STATE STREET CORP
Form 5
February 13, 2008

FORM 5

OMB APPROVAL

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).
Form 3 Holdings Reported
Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person [*]
Phalen James S

(Last) (First) (Middle)

STATE STREET CORPORATION,Â ONE LINCOLN STREET

(Street)

BOSTON,Â MAÂ 02111

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
STATE STREET CORP [STT]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				Amount	(A) or (D)	Price			
Common Stock	Â	Â	3 [(1)]	Â	Â	Â	Â	D	Â
Common Stock	Â	Â	Â	Â	Â	Â	788 [(3)]	I	401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. of D Se Be O Er Is Fi (In
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Phalen James S STATE STREET CORPORATION ONE LINCOLN STREET BOSTON,Â MAÂ 02111	Â	Â	Â Executive Vice President	Â

Signatures

/s/ Richard P. Jacobson, Attorney-in-fact	02/13/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 3,726 deferred shares were awarded to the reporting person in 1998, were inadvertently omitted from the reporting person's Form 3 filed on March 1, 2005 and, consequently, were not reflected in subsequent Forms 4. The number of shares is reported on a post-split basis.

(2) Includes shares acquired due to dividend reinvestment through December 31, 2007.

(3) The reporting person indirectly beneficially owns 788 shares of State Street common stock under State Street's 401(k) plan, based on a plan statement dated as of December 31, 2007. The plan accounts for interest in units consisting of shares of State Street common stock and a small amount of cash. As a result, the number of underlying shares may fluctuate from time to time.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. v style="text-align:left;font-size:10pt;">)
Increase (decrease) in accrued expenses and other
(10.7
)

(20.2

)

(46.4
)
Net cash provided by operating activities
739.0

818.7

841.4

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures
(203.5
)

(202.2
)

(173.8
)
Proceeds from sale of assets
1.4

1.1

3.2

Proceeds from sale of investments
31.6

7.5

—

Acquisition of licensing technology
—

—

(2.5
)
Investments in equity affiliates
(20.2
)

(6.5
)

(26.0
)
Acquisition of businesses, net of cash acquired
(159.4
)

(159.5
)

(335.1
)
Net cash used for investing activities
(350.1
)

(359.6
)

(534.2
)
CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from senior notes offerings
—

700.0

1,000.0

Explanation of Responses:

Proceeds from revolving credit facilities
—

412.0

305.0

Payments on revolving credit facilities
—

(412.0
)

(865.0
)
Payments on zero-coupon subordinated notes
(18.9
)

(21.5
)

(8.2
)
Payments on long-term debt
—

(350.0
)

—

Payment of debt issuance costs
(24.1
)

(9.3
)

(8.9
)
Payments on long-term lease obligations
(1.4
)

(0.4

Explanation of Responses:

)

—

Noncontrolling interest distributions
(1.2
)

(0.9
)

(1.2
)
Deferred payments on acquisitions
(6.7
)

(5.6
)

—

Excess tax benefits from stock based compensation
5.9

11.0

8.2

Net proceeds from issuance of stock to employees
114.8

174.0

85.8

Purchase of common stock
(269.0
)

(1,015.6
)

(516.5
)
Net cash used for financing activities
(200.6

)

(518.3
)

(0.8
)
Effect of exchange rate changes on cash and cash equivalents
(12.3
)

(3.6
)

1.1

Net increase (decrease) in cash and cash equivalents
176.0

(62.8
)

307.5

Cash and cash equivalents at beginning of period
404.0

466.8

159.3

Cash and cash equivalents at end of period
$
580.0

$
404.0

$
466.8

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

Laboratory Corporation of America Holdings and its subsidiaries (the “Company”) is the second largest independent clinical laboratory company in the U.S. based on 2014 net revenues. Through a national network of laboratories, the Company offers a broad range of clinical laboratory testing services used by the medical profession in core testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty testing operations, such as oncology testing, HIV genotyping and phenotyping, diagnostic genetics, cardiovascular disease risk assessment, HIV diagnosis and monitoring, and clinical trials.

Since its founding in 1971, the Company has grown into a network of 39 primary laboratories and over 1,750 patient service centers along with a network of branches and STAT laboratories. With over 36,000 employees, the Company processes tests on approximately 500,000 patient specimens daily and has laboratory locations throughout the United States and other countries including, Belgium, Canada, China, Japan, Singapore, the United Kingdom and the United Arab Emirates. As of December 31, 2014, the Company operated within two reportable segments 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 2014, 2013 and 2012, approximately 15.0%, 16.0% and 17.6%, 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 2014, 2013 and 2012, approximately 3.5%, 3.2% and 3.0%, respectively, of the Company's revenues were derived from such capitated agreements.

