to overtime pay. In September 2011, a putative class action, Peggy Bryant v. Laboratory Corporation of America Holdings, was filed against the Company in the United States District Court for the Southern District of West Virginia, alleging on behalf of employees similarly situated that the Company violated the Federal Fair Labor Standards Act and applicable state wage laws by failing to pay overtime. The complaint seeks monetary damages, liquidated damages equal to the alleged amount owed, costs, injunctive relief, and attorney's fees. In December 2011, a putative class action, Debra Rivera v. Laboratory Corporation of America Holdings, was filed against the Company in the United States District Court for the Middle District of Florida alleging on behalf of employees similarly situated that the Company violated the Federal Fair Labor Standards Act by failing to pay overtime. The complaint seeks monetary damages, liquidated damages equal to the alleged amount owed, costs, and attorney's fees. The Company intends to vigorously contest both cases.

The Company is involved from time to time in various claims and legal actions, including arbitrations, class actions, and other litigation, arising in the ordinary course of business. Some of these actions involve claims that are substantial in amount. These matters include, but are not limited to, intellectual property disputes, professional liability, employee related matters, and inquiries, including subpoenas and other civil investigative demands, from governmental agencies and Medicare or Medicaid payers and managed care payers reviewing billing practices or requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. The Company receives civil investigative demands or other inquiries from various governmental bodies in the ordinary course of its business. Such inquiries can relate to the Company or other healthcare providers. The Company works cooperatively to respond to appropriate requests for information.

The Company is also named from time to time in suits brought under the qui tam provisions of the False Claims Act and comparable state laws. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal or state health care programs. They may remain under seal (hence, unknown to the Company) for some time while the government decides whether to intervene on behalf of the qui tam plaintiff. Such claims are an inevitable part of doing business in the health care field today.

The Company believes that it is in compliance in all material respects with all statutes, regulations and other requirements applicable to its clinical laboratory operations. The clinical laboratory testing industry is, however, subject to extensive regulation, and the courts have not interpreted many of these statutes and regulations. There can be no assurance therefore that those applicable statutes and regulations will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company. Potential sanctions for violation of these statutes and regulations include significant fines and the loss of various licenses, certificates and authorizations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Index

## PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

The Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "LH". The following table sets forth for the calendar periods indicated the high and low sales prices for the Common Stock reported on the NYSE Composite Tape.

	High	Low
Year Ended December 31, 2010		
First Quarter	77.09	69.49
Second Quarter	83.00	73.12
Third Quarter	78.94	71.58
Fourth Quarter	89.48	75.75
Year Ended December 31, 2011		
First Quarter	92.98	86.19
Second Quarter	100.94	92.09
Third Quarter	99.76	76.91
Fourth Quarter	88.15	74.57

## Holders

On February 17, 2012 there were 367 holders of record of the Common Stock.

## Dividends

The Company has not historically paid dividends on its common stock and does not presently anticipate paying any dividends on its common stock in the foreseeable future.

Index

## Common Stock Performance

The Company's common stock is traded on the NYSE. The graph below shows the cumulative total return assuming an investment of \$100 on December 30, 2006 in each of the Company's common stock, the Standard & Poor's (the "S&P") Composite-500 Stock Index and the S&P 400 Health Care Index (the "Peer Group") and assuming that all dividends were reinvested.

## Comparison of Five Year Cumulative Total Return

	12/2006	12/2007	12/2008	12/2009	12/2010	12/2011
Laboratory Corporation of America Holdings	\$ 100	\$ 103	\$ 88	\$ 102	\$ 120	\$ 117
S&P 500 Index	\$ 100	\$ 105	\$ 66	\$ 84	\$ 97	\$ 99
S&P 500 Health Care Index	\$ 100	\$ 107	\$ 83	\$ 99	\$ 102	\$ 115
S&P 400 Health Care Index	\$ 100	\$ 113	\$ 75	\$ 102	\$ 125	\$ 127

Index

## Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of shares of the Company's common stock made during the quarter ended December 31, 2011, by or on behalf of the Company (dollar amounts in millions):

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Repurchased Under the Program
October 1 – October 31	0.7	\$80.70	0.7	\$197.9
November 1 – November 30	0.8	82.23	0.8	135.2
December 1 – December 31	0.6	84.33	0.6	84.4
	2.1	\$82.30	2.1	

At January 1, 2007, the Company had authorization to repurchase up to \$350.0 of shares of the Company's common stock (\$100.0 authorized on April 21, 2005 and \$250.0 authorized on October 20, 2006). On March 9, 2007, the Company announced the Board of Directors authorized the purchase of up to \$500.0 of additional shares of the Company's common stock. On November 2, 2007, the Company announced the Board of Directors authorized the purchase of up to \$500.0 of additional shares of the Company's common stock. On August 10, 2009, the Company announced the Board of Directors authorized the purchase of up to \$250.0 of additional shares of the Company's common stock. On February 11, 2010, the Company announced the Board of Directors authorized the purchase of up to \$250.0 of additional shares of the Company's common stock. On August 9, 2010, the Company announced the Board of Directors authorized the purchase of up to \$250.0 of additional shares of the Company's common stock. During January 2011, the Company completed its repurchase authorization, representing approximately 2.6 shares of its common stock. On February 10, 2011, the Company announced the Board of Directors authorized the purchase of up to \$500.0 of additional shares of the Company's common stock. As of December 31, 2011, the Company had outstanding authorization from the Board of Directors to purchase approximately up to \$84.4 of Company common stock. The repurchase authorization has no expiration date. On February 10, 2012, the Company announced the Board of Directors authorized the purchase of up to \$500.0 of additional shares of the Company's common stock.



Index

## Item 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for the five-year period ended December 31, 2011 are derived from consolidated financial statements of the Company, which have been audited by an independent registered public accounting firm. This data should be read in conjunction with the accompanying notes, the Company's consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere herein.

	Year Ended December 31,				
	(a) 2011	(b) 2010	(c) 2009	(d) 2008	(e) 2007
	(In millions, except per share amounts)				
Statement of Operations Data:					
Net sales	\$5,542.3	\$5,003.9	\$4,694.7	\$4,505.2	\$4,068.2
Gross profit	2,274.7	2,097.8	1,970.9	1,873.8	1,691.2
Operating income	948.4	978.8	935.9	842.9	777.0
Net earnings attributable to Laboratory Corporation of America Holdings					
Basic earnings per common share	\$5.20	\$5.42	\$5.06	\$4.23	\$4.08
Diluted earnings per common share	\$5.11	\$5.29	\$4.98	\$4.16	\$3.93
Basic weighted average common shares outstanding					
	100.0	103.0	107.4	109.7	116.8
Diluted weighted average common shares outstanding					
	101.8	105.4	109.1	111.8	121.3
Balance Sheet Data:					
Cash and cash equivalents, and short-term investments	\$159.3	\$230.7	\$148.5	\$219.7	\$166.3
Goodwill and intangible assets, net	4,302.5	4,275.4	3,239.3	2,994.8	2,252.9
Total assets	6,171.0	6,187.8	4,837.8	4,669.5	4,368.2
Long-term obligations (g)	2,221.0	2,188.4	1,394.4	1,721.3	1,667.0
Total shareholders' equity	2,503.5	2,466.3	2,106.1	1,688.3	1,725.3

During 2011, the Company recorded net restructuring charges of \$44.6. Of this amount, \$27.4 related to severance and other personnel costs, and \$22.0 primarily related to facility-related costs associated with the ongoing integration of certain acquisitions including Genzyme Genetics and Westcliff Medical Laboratories, Inc. ("Westcliff"). These charges were offset by restructuring credits of \$4.8 resulting from the reversal of unused (a) severance and facility closure liabilities. In addition, the Company recorded fixed assets impairment charges of \$18.9 primarily related to equipment, computer systems and leasehold improvements in closed facilities. The Company also recorded special charges of \$14.8 related to the write-off of certain assets and liabilities related to an investment made in prior years, along with a \$2.6 write-off of an uncollectible receivable from a past installment sale of one of the Company's lab operations.

Following the closing of its acquisition of Orchid Cellmark Inc. ("Orchid") in mid-December 2011, the Company recorded a net \$2.8 loss on its divestiture of certain assets of Orchid's U.S. government paternity business, under (b) the terms of the agreement reached with the U.S. Federal Trade Commission. This non-deductible loss on disposal was recorded in Other Income and Expense in the Company's Consolidated Statements of Operations and decreased net earnings for the twelve months ended December 31, 2011 by \$2.8.

During 2010, the Company recorded net restructuring charges of \$5.8 primarily related to work force reductions (c) and the closing of redundant and underutilized facilities. In addition, the Company recorded a special charge of \$6.2 related to the write-off of development costs incurred on systems abandoned during the year.

The Company incurred approximately \$25.7 in professional fees and expenses in connection with the acquisition of Genzyme Genetics and other acquisition activity, including significant costs associated with the Federal Trade Commission's review of the Company's purchase of specified net assets of Westcliff. These fees and expenses are

Index

included in selling, general and administrative expenses for the year ended December 31, 2010.

The Company also incurred \$7.0 of financing commitment fees (included in interest expense for the year ended December 31, 2010) in connection with the acquisition of Genzyme Genetics.

(d) During 2009, the Company recorded net restructuring charges of \$13.5 primarily related to the closing of redundant and underutilized facilities.

In October 2009, the Company received approval from its Board of Directors to freeze any additional service-based credits for any years of service after December 31, 2009 on the defined benefit retirement plan (the "Company Plan") and the nonqualified supplemental retirement plan (the "PEP"). As a result of the changes to the Company Plan and PEP which were adopted in the fourth quarter of 2009, the Company recognized a net curtailment charge of \$2.8 due to remeasurement of the PEP obligation at December 31, 2009 and the acceleration of unrecognized prior service for that plan. In addition, the Company recorded favorable adjustments of \$21.5 to its tax provision relating to the resolution of certain state income tax issues under audit, as well as the realization of foreign tax credits.

In connection with the Monogram Biosciences, Inc. acquisition, the Company incurred \$2.7 in transaction fees and expenses in the third quarter of 2009.

(e) During 2008, the Company recorded net restructuring charges of \$32.4 primarily related to work force reductions and the closing of redundant and underutilized facilities. During the third quarter of 2008, the Company also recorded a special charge of \$5.5 related to estimated uncollectible amounts primarily owed by patients in the areas of the Gulf Coast severely impacted by hurricanes similar to losses incurred during the 2005 hurricane season.

In the fourth quarter of 2008, the Company recorded a \$7.5 cumulative revenue adjustment relating to certain historic overpayments made by Medicare for claims submitted by a subsidiary of the Company. In addition, the Company recorded a \$7.1 favorable adjustment to its fourth quarter tax provision relating to tax treaty changes adopted by the United States and Canada.

During the fourth quarter of 2008, the Company recorded charges of approximately \$3.7, which related to the acceleration of the recognition of stock compensation and certain defined benefit plan obligations due to the announced retirement of the Company's Executive Vice President of Corporate Affairs, effective December 31, 2008.

In the second quarter of 2008, the Company recorded a \$45.0 increase in its provision for doubtful accounts. The Company's estimate of the allowance for doubtful accounts was increased due to the impact of the economy, higher patient deductibles and copayments, and recent acquisitions on the collectibility of accounts receivable balances.

(f) During 2007, the Company recorded net restructuring charges of \$50.6 related to reductions in work force and consolidation of redundant and underutilized facilities.

(g) Long-term obligations primarily include the Company's zero-coupon convertible subordinated notes, 5 1/2% senior notes due 2013, 5 5/8% senior notes due 2015, 3.125% senior notes due 2016, 4.625% senior notes due 2020, term loan, revolving credit facility and other long-term obligations. The accreted balance of the zero-coupon convertible subordinated notes was \$135.5, \$286.7, \$292.2, \$573.5 and \$564.4 at December 31, 2011, 2010, 2009, 2008 and 2007, respectively. The balance of the 5 1/2% senior notes, including principal and unamortized portion of a deferred gain on an interest rate swap agreement, was \$350.0, \$350.9, \$351.3, \$351.7 and \$352.2 at December 31, 2011, 2010, 2009, 2008 and 2007, respectively. The principal balance of the 5 5/8% senior notes was \$250.0 at

December 31, 2011, 2010, 2009, 2008 and 2007. The principal balance of the 3.125% senior notes was \$325.0 at December 31, 2011 and 2010, and \$0 for all other years presented. The principal balance of the 4.625% senior notes was \$600.0 at December 31, 2011 and 2010 and \$0 for all other years presented. The term loan was \$0.0, \$375.0, \$425.0, \$475.0 and \$500.0 at December 31, 2011, 2010, 2009, 2008 and 2007, respectively. The revolving credit facility was \$560.0, \$75.0, \$70.8 at December 31, 2011, 2009 and 2008, respectively, and \$0 for all other years presented. The remainder of other long-term obligations consisted primarily of mortgages payable with balances of \$0.0, \$0.8, \$0.9, \$0.3 and \$0.4 at December 31, 2011, 2010, 2009, 2008 and 2007, respectively. Long-term obligations exclude amounts due to affiliates.

Index

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in millions)

General

During 2011, the Company continued to strengthen its financial performance through pricing discipline, continued growth of its esoteric testing, outcome improvement and companion diagnostics offerings, and expense control.

The Company's acquisition of Genzyme Genetics in December 2010 has helped to expand the Company's capabilities in reproductive, genetic, hematology-oncology and clinical trials central laboratory testing, enhance the Company's esoteric testing capabilities and advance the Company's personalized medicine strategy. The Genzyme Genetics acquisition contributed approximately 6.8% to the Company's 10.8% growth in net sales experienced in 2011.

In July 2011, the Company reached a settlement in the previously disclosed lawsuit, California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al. to avoid the uncertainty and costs associated with prolonged litigation. Pursuant to the executed settlement agreement, the Company paid \$49.5 in the third quarter of 2011 to resolve all claims brought against the Company in the lawsuit without any admission of liability. In connection with the settlement, the Company recorded litigation settlement expense of \$34.5 (\$49.5 settlement, net of previously recorded reserves of \$15.0) in the second quarter of 2011. This expense was recorded in Selling, General and Administrative expense in the Company's Consolidated Statements of Operations.

In September 2011, the Company announced that it had extended the term of its agreement with UnitedHealthcare Insurance Company, an affiliate of UnitedHealth Group Incorporated, for an additional two years. The agreement, which was effective January 1, 2007, will now continue through the end of 2018.

Following the closing of its acquisition of Orchid Cellmark Inc. ("Orchid") in mid-December, the Company recorded a net \$2.8 loss on its divestiture of certain assets of Orchid's U.S. government paternity business, under the terms of the agreement reached with the U.S. Federal Trade Commission. This non-deductible loss on disposal was recorded in Other Income and Expense in the Company's Consolidated Statements of Operations.

In November 2011, the Company acquired an additional 12.6% ownership interest from the holders of the non-controlling interest in the Ontario joint venture in accordance with the terms of the joint venture's partnership agreement, bringing the Company's ownership interest to 98.2%.

On December 21, 2011, the Company entered into a new \$1,000.0 revolving credit facility. As part of this new financing, the Company repaid all of the outstanding balances of \$318.8 on its term loan and \$235.0 on its previous revolving credit facility. In conjunction with the repayment and cancellation of its old credit agreement, the Company recorded approximately \$1.0 of unamortized debt costs as interest expense in the Company's Consolidated Statements of Operations during the fourth quarter of 2011.

Seasonality

The majority of the Company's testing volume is dependent on patient visits to physician offices and other providers of health care. Volume of testing generally declines during the year-end holiday periods and other major holidays. In addition, volume declines due to inclement weather may reduce net revenues and cash flows. Therefore, comparison of the results of successive quarters may not accurately reflect trends or results for the full year.

Results of Operations (amounts in millions except Revenue Per Requisition info)

Years ended December 31, 2011, 2010, and 2009

Operating results for the year ended December 31, 2011 were impacted by a challenging economic climate, offset by growth resulting from the Company's 2010 acquisitions of Genzyme Genetics and Westcliff, along with organic growth within its core operations. Inclement weather reduced volumes by an estimated 0.1% and 0.3%, and revenue by an estimated \$26.0 and \$23.0 during the years ended December 31, 2011 and 2010, respectively.

38

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Index

## Net Sales

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Net sales						
Routine Testing	\$3,143.9	\$2,995.4	\$2,845.6	5.0	% 5.3	%
Genomic and Esoteric Testing	2,089.0	1,728.5	1,601.6	20.9	% 7.9	%
Ontario, Canada	309.4	280.0	247.5	10.5	% 13.1	%
Total	\$5,542.3	\$5,003.9	\$4,694.7	10.8	% 6.6	%

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Volume						
Routine Testing	85.2	83.3	84.6	2.3	% (1.6)	)%
Genomic and Esoteric Testing	29.3	27.2	25.8	7.8	% 5.7	%
Ontario, Canada	9.3	9.1	9.1	1.8	% 0.4	%
Total	123.8	119.6	119.5	3.5	% 0.1	%

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Revenue Per Requisition						
Routine Testing	\$36.91	\$35.96	\$33.62	2.6	% 7.0	%
Genomic and Esoteric Testing	\$71.19	\$63.48	\$62.14	12.1	% 2.2	%
Ontario, Canada	\$33.29	\$30.68	\$27.24	8.5	% 12.6	%
Total	\$44.76	\$41.82	\$39.29	7.0	% 6.4	%

The increase in net sales for the three years ended December 31, 2011 has been driven primarily by acquisitions made in all years (most significantly in the second half of 2010), along with growth in the Company's managed care business, increased revenue from third parties (Medicare and Medicaid), the Company's continued shift in test mix to higher-priced genomic and esoteric tests, and growth in revenue per requisition in the Company's routine testing. Managed care and third party revenue as a percentage of net sales increased from 61.8% in 2009 to 62.8% in 2011. Genomic and esoteric testing volume as a percentage of total volume increased from 21.6% in 2009 to 23.7% in 2011. The continuing impact of government contracts terminated during 2009 reduced routine testing volume by 0.1% and 1.8% for the years ended December 31, 2011 and 2010, respectively. Revenue per requisition growth was impacted in 2010 by lost contracts and the recognition of deferred revenue resulting from an amendment to a customer contract, which together improved revenue per requisition by approximately 1.6%. In 2011, the Company's 2010 acquisition of Genzyme Genetics contributed 6.8% to the overall 10.8% growth in revenue and 0.9% to the overall 3.5% growth in volume. Net sales of the Ontario joint venture were \$309.4, \$280.0 and \$247.5 for the twelve months ended December 31, 2011, 2010 and 2009, respectively, an increase of \$29.4 or 10.5%, and \$32.5 or 13.1% in 2011 and 2010, respectively. Net sales for the Ontario joint venture were impacted by a weaker U.S. dollar in 2011 and a stronger U.S. dollar in 2010 and 2009. In Canadian dollars, net sales of the Ontario joint venture for the twelve months ended December 31, 2011, 2010 and 2009 were CN\$ 306.0, CN\$ 288.5 and CN\$ 281.3, respectively.

