

LABORATORY CORP OF AMERICA HOLDINGS  
Form 10-K/A  
August 02, 2012  
Index

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K/A  
Amendment No. 1

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 .

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.

EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 on Form 10-K/A to Laboratory Corporation of America Holdings' Form 10-K for the fiscal year ended December 31, 2011 (the "Form 10-K") is to provide the conformed signature of PricewaterhouseCoopers LLP which was inadvertently omitted from Exhibit 23.1 and the Report of Independent Registered Public Accounting Firm which appears at page F-2 of the Consolidated Financial Statements. The Company obtained manually-signed copies of both the signed consent and report of PricewaterhouseCoopers LLP on February 23, 2012 before filing its Form 10-K on February 24, 2012.

No other changes have been made to the Form 10-K other than those described above. This Amendment No. 1 on Form 10-K/A does not reflect subsequent events occurring after the original filing date of the Form 10-K or modify or update in any way disclosures made in the Form 10-K. Among other things, forward-looking statements made in the Form 10-K have not been revised to reflect events that occurred or facts that became known to the Company after filing of the Form 10-K, and such forward-looking statements should be read in their historical context. Furthermore, this Form 10-K/A should be read in conjunction with the Form 10-K and with the Company's filings with the SEC subsequent to the Form 10-K.



Index

Index

	Page
	<u>Part II</u>
Item 6.	<u>Selected Financial Data</u> 4
Item 8.	<u>Financial Statements and Supplementary Data</u> 6
Item 9A.	<u>Controls and Procedures</u> 6
	<u>Part IV</u>
Item 15.	<u>Exhibits and Financial Statement Schedules</u> 7

3

---

Index

## PART II

## 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)	(b)	(c)	(d)	(e)	(f)
	2011	2010	2009	2008	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	519.7	558.2	543.3	464.5	476.8	
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.

(b) 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 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

Index

Commission's review of the Company's purchase of specified net assets of Westcliff. These fees and expenses are 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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
- 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 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.

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

Number	Description
23.1*	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm
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)
*	Filed herewith

7

---

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: August 2, 2012

8

---

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 August 2, 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.

/s/ PricewaterhouseCoopers LLP  
Greensboro, North Carolina  
February 23, 2012

F-2

---

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

---

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

---

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

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

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	



Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

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

---

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.

F-7

---

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

---

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

---

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

---

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

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

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

---

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

---

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

---

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

---

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

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

---

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

---

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

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

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

---

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

---



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

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

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

---

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
---	---	---------	---------

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K/A

Noncontrolling interest puts	\$20.2	\$—	\$20.2	\$—
Derivatives				
Embedded derivatives related to the zero-coupon subordinated notes	\$—	\$—	\$—	\$—
Total fair value of derivatives	\$—	\$—	\$—	\$—

F-33

---

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.

F-34

---

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.