The Company's net sales are comprised of the following:

	Years Ended December 31,		
Net sales	2014	2013	2012

Clinical diagnostics laboratory:			
Core Testing	$3,656.6	$3,445.1	$3,246.6
Genomic and Esoteric Testing	2,025.6	2,020.1	2,089.8
Other	329.4	343.1	335.0
Total	$6,011.6	$5,808.3	$5,671.4

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.

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 $49.3 at December 31, 2014. Cash equivalents at December 31, 2014, totaled $535.0, 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.

While the Company has receivables due from federal and state governmental agencies, the Company does not believe that such receivables represent a credit risk since the related health care programs are funded by federal and state governments, and payment is primarily dependent upon submitting appropriate documentation. Accounts receivable balances (gross) from Medicare and Medicaid were $135.1 and $128.6 at December 31, 2014 and 2013, respectively.

For the Company's subsidiary operations in Ontario, Canada, the Ministry of Health determines who can establish a licensed community medical laboratory and caps the amount that each of these licensed laboratories can bill the government sponsored health care plan. The Ontario government-sponsored health care plan covers the cost of clinical laboratory testing performed by the licensed laboratories. The provincial government discounts the annual testing volumes based on certain utilization discounts and establishes an annual maximum it will pay for all community laboratory tests. The agreed-upon reimbursement rates are subject to Ministry of Health review at the end of year and can be adjusted (at the government's discretion) based upon the actual volume and mix of test work performed by the licensed providers in the province during the year. The accounts receivable balances from the Ontario government sponsored health care plan were $22.4 and $33.2 at December 31, 2014 and 2013, respectively.

The portion of the Company's accounts receivable due from patients comprises the largest portion of credit risk. At December 31, 2014 and 2013, receivables due from patients represent approximately 27.1% and 27.8% of the Company's consolidated gross accounts receivable. The Company applies assumptions and judgments including historical collection experience for assessing collectibility and determining allowances for doubtful accounts for accounts receivable from patients.

Earnings per Share

Basic earnings per share is computed by dividing net earnings attributable to Laboratory Corporation of America Holdings 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.

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in millions, except per share data)

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

	2014			2013			2012		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share	$511.2	84.8	$6.03	$573.8	90.2	$6.36	$583.1	95.7	$6.09
Stock options	—	1.1		—	1.1		—	0.8	
Restricted stock awards and other	—	—		—	—		—	0.3	
Effect of convertible debt, net of tax	—	0.5		—	0.5		—	0.6	
Diluted earnings per share	$511.2	86.4	$5.91	$573.8	91.8	$6.25	$583.1	97.4	$5.99

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,		
	2014	2013	2012
Stock options	—	0.1	2.4

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 units and performance share awards is determined based on the number of shares granted and the quoted price of the Company’s common stock on the 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 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 expense 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 and cash equivalents consist of highly liquid instruments, such as commercial paper, time deposits, and other money market instruments, which have original maturities of three months or less.

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 the straight-line method.

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

The Company assesses goodwill and indefinite lived intangibles for impairment at least annually and more frequently if triggering events occur. The timing of the Company's annual impairment testing is the end of the fiscal year. In accordance with the Financial Accounting Standards Board (“FASB”) updates to their authoritative guidance regarding goodwill and indefinite-lived intangible asset impairment testing, an entity is allowed to first assess qualitative factors as a basis for determining whether it is necessary to perform quantitative impairment testing. If an entity determines that it is not more likely than not that the estimated fair value of an asset is less than its carrying value, then no further testing is required. Otherwise, impairment testing must be performed in accordance with the original accounting standards. The updated FASB guidance also allows an entity to bypass the qualitative assessment for any reporting unit in its goodwill assessment and proceed directly to performing the first step of the two-step assessment. Similarly, a Company can proceed directly to a quantitative assessment in the case of impairment testing for indefinite-lived intangible assets as well. In 2014 and 2013, the Company elected to bypass the purely qualitative assessments for its goodwill and indefinite-lived intangible assets and proceed to quantitative assessments utilizing methodologies as described in the following paragraphs.