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Cost of Sales						
Cost of sales	\$3,267.6	\$2,906.1	\$2,723.8	12.4	% 6.7	%
Cost of sales as a % of sales	59.0	% 58.1	% 58.0	%		

Cost of sales (primarily laboratory and distribution costs) has increased over the three year period ended December 31, 2011 primarily due to overall growth in the Company's volume, as well as increases in labor, the continued shift in test

mix to higher cost genomic and esoteric testing and the impact of acquisitions. As a percentage of sales, cost of sales has increased during the three year period ended December 31, 2011 from 58.0% in 2009 to 59.0% in 2011. Cost of sales as a percentage of net sales was comparable for 2010 and 2009. The increase in 2011 cost of sales as a percentage of net sales is primarily attributable to recent acquisitions that have not been fully integrated into the Company's operating cost structure as of December 31, 2011. Labor and testing supplies comprise over 77% of the Company's cost of sales.



Index

## Selling, General and Administrative Expenses

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Selling, general and administrative expenses	\$1,159.6	\$1,034.3	\$958.9	12.1	% 7.9	%
SG&A as a % of sales	20.9	% 20.7	% 20.4	%		

Total selling, general and administrative expenses (“SG&A”) as a percentage of sales over the three year period ended December 31, 2011 have ranged from 20.4% to 20.9%. Bad debt expense decreased to 4.6% of net sales in 2011 as compared with 4.8% and 5.3% in 2010 and 2009, respectively. The lower bad debt expense as a percentage of net sales in 2011 and 2010 is primarily due to improved collection trends resulting from process improvement programs within the Company’s billing department and field operations.

The increase in SG&A as a percentage of net sales in 2011 as compared with 2010 is primarily due to net litigation settlement expense of \$34.5 recorded in 2011. The increase in SG&A as a percentage of net sales in 2010 as compared to 2009 is due to acquisition related costs of \$25.7 in 2010, along with expenses from recently acquired operations that had not been fully integrated into the Company's operating cost structure.

## Amortization of Intangibles and Other Assets

	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Amortization of intangibles and other assets	\$85.8	\$72.7	\$62.6	18.0	% 16.1	%

The increase in amortization of intangibles and other assets over the three year period ended December 31, 2011 primarily reflects the impact of acquisitions closed during all three years.

## Restructuring and Other Special Charges

	Years Ended December 31,		
	2011	2010	2009
Restructuring and other special charges	\$80.9	\$12.0	\$13.5

During 2011, the Company recorded net restructuring charges of \$44.6. Of this amount, \$27.4 related to severance and other personnel costs, and \$22.0 primarily related to facility-related costs associated with the ongoing integration of certain acquisitions including Genzyme Genetics and Westcliff. These restructuring initiatives are expected to provide annualized cost savings of approximately \$99.7. These charges were offset by restructuring credits of \$4.8 resulting from the reversal of unused severance and facility closure liabilities. In addition, the Company recorded fixed assets impairment charges of \$18.9 primarily related to equipment, computer systems and leasehold improvements in closed facilities. The Company also recorded special charges of \$14.8 related to the write-off of certain assets and liabilities related to an investment made in prior years, along with a \$2.6 write-off of an uncollectible receivable from a past installment sale of one of the Company's lab operations.

During 2010, the Company recorded net restructuring charges of \$5.8 primarily related to work force reductions and the closing of redundant and underutilized facilities. Of this amount, \$8.0 related to severance and other employee costs in connection with certain work force reductions and \$3.1 related to contractual obligations associated with leased facilities and other facility related costs. These restructuring initiatives are expected to provide annualized cost savings of approximately \$34.7. The Company also reduced its prior restructuring accruals by \$5.3, comprised of \$4.7

of previously recorded facility costs and \$0.6 of employee severance benefits as a result of changes in cost estimates on the restructuring initiatives. In addition, the Company recorded a special charge of \$6.2 related to the write-off of development costs incurred on systems abandoned during the year.

During 2009, the Company recorded net restructuring charges of \$13.5 primarily related to the closing of redundant and underutilized facilities. Of this amount, \$10.5 related to severance and other employee costs for employees primarily in the affected facilities, and \$12.5 related to contractual obligations associated with leased facilities and other facility related costs. The Company also reduced its prior restructuring accruals by \$9.5, comprised of \$7.3 of previously recorded facility costs and \$2.2 of employee

Index

severance benefits as a result of incurring less cost than planned on those restructuring initiatives primarily resulting from favorable settlements on lease buyouts and severance payments that were not required to achieve the planned reduction in work force.

Interest Expense	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Interest expense	\$87.5	\$70.0	\$62.9	25.0	% 11.3	%

The increase in interest expense for 2011 as compared to 2010 is primarily due to interest incurred during 2011 in connection with the senior notes offering of \$925.0 in November 2010, which was outstanding for all of 2011. Certain interest related costs decreased due to lower average borrowings outstanding during 2011 as compared with 2010 primarily due to principal payments on the prior Term Loan Facility and the settlement of approximately \$155.1 of the zero-coupon subordinated notes during the year. In addition, the effective interest rate on the Term Loan Facility was lower in 2011 as compared with 2010 due to the expiration of the interest rate swap on March 31, 2011. In conjunction with the repayment and cancellation of its old credit agreement in December 2011, the Company recorded approximately \$1.0 of unamortized debt costs as interest expense in the Company's Consolidated Statements of Operations. The Company recorded \$7.0 of bridge financing fees in the 2010 period related to the signing of the definitive agreement to acquire Genzyme Genetics in September 2010.

## Equity Method Income

Equity method income	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Equity method income	\$9.5	\$10.6	\$13.8	(10.4	)%	(23.2) %

Equity method income represents the Company's ownership share in joint venture partnerships along with stock investments in other companies in the clinical diagnostic industry. The decrease in income since 2009 is primarily due to the Company's share of losses in the Cincinnati, Ohio joint venture and the Canada, China and Western Europe equity method investment.

Income Tax Expense	Years Ended December 31,			% Change		
	2011	2010	2009	2011	2010	
Income tax expense	\$333.0	\$344.0	\$329.0			
Income tax expense as a % of income before tax	38.4	% 37.6	% 37.2			%

The effective tax rate for 2011 was negatively impacted by non-deductible losses incurred in certain subsidiaries of the Company. The effective tax rate for 2010 was favorably impacted by a benefit relating to the net decrease in unrecognized income tax benefits. The effective tax rate for 2009 was favorably impacted by adjustments of \$21.5 relating to the resolution of certain state tax issues under audit, as well as the realization of foreign tax credits.

## Liquidity, Capital Resources and Financial Position

The Company's strong cash-generating capability and financial condition typically have provided ready access to capital markets. The Company's principal source of liquidity is operating cash flow, supplemented by proceeds from debt offerings. This cash-generating capability is one of the Company's fundamental strengths and provides substantial financial flexibility in meeting operating, investing and financing needs. The Company's senior unsecured revolving credit facility is further discussed in "Note 11 to Consolidated Financial Statements."

## Operating Activities

In 2011, the Company's operations provided \$855.6 of cash, reflecting the Company's solid business results. The decrease in the Company's cash flow from operations primarily resulted from a litigation settlement of \$49.5 which was paid in September 2011. The Company continued to focus on efforts to increase cash collections from all payers and to generate on-going improvements to the claim submission processes.

The Company made contributions to the defined benefit retirement plan ("Company Plan") of \$0.0, \$0.0 and \$54.8 in 2011, 2010 and 2009, respectively. In October 2009, the Company received approval from its Board of Directors to freeze any additional service-based credits for any years of service after December 31, 2009 on the Company Plan and the PEP. Both plans have been

## Index

closed to new participants. Employees participating in the Company Plan and the PEP no longer earn service-based credits, but continue to earn interest credits. In addition, effective January 1, 2010, all employees eligible for the defined contribution retirement plan (the "401K Plan") receive a minimum 3% non-elective contribution ("NEC") concurrent with each payroll period. The NEC replaces the Company match, which has been discontinued. Employees are not required to make a contribution to the 401K Plan to receive the NEC. The NEC is non-forfeitable and vests immediately. The 401K Plan also permits discretionary contributions by the Company of 1% to 3% of pay for eligible employees based on years of service. Non-elective and discretionary contributions were comparable in 2011, compared to 2010, but were approximately \$25.4 higher in 2010 than the Company's contributions to its 401K Plan in 2009.

Projected pension expense for the Company Plan and PEP is expected to increase from \$8.6 in 2011 to \$12.2 in 2012. The Company plans to make contributions of \$14.6 to the Company Plan during 2012. See "Note 16 to the Consolidated Financial Statements" for a further discussion of the Company's pension and postretirement plans.

## Investing Activities

Capital expenditures were \$145.7, \$126.1 and \$114.7 for 2011, 2010 and 2009, respectively. The Company expects capital expenditures of approximately \$155.0 in 2012. The Company will continue to make important investments in its business, including information technology. Such expenditures are expected to be funded by cash flow from operations, as well as borrowings under the Company's revolving credit facilities as needed.

The Company remains committed to growing its business through strategic acquisitions and licensing agreements. The Company has invested a total of \$1,531.2 over the past three years in strategic business acquisitions. These acquisitions have helped strengthen the Company's geographic presence along with expanding capabilities in the specialty testing operations. The Company believes the acquisition market remains attractive with a number of opportunities to strengthen its scientific capabilities, grow esoteric testing capabilities and increase presence in key geographic areas.

The Company has invested a total of \$50.8 over the past three years in licensing new testing technologies (including approximately \$49.4 estimated fair market value of technology acquired in certain acquisitions in 2010 and 2009) and had \$66.2 net book value of capitalized patents, licenses and technology as of December 31, 2011. While the Company continues to believe its strategy of entering into licensing and technology distribution agreements with the developers of leading-edge technologies will provide future growth in revenues, there are certain risks associated with these investments. These risks include, but are not limited to, the failure of the licensed technology to gain broad acceptance in the marketplace and/or that insurance companies, managed care organizations, or Medicare and Medicaid will not approve reimbursement for these tests at a level commensurate with the costs of running the tests. Any or all of these circumstances could result in impairment in the value of the related capitalized licensing costs.

## Financing Activities

On December 21, 2011, the Company entered into a Credit Agreement (the "Credit Agreement") providing for a five-year \$1,000.0 senior unsecured revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A., acting as Administrative Agent, Barclays Capital as Syndication Agent, and a group of financial institutions as lending parties. As part of the new Revolving Credit Facility, the Company repaid all of the outstanding balances of \$318.8 on its existing term loan facility and \$235.0 on its existing revolving credit facility. In conjunction with the repayment and cancellation of its old credit facility, the Company recorded approximately \$1.0 of remaining unamortized debt costs as interest expense in the accompanying Consolidated Statements of Operations for the year ended December 31, 2011. The balances outstanding on the Company's Revolving Credit Facility at December 31,

2011 and December 31, 2010 were \$560.0 and \$0.0, respectively. The Revolving Credit Facility bears interest at varying rates based upon a base rate or LIBOR plus (in each case) a percentage based on the Company's debt rating with Standard & Poor's and Moody's Ratings Services.

The Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, acquisitions, funding of share repurchases and other restricted payments permitted under the Credit Agreement. The Credit Agreement also contains limitations on aggregate subsidiary indebtedness and a debt covenant that requires that the Company maintain on the last day of any period for four consecutive fiscal quarters, in each case taken as one accounting period, a ratio of total debt to consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of not more than 3.0 to 1.0. The Company was in compliance with all covenants in the Credit Agreement at December 31, 2011.

As of December 31, 2011, the effective interest rate on the Revolving Credit Facility was 1.26%.

The interest rate swap agreement to hedge variable interest rate risk on the Company's variable interest rate term loan expired

Index

on March 31, 2011. On a quarterly basis under the swap, the Company paid a fixed rate of interest (2.92%) and received a variable rate of interest based on the three-month LIBOR rate on an amortizing notional amount of indebtedness equivalent to the term loan balance outstanding. The swap was designated as a cash flow hedge. Accordingly, the Company recognized the fair value of the swap in the condensed consolidated balance sheets and any changes in the fair value were recorded as adjustments to accumulated other comprehensive income (loss), net of tax. The fair value of the interest rate swap agreement was the estimated amount that the Company would have paid or received to terminate the swap agreement at the reporting date. The fair value of the swap was a liability of \$2.4 at December 31, 2010 and was included in other liabilities in the respective condensed consolidated balance sheet.

On October 28, 2010, in conjunction with the acquisition of Genzyme Genetics, the Company entered into a \$925.0 Bridge Term Loan Credit Agreement, among the Company, the lenders named therein and Citibank, N.A., as administrative agent (the "Bridge Facility"). The Company replaced and terminated the Bridge Facility in November 2010 by making an offering in the debt capital markets. On November 19, 2010, the Company sold \$925.0 in debt securities, consisting of \$325.0 aggregate principal amount of 3.125% Senior Notes due May 15, 2016 and \$600.0 aggregate principal amount of 4.625% Senior Notes due November 15, 2020. Beginning on May 15, 2011, interest on the Senior Notes due 2016 and 2020 is payable semi-annually on May 15 and November 15. On December 1, 2010, the acquisition of Genzyme Genetics was funded by the proceeds from the issuance of these Notes (\$915.4) and with cash on hand.

During 2011, the Company repurchased \$643.9 of stock representing 7.4 shares. As of December 31, 2011, the Company had outstanding authorization from the Board of Directors to purchase \$84.4 of Company common stock. On February 10, 2012, the Company announced the Board of Directors authorized the purchase of \$500.0 of additional shares of the Company's common stock.

During 2011, the Company settled notices to convert \$190.6 aggregate principal amount at maturity of its zero-coupon subordinated notes with a conversion value of \$248.9. The total cash used for these settlements was \$155.1 and the Company also issued 1.0 additional shares of common stock. As a result of these conversions, the Company also reversed approximately \$36.2 of deferred tax liability to reflect the tax benefit realized upon issuance of the shares.

On August 11, 2011, the Company notified holders of the zero-coupon subordinated notes that pursuant to the Indenture for the notes they have the right to require the Company to purchase in cash all or a portion of their zero-coupon subordinated notes on September 12, 2011 at \$819.54 per note, plus any accrued contingent additional principal and any accrued contingent interest thereon. On September 12, 2011, the Company announced that none of the zero-coupon subordinated notes were tendered by holders for purchase by the Company.

On September 13, 2011, the Company announced that for the period of September 12, 2011 to March 11, 2012, the zero-coupon subordinated notes will accrue contingent cash interest at a rate of no less than 0.125% of the average market price of a zero-coupon subordinated note for the five trading days ended September 7, 2011, in addition to the continued accrual of the original issue discount.

On January 3, 2012, the Company announced that its zero-coupon subordinated notes may be converted into cash and common stock at the conversion rate of 13.4108 per \$1,000 principal amount at maturity of the notes, subject to the terms of the zero-coupon subordinated notes and the Indenture, dated as of October 24, 2006 between the Company and The Bank of New York Mellon, as trustee and conversion agent. In order to exercise the option to convert all or a portion of the zero-coupon subordinated notes, holders are required to validly surrender their zero-coupon subordinated notes at any time during the calendar quarter beginning January 1, 2012, through the close of business on the last business day of the calendar quarter, which is 5:00 p.m., New York City time, on Friday, March 30, 2012. If notices of conversion are received, the Company plans to settle the cash portion of the conversion obligation with cash

on hand and/or borrowings under the revolving credit facility.

#### Credit Ratings

The Company's debt ratings of Baa2 from Moody's and BBB+ from Standard and Poor's contribute to its ability to access capital markets.



Index

Contractual Cash Obligations	Payments Due by Period				
	Total	2012	2013-2014	2015-2016	2017 and thereafter
Operating lease obligations	\$602.7	\$161.4	\$237.2	\$106.2	\$97.9
Contingent future licensing payments (a)	43.7	9.8	18.9	12.9	2.1
Minimum royalty payments	16.5	1.9	4.5	5.1	5.0
Zero-coupon subordinated notes (b)	135.5	135.5	—	—	—
Scheduled interest payments on Senior Notes	380.6	71.2	113.6	84.8	111.0
Revolving credit facility	560.0	—	—	560.0	—
Long-term debt, other than revolving credit facility	1,525.5	—	350.5	575.0	600.0
Total contractual cash obligations (c)(d)(e)	\$3,264.5	\$379.8	\$724.7	\$1,344.0	\$816.0

(a) Contingent future licensing payments will be made if certain events take place, such as the launch of a specific test, the transfer of certain technology, and when specified revenue milestones are met.

As announced by the Company on January 3, 2012, holders of the zero-coupon subordinated notes may choose to convert their notes during the first quarter of 2012 subject to terms as defined in the note agreement. See "Note 11 to Consolidated Financial Statements" and "Credit Ratings" above for further information regarding the Company's zero-coupon subordinated notes.

(c) The table does not include obligations under the Company's pension and postretirement benefit plans, which are included in "Note 16 to Consolidated Financial Statements." Benefits under the Company's postretirement medical plan are made when claims are submitted for payment, the timing of which is not practicable to estimate.

The table does not include the Company's reserves for unrecognized tax benefits. The Company had a \$63.5 and \$65.8 reserve for unrecognized tax benefits, including interest and penalties, at December 31, 2011 and 2010, respectively, which is included in "Note 13 to Consolidated Financial Statements." Substantially all of these tax reserves are classified in other long-term liabilities in the Company's Consolidated Balance Sheets at December 31, 2011 and 2010.

(e) The table does not include interest on the Company's Revolving Credit Facility's outstanding balance of \$560.0 at December 31, 2011, which bears interest at 1.26%.

## Off-Balance Sheet Arrangements

The Company does not have transactions or relationships with "special purpose" entities, and the Company does not have any off balance sheet financing other than normal operating leases.

## Other Commercial Commitments

As of December 31, 2011, the Company provided letters of credit aggregating approximately \$37.4, primarily in connection with certain insurance programs. Letters of credit provided by the Company are secured by the Company's Revolving Credit Facility and are renewed annually, around mid-year.

The partnership units of the holders of the noncontrolling interest in the Ontario, Canada ("Ontario") joint venture were acquired by the Company on February 8, 2010 for \$137.5. On February 17, 2010, the Company completed a transaction to sell the units acquired from the previous noncontrolling interest holder to a new Canadian partner for the same price. As a result of this transaction, the Company recorded a component of noncontrolling interest in other liabilities and a component in mezzanine equity. Upon the completion of these two transactions, the Company's financial ownership percentage in the joint venture partnership remained unchanged at 85.6%. Concurrent with the

sale to the new partner, the partnership agreement for the Ontario joint venture was amended and restated with substantially the same terms as the previous agreement.

On October 14, 2011, the Company issued notice to a noncontrolling interest holder in the Ontario joint venture of its intent to purchase the holder's partnership units in accordance with the terms of the joint venture's partnership agreement. On November 28, 2011, this purchase was completed for a total purchase price of CN\$ 151.7 as outlined in the partnership agreement (CN\$147.8 plus certain adjustments relating to cash distribution hold backs made to finance recent business acquisitions and capital expenditures). The purchase of these additional partnership units brings the Company's percentage interest owned to 98.2%.

The contractual value of the remaining noncontrolling interest put, in excess of the current noncontrolling interest of \$3.6,

Index

totals \$16.6 at December 31, 2011. At December 31, 2011 and 2010, \$20.2 and \$20.6, respectively, have been classified as mezzanine equity in the Company's condensed consolidated balance sheet.

At December 31, 2011, the Company was a guarantor on approximately \$0.9 of equipment leases. These leases were entered into by a joint venture in which the Company owns a 50% interest and have a remaining term of approximately two years.

Based on current and projected levels of operations, coupled with availability under its Revolving Credit Facility, the Company believes it has sufficient liquidity to meet both its anticipated short-term and long-term cash needs; however, the Company continually reassesses its liquidity position in light of market conditions and other relevant factors.

New Accounting Pronouncements

In September 2011, the FASB issued authoritative guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2011, the FASB issued authoritative guidance on the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities. This literature was issued to provide greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. Specifically, this literature requires the provision for bad debts associated with patient service revenue to be separately displayed on the face of the statement of operations as a component of net revenue for health care entities that provide services regardless of a patient's ability to pay. The guidance also requires enhanced disclosures of significant changes in estimates in the provision for bad debts relating to patient services when an entity recognizes revenue regardless of a patient's ability to pay. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption permitted. The Company does not believe the adoption of the authoritative guidance in the first quarter of 2012 will have an impact on its consolidated financial statements.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income. Specifically, this literature allows an entity to present components of net earnings and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The authoritative guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in shareholders' equity. While the authoritative guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net earnings or other comprehensive income under current accounting guidance. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not believe the adoption of the authoritative guidance in the first quarter of fiscal 2012 will have an impact on its consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued authoritative guidance to achieve common fair value measurement and disclosure requirements between U.S. generally accepted accounting principles and International Financial Reporting Standards.

This new literature amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not believe the adoption of the authoritative guidance in the first quarter of fiscal 2012 will have an impact on its consolidated financial statements.

#### Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. While the Company believes these estimates are reasonable and consistent, they are by their very nature, estimates of amounts that will depend on future events. Accordingly, actual results could differ from these estimates. The Company's Audit Committee periodically reviews the Company's significant accounting policies. The Company's critical accounting policies arise in conjunction with the following:

- Revenue recognition and allowances for doubtful accounts;

Index

Pension expense;  
 Accruals for self insurance reserves; and  
 Income taxes

## Revenue recognition and allowance for doubtful accounts

Revenue is recognized for services rendered when the testing process is complete and test results are reported to the ordering physician. The Company's sales are generally billed to three types of payers – clients, patients and third parties such as managed care companies, Medicare and Medicaid. For clients, sales are recorded on a fee-for-service basis at the Company's client list price, less any negotiated discount. Patient sales are recorded at the Company's patient fee schedule, net of any discounts negotiated with physicians on behalf of their patients. The Company bills third-party payers in two ways – fee-for-service and capitated agreements. Fee-for-service third-party payers are billed at the Company's patient fee schedule amount, and third-party revenue is recorded net of contractual discounts. These discounts are recorded at the transaction level at the time of sale based on a fee schedule that is maintained for each third-party payer. The majority of the Company's third-party sales are recorded using an actual or contracted fee schedule at the time of sale. For the remaining third-party sales, estimated fee schedules are maintained for each payer. Adjustments to the estimated payment amounts are recorded at the time of final collection and settlement of each transaction as an adjustment to revenue. These adjustments are not material to the Company's results of operations in any period presented. The Company periodically adjusts these estimated fee schedules based upon historical payment trends. Under capitated agreements with managed care companies, the Company recognizes revenue based on a negotiated monthly contractual rate for each member of the managed care plan regardless of the number or cost of services performed.

The Company has a formal process to estimate and review the collectibility of its receivables based on the period of time they have been outstanding. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level. The Company's process for determining the appropriate level of the allowance for doubtful accounts involves judgment, and considers such factors as the age of the underlying receivables, historical and projected collection experience, and other external factors that could affect the collectibility of its receivables. Accounts are written off against the allowance for doubtful accounts based on the Company's write-off policy (e.g., when they are deemed to be uncollectible). In the determination of the appropriate level of the allowance, accounts are progressively reserved based on the historical timing of cash collections relative to their respective aging categories within the Company's receivables. These collection and reserve processes, along with the close monitoring of the billing process, help reduce the risks of material revisions to reserve estimates resulting from adverse changes in collection or reimbursement experience. The following table presents the percentage of the Company's net accounts receivable outstanding by aging category at December 31, 2011 and 2010:

Days Outstanding	2011	2010
0 – 30	51.2%	51.1%
31 – 60	17.2%	17.5%
61 – 90	10.2%	9.7%
91 – 120	7.7%	7.2%
121 – 150	4.2%	4.0%
151 – 180	3.1%	3.7%
181 – 270	5.3%	5.8%
271 – 360	0.8%	0.9%
Over 360	0.2%	0.1%

The above table excludes the percentage of net accounts receivable outstanding by aging category for the Ontario, Canada joint venture, Clearstone and Orchid. The Company believes that including the agings for these foreign operations would not be representative of the majority of the accounts receivable by aging category for the Company.

#### Pension Expense

In October 2009, the Company received approval from its Board of Directors to freeze any additional service-based credits for any years of service after December 31, 2009 on the Company Plan and the PEP. Both plans have been closed to new participants. Employees participating in the Company Plan and the PEP no longer earn service-based credits, but continue to earn interest credits. In addition, effective January 1, 2010, all employees eligible for the defined contribution retirement plan (the "401K Plan") receive a minimum 3% non-elective contribution ("NEC") concurrent with each payroll period. The 401K Plan also permits

Index

discretionary contributions by the Company of 1% to 3% of pay for eligible employees based on service.

The Company Plan covers substantially all employees hired prior to December 31, 2009. The benefits to be paid under the Company Plan are based on years of credited service through December 31, 2009, interest credits and average compensation. The Company also has the PEP which covers its senior management group. Prior to 2010, the PEP provided for the payment of the difference, if any, between the amount of any maximum limitation on annual benefit payments under the Employee Retirement Income Security Act of 1974 and the annual benefit that would be payable under the Company Plan but for such limitation.

The Company's net pension cost is developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are updated on an annual basis at the beginning of each year. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in pension costs may occur in the future due to changes in these assumptions. The key assumptions used in accounting for the defined benefit retirement plans were a 4.0% discount rate and a 7.25% expected long-term rate of return on plan assets as of December 31, 2011.

Discount Rate

The Company evaluates several approaches toward setting the discount rate assumption that is used to value the benefit obligations of its retirement plans. At year-end, priority was given to use of the Citigroup Pension Discount Curve and anticipated cash outflows of each retirement plan were discounted with the spot yields from the Citigroup Pension Discount Curve. A single-effective discount rate assumption was then determined for each retirement plan based on this analysis. A one percentage point decrease or increase in the discount rate would have resulted in a respective increase or decrease in 2011 retirement plan expense of \$1.8.

Return on Plan Assets

In establishing its expected return on plan assets assumption, the Company reviews its asset allocation and develops return assumptions based on different asset classes adjusting for plan operating expenses. Actual asset over/under performance compared to expected returns will respectively decrease/increase unrecognized loss. The change in the unrecognized loss will change amortization cost in upcoming periods. A one percentage point increase or decrease in the expected return on plan assets would have resulted in a corresponding change in 2011 pension expense of \$2.5.

Net pension cost for 2011 was \$8.6 as compared with \$9.6 in 2010 and \$36.6 in 2009 (including the impact of the \$2.8 non-recurring net curtailment charge). The decrease in pension expense in 2011 and 2010 was due to the changes to the Company Plan and PEP. Projected pension expense for the Company Plan and the PEP is expected to increase from \$8.6 in 2011 to \$12.2 in 2012.

Further information on the Company's defined benefit retirement plan is provided in Note 16 to the consolidated financial statements.

Accruals for Self-insurance Reserves

Accruals for self-insurance reserves (including workers' compensation, auto and employee medical) are determined based on a number of assumptions and factors, including historical payment trends and claims history, actuarial assumptions and current and estimated future economic conditions. These estimated liabilities are not discounted.

The Company is self-insured (up to certain limits) for professional liability claims arising in the normal course of business, generally related to the testing and reporting of laboratory test results. The Company maintains excess insurance which limits the Company's maximum exposure on individual claims. The Company estimates a liability that represents the ultimate exposure for aggregate losses below those limits. The liability is discounted and is based on a number of assumptions and factors for known and incurred but not reported claims based on an actuarial assessment of the accrual driven by frequency and amount of claims.

If actual trends differ from these estimates, the financial results could be impacted. Historical trends have not differed materially from these estimates.

#### Income Taxes

The Company accounts for income taxes utilizing the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and



Index

liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company does not recognize a tax benefit, unless the Company concludes that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that the Company believes is greater than 50% likely to be realized. The Company records interest and penalties in income tax expense.

Index

FORWARD-LOOKING STATEMENTS

The Company has made in this report, and from time to time may otherwise make in its public filings, press releases and discussions by Company management, forward-looking statements concerning the Company's operations, performance and financial condition, as well as its strategic objectives. Some of these forward-looking statements can be identified by the use of forward-looking words such as "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "estimates", or "anticipates" or the negative of those words or other comparable terminology. Such forward-looking statements are subject to various risks and uncertainties and the Company claims the protection afforded by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those currently anticipated due to a number of factors in addition to those discussed elsewhere herein and in the Company's other public filings, press releases and discussions with Company management, including:

1. changes in federal, state, local and third party payer regulations or policies or other future reforms in the health care system (or in the interpretation of current regulations), new insurance or payment systems, including state or regional insurance cooperatives, new public insurance programs or a single-payer system, affecting governmental and third-party coverage or reimbursement for clinical laboratory testing;
2. adverse results from investigations or audits of clinical laboratories by the government, which may include significant monetary damages, refunds and/or exclusion from the Medicare and Medicaid programs;
3. loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or interpretations of, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988, or those of Medicare, Medicaid, the False Claims Act or other federal, state or local agencies;
4. failure to comply with the Federal Occupational Safety and Health Administration requirements and the Needlestick Safety and Prevention Act, which may result in penalties and loss of licensure;
5. failure to comply with HIPAA, including changes to federal and state privacy and security obligations and changes to HIPAA, including those changes included within HITECH and any subsequent amendments, which could result in increased costs, denial of claims and/or significant penalties;
6. failure to maintain the security of business information or systems could damage the Company's reputation, cause it to incur substantial additional costs and to become subject to litigation;
7. failure of the Company, third party payers or physicians to comply with Version 5010 Transactions by the CMS delayed enforcement date of March 31, 2012 or to comply with the ICD-10-CM Code Set by the compliance date to be determined by the Department of Health and Human Services which will be sometime after October 1, 2013, could negatively impact the Company's reimbursement and profitability;
8. increased competition, including competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry;
9. increased price competition, competitive bidding for laboratory tests and/or changes or reductions to fee schedules;
10. changes in payer mix, including an increase in capitated reimbursement mechanisms or the impact of a shift to consumer-driven health plans;
11. failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers;
12. failure to retain or attract managed care business as a result of changes in business models, including new risk based or network approaches, or other changes in strategy or business models by managed care companies;
13. failure to effectively integrate and/or manage newly acquired businesses, including Genzyme Genetics, and the cost related to such integrations;
14. adverse results in litigation matters;
15. inability to attract and retain experienced and qualified personnel;
16. failure to maintain the Company's days sales outstanding and/or bad debt expense levels;

17. decrease in the Company's credit ratings by Standard & Poor's and/or Moody's;
18. discontinuation or recalls of existing testing products;
19. failure to develop or acquire licenses for new or improved technologies, or if customers use new technologies to perform

49

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Index

their own tests;

20. inability to commercialize newly licensed tests or technologies or to obtain appropriate coverage or reimbursement for such tests, which could result in impairment in the value of certain capitalized licensing costs;
21. changes in government regulations or policies, including regulations and policies of the Food and Drug Administration, affecting the approval, availability of, and the selling and marketing of diagnostic tests;
22. inability to obtain and maintain adequate patent and other proprietary rights for protection of the Company's products and services and successfully enforce the Company's proprietary rights;
23. the scope, validity and enforceability of patents and other proprietary rights held by third parties which might have an impact on the Company's ability to develop, perform, or market the Company's tests or operate its business;
24. failure in the Company's information technology systems resulting in an increase in testing turnaround time or billing processes or the failure to meet future regulatory or customer information technology, data security and connectivity requirements;
25. failure of the Company's financial information systems resulting in failure to meet required financial reporting deadlines;
26. failure of the Company's disaster recovery plans to provide adequate protection against the interruption of business and/or to permit the recovery of business operations;
27. business interruption or other impact on the business due to adverse weather (including hurricanes), fires and/or other natural disasters, labor unrest, terrorism or other criminal acts, and/or widespread outbreak of influenza or other pandemic illness;
28. liabilities that result from the inability to comply with corporate governance requirements;
29. significant deterioration in the economy or financial markets which could negatively impact the Company's testing volumes, cash collections and the availability of credit for general liquidity or other financing needs;
30. changes in reimbursement by foreign governments and foreign currency fluctuations; and
31. expenses and risks associated with international operations, including compliance with laws and regulations that differ from the United States, and economic, political, legal and other operational risks associated with foreign markets.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company addresses its exposure to market risks, principally the market risk associated with changes in interest rates, through a controlled program of risk management that includes, from time to time, the use of derivative financial instruments such as interest rate swap agreements. Although, as set forth below, the Company's zero-coupon subordinated notes contain features that are considered to be embedded derivative instruments, the Company does not hold or issue derivative financial instruments for trading purposes. The Company does not believe that its exposure to market risk is material to the Company's financial position or results of operations.

The Company's zero-coupon subordinated notes contain the following two features that are considered to be embedded derivative instruments under authoritative guidance in connection with accounting for derivative instruments and hedging activities:

- 1) The Company will pay contingent cash interest on the zero-coupon subordinated notes after September 11, 2006, if the average market price of the notes equals 120% or more of the sum of the issue price, accrued original issue discount and contingent additional principal, if any, for a specified measurement period.
- 2) Holders may surrender zero-coupon subordinated notes for conversion during any period in which the rating assigned to the zero-coupon subordinated notes by Standard & Poor's Ratings Services is BB- or lower.

Borrowings under the Company's revolving credit facility are subject to variable interest rates, unless fixed through interest rate swaps or other agreements.

The Company's Ontario, Canada consolidated joint venture operates in Canada and, accordingly, the earnings and cash flows generated from the Ontario operations are subject to foreign currency exchange risk.

The Company's wholly-owned subsidiary, Orchid, has operations in the United Kingdom and, accordingly the earnings and cash flows generated from Orchid's United Kingdom operation are subject to foreign currency risk.

Index

The Alberta, Canada joint venture partnership operates in Canada and remits the Company's share of partnership income in Canadian dollars. Accordingly, the cash flow received from this affiliate is subject to foreign currency exchange risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index on Page F-1 of the Financial Report included herein.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

The internal control over financial reporting at the Company was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
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provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, the Company's management determined that, as of December 31, 2011, the Company maintained effective internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Company's Board of Directors.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, who audited and reported on the consolidated

Index

financial statements of the Company included in this annual report, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 as stated in its report, which is included herein immediately preceding the Company's audited financial statements.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS and CORPORATE GOVERNANCE

The information required by the item regarding directors is incorporated by reference to the Company's Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders to be held in 2012 (the "2012 Proxy Statement") under the caption "Election of Directors." Information regarding executive officers is incorporated by reference to the Company's 2012 Proxy Statement under the caption "Executive Officers."

Information concerning the Company's Audit Committee, including the designation of audit committee financial experts and information regarding compliance with Section 16(a) of the Exchange Act responsive to this item is incorporated by reference to the Company's 2012 Proxy Statement under the captions "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" respectively. Information concerning the Company's code of ethics is incorporated by reference to the Company's 2012 Proxy Statement under the caption "Corporate Governance Policies and Procedures."

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the 2012 Proxy Statement under the captions "Executive Compensation" and "Director Compensation".

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See "Note 14 to the Consolidated Financial Statements" for a discussion of the Company's Stock Compensation Plans. Except for the above referenced footnote, the information called for by this Item is incorporated by reference to information in the 2012 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information".

Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to information in the 2012 Proxy Statement under the captions "Director Independence" and "Related Party Transactions".

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES



The information required by this item is incorporated by reference to the 2012 Proxy Statement under the caption "Fees to Independent Registered Public Accounting Firm."

Index

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as part of this Report:

- (1) Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm included herein:

See Index on page F-1

- (2) Financial Statement Schedules:

See Index on page F-1

All other schedules are omitted as they are inapplicable or the required information is furnished in the Consolidated Financial Statements or notes thereto.

- (3) Index to and List of Exhibits

Exhibits 10.1 through 10.30 are management contracts or compensatory plans or arrangements.

Index

- 2.1 Asset Purchase Agreement by and among Genzyme Corporation and Laboratory Corporation of America Holdings dated as of September 13, 2010 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 16, 2010).
- 3.1 Amended and Restated Certificate of Incorporation of the Company dated May 24, 2001 (incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Commission on October 19, 2001, File No. 333-71896).
- 3.2 Amended and Restated By-Laws of the Company dated March 25, 2008 (incorporated herein by reference to the Company's current report on Form 8-K, filed with the Commission on March 31, 2008).
- 4.1 Specimen of the Company's Common Stock Certificate (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 4.2 Indenture dated as of January 31, 2003 between the Company and Wachovia Bank, National Association, as trustee (incorporated herein by reference to the January 31, 2003 Form 8-K, filed with the Commission on February 3, 2003).
- 4.3 Registration Rights Agreement, dated as of January 28, 2003 between the Company and the Initial Purchasers (incorporated herein by reference to the January 31, 2003 Form 8-K, filed with the Commission on February 3, 2003).
- 4.4 Indenture dated as of December 5, 2005, between the Company and The Bank of New York, as trustee (Senior Debt Securities) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 14, 2005).
- 4.5 Indenture, dated as of October 23, 2006, between the Company and The Bank of New York, as trustee, including the Form of Global Note attached as Exhibit A thereto (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 24, 2006).
- 4.6 Indenture, dated as of November 19, 2010, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 19, 2010).
- 4.7 First Supplemental Indenture, dated as of November 19, 2010, between the Company and U.S. Bank National Association, as trustee, including the form of the 2016 Notes (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 19, 2010).
- 4.8 Second Supplemental Indenture, dated as of November 19, 2010, between the Company and U.S. Bank National Association, as trustee, including the form of the 2020 Notes (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on November 19, 2010).
- 10.1 National Health Laboratories Incorporated Pension Equalization Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).
- 10.2 Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended September 30, 2004).
- 10.3 First Amendment to the Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended September 30, 2004).
- 10.4 Second Amendment to the Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.5 National Health Laboratories 1988 Stock Option Plan, as amended (incorporated herein by reference to the Company's Registration Statement on Form S-1, filed with the Commission on July 9, 1990, File No. 33-35782).



Index

- 10.6 National Health Laboratories 1994 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on August 12, 1994, File No. 33-55065).
- 10.7 Laboratory Corporation of America Holdings Senior Executive Transition Policy (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2004).
- 10.8 Laboratory Corporation of America Holdings 1995 Stock Plan for Non-Employee Directors dated September 26, 1995 (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on September 26, 1995, File No. 33-62913).
- 10.9 Amendment to the 1995 Stock Plan for Non-Employee Directors (incorporated herein by reference to the Company's 1997 Annual Proxy Statement, filed with the Commission on June 6, 1997).
- 10.10 Amendment to the 1995 Stock Plan for Non-Employee Directors (incorporated herein by reference to Annex I of the Company's 2001 Annual Proxy Statement, filed with the Commission on April 25, 2001).
- 10.11 Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to Annex I of the Company's Registration Statement on Form S-8 filed with the Commission on December 13, 1996, File No. 333-17793).
- 10.12 Amendments to the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on January 10, 2000, File No. 333-94331).
- 10.13 Amendments to the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on May 26, 2004, File No. 333-115905).
- 10.14 Laboratory Corporation of America Holdings Amended and Restated 1999 Stock Incentive Plan (incorporated herein by reference to Annex I of the Company's 1999 Annual Proxy Statement filed with the Commission of May 3, 1999).
- 10.15 Laboratory Corporation of America Holdings 2000 Stock Incentive Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on June 5, 2000, File No. 333-38608).
- 10.16 Amendments to the 2000 Stock Incentive Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on June 19, 2002, File No. 333-90764).
- 10.17 Dynacare Inc., Amended and Restated Employee Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on August 7, 2002, File No. 333-97745).
- 10.18 DIANON Systems, Inc. 1996 Stock Incentive Plan, DIANON Systems, Inc. 1999 Stock Incentive Plan, DIANON Systems, Inc. 2000 Stock Incentive Plan, DIANON Systems, Inc. 2001 Stock Incentive Plan, and UroCor, Inc. Second Amended and Restated 1992 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on January 21, 2003, File No. 333-102602).
- 10.19 Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.20 First Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 10.21 Third Amendment to the Laboratory Corporation of America Amended and Restated New Pension Equalization Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2005).
- 10.22 Second Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30,



Index

10.23	Third Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006).
10.24	Consulting Agreement between Thomas P. Mac Mahon and the Company dated July 20, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 21, 2006).
10.25	Fourth Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007).
10.26	Laboratory Corporation of America Holdings 2008 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 7, 2008).
10.27	Laboratory Corporation of America Holdings Amended and Restated Master Senior Executive Severance Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2009).
10.28	Laboratory Corporation of America Holdings Master Senior Executive Change in Control Severance Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2009).
10.29	First Amendment to the Laboratory Corporation of America Holdings Master Senior Executive Change in Control Severance Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
10.30	Second Amendment to the Laboratory Corporation of America Holdings Master Senior Executive Change in Control Severance Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
10.31*	\$1 Billion Credit Agreement dated as of December 21, 2011, among the Company, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Wells Fargo Bank, National Association and Credit Suisse AG, Cayman Islands Branch as Documentation Agents, Barclays Capital as Syndication Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital, Wells Fargo Securities, LLC and Credit Suisse Securities (USA) LLC as Joint Lead Arrangers and Joint Book Managers, and the lenders named therein.
12.1*	Ratio of earnings to fixed charges
21*	List of Subsidiaries of the Company
23.1*	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm
24.1*	Power of Attorney of Thomas P. Mac Mahon
24.2*	Power of Attorney of Kerri B. Anderson
24.3*	Power of Attorney of Jean-Luc Bélingard
24.4*	Power of Attorney of N. Anthony Coles, M.D.
24.5*	Power of Attorney of Wendy E. Lane
24.6*	Power of Attorney of Robert E. Mittelstaedt, Jr.
24.7*	Power of Attorney of Arthur H. Rubenstein, MBCh
24.8*	Power of Attorney of M. Keith Weikel, Ph.D.
24.9*	Power of Attorney of R. Sanders Williams, M.D.
31.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase  
101.DEF\* XBRL Taxonomy Extension Definition Linkbase  
101.LAB\* XBRL Taxonomy Extension Label Linkbase  
101.PRE\* XBRL Taxonomy Extension Presentation Linkbase  
\* Filed herewith

56

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Index

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LABORATORY CORPORATION OF AMERICA HOLDINGS

Registrant

By: /s/ DAVID P. KING  
David P. King  
Chairman of the Board, President  
and Chief Executive Officer

Dated: February 23, 2012

Index

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on February 23, 2012 in the capacities indicated.

Signature	Title
/s/ DAVID P. KING David P. King	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ WILLIAM B. HAYES William B. Hayes	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/s/ THOMAS P. MAC MAHON* Thomas P. Mac Mahon	Director
/s/ KERRII B. ANDERSON* Kerrii B. Anderson	Director
/s/ JEAN-LUC BÉLINGARD* Jean-Luc Bélingard	Director
/s/ N. ANTHONY COLES, M.D.* N. Anthony Coles, M.D.	Director
/s/ WENDY E. LANE* Wendy E. Lane	Director
/s/ ROBERT E. MITTELSTAEDT, JR.* Robert E. Mittelstaedt, Jr.	Director
/s/ ARTHUR H. RUBENSTEIN, MBBCH* Arthur H. Rubenstein, MBBCh	Director
/s/ M. KEITH WEIKEL, PH.D.* M. Keith Weikel, Ph.D.	Director
/s/ R. SANDERS WILLIAMS, M.D.* R. Sanders Williams, M.D.	Director

\* F. Samuel Eberts III, by his signing his name hereto, does hereby sign this report on behalf of the directors of the Registrant after whose typed names asterisks appear, pursuant to powers of attorney duly executed by such directors and filed with the Securities and Exchange Commission.

By: /s/ F. SAMUEL EBERTS III  
F. Samuel Eberts III  
Attorney-in-fact



Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND SCHEDULE

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
Consolidated Financial Statements:	
<u>Consolidated Balance Sheets</u>	<u>F-3</u>
<u>Consolidated Statements of Operations</u>	<u>F-4</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-7</u>
Financial Statement Schedule:	
<u>II - Valuation and Qualifying Accounts and Reserves</u>	<u>F-37</u>

F-1

---

Index

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
Laboratory Corporation of America Holdings:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Laboratory Corporation of America Holdings and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and financial statement schedule and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP  
Greensboro, North Carolina  
February 23, 2012

F-2

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Index

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Information

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In Millions)

	December 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$159.3	\$230.7
Accounts receivable, net of allowance for doubtful accounts of \$197.6 and \$149.2 at December 31, 2011 and 2010, respectively	699.8	655.6
Supplies inventories	110.8	103.4
Prepaid expenses and other	79.6	95.7
Deferred income taxes	35.3	58.4
Total current assets	1,084.8	1,143.8
Property, plant and equipment, net	578.3	586.9
Goodwill, net	2,681.8	2,601.3
Intangible assets, net	1,620.7	1,674.1
Joint venture partnerships and equity method investments	76.8	78.5
Other assets, net	94.2	103.2
Total assets	\$6,136.6	\$6,187.8
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$257.8	\$257.8
Accrued expenses and other	404.1	352.9
Noncontrolling interest	—	148.1
Short-term borrowings and current portion of long-term debt	135.5	361.7
Total current liabilities	797.4	1,120.5
Long-term debt, less current portion	2,085.5	1,826.7
Deferred income taxes and other tax liabilities	502.7	602.3
Other liabilities	227.3	151.4
Total liabilities	3,612.9	3,700.9
Commitments and contingent liabilities		
Noncontrolling interest	20.2	20.6
Shareholders' equity		
Common stock, 97.8 and 102.4 shares outstanding at December 31, 2011 and 2010, respectively	11.7	12.2
Additional paid-in capital	—	53.9
Retained earnings	3,387.2	3,246.6
Less common stock held in treasury	(940.9	) (934.9
Accumulated other comprehensive income	45.5	88.5
Total shareholders' equity	2,503.5	2,466.3
Total liabilities and shareholders' equity	\$6,136.6	\$6,187.8

The accompanying notes are an integral part of these consolidated financial statements.

F-3

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In Millions, Except Per Share Data)

	Years Ended December 31,		
	2011	2010	2009
Net sales	\$5,542.3	\$5,003.9	\$4,694.7
Cost of sales	3,267.6	2,906.1	2,723.8
Gross profit	2,274.7	2,097.8	1,970.9
Selling, general and administrative expenses	1,159.6	1,034.3	958.9
Amortization of intangibles and other assets	85.8	72.7	62.6
Restructuring and other special charges	80.9	12.0	13.5
Operating income	948.4	978.8	935.9
Other income (expenses):			
Interest expense	(87.5	) (70.0	) (62.9
Equity method income, net	9.5	10.6	13.8
Investment income	1.3	1.1	1.6
Other, net	(5.6	) (4.9	) (3.8
Earnings before income taxes	866.1	915.6	884.6
Provision for income taxes	333.0	344.0	329.0
Net earnings	533.1	571.6	555.6
Less: Net earnings attributable to the noncontrolling interest	(13.4	) (13.4	) (12.3
Net earnings attributable to Laboratory Corporation of America Holdings	\$519.7	\$558.2	\$543.3
Basic earnings per common share	\$5.20	\$5.42	\$5.06
Diluted earnings per common share	\$5.11	\$5.29	\$4.98

The accompanying notes are an integral part of these consolidated financial statements.

F-4

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(In Millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2008	\$ 12.8	\$ 237.4	\$ 2,384.6	\$(929.8 )	\$ (16.7 )	\$ 1,688.3
Comprehensive earnings:						
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	543.3	—	—	543.3
Other comprehensive earnings:						
Foreign currency translation adjustments	—	—	—	—	93.3	93.3
Interest rate swap adjustments	—	—	—	—	2.9	2.9
Net benefit plan adjustments	—	—	—	—	31.5	31.5
Tax effect of other comprehensive earnings adjustments	—	—	—	—	(49.5 )	(49.5 )
Comprehensive earnings						621.5
Issuance of common stock under employee stock plans	—	24.8	—	—	—	24.8
Surrender of restricted stock awards and performance shares	—	—	—	(2.7 )	—	(2.7 )
Conversion of zero-coupon convertible debt	0.1	11.3	—	—	—	11.4
Stock compensation	—	36.4	—	—	—	36.4
Income tax benefit from stock options exercised	—	(0.1 )	—	—	—	(0.1 )
Purchase of common stock	(0.4 )	(273.1 )	—	—	—	(273.5 )
BALANCE AT DECEMBER 31, 2009	\$ 12.5	\$ 36.7	\$ 2,927.9	\$(932.5 )	\$ 61.5	\$ 2,106.1
Comprehensive earnings:						
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	558.2	—	—	558.2
Other comprehensive earnings:						
Foreign currency translation adjustments	—	—	—	—	41.3	41.3
Interest rate swap adjustments	—	—	—	—	8.2	8.2
Net benefit plan adjustments	—	—	—	—	(8.3 )	(8.3 )
Tax effect of other comprehensive earnings adjustments	—	—	—	—	(14.2 )	(14.2 )
Comprehensive earnings						585.2
Issuance of common stock under employee stock plans	0.2	83.2	—	—	—	83.4
Surrender of restricted stock awards	—	—	—	(2.4 )	—	(2.4 )
Conversion of zero-coupon convertible debt	—	1.1	—	—	—	1.1
Stock compensation	—	40.0	—	—	—	40.0
Value of noncontrolling interest put	—	(17.2 )	—	—	—	(17.2 )
Income tax benefit adjustments related to stock options exercised	—	7.6	—	—	—	7.6

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Purchase of common stock	(0.5 )	(97.5 )	(239.5 )	—	—	(337.5 )
BALANCE AT DECEMBER 31, 2010	\$12.2	\$53.9	\$3,246.6	\$(934.9 )	\$ 88.5	\$ 2,466.3
Comprehensive earnings:						
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	519.7	—	—	519.7
Other comprehensive earnings:						
Foreign currency translation adjustments	—	—	—	—	(13.2 )	(13.2 )
Interest rate swap adjustments	—	—	—	—	2.4	2.4
Net benefit plan adjustments	—	—	—	—	(57.5 )	(57.5 )
Tax effect of other comprehensive earnings adjustments	—	—	—	—	25.3	25.3
Comprehensive earnings						476.7
Issuance of common stock under employee stock plans	0.1	118.4	—	—	—	118.5
Surrender of restricted stock awards	—	—	—	(6.0 )	—	(6.0 )
Conversion of zero-coupon convertible debt	0.1	36.1	—	—	—	36.2
Stock compensation	—	48.9	—	—	—	48.9
Purchase of noncontrolling interest	—	(3.7 )	—	—	—	(3.7 )
Income tax benefit from stock options exercised	—	10.5	—	—	—	10.5
Purchase of common stock	(0.7 )	(264.1 )	(379.1 )	—	—	(643.9 )
BALANCE AT DECEMBER 31, 2011	\$11.7	\$—	\$3,387.2	\$(940.9 )	\$ 45.5	\$ 2,503.5

The accompanying notes are an integral part of these consolidated financial statements.

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Millions)

	Years Ended December 31,		
	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$533.1	\$571.6	\$555.6
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	231.4	203.6	195.1
Stock compensation	48.9	40.0	36.4
Loss on sale of assets	7.2	4.1	2.6
Accrued interest on zero-coupon subordinated notes	3.9	5.8	8.3
Cumulative earnings less than distributions from equity method investments	1.4	6.3	2.2
Deferred income taxes	2.2	12.9	9.6
Change in assets and liabilities (net of effects of acquisitions):			
(Increase) decrease in accounts receivable (net)	(37.1	) (25.3	) 74.0
Increase in inventories	(6.1	) (5.8	) (4.3
(Increase) decrease in prepaid expenses and other	9.8	(13.5	) 5.9
Increase (decrease) in accounts payable	(8.7	) 50.1	22.8
Increase (decrease) in accrued expenses and other	69.6	33.8	(45.8
Net cash provided by operating activities	855.6	883.6	862.4
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(145.7	) (126.1	) (114.7
Proceeds from sale of assets	3.7	4.8	0.9
Deferred payments on acquisitions	(1.0	) (4.5	) (3.3
Acquisition of licensing technology	—	(0.4	) —
Investments in equity affiliates	—	(10.0	) (4.3
Acquisition of businesses, net of cash acquired	(137.3	) (1,181.3	) (212.6
Net cash used for investing activities	(280.3	) (1,317.5	) (334.0
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from senior notes offerings	—	925.0	—
Proceeds from revolving credit facilities	880.0	160.0	4.2
Payments on revolving credit facilities	(320.0	) (235.0	) —
Principal payments on term loan	(375.0	) (50.0	) (50.0
Payments on zero-coupon subordinated notes	(155.1	) (11.4	) (289.4
Payments on vendor-financed equipment	—	(1.3	) (1.5
Decrease in bank overdraft	—	—	(5.0
Payments on long-term debt	(0.9	) (0.1	) (0.1
Payment of debt issuance costs	(3.6	) (9.7	) (0.1
Proceeds from sale of interest in a consolidated subsidiary	—	137.5	—
Cash paid to acquire an interest in a consolidated subsidiary	(147.9	) (137.5	) —
Noncontrolling interest distributions	(7.4	) (12.6	) (11.3
Excess tax benefits from stock based compensation	10.4	5.1	0.5
Net proceeds from issuance of stock to employees	118.4	83.4	24.8
Purchase of common stock	(643.9	) (338.1	) (273.0
Net cash provided by (used for) financing activities	(645.0	) 515.3	(600.9
Effect of exchange rate changes on cash and cash equivalents	(1.7	) 0.8	1.3

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Net increase (decrease) in cash and cash equivalents	(71.4	) 82.2	(71.2	)
Cash and cash equivalents at beginning of period	230.7	148.5	219.7	
Cash and cash equivalents at end of period	\$ 159.3	\$ 230.7	\$ 148.5	

The accompanying notes are an integral part of these consolidated financial statements.

F-6

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation:

Laboratory Corporation of America Holdings with its subsidiaries (the "Company") is the second largest independent clinical laboratory company in the United States based on 2011 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty and niche operations based on certain types of specialized testing capabilities and client requirements, such as oncology testing, HIV genotyping and phenotyping, diagnostic genetics and clinical research trials.

Since its founding in 1971, the Company has grown into a network of 54 primary laboratories and over 1,700 patient service centers along with a network of branches and STAT laboratories. With over 31,000 employees, the Company processes tests on more than 450,000 patient specimens daily and provides clinical laboratory testing services in all 50 states, the District of Columbia, Puerto Rico, Belgium, Japan, the United Kingdom, China, Singapore and three provinces in Canada. The Company operates within one reportable segment based on the way the Company manages its business.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries for which it exercises control. Long-term investments in affiliated companies in which the Company exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which the Company does not exercise significant influence (generally, when the Company has an investment of less than 20% and no representation on the investee's board of directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. The Company does not have any variable interest entities or special purpose entities whose financial results are not included in the consolidated financial statements.

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the year. Resulting translation adjustments are included in "Accumulated other comprehensive income."

Revenue Recognition:

Sales are recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payer programs including various managed care organizations, as well as the Medicare and Medicaid programs. Billings for services under third-party payer programs are included in sales net of allowances for contractual discounts and allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement as an adjustment to revenue. In 2011, 2010 and 2009, approximately 19.0%, 19.4% and 19.1%, respectively, of the Company's revenues were derived directly from the Medicare and Medicaid programs. The Company has capitated agreements with certain managed care customers and recognizes related revenue based on a predetermined monthly contractual rate for each member of the managed care plan regardless of the number or cost of services provided by the Company. In 2011, 2010 and 2009,

approximately 2.9%, 3.1% and 3.6%, respectively, of the Company's revenues were derived from such capitated agreements.

In connection with revenue arrangements with multiple deliverables, revenue is deferred until the Company can reasonably estimate when the performance obligation ceases or becomes inconsequential.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant estimates include the allowances for doubtful accounts, deferred tax assets, fair values and amortization lives for intangible assets and accruals for self-insurance reserves and pensions. The allowance for doubtful accounts is determined based on historical collections trends, the aging of accounts, current economic conditions and regulatory changes. Actual results could differ from those estimates.

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company maintains cash and cash equivalents with various major financial institutions. The total cash balances on deposit that exceeded the balances insured by the F.D.I.C., were approximately \$63.1 at December 31, 2011. Cash equivalents at December 31, 2011, totaled \$48.5, which includes amounts invested in money market funds, time deposits, municipal, treasury and government funds.

Substantially all of the Company's accounts receivable are with companies in the health care industry and individuals. However, concentrations of credit risk are limited due to the number of the Company's clients as well as their dispersion across many different geographic regions.

Accounts receivable balances (gross) from Medicare and Medicaid were \$138.3 and \$125.0 at December 31, 2011 and 2010, respectively.

## Earnings per Share:

Basic earnings per share is computed by dividing net earnings, less preferred stock dividends and accretion, by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net earnings including the impact of dilutive adjustments by the weighted average number of common shares outstanding plus potentially dilutive shares, as if they had been issued at the earlier of the date of issuance or the beginning of the period presented. Potentially dilutive common shares result primarily from the Company's outstanding stock options, restricted stock awards, performance share awards, and shares issuable upon conversion of zero-coupon subordinated notes.

The following represents a reconciliation of basic earnings per share to diluted earnings per share:

	2011			2010			2009		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share	\$519.7	100.0	\$5.20	\$558.2	103.0	\$5.42	\$543.3	107.4	\$5.06
Stock options	—	0.9		—	0.6		—	0.5	
Restricted stock awards and other	—	0.3		—	0.3		—	0.2	
Effect of convertible debt, net of tax	—	0.6		—	1.5		—	1.0	
Diluted earnings per share	\$519.7	101.8	\$5.11	\$558.2	105.4	\$5.29	\$543.3	109.1	\$4.98

The following table summarizes the potential common shares not included in the computation of diluted earnings per share because their impact would have been antidilutive:



	Years Ended December 31,		
	2011	2010	2009
Stock options	1.3	2.7	4.6

**Stock Compensation Plans:**

The Company measures stock compensation cost for all equity awards at fair value on the date of grant and recognizes compensation expense over the service period for awards expected to vest. The fair value of restricted stock awards and performance shares is determined based on the number of shares granted and the quoted price of the Company's common stock on grant date. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of equity awards that will ultimately vest requires judgment and the Company considers many factors when estimating expected forfeitures, including

F-8

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

types of awards, employee class, and historical experience. The cumulative effect on current and prior periods of a change in the estimated forfeiture rate is recognized as compensation cost in earnings in the period of the revision. Actual results and future estimates may differ substantially from the Company's current estimates.

See note 14 for assumptions used in calculating compensation expense for the Company's stock compensation plans.

Cash Equivalents:

Cash equivalents (primarily investments in money market funds, time deposits, municipal, treasury and government funds which have original maturities of three months or less at the date of purchase) are carried at cost which approximates market.

Inventories:

Inventories, consisting primarily of purchased laboratory and client supplies, are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment:

Property, plant and equipment are recorded at cost. The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Depreciation and amortization expense is computed on all classes of assets based on their estimated useful lives, as indicated below, using principally the straight-line method.

	Years
Buildings and building improvements	35
Machinery and equipment	3-10
Furniture and fixtures	5-10

Leasehold improvements and assets held under capital leases are amortized over the shorter of their estimated useful lives or the term of the related leases. Expenditures for repairs and maintenance are charged to operations as incurred. Retirements, sales and other disposals of assets are recorded by removing the cost and accumulated depreciation from the related accounts with any resulting gain or loss reflected in the consolidated statements of operations.

Capitalized Software Costs:

The Company capitalizes purchased software which is ready for service and capitalizes software development costs incurred on significant projects starting from the time that the preliminary project stage is completed and the Company commits to funding a project until the project is substantially complete and the software is ready for its intended use. Capitalized costs include direct material and service costs and payroll and payroll-related costs. Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system, generally five years.

Long-Lived Assets:

Goodwill is evaluated for impairment by applying a fair value based test on an annual basis and more frequently if events or changes in circumstances indicate that the asset might be impaired.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of assets to be held and used is determined by the Company at the level for which there are identifiable cash flows by comparison of the carrying amount of the assets to future undiscounted net cash flows before interest expense and income taxes expected to be generated by the assets. Impairment, if any, is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets (based on market prices in an active market or on discounted cash flows). Assets to be disposed of are reported at the lower of the carrying amount or fair value.

The Company completed an annual impairment analysis of its indefinite lived assets, including goodwill, and has found no

F-9

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

instances of impairment as of December 31, 2011.

Intangible Assets:

Intangible assets (patents and technology, customer relationships and non-compete agreements), are amortized on a straight-line basis over the expected periods to be benefited, such as legal life for patents and technology, 10 to 25 years for customer lists and contractual lives for non-compete agreements.

Debt Issuance Costs:

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the terms of the related debt.

Professional Liability:

The Company is self-insured (up to certain limits) for professional liability claims arising in the normal course of business, generally related to the testing and reporting of laboratory test results. The Company estimates a liability that represents the ultimate exposure for aggregate losses below those limits. The liability is discounted and is based on a number of assumptions and factors for known and incurred but not reported claims based on actuarial assessment of the accrual driven by frequency and amount of claims.

Income Taxes:

The Company accounts for income taxes utilizing the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company does not recognize a tax benefit, unless the Company concludes that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that the Company believes is greater than 50% likely to be realized. The Company records interest and penalties in income tax expense.

Derivative Financial Instruments:

Interest rate swap agreements, which have been used by the Company from time to time in the management of interest rate exposure, are accounted for at fair value. The Company's zero-coupon subordinated notes contain two features that are considered to be embedded derivative instruments under authoritative guidance in connection with accounting for derivative instruments and hedging activities. The Company believes these embedded derivatives had no fair value at December 31, 2011 and 2010.

See note 18 for the Company's objectives in using derivative instruments and the effect of derivative instruments and related hedged items on the Company's financial position, financial performance and cash flows.

Fair Value of Financial Instruments:

Fair value measurements for financial assets and liabilities are determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered fair value hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

Research and Development:

The Company expenses research and development costs as incurred.

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

New Accounting Pronouncements:

In September 2011, the FASB issued authoritative guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2011, the FASB issued authoritative guidance on the presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities. This literature was issued to provide greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. Specifically, this literature requires the provision for bad debts associated with patient service revenue to be separately displayed on the face of the statement of operations as a component of net revenue for health care entities that provide services regardless of a patient's ability to pay. The guidance also requires enhanced disclosures of significant changes in estimates in the provision for bad debts relating to patient services when an entity recognizes revenue regardless of a patient's ability to pay. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption permitted. The Company does not believe the adoption of the authoritative guidance in the first quarter of 2012 will have an impact on its consolidated financial statements.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income. Specifically, this literature allows an entity to present components of net earnings and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The authoritative guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in shareholders' equity. While the authoritative guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net earnings or other comprehensive income under current accounting guidance. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not believe the adoption of the authoritative guidance in the first quarter of fiscal 2012 will have an impact on its consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued authoritative guidance to achieve common fair value measurement and disclosure requirements between U.S. generally accepted accounting principles and International Financial Reporting Standards. This new literature amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not believe the adoption of the authoritative guidance in the first quarter of fiscal 2012 will have an impact on its consolidated financial statements.

2. BUSINESS ACQUISITIONS

During the twelve months ended December 31, 2011, the Company acquired various laboratories and related assets for approximately \$137.3 in cash (net of cash acquired). These acquisitions were made primarily to extend the Company's geographic reach in important market areas and/or enhance the Company's scientific differentiation and esoteric testing capabilities.

In April 2011, the Company and Orchid Cellmark Inc. ("Orchid") announced that they had entered into a definitive agreement and plan of merger under which the Company would acquire all of the outstanding shares of Orchid in a cash tender offer for \$2.80 per share for a total purchase price to stockholders and optionholders of approximately \$85.4. The tender offer and the merger were subject to customary closing conditions set forth in the agreement and plan of merger, including the acquisition in the tender offer of a majority of Orchid's fully diluted shares and the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"). The Company received lawsuits filed by putative classes of shareholders of Orchid in New Jersey and Delaware state courts and federal court in New Jersey alleging breaches of fiduciary duty and/or other violations of state law arising out of the proposed acquisition of Orchid. Both Orchid and the Company are named in the lawsuits. The federal court lawsuit was subsequently dismissed and the New Jersey state court actions have been stayed. The remaining Delaware lawsuits have been consolidated and will be vigorously defended.

On December 8, 2011, the Company announced that it had reached an agreement with the U.S. Federal Trade Commission allowing the Company to complete its acquisition of Orchid. Under the terms of the proposed consent decree that was accepted by the FTC for public comment, the Company is required to divest certain assets of Orchid's U.S. government paternity business

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

following closing of the acquisition. On December 16, 2011, the Company sold those assets to DNA Diagnostics Center, a privately held provider of DNA paternity testing. The Company completed its acquisition of Orchid on December 15, 2011. It has recorded a \$2.8 non-deductible loss on the divestiture of Orchid's U.S. government paternity business in Other Income and Expense in the accompanying Consolidated Statements of Operations.

The Orchid purchase consideration has been allocated to the estimated fair market value of the net assets acquired, including approximately \$28.8 in identifiable intangible assets (primarily non-tax deductible customer relationships, trade names and trademarks) with weighted-average useful lives of approximately 12 years; \$9.1 in deferred tax liabilities (relating to identifiable intangible assets); net operating loss tax assets of approximately \$20.2, which are expected to be realized over a period of 20 years; and a residual amount of non-tax deductible goodwill of approximately \$27.2. The purchase price allocation for this acquisition is preliminary and subject to adjustment based on changes in the fair value of working capital and other assets and liabilities on the effective acquisition date and final valuation of intangible assets.

The partnership units of the holders of the noncontrolling interest in the Ontario, Canada ("Ontario") joint venture were acquired by the Company on February 8, 2010 for \$137.5. On February 17, 2010, the Company completed a transaction to sell the units acquired from the previous noncontrolling interest holder to a new Canadian partner for the same price. As a result of this transaction, the Company recorded a component of noncontrolling interest in other liabilities and a component in mezzanine equity as the joint venture's partnership agreement enabled one of the holders of the noncontrolling interest to put its remaining partnership units to the Company in defined future periods, at an initial amount equal to the consideration paid by that holder in 2010, and subject to adjustment based on market value formulas contained in the agreement. Upon the completion of these two transactions, the Company's financial ownership percentage in the joint venture partnership remained unchanged at 85.6%. Concurrent with the sale to the new partner, the partnership agreement for the Ontario joint venture was amended and restated with substantially the same terms as the previous agreement.

On October 14, 2011, the Company issued notice to a noncontrolling interest holder in the Ontario joint venture of its intent to purchase the holder's partnership units in accordance with the terms of the joint venture's partnership agreement. On November 28, 2011, this purchase was completed for a total purchase price of \$147.9 (CN\$ 151.7) as outlined in the partnership agreement (CN\$147.8 plus certain adjustments relating to cash distribution hold backs made to finance recent business acquisitions and capital expenditures). The purchase of these additional partnership units brings the Company's percentage interest owned to 98.2%.

Net sales of the Ontario joint venture were \$309.4 (CN\$306.0), \$280.0 (CN\$288.5) and \$247.5 (CN\$281.3) for the twelve months ended December 31, 2011, 2010 and 2009, respectively.

On December 1, 2010, the Company acquired Genzyme Genetics, a business unit of Genzyme Corporation, for approximately \$925.2 in cash (net of cash acquired). The Genzyme Genetics acquisition was made to expand the Company's capabilities in reproductive, genetic, hematology-oncology and clinical trials central laboratory testing, enhance the Company's esoteric testing capabilities and advance the Company's personalized medicine strategy.

The Genzyme Genetics purchase consideration has been allocated to the estimated fair market value of the net assets acquired, including approximately \$279.6 in identifiable intangible assets (primarily customer relationships and trade name) with weighted-average useful lives of approximately 23 years; and residual amount of goodwill of



approximately \$537.8. Approximately \$810.5 of the total intangible value will be amortizable for tax purposes over 15 years.

On October 28, 2010, in conjunction with the acquisition of Genzyme Genetics, the Company entered into a \$925.0 bridge term loan credit agreement. The Company replaced and terminated the bridge term loan credit agreement in November 2010 by making an offering in the debt capital markets. On November 19, 2010, the Company sold \$925.0 in debt securities, consisting of \$325.0 aggregate principal amount of 3.125% Senior Notes due May 15, 2016 and \$600.0 aggregate principal amount of 4.625% Senior Notes due November 15, 2020. As of December 31, 2010 the Company incurred \$7.0 of financing commitment fees, which was included in interest expense for the year ended December 31, 2010.

The Company incurred approximately \$25.7 in professional fees and expenses in connection with the acquisition of Genzyme Genetics and other acquisition activity, including significant costs associated with the Federal Trade Commission's review of the Company's purchase of specified net assets of Westcliff Medical Laboratories, Inc. These fees and expenses are included in selling, general and administrative expenses for the year ended December 31, 2010.

During the year ended December 31, 2010, the Company also acquired various laboratories and related assets for approximately \$256.1 in cash (net of cash acquired). These acquisitions were made primarily to extend the Company's geographic reach in

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

important market areas and/or enhance the Company's scientific differentiation and esoteric testing capabilities.

During the year ended December 31, 2009, the Company acquired various laboratories and related assets for approximately \$212.6 in cash (net of cash acquired). The acquisition activity primarily included the acquisition of Monogram Biosciences, Inc. ("Monogram") effective August 3, 2009 for approximately \$160.0 in cash (net of cash acquired). The Monogram acquisition was made to enhance the Company's scientific differentiation and esoteric testing capabilities and advance the Company's personalized medicine strategy.

The Monogram purchase consideration has been allocated to the estimated fair market value of the net assets acquired, including approximately \$63.5 in identifiable intangible assets (primarily non-tax deductible customer relationships, patents and technology, and trade name) with weighted-average useful lives of approximately 15 years; net operating loss tax assets of approximately \$44.8, which are expected to be realized over a period of 18 years; and residual amount of non-tax deductible goodwill of approximately \$83.6.

Monogram has an active research and development department, which is primarily focused on the development of oncology and infectious disease technology. As a result of this acquisition, the Company incurred approximately \$8.5, \$12.1 and \$5.2 of research and development expenses (included in selling, general and administrative expenses) for the years ended December 31, 2011, 2010 and 2009, respectively.

In connection with the Monogram acquisition, the Company incurred approximately \$2.7 in transaction fees and expenses (included in selling, general and administrative expenses) for the year ended December 31, 2009.

### 3. RESTRUCTURING AND OTHER SPECIAL CHARGES

During 2011, the Company recorded net restructuring charges of \$44.6. Of this amount, \$27.4 related to severance and other personnel costs, and \$22.0 primarily related to facility-related costs associated with the ongoing integration of certain acquisitions including Genzyme Genetics and Westcliff. These charges were offset by restructuring credits of \$4.8 resulting from the reversal of unused severance and facility closure liabilities. In addition, the Company recorded fixed assets impairment charges of \$18.9 primarily related to equipment, computer systems and leasehold improvements in closed facilities. The Company also recorded special charges of \$14.8 related to the write-off of certain assets and liabilities related to an investment made in prior years, along with a \$2.6 write-off of an uncollectible receivable from a past installment sale of one of the Company's lab operations.

During 2010, the Company recorded net restructuring charges of \$5.8 primarily related to the closing of redundant and underutilized facilities. Of this amount, \$8.0 related to severance and other employee costs for employees primarily in the affected facilities, and \$3.1 related to contractual obligations associated with leased facilities and other facility related costs. The Company also reduced its prior restructuring accruals by \$5.3, comprised of \$4.7 of previously recorded facility costs and \$0.6 of employee severance benefits as a result of changes in cost estimates on the restructuring initiatives. In addition, the Company recorded a special charge of \$6.2 related to the write-off of development costs incurred on systems abandoned during the year.

During 2009, the Company recorded net restructuring charges of \$13.5 primarily related to work force reductions and the closing of redundant and underutilized facilities. Of this amount, \$10.5 related to severance and other employee costs for employees primarily in the affected facilities, and \$12.5 related to contractual obligations associated with

leased facilities and other facility related costs. The Company also reduced its prior restructuring accruals by \$9.5, comprised of \$7.3 of previously recorded facility costs and \$2.2 of employee severance benefits as a result of incurring less cost than planned on those restructuring initiatives primarily resulting from favorable settlements on lease buy-outs and severance payments that were not required to achieve the planned reduction in work force.

F-13

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## 4. RESTRUCTURING RESERVES

The following represents the Company's restructuring activities for the period indicated:

	Severance and Other Employee Costs	Lease and Other Facility Costs	Total
Balance as of December 31, 2010	\$4.9	\$12.9	\$17.8
Restructuring charges	27.4	22.0	49.4
Reduction of prior restructuring accruals	(2.3	) (2.5	) (4.8
Cash payments and other adjustments	(21.6	) (9.8	) (31.4
Balance as of December 31, 2011	\$8.4	\$22.6	\$31.0
Current			\$16.0
Non-current			15.0
			\$31.0

## 5. JOINT VENTURE PARTNERSHIPS AND EQUITY METHOD INVESTMENTS

At December 31, 2011 the Company had investments in the following unconsolidated joint venture partnerships and equity method investments:

Locations	Net Investment	Percentage Interest Owned	
Joint Venture Partnerships:			
Milwaukee, Wisconsin	\$14.5	50.00	%
Alberta, Canada	60.3	43.37	%
Equity Method Investments:			
Charlotte, North Carolina	2.0	50.00	%

The joint venture agreements that govern the conduct of business of these partnerships mandates unanimous agreement between partners on all major business decisions as well as providing other participating rights to each partner. The equity method investments represent the Company's purchase of shares in clinical diagnostic companies. The investments are accounted for under the equity method of accounting as the Company does not have control of these investments. The Company has no material obligations or guarantees to, or in support of, these unconsolidated investments and their operations.

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Condensed unconsolidated financial information for joint venture partnerships and equity method investments is shown in the following table.

As of December 31:	2011	2010
Current assets	\$39.5	\$61.9
Other assets	39.1	48.4
Total assets	78.6	110.3
Current liabilities	19.6	55.6
Other liabilities	1.8	17.9
Total liabilities	21.4	73.5
Partners' equity	57.2	36.8
Total liabilities and partners' equity	\$78.6	\$110.3

For the period January 1 - December 31:	2011	2010	2009
Net sales	\$247.4	\$255.5	\$212.4
Gross profit	73.1	73.9	69.6
Net earnings	28.0	20.0	33.3

The Company's recorded investment in the Alberta joint venture partnership at December 31, 2011 includes \$47.6 of value assigned to the partnership's Canadian licenses (with an indefinite life and deductible for tax) to conduct diagnostic testing services in the province.

## 6. ACCOUNTS RECEIVABLE, NET

	December 31, 2011	December 31, 2010
Gross accounts receivable	\$897.4	\$804.8
Less allowance for doubtful accounts	(197.6)	(149.2)
	\$699.8	\$655.6

The provision for doubtful accounts was \$255.1, \$241.5 and \$248.9 in 2011, 2010 and 2009 respectively.

## 7. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2011	December 31, 2010
Land	\$24.8	\$25.8
Buildings and building improvements	121.8	125.4
Machinery and equipment	616.9	615.7
Software	327.1	299.2
Leasehold improvements	182.5	171.6
Furniture and fixtures	53.5	51.2

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Construction in progress	115.5	95.6
Equipment under capital leases	1.5	3.5
	1,443.6	1,388.0
Less accumulated depreciation and amortization of capital lease assets	(865.3	) (801.1
	\$578.3	) \$586.9

F-15

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Depreciation expense and amortization of capital lease assets was \$141.5, \$129.1 and \$130.7 for 2011, 2010 and 2009, respectively, including software depreciation of \$34.0, \$32.0, and \$34.8 for 2011, 2010 and 2009, respectively.

## 8. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill (net of accumulated amortization) for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance as of January 1	\$2,601.3	\$1,897.1
Goodwill acquired during the year	86.2	704.4
Adjustments to goodwill	(5.7	) (0.2
Goodwill, net	\$2,681.8	\$2,601.3

The components of identifiable intangible assets are as follows:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$1,187.5	\$(426.8)	\$1,146.0	\$(370.0)
Patents, licenses and technology	144.9	(88.3)	144.7	(75.7)
Non-compete agreements	28.1	(14.8)	26.6	(9.4)
Trade names	129.2	(61.3)	123.3	(50.3)
Canadian licenses	722.2	—	738.9	—
	\$2,211.9	\$(591.2)	\$2,179.5	\$(505.4)

A summary of amortizable intangible assets acquired during 2011, and their respective weighted average amortization periods are as follows:

	Amount	Weighted Average Amortization Period
Customer relationships	\$41.6	13.9
Patents, licenses and technology	—	—
Non-compete agreements	1.7	5.0
Trade names	6.0	9.8
	\$49.3	13.4

Amortization of intangible assets was \$85.8, \$72.7 and \$62.6 in 2011, 2010 and 2009, respectively. Amortization expense of intangible assets is estimated to be \$83.9 in fiscal 2012, \$78.3 in fiscal 2013, \$75.5 in fiscal 2014, \$72.0 in fiscal 2015, \$66.8 in fiscal 2016, and \$478.2 thereafter.

The Company paid \$0.0, \$0.4 and \$0.0 in 2011, 2010 and 2009 for certain exclusive and non-exclusive licensing rights to diagnostic testing technology. These amounts are being amortized over the life of the licensing agreements.

As of December 31, 2011, the Ontario operation has \$722.2 of value assigned to the partnership's indefinite lived Canadian licenses to conduct diagnostic testing services in the province.

F-16

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## 9. ACCRUED EXPENSES AND OTHER

	December 31, 2011	December 31, 2010
Employee compensation and benefits	\$207.5	\$188.0
Self-insurance reserves	72.9	70.8
Accrued taxes payable	35.8	13.8
Royalty and license fees payable	14.3	12.6
Restructuring reserves	16.0	11.4
Acquisition related reserves	3.3	18.4
Interest payable	13.3	13.0
Other	41.0	24.9
	\$404.1	\$352.9

## 10. OTHER LIABILITIES

	December 31, 2011	December 31, 2010
Post-retirement benefit obligation	\$52.7	\$42.0
Defined benefit plan obligation	102.7	52.8
Restructuring reserves	15.0	6.4
Self-insurance reserves	12.1	12.1
Interest rate swap liability	—	2.4
Acquisition related reserves	0.6	0.6
Deferred revenue	5.9	7.2
Other	38.3	27.9
	\$227.3	\$151.4

## 11. DEBT

Short-term borrowings and current portion of long-term debt at December 31, 2011 and 2010 consisted of the following:

	December 31, 2011	December 31, 2010
Zero-coupon convertible subordinated notes	\$135.5	\$286.7
Term loan, current	—	75.0
Total short-term borrowings and current portion of long-term debt	\$135.5	\$361.7

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Long-term debt at December 31, 2011 and 2010 consisted of the following:

	December 31, 2011	December 31, 2010
Revolving credit facility	\$560.0	\$—
Senior notes due 2013	350.5	350.9
Senior notes due 2015	250.0	250.0
Senior notes due 2016	325.0	325.0
Senior notes due 2020	600.0	600.0
Term loan, non-current	—	300.0
Other long-term debt	—	0.8
Total long-term debt	\$2,085.5	\$1,826.7

## Credit Facilities

On December 21, 2011, the Company entered into a Credit Agreement ("the "Credit Agreement") providing for a five-year \$1,000.0 senior unsecured revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A., acting as Administrative Agent, Barclays Capital as Syndication Agent, and a group of financial institutions as lending parties. As part of the new revolving credit facility, the Company repaid all of the outstanding principal balances of \$318.8 on its existing term loan facility and \$235.0 on its existing revolving credit facility. In conjunction with the repayment and cancellation of its old credit facility, the Company recorded approximately \$1.0 of remaining unamortized debt costs as interest expense in the accompanying Consolidated Statements of Operations for the year ended December 31, 2011. The balances outstanding on the Company's Revolving Credit Facility at December 31, 2011 and December 31, 2010 were \$560.0 and \$0.0, respectively. The Revolving Credit Facility bears interest at varying rates based upon a base rate or LIBOR plus (in each case) a percentage based on the Company's debt rating with Standard & Poor's and Moody's Rating Services.

The Revolving Credit Facility is available for general corporate purposes, including working capital, capital expenditures, acquisitions, funding of share repurchases and other restricted payments permitted under the Credit Agreement. The Credit Agreement also contains limitations on aggregate subsidiary indebtedness and a debt covenant that requires that the Company maintain on the last day of any period of four consecutive fiscal quarters, in each case taken as one accounting period, a ratio of total debt to consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of not more than 3.0 to 1.0. The Company was in compliance with all covenants in the Credit Agreement at December 31, 2011.

As of December 31, 2011, the effective interest rate on the Revolving Credit Facility was 1.26%.

The interest rate swap agreement to hedge variable interest rate risk on the Company's variable interest rate term loan expired on March 31, 2011. On a quarterly basis under the swap, the Company paid a fixed rate of interest (2.92%) and received a variable rate of interest based on the three-month LIBOR rate on an amortizing notional amount of indebtedness equivalent to the term loan balance outstanding. The swap was designated as a cash flow hedge. Accordingly, the Company recognized the fair value of the swap in the condensed consolidated balance sheets and any changes in the fair value were recorded as adjustments to accumulated other comprehensive income (loss), net

of tax. The fair value of the interest rate swap agreement was the estimated amount that the Company would have paid or received to terminate the swap agreement at the reporting date. The fair value of the swap was a liability of \$2.4 at December 31, 2010 and was included in other liabilities in the Company's Consolidated Balance Sheets.

#### Zero-Coupon Convertible Subordinated Notes

The Company had \$164.1 and \$354.6 aggregate principal amount at maturity of zero-coupon convertible subordinated notes (the "notes") due 2021 outstanding at December 31, 2011 and 2010, respectively. The notes, which are subordinate to the Company's bank debt, were sold at an issue price of \$671.65 per \$1,000 principal amount at maturity (representing a yield to maturity of 2.0% per year). Each one thousand dollar principal amount at maturity of the notes is convertible into 13.4108 shares of the Company's common stock, subject to adjustment in certain circumstances, if one of the following conditions occurs:

1) If the sales price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading

F-18

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Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

days ending on the last trading day of the preceding quarter reaches specified thresholds (beginning at 120% and declining 0.1282% per quarter until it reaches approximately 110% for the quarter beginning July 1, 2021 of the accreted conversion price per share of common stock on the last day of the preceding quarter). The accreted conversion price per share will equal the issue price of a note plus the accrued original issue discount and any accrued contingent additional principal, divided by the number of shares of common stock issuable upon conversion of a note on that day. The conversion trigger price for the fourth quarter of 2011 was \$70.35.

2) If the credit rating assigned to the notes by Standard & Poor's Ratings Services is at or below BB-.

3) If the notes are called for redemption.

4) If specified corporate transactions have occurred (such as if the Company is party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of its assets).

The Company may redeem for cash all or a portion of the notes at any time on or after September 11, 2006 at specified redemption prices per one thousand dollar principal amount at maturity of the notes.

The Company has registered the notes and the shares of common stock issuable upon conversion of the notes with the Securities and Exchange Commission.

During 2011, the Company settled notices to convert \$190.6 aggregate principal amount at maturity of its zero-coupon subordinated notes with a conversion value of \$248.9. The total cash used for these settlements was \$155.1 and the Company also issued 1.0 additional shares of common stock. As a result of these conversions, the Company also reversed approximately \$36.2 of deferred tax liability to reflect the tax benefit realized upon issuance of the shares.

August 11, 2011, the Company notified holders of the zero-coupon subordinated notes that pursuant to the Indenture for the notes they have the right to require the Company to purchase in cash all or a portion of their zero-coupon subordinated notes on September 12, 2011 at \$819.54 per note, plus any accrued contingent additional principal and any accrued contingent interest thereon. On September 12, 2011, the Company announced that none of the zero-coupon subordinated notes were tendered by holders for purchase by the Company.

On September 13, 2011, the Company announced that for the period of September 12, 2011 to March 11, 2012, the zero-coupon subordinated notes will accrue contingent cash interest at a rate of no less than 0.125% of the average market price of a zero-coupon subordinated note for the five trading days ended September 7, 2011, in addition to the continued accrual of the original issue discount.

On January 3, 2012, the Company announced that its zero-coupon subordinated notes may be converted into cash and common stock at the conversion rate of 13.4108 per \$1,000 principal amount at maturity of the notes, subject to the terms of the zero-coupon subordinated notes and the Indenture, dated as of October 24, 2006 between the Company and The Bank of New York Mellon, as trustee and conversion agent. In order to exercise the option to convert all or a portion of the zero-coupon subordinated notes, holders are required to validly surrender their zero-coupon subordinated notes at any time during the calendar quarter beginning January 1, 2012, through the close of business on the last business day of the calendar quarter, which is 5:00 p.m., New York City time, on Friday, March 30, 2012. If notices of conversion are received, the Company plans to settle the cash portion of the conversion obligation with cash on hand and/or borrowings under the revolving credit facility.

Senior Notes

On October 28, 2010, in conjunction with the acquisition of Genzyme Genetics, the Company entered into a \$925.0 Bridge Term Loan Credit Agreement, among the Company, the lenders named therein and Citibank, N.A., as administrative agent (the "Bridge Facility"). The Company replaced and terminated the Bridge Facility in November 2010 by making an offering in the debt capital markets. On November 19, 2010, the Company sold \$925.0 in debt securities, consisting of \$325.0 aggregate principal amount of 3.125% Senior Notes due May 15, 2016 and \$600.0 aggregate principal amount of 4.625% Senior Notes due November 15, 2020. Beginning on May 15, 2011, interest on the Senior Notes due 2016 and 2020 is payable semi-annually on May 15, and November 15,. On December 1, 2010, the acquisition of Genzyme Genetics was funded by the net proceeds from the issuance of these Notes (\$915.4) and with cash on hand.

The Senior Notes due January 31, 2013 bear interest at the rate of 5.5% per annum from February 1, 2003, payable semi-annually on February 1 and August 1. The Senior Notes due 2015 bear interest at the rate of 5.625% per annum from December 14,

F-19

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

2005, payable semi-annually on June 15 and December 15.

## 12. PREFERRED STOCK AND COMMON SHAREHOLDERS' EQUITY

The Company is authorized to issue up to 265.0 shares of common stock, par value \$0.10 per share. The Company's treasury shares are recorded at aggregate cost. Common shares issued and outstanding are summarized in the following table:

	2011	2010
Issued	120.0	124.5
In treasury	(22.2	) (22.1
Outstanding	97.8	102.4

The Company is authorized to issue up to 30.0 shares of preferred stock, par value \$0.10 per share. There were no preferred shares outstanding as of December 31, 2011 and 2010.

The changes in common shares issued and held in treasury are summarized below:

## Common shares issued

	2011	2010	2009
Common stock issued at January 1	124.5	127.4	130.3
Common stock issued under employee stock plans	1.9	1.6	0.6
Common stock issued upon conversion of zero-coupon subordinated notes	1.0	—	0.4
Retirement of common stock	(7.4	) (4.5	) (3.9
Common stock issued at December 31	120.0	124.5	127.4

## Common shares held in treasury

	2011	2010	2009
Common shares held in treasury at January 1	22.1	22.1	22.1
Surrender of restricted stock and performance share awards	0.1	—	—
Common shares held in treasury at December 31	22.2	22.1	22.1

## Share Repurchase Program

During fiscal 2011, the Company purchased 7.4 shares of its common stock at a total cost of \$643.9. As of December 31, 2011, the Company had outstanding authorization from the Board of Directors to purchase \$84.4 of Company common stock. On February 10, 2012, the Company announced the Board of Directors authorized the purchase of \$500.0 of additional shares of the Company's common stock.

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## Accumulated Other Comprehensive Earnings

The components of accumulated other comprehensive earnings are as follows:

	Foreign Currency Translation Adjustments	Net Benefit Plan Adjustments	Interest Rate Swap Adjustments	Accumulated Other Comprehensive Earnings
Balance at December 31, 2008	\$68.6	\$(77.1)	\$(8.2)	\$(16.7)
Current year adjustments	93.3	31.5	2.9	127.7
Tax effect of adjustments	(36.1)	(12.2)	(1.2)	(49.5)
Balance at December 31, 2009	125.8	(57.8)	(6.5)	61.5
Current year adjustments	41.3	(8.3)	8.2	41.2
Tax effect of adjustments	(14.3)	3.2	(3.1)	(14.2)
Balance at December 31, 2010	152.8	(62.9)	(1.4)	88.5
Current year adjustments	(13.2)	(57.5)	2.4	(68.3)
Tax effect of adjustments	3.9	22.4	(1.0)	25.3
Balance at December 31, 2011	\$143.5	\$(98.0)	\$—	\$45.5

## 13. INCOME TAXES

The sources of income before taxes, classified between domestic and foreign entities are as follows:

	2011	2010	2009
Pre-tax income			
Domestic	\$834.0	\$876.1	\$848.0
Foreign	32.1	39.5	36.6
Total pre-tax income	\$866.1	\$915.6	\$884.6

The provisions for income taxes in the accompanying consolidated statements of operations consist of the following:

	Years Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$269.7	\$269.9	\$266.2
State	54.3	50.4	41.0
Foreign	6.8	10.8	12.2
	\$330.8	\$331.1	\$319.4
Deferred:			
Federal	\$5.0	\$12.2	\$25.3
State	(4.4)	(0.5)	(15.5)
Foreign	1.6	1.2	(0.2)
	2.2	12.9	9.6
	\$333.0	\$344.0	\$329.0

A portion of the tax benefit associated with option exercises from stock plans reducing taxes currently payable are recorded through additional paid-in capital. The benefits recorded through additional paid-in capital are approximately \$11.0, \$7.8 and \$1.1 in 2011, 2010 and 2009, respectively.

F-21

---



Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The effective tax rates on earnings before income taxes are reconciled to statutory federal income tax rates as follows:

	Years Ended December 31,			
	2011	2010	2009	
Statutory federal rate	35.0	% 35.0	% 35.0	%
State and local income taxes, net of federal income tax effect	3.7	3.5	1.9	
Other	(0.3	) (0.9	) 0.3	
Effective rate	38.4	% 37.6	% 37.2	%

The effective tax rate for 2011 was negatively impacted by a decrease in unrecognized income tax benefits compared to 2010, the divestiture of certain Orchid paternity contracts, and foreign losses not tax effected. The effective tax rate for 2010 was favorably impacted by a benefit relating to the net decrease in unrecognized income tax benefits. In 2009, the Company recorded favorable adjustments of \$21.5 to its tax provision relating to the resolution of certain state tax issues under audit, as well as the realization of foreign tax credits.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2011	December 31, 2010
Deferred tax assets:		
Accounts receivable	\$27.1	\$2.6
Employee compensation and benefits	123.9	96.3
Self insurance reserves	20.7	27.1
Postretirement benefit obligation	20.5	16.3
Acquisition and restructuring reserves	18.8	10.2
Tax loss carryforwards	68.5	50.1
	279.5	202.6
Less: valuation allowance	(14.4	) (11.4
Net deferred tax assets	\$265.1	\$191.2
Deferred tax liabilities:		
Deferred earnings	\$(25.3	) \$(18.0
Intangible assets	(373.7	) (343.8
Property, plant and equipment	(71.5	) (63.3
Zero-coupon subordinated notes	(105.5	) (145.2
Currency translation adjustment	(90.1	) (94.3
Other	(3.6	) (5.1
Total gross deferred tax liabilities	\$(669.7	) \$(669.7
Net deferred tax liabilities	\$(404.6	) \$(478.5

The Company has state tax loss carryovers of approximately \$0.3, which expire in 2011 through 2024. The state tax loss carryovers have a full valuation allowance. The Company has foreign tax loss carryovers of \$10.8 with a full valuation allowance. Most of the foreign losses have an indefinite carryover. In addition, the Company has federal tax loss carryovers of approximately \$57.4 expiring periodically through 2030. The utilization of the tax loss carryovers is

limited due to change of ownership rules. However, at this time the Company expects to fully utilize substantially all federal tax loss carryovers.

The gross unrecognized income tax benefits were \$52.7 and \$53.6 at December 31, 2011 and 2010, respectively. It is anticipated that the amount of the unrecognized income tax benefits will change within the next twelve months; however, these changes are

F-22

---

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

not expected to have a significant impact on the results of operations, cash flows or the financial position of the Company.

The Company recognizes interest and penalties related to unrecognized income tax benefits in income tax expense. Accrued interest and penalties related to uncertain tax positions totaled \$10.8 and \$12.2 as of December 31, 2011 and 2010, respectively. During the years ended December 31, 2011, 2010 and 2009, the Company recognized \$3.5, \$4.5 and \$5.4, respectively, in interest and penalties expense, which was offset by a benefit of \$4.9, \$5.4 and \$4.9, respectively.

The following table shows a reconciliation of the unrecognized income tax benefits from uncertain tax positions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Balance as of January 1	53.6	59.0	72.5
Increase in reserve for tax positions taken in the current year	8.6	9.1	10.9
Increase (decrease) in reserve for tax positions taken in a prior period	—	(0.6)	(4.2)
Decrease in reserve as a result of settlements reached with tax authorities	(0.2)	(1.3)	(15.7)
Decrease in reserve as a result of lapses in the statute of limitations	(9.3)	(12.6)	(4.5)
Balance as of December 31	52.7	53.6	59.0

As of December 31, 2011 and 2010, \$53.3 and \$54.6, respectively, is the approximate amount of unrecognized income tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company has substantially concluded all U.S. federal income tax matters for years through 2007. Substantially all material state and local, and foreign income tax matters have been concluded through 2006 and 2001, respectively.

The Company has various state income tax examinations ongoing throughout the year. Canada Revenue Agency is conducting an audit of the 2009 and 2010 Canadian income tax return. The Company believes adequate provisions have been recorded related to all open tax years.

The Company provided for taxes on substantially all undistributed earnings of foreign subsidiaries.

## 14. STOCK COMPENSATION PLANS

## Stock Incentive Plans

There are currently 23.8 shares authorized for issuance under the 2008 Stock Incentive Plan and the 2000 Stock Incentive Plan. Each of these plans was approved by shareholders. At December 31, 2011, there were 1.7 additional shares available for grant under the Company's stock option plans.

## Stock Options

The following table summarizes grants of non-qualified options made by the Company to officers, key employees, and non-employee directors under all plans. Stock options are generally granted at an exercise price equal to or greater

than the fair market price per share on the date of grant. Also, for each grant, options vest ratably over a period of three years on the anniversaries of the grant date, subject to their earlier expiration or termination.

F-23

---

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Changes in options outstanding under the plans for the periods indicated were as follows:

	Number of Options	Weighted- Average Exercise Price per Option	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2010	6.6	\$67.84		
Granted	1.5	90.86		
Exercised	(1.6)	) 65.67		
Cancelled	(0.2)	) 77.06		
Outstanding at December 31, 2011	6.3	\$73.66	7.2	\$84.9
Vested and expected to vest at December 31, 2011	6.2	\$73.52	7.2	\$84.5
Exercisable at December 31, 2011	3.2	\$69.44	6.0	\$53.1

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2011. The amount of intrinsic value will change based on the fair market value of the Company's stock.

Cash received by the Company from option exercises, the actual tax benefit realized for the tax deductions and the aggregate intrinsic value of options exercised from option exercises under all share-based payment arrangements during the years ended December 31, 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Cash received by the Company	\$106.1	\$73.7	\$14.3
Tax benefits realized	\$17.8	\$13.2	\$2.7
Aggregate intrinsic value	\$45.5	\$33.4	\$7.0

The following table summarizes information concerning currently outstanding and exercisable options.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 6.80 - 59.37	0.5	3.3	\$50.89	0.5	\$50.89
\$59.38 - 67.60	1.2	7.1	\$60.24	0.6	\$60.17
\$67.61 - 75.63	2.4	7.4	\$72.44	1.4	\$74.10
\$75.64 - 98.49	2.2	7.8	\$87.17	0.7	\$80.29
	6.3	7.2	\$73.66	3.2	\$69.44



Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The following table shows the weighted average grant-date fair values of options and the weighted average assumptions that the Company used to develop the fair value estimates:

	2011	2010	2009	
Fair value per option	\$17.06	\$14.12	\$10.85	
Valuation assumptions				
Weighted average expected life (in years)	3.4	3.1	3.0	
Risk free interest rate	1.0	% 1.5	% 1.1	%
Expected volatility	0.2	0.3	0.2	
Expected dividend yield	—	—	—	

The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free interest rate for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility of the Company's stock is based on historical volatility of the Company's stock. The Company uses historical data to calculate the expected life of the option. Groups of employees and non-employee directors that have similar exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation purposes. For 2011, 2010 and 2009, expense related to the Company's stock option plan totaled \$24.9, \$20.7 and \$18.7, respectively.

## Restricted Stock and Performance Shares

The Company grants restricted stock and performance shares ("nonvested shares") to officers, key employees, and non-employee directors under all plans. Restricted stock becomes vested annually in equal one third increments beginning on the first anniversary of the grant. A performance share grant in 2009 represents a three year award opportunity for the period 2009-2011 and becomes vested in the first quarter of 2012. A performance share grant in 2010 represents a three year award opportunity for the period of 2010-2012 and becomes vested in the first quarter of 2013. A performance share grant in 2011 represents a three year award opportunity for the period of 2011-2013 and becomes vested in the first quarter of 2014. Performance share awards are subject to certain earnings per share and revenue targets, the achievement of which may increase or decrease the number of shares which the grantee receives upon vesting. The unearned restricted stock and performance share compensation is being amortized to expense over the applicable vesting periods. For 2011, 2010 and 2009, total restricted stock and performance share compensation expense was \$21.3, \$16.1 and \$13.6, respectively.

The following table shows a summary of nonvested shares for the year ended December 31, 2011:

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2011	0.6	\$68.26
Granted	0.2	90.84

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Vested	(0.2	)	73.02
Nonvested at December 31, 2011	0.6		74.39

As of December 31, 2011, there was \$19.6 of total unrecognized compensation cost related to nonvested restricted stock and performance share-based compensation arrangements granted under the stock incentive plans. That cost is expected to be recognized over a weighted average period of 1.6 years.

F-25

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## Employee Stock Purchase Plan

The Company has an employee stock purchase plan, begun in 1997 and amended in 1999, 2004 and 2008, with 4.5 shares of common stock authorized for issuance. The plan permits substantially all employees to purchase a limited number of shares of Company stock at 85% of market value. The Company issues shares to participating employees semi-annually in January and July of each year. Approximately 0.2 shares were purchased by eligible employees in 2011, 2010 and 2009, respectively. For 2011, 2010 and 2009, expense related to the Company's employee stock purchase plan was \$2.7, \$2.0 and \$3.2, respectively.

The Company uses the Black-Scholes model to calculate the fair value of the employee's purchase right. The fair value of the employee's purchase right and the assumptions used in its calculation are as follows:

	2011	2010	2009	
Fair value of the employee's purchase right	\$ 15.58	\$ 15.39	\$ 14.28	
Valuation assumptions				
Risk free interest rate	0.1	% 0.2	% 0.2	%
Expected volatility	0.2	0.2	0.2	
Expected dividend yield	—	—	—	

## 15. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in a number of judicial, regulatory, and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the Company's business activities. Many of these proceedings are at preliminary stages, and many of these cases seek an indeterminate amount of damages.

The Company records an aggregate legal reserve, which is determined using actuarial calculations around historical loss rates and assessment of trends experienced in settlements and defense costs. In accordance with ASC 450 "Contingencies", the Company establishes reserves for judicial, regulatory, and arbitration matters outside the aggregate legal reserve if and when those matters present loss contingencies that are both probable and estimable and would exceed the aggregate legal reserve. When loss contingencies are not both probable and estimable, the Company does not establish separate reserves.

The Company is unable to estimate a range of reasonably possible loss for cases described below in which damages either have not been specified or, in the Company's judgment, are unsupported and/or exaggerated and (i) the proceedings are in early stages; (ii) there is uncertainty as to the outcome of pending appeals or motions; (iii) there are significant factual issues to be resolved; and/or (iv) there are novel legal issues to be presented. For these cases, however, the Company does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Company's financial condition, though the outcomes could be material to the Company's operating results for any particular period, depending, in part, upon the operating results for such period.

A subsidiary of the Company, DIANON Systems, Inc. ("DIANON"), is the appellant in a wrongful termination lawsuit originally filed by G. Berry Schumann in Superior Court in the State of Connecticut. After a jury trial, the state court entered judgment against DIANON, with total damages, attorney's fees, and pre-judgment interest payable by

DIANON, of approximately 10.0, plus post-judgment interest that continues to accrue since the entry of judgment. DIANON has disputed liability and has contested the case vigorously on appeal. DIANON filed a notice of appeal in December 2009, and the case was transferred to the Connecticut Supreme Court. The Court heard oral argument on May 18, 2011 and the parties await the Court's decision on DIANON's appeal.

As previously reported, the Company reached a settlement in the previously disclosed lawsuit, California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al., to avoid the uncertainty and costs associated with prolonged litigation. The original lawsuit was brought against the Company and several other major laboratories operating in California and alleged that the defendants improperly billed the state Medicaid program and, therefore, violated the California False Claims Act. The complaint against the Company sought a refund of alleged overpayments made to the Company from November 7, 1995 through November 2009, plus simple interest of 7% per year, calculated as of the filing date to total \$97.5. In addition, the suit sought continuing damages past November 2009, plus treble damages, civil penalties of \$0.01 per each alleged false claim, recovery of costs, attorney's fees, and legal expenses, and pre- and post-judgment interest. Pursuant to the executed settlement agreement,

F-26

---

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

the Company recorded a litigation settlement expense of \$34.5 (net of a previously recorded reserve of \$15.0) in the second quarter of 2011. The Company also agreed to certain reporting obligations regarding its pricing for a limited time period and, at the option of the Company in lieu of such reporting obligations, to provide Medi-Cal with a discount from November 1, 2011 through October 31, 2012. The Medi-Cal discount is not expected to have a material impact on the Company's consolidated revenues or results of operations.

As previously reported, the Company responded to an October 2007 subpoena from the United States Office Department of Health & Human Services of Inspector General's regional office in New York. On August 17, 2011, the Southern District of New York unsealed a False Claims Act lawsuit, United States of America ex rel. NPT Associates v. Laboratory Corporation of America Holdings, which alleges that the Company offered UnitedHealthcare kickbacks in the form of discounts in return for Medicare business. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. The United States government has not intervened in the lawsuit. The Company will vigorously defend the lawsuit.

In addition, the Company has received three other subpoenas since 2007 related to Medicaid billing. In June 2010, the Company received a subpoena from the State of Florida Office of the Attorney General requesting documents related to its billing to Florida Medicaid. In February 2009, the Company received a subpoena from the Commonwealth of Virginia Office of the Attorney General seeking documents related to the Company's billing for state Medicaid. In October 2009, the Company received a subpoena from the State of Michigan Department of Attorney General seeking documents related to its billing to Michigan Medicaid. The Company also responded to a September 2009 subpoena from the United States Department of Health & Human Services Office of Inspector General's regional office in Massachusetts regarding certain of its billing practices. The Company is cooperating with these requests.

In April 2011, the Company and Orchid Cellmark Inc. ("Orchid") announced that they had entered into a definitive agreement and plan of merger under which the Company would acquire all of the outstanding shares of Orchid in a cash tender offer. The Company received a request for additional information (commonly referred to as a "Second Request") under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act") from the Federal Trade Commission ("FTC") in connection with the proposed merger with Orchid. On December 8, 2011, the Company announced that it had reached an agreement with the FTC that allowed the Company to complete its acquisition of Orchid which closed on December 15, 2011. Under the terms of the proposed consent decree that was accepted by the FTC for public comment, the Company is required to divest certain assets of Orchid's U.S. government paternity business. On December 16, 2011, the Company sold those assets to DNA Diagnostics Center (DDC), a privately held provider of DNA paternity testing. Subsequent to the closing of the Orchid transaction, the Company has received three notices of demand for appraisal rights for shares.

On April 11, 2011, a putative class action lawsuit, Ballard v. Orchid Cellmark, Inc., et al., was filed in the Superior Court of New Jersey Chancery Division, Mercer County against Orchid, individual members of Orchid's Board of Directors, the Company, and one of the Company's wholly-owned subsidiaries. This action challenged the Orchid acquisition on grounds of alleged breaches of fiduciary duty and/or other violations of state law. Two similar putative class action lawsuits, Kletzel v. Orchid Cellmark, Inc., et al. and Greenberg v. Orchid Cellmark Inc., et al., were subsequently filed in the same court. On August 15, 2011, all three actions were voluntarily dismissed.

On May 2, 2011, a putative class action lawsuit, Tsatsis v. Orchid Cellmark, Inc., et al. was filed in the United States District Court for the District of New Jersey against Orchid, individual members of Orchid's Board of Directors, the Company, and a subsidiary of the Company. This federal court action challenged the Orchid acquisition on grounds of alleged breaches of fiduciary duty and violations of the federal securities laws. On May 12, 2011, the plaintiff filed a

motion for preliminary injunction seeking to enjoin the transaction. On May 13, 2011, the Court denied the plaintiff's request for an expedited hearing. On June 27, 2011, the action was voluntarily dismissed.

Three similar shareholder class actions, *Silverberg v. Bologna, et al.*, *Nannetti v. Bologna*, and *Locke v. Orchid Cellmark, Inc., et al.*, were filed in the Court of Chancery of the State of Delaware and subsequently consolidated into one action, *In re Orchid Cellmark Shareholder Litig.* On May 4, 2011, the plaintiffs in the consolidated action filed a motion for preliminary injunction seeking to enjoin the transaction. On May 12, 2011, the Court of Chancery denied the motion for preliminary injunction, and plaintiffs' motion for an expedited appeal was subsequently denied on May 16, 2011. Since that time, there has been no substantive activity in the Delaware litigation.

In October 2011, a putative stockholder of the Company made a letter demand through his counsel for inspection of documents related to policies and procedures concerning the Company's Board of Directors' oversight and monitoring of the Company's billing and claim submission process. The letter also seeks documents prepared for or by the Board regarding allegations from

F-27

---

Index

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

the California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al., lawsuit and documents reviewed and relied upon by the Board in connection with the settlement of that lawsuit. The Company is responding to the request pursuant to Delaware law.

On November 18, 2011, the Company received a letter from United States Senators Baucus and Grassley requesting information regarding the Company's relationships with its largest managed care customers. The letter requests information about the Company's contracts and financial data regarding its managed care customers. The Company is cooperating with the request.

The Company is a defendant in two putative class actions related to overtime pay. In September 2011, a putative class action, Peggy Bryant v. Laboratory Corporation of America Holdings, was filed against the Company in the United States District Court for the Southern District of West Virginia, alleging on behalf of employees similarly situated that the Company violated the Federal Fair Labor Standards Act and applicable state wage laws by failing to pay overtime. The complaint seeks monetary damages, liquidated damages equal to the alleged amount owed, costs, injunctive relief, and attorney's fees. In December 2011, a putative class action, Debra Rivera v. Laboratory Corporation of America Holdings, was filed against the Company in the United States District Court for the Middle District of Florida alleging on behalf of employees similarly situated that the Company violated the Federal Fair Labor Standards Act by failing to pay overtime. The complaint seeks monetary damages, liquidated damages equal to the alleged amount owed, costs, and attorney's fees. The Company intends to vigorously contest both cases.

The Company is involved from time to time in various claims and legal actions, including arbitrations, class actions, and other litigation, arising in the ordinary course of business. Some of these actions involve claims that are substantial in amount. These matters include, but are not limited to, intellectual property disputes, professional liability, employee related matters, and inquiries, including subpoenas and other civil investigative demands, from governmental agencies and Medicare or Medicaid payers and managed care payers reviewing billing practices or requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. The Company receives civil investigative demands or other inquiries from various governmental bodies in the ordinary course of its business. Such inquiries can relate to the Company or other healthcare providers. The Company works cooperatively to respond to appropriate requests for information.

The Company is also named from time to time in suits brought under the qui tam provisions of the False Claims Act and comparable state laws. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal or state health care programs. They may remain under seal (hence, unknown to the Company) for some time while the government decides whether to intervene on behalf of the qui tam plaintiff. Such claims are an inevitable part of doing business in the health care field today.

The Company believes that it is in compliance in all material respects with all statutes, regulations and other requirements applicable to its clinical laboratory operations. The clinical laboratory testing industry is, however, subject to extensive regulation, and the courts have not interpreted many of these statutes and regulations. There can be no assurance therefore that those applicable statutes and regulations will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company. Potential sanctions for violation of these statutes and regulations include significant fines and the loss of various licenses, certificates and authorizations.

Under the Company's present insurance programs, coverage is obtained for catastrophic exposure as well as those risks required to be insured by law or contract. The Company is responsible for the uninsured portion of losses related primarily to general, professional and vehicle liability, certain medical costs and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 2011, the Company had provided letters of credit aggregating approximately \$37.4, primarily in connection with certain insurance programs. The Company's availability under its Revolving Credit Facility is reduced by the amount of these letters of credit.

F-28

---

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The Company leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with non-cancelable terms of one year or more at December 31, 2011 are as follows:

	Operating
2012	\$161.4
2013	134.5
2014	102.7
2015	63.3
2016	42.9
Thereafter	97.9
Total minimum lease payments	602.7
Less:	
Amounts included in restructuring and acquisition related accruals	(12.7 )
Non-cancelable sub-lease income	—
Total minimum operating lease payments	\$590.0

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to \$220.2, \$202.1 and \$182.9 for the years ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011, the Company was a guarantor on approximately \$0.9 of equipment leases. These leases were entered into by a joint venture in which the Company owns a 50% interest and have a remaining term of approximately two years.

## 16. PENSION AND POSTRETIREMENT PLANS

## Pension Plans

In October 2009, the Company received approval from its Board of Directors to freeze any additional service-based credits for any years of service after December 31, 2009 on the defined benefit retirement plan (the "Company Plan") and the nonqualified supplemental retirement plan (the "PEP"). Both plans have been closed to new participants. Employees participating in the Company Plan and the PEP no longer earn service-based credits, but continue to earn interest credits. In addition, effective January 1, 2010, all employees eligible for the defined contribution retirement plan (the "401K Plan") receive a minimum 3% non-elective contribution ("NEC") concurrent with each payroll period. The NEC replaces the Company match, which has been discontinued. Employees are not required to make a contribution to the 401K Plan to receive the NEC. The NEC is non-forfeitable and vests immediately. The 401K Plan also permits discretionary contributions by the Company of 1% to 3% of pay for eligible employees based on service.

The Company believes these changes to the Company Plan, the PEP and its 401K Plan align the Company's retirement plan strategy with prevailing industry practices and reduce the impact of market volatility on the Company Plan.

The Company's 401K Plan covers substantially all employees. Prior to 2010, Company contributions to the plan were based on a percentage of employee contributions. In 2011 and 2010, the Company made non-elective and discretionary contributions to the plan. The cost of this plan was \$44.3, \$40.6 and \$15.2 in 2011, 2010 and 2009,

respectively. The increase in 401K costs and contributions was due to the non-elective and discretionary contributions made by the Company in 2011 and 2010.

In addition, the Company Plan covers substantially all employees hired prior to December 31, 2009. The benefits to be paid under the Company Plan are based on years of credited service through December 31, 2009, interest credits and average compensation. The Company's policy is to fund the Company Plan with at least the minimum amount required by applicable regulations. The Company made contributions to the Company Plan of \$0.0, \$0.0 and \$54.8 in 2011, 2010 and 2009, respectively.

The PEP covers the Company's senior management group. Prior to 2010, the PEP provided for the payment of the difference, if any, between the amount of any maximum limitation on annual benefit payments under the Employee Retirement Income Security Act of 1974 and the annual benefit that would be payable under the Company Plan but for such limitation. Effective

F-29

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

January 1, 2010, employees participating in the PEP no longer earn service-based credits. The PEP is an unfunded plan.

As a result of the changes to the Company Plan and PEP which were adopted in the fourth quarter of 2009, the Company recognized a net curtailment charge of \$2.8 due to remeasurement of the PEP obligation at December 31, 2009 and the acceleration of unrecognized prior service for that plan.

Projected pension expense for the Company Plan and the PEP is expected to increase from \$8.6 in 2011 to \$12.2 in 2012. The Company plans to make contributions of \$14.6 to the Company Plan during 2012.

The effect on operations for both the Company Plan and the PEP are summarized as follows:

	Year ended December 31,		
	2011	2010	2009
Service cost for benefits earned	\$2.6	\$2.6	\$20.8
Interest cost on benefit obligation	17.1	18.1	18.3
Expected return on plan assets	(18.9	) (18.5	) (17.3
Net amortization and deferral	7.8	7.4	12.0
Curtailment cost	—	—	2.8
Defined benefit plan costs	\$8.6	\$9.6	\$36.6

Amounts included in accumulated other comprehensive earnings consist of unamortized net loss of \$156.9. The accumulated other comprehensive earnings that are expected to be recognized as components of the defined benefit plan costs during 2012 are \$12.3 related to amortization of net loss.

A summary of the changes in the projected benefit obligations of the Company Plan and the PEP are summarized as follows:

	2011	2010
Balance at January 1	\$348.2	\$328.0
Service cost	2.6	2.6
Interest cost	17.1	18.1
Actuarial loss	39.8	24.8
Benefits and administrative expenses paid	(24.5	) (25.3
Balance at December 31	\$383.2	\$348.2

The Accumulated Benefit Obligation was \$383.2 and \$348.2 at December 31, 2011 and 2010, respectively.

A summary of the changes in the fair value of plan assets follows:

	2011	2010
Fair value of plan assets at beginning of year	\$264.4	\$259.3
Actual return on plan assets	3.5	29.3

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Employer contributions	1.1	1.1	
Benefits and administrative expenses paid	(24.5	) (25.3	)
Fair value of plan assets at end of year	\$244.5	\$264.4	

F-30

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Weighted average assumptions used in the accounting for the Company Plan and the PEP are summarized as follows:

	2011	2010	2009	
Discount rate	4.0	% 5.1	% 5.8	%
Compensation increases	—	—	—	%
Expected long term rate of return	7.3	% 7.5	% 7.5	%

The Company maintains an investment policy for the management of the Company Plan's assets. The objective of this policy is to build a portfolio designed to achieve a balance between investment return and asset protection by investing in equities of high quality companies and in high quality fixed income securities which are broadly balanced and represent all market sectors. The target allocations for plan assets are 50% equity securities, 45% fixed income securities and 5% in other assets. Equity securities primarily include investments in large-cap, mid-cap and small-cap companies located in the United States and to a lesser extent international equities in developed and emerging countries. Fixed income securities primarily include U.S. Treasury securities, mortgage-backed bonds and corporate bonds of companies from diversified industries. Other assets include investments in commodities. The weighted average expected long-term rate of return for the Company Plan's assets is as follows:

	Target Allocation	Weighted Average Expected Long-Term Rate of Return	
Equity securities	50.0	% 4.5	%
Fixed income securities	45.0	% 2.3	%
Other assets	5.0	% 0.5	%

The fair values of the Company Plan's assets at December 31, 2011 and 2010, by asset category are as follows:

Asset Category	Fair value as of December 31, 2011	Fair Value Measurements as of December 31, 2011 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash	\$3.7	\$3.7	\$—	\$—
Equity securities:				
U.S. large cap - blend (a)	58.6	—	58.6	—
U.S. mid cap - blend (b)	21.9	—	21.9	—
U.S. small cap - blend (c)	7.2	—	7.2	—
International - developed	26.9	—	26.9	—
International - emerging	6.1	—	6.1	—
Commodities index (d)	10.2	—	10.2	—
Fixed income securities:				
U.S. fixed income (e)	109.9	—	109.9	—
Total fair value of the Company Plan's assets	\$244.5	\$3.7	\$240.8	\$—

F-31

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Asset Category	Fair value as of December 31, 2010	Fair Value Measurements as of December 31, 2010 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash	\$ 2.3	\$2.3	\$—	\$—
Equity securities:				
U.S. large cap - blend (a)	62.7	—	62.7	—
U.S. mid cap - blend (b)	26.7	—	26.7	—
U.S. small cap - blend (c)	9.8	—	9.8	—
International - developed	37.5	—	37.5	—
International - emerging	8.2	—	8.2	—
Commodities index (d)	15.0	—	15.0	—
Fixed income securities:				
U.S. fixed income (e)	102.2	—	102.2	—
Total fair value of the Company Plan's assets	\$ 264.4	\$2.3	\$262.1	\$—

a) This category represents an equity index fund not actively managed that tracks the S&P 500.

b) This category represents an equity index fund not actively managed that tracks the S&P mid-cap 400.

c) This category represents an equity index fund not actively managed that tracks the Russell 2000.

This category represents a commodities index fund not actively managed that tracks the Dow Jones - UBS

d) Commodity Index.

This category primarily represents a bond index fund not actively managed that tracks the Barclays Capital U.S.

e) Aggregate Index.

The following assumed benefit payments under the Company Plan and PEP, which were used in the calculation of projected benefit obligations, are expected to be paid as follows:

2012	\$23.8
2013	23.2
2014	22.9
2015	23.2
2016	23.6
Years 2017-2021	119.3

## Post-retirement Medical Plan

The Company assumed obligations under a subsidiary's post-retirement medical plan. Coverage under this plan is restricted to a limited number of existing employees of the subsidiary. This plan is unfunded and the Company's policy is to fund benefits as claims are incurred. The effect on operations of the post-retirement medical plan is shown in the following table:

Year ended December 31,		
2011	2010	2009

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Service cost for benefits earned	\$0.3	\$0.3	\$0.3	
Interest cost on benefit obligation	2.2	2.3	2.3	
Net amortization and deferral	(0.2	) (0.9	) (1.7	)
Post-retirement medical plan costs	\$2.3	\$1.7	\$0.9	

F-32

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Amounts included in accumulated other comprehensive earnings consist of unamortized net gain of \$5.6. The accumulated other comprehensive earnings that are expected to be recognized as components of the post-retirement medical plan costs during 2012 are \$0.0 related to amortization of net gain.

A summary of the changes in the accumulated post-retirement benefit obligation follows:

	2011	2010
Balance at January 1	\$42.0	\$39.6
Service cost for benefits earned	0.3	0.3
Interest cost on benefit obligation	2.2	2.3
Participants contributions	0.4	0.4
Actuarial loss	9.8	0.8
Benefits paid	(2.0	) (1.4
Balance at December 31	\$52.7	\$42.0

The weighted-average discount rates used in the calculation of the accumulated post-retirement benefit obligation were 4.3% and 5.4% as of December 31, 2011 and 2010, respectively. The health care cost trend rate was assumed to be 7.0% and 7.5% as of December 31, 2011 and 2010, respectively, declining gradually to 5.0% in the year 2017. The health care cost trend rate has a significant effect on the amounts reported. The impact of a percentage point change each year in the assumed health care cost trend rates would change the accumulated post-retirement benefit obligation as of December 31, 2011 by an increase of \$9.4 or a decrease of \$7.7. The impact of a percentage point change on the aggregate of the service cost and interest cost components of the 2011 post-retirement benefit costs results in an increase of \$0.4 or decrease of \$0.3.

The following assumed benefit payments under the Company's post-retirement benefit plan, which reflect expected future service, as appropriate, and were used in the calculation of projected benefit obligations, are expected to be paid as follows:

2012	\$1.9
2013	1.9
2014	2.0
2015	2.2
2016	2.3
Years 2017-2021	13.4

## 17. FAIR VALUE MEASUREMENTS

The Company's population of financial assets and liabilities subject to fair value measurements as of December 31, 2011 and 2010 are as follows:

Fair value as of December 31, 2011	Fair Value Measurements as of December 31, 2011 Using Fair Value Hierarchy Level 1	Level 2	Level 3
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Noncontrolling interest puts	\$20.2	\$—	\$20.2	\$—
Derivatives				
Embedded derivatives related to the zero-coupon subordinated notes	\$—	\$—	\$—	\$—
Total fair value of derivatives	\$—	\$—	\$—	\$—

F-33

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Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

	Fair value as of December 31, 2010	Fair Value Measurements as of December 31, 2010		
		Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Noncontrolling interest put	\$168.7	\$—	\$168.7	\$—
Derivatives				
Embedded derivatives related to the zero-coupon subordinated notes	\$—	\$—	\$—	\$—
Interest rate swap liability	2.4	—	2.4	—
Total fair value of derivatives	\$2.4	\$—	\$2.4	\$—

The noncontrolling interest puts are valued at their contractually determined values, which approximate fair values. The fair values for the embedded derivatives and interest rate swap are based on observable inputs or quoted market prices from various banks for similar instruments.

The carrying amounts of cash and cash equivalents, accounts receivable, income taxes receivable, and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The fair market value of the zero-coupon subordinated notes, based on market pricing, was approximately \$190.2 and \$419.5 as of December 31, 2011 and 2010, respectively. The fair market value of the senior notes, based on market pricing, was approximately \$1,624.4 and \$1,549.8 as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the estimated fair market value of the Company's variable rate debt of \$0.0 and \$370.1, respectively, was estimated by calculating the net present value of related cash flows, discounted at current market rates.

## 18. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company addresses its exposure to market risks, principally the market risk associated with changes in interest rates, through a controlled program of risk management that includes, from time to time, the use of derivative financial instruments such as interest rate swap agreements (see Interest Rate Swap section below). Although the Company's zero-coupon subordinated notes contain features that are considered to be embedded derivative instruments (see Embedded Derivative section below), the Company does not hold or issue derivative financial instruments for trading purposes. The Company does not believe that its exposure to market risk is material to the Company's financial position or results of operations.

## Interest Rate Swap

The interest rate swap agreement to hedge variable interest rate risk on the Company's variable interest rate term loan expired on March 31, 2011. On a quarterly basis under the swap, the Company paid a fixed rate of interest 2.92% and received a variable rate of interest based on the three-month LIBOR rate on an amortizing notional amount of indebtedness equivalent to the term loan balance outstanding. The swap was designated as a cash flow hedge. Accordingly, the Company recognized the fair value of the swap in the condensed consolidated balance sheets and any changes in the fair value were recorded as adjustments to accumulated other comprehensive income (loss), net of tax. The fair value of the interest rate swap agreement was the estimated amount that the Company would have paid or received to terminate the swap agreement at the reporting date. The fair value of the swap was a liability of \$2.4 at December 31, 2010 and was included in other liabilities in the Company's Consolidated Balance Sheets.

Embedded Derivatives Related to the Zero-Coupon Subordinated Notes

The Company's zero-coupon subordinated notes contain the following two features that are considered to be embedded derivative instruments under authoritative guidance in connection with accounting for derivative instruments and hedging activities:

- The Company will pay contingent cash interest on the zero-coupon subordinated notes after September 11, 2006, if
- 1) the average market price of the notes equals 120% or more of the sum of the issue price, accrued original issue discount and contingent additional principal, if any, for a specified measurement period.
  - 2) Holders may surrender zero-coupon subordinated notes for conversion during any period in which the rating assigned to the zero-coupon subordinated notes by Standard & Poor's Ratings Services is BB- or lower.

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The Company believes these embedded derivatives had no fair value at December 31, 2011 and 2010. These embedded derivatives also had no impact on the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009.

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivatives designated as hedging instruments (interest rate swap liability derivative) as of December 31, 2011 and 2010, respectively:

Balance Sheet Location	Fair Value as of December 31,	
	2011	2010
Other liabilities	\$—	\$2.4

The following table summarizes the effect of the interest rate swap on other comprehensive income for the years ended December 31, 2011 and 2010:

	2011	2010
Effective portion of derivative gain	\$2.4	\$8.2

## 19. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental schedule of cash flow information:	Years Ended December 31,		
	2011	2010	2009
Cash paid during period for:			
Interest	\$99.6	\$55.5	\$50.7
Income taxes, net of refunds	309.4	355.0	304.1
Disclosure of non-cash financing and investing activities:			
Surrender of restricted stock awards and performance shares	6.0	2.4	2.7
Conversion of zero-coupon convertible debt	36.2	1.1	11.4
Accrued repurchases of common stock	—	(0.5	) 0.5
Purchase of equipment in accrued expenses	—	—	2.8

F-35

Index

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

## 20. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year ended December 31, 2011				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	\$1,368.4	\$1,403.3	\$1,404.5	\$1,366.1	\$5,542.3
Gross profit	568.4	588.2	568.5	549.6	2,274.7
Net earnings attributable to Laboratory Corporation of America Holdings	127.1	122.9	134.3	135.4	519.7
Basic earnings per common share	1.27	1.22	1.34	1.36	5.20
Diluted earnings per common share	1.23	1.20	1.31	1.34	5.11
	Year ended December 31, 2010				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	\$1,193.6	\$1,238.4	\$1,276.5	\$1,295.4	\$5,003.9
Gross profit	506.9	533.6	527.7	529.6	2,097.8
Net earnings attributable to Laboratory Corporation of America Holdings	132.7	153.7	140.0	131.8	558.2
Basic earnings per common share	1.27	1.48	1.37	1.29	5.42
Diluted earnings per common share	1.25	1.46	1.34	1.26	5.29

Index

## Schedule II

## LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years Ended December 31, 2011, 2010 and 2009

(Dollars in millions)

	Balance at beginning of year	Additions Charged to Costs and Expense	Additions as a Result of Acquisitions	(1) Other (Deductions)	Additions	Balance at end of year
Year ended December 31, 2011:						
Applied against asset accounts:						
Allowance for doubtful accounts	\$ 149.2	\$ 255.1	\$—	\$ (206.7	)	\$ 197.6
Valuation allowance-deferred tax assets	\$ 11.4	\$ 3.1	\$—	\$ (0.1	)	\$ 14.4
Year ended December 31, 2010:						
Applied against asset accounts:						
Allowance for doubtful accounts	\$ 173.1	\$ 241.5	\$—	\$ (265.4	)	\$ 149.2
Valuation allowance-deferred tax assets	\$ 3.9	\$ 7.7	\$—	\$ (0.2	)	\$ 11.4
Year ended December 31, 2009:						
Applied against asset accounts:						
Allowance for doubtful accounts	\$ 161.0	\$ 248.9	\$ 4.8	\$ (241.6	)	\$ 173.1
Valuation allowance-deferred tax assets	\$ 3.9	\$—	\$—	\$ —		\$ 3.9

(1) Other (Deductions) Additions consists primarily of write-offs of accounts receivable amounts.