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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

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	**13-3757370**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
358 South Main Street, Burlington, North Carolina	**27215**
(Address of principal executive offices)	(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 Regulation S-K. 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 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, or a non-accelerated file. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

As of June 30, 2005, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $6.7 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: 125.3 million shares as of February 16, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents 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, 2005 are incorporated by reference into Part III.

Index

Part I

Part II

Part III

Part IV

PART I

Item 1. BUSINESS

Laboratory Corporation of America Holdings and its subsidiaries (the "Company"), headquartered in Burlington, North Carolina, is the second largest independent clinical laboratory company in the United States based on 2005 net revenues. Since the Company's founding in 1971, it has grown into a national network of 36 primary laboratories and over 1,300 service sites, consisting of branches, patient service centers and STAT laboratories (which are laboratories that have the ability to perform certain routine tests quickly and report the results to the physician immediately). Through its national network of laboratories, the Company offers a broad range of clinical laboratory tests which are used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty testing businesses 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.

With approximately 24,000 employees, the Company processes tests on more than 360,000 patient specimens daily and provides clinical laboratory testing services to clients in all 50 states, the District of Columbia, Puerto Rico, Belgium, and three provinces in Canada. Its clients include physicians, hospitals, HMOs and other managed care organizations, governmental agencies, large employers, and other independent clinical laboratories that do not have the breadth of its testing capabilities. Several hundred of the Company's tests are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or to search for an otherwise undiagnosed condition. The most frequently-requested of these routine tests include blood chemistry analyses, urinalyses, blood cell counts, Pap tests, HIV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. The Company performs this core group of routine tests in each of its major laboratories using sophisticated and computerized instruments, with most results reported within 24 hours. In addition, the Company provides specialty testing services in the areas of allergy, clinical trials, diagnostic genetics, identity, infectious disease, oncology and occupational testing.

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available free of charge through the Media and Investor Relations section of the Company's internet website at www.labcorp.com as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission.

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

The Clinical Laboratory Testing Industry

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, monitoring and treatment of diseases and other medical conditions through the examination of substances in the blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical pathology testing, which is performed on body fluids including blood, or anatomical pathology testing, which is performed on histologic or cytologic samples (e.g., tissue and other samples, including human cells). Clinical and anatomical pathology procedures are frequently ordered as part of regular physician

office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used as tools in the diagnosis and management of a wide variety of medical conditions such as cancer, AIDS, endocrine disorders, cardiac disorders and genetic disease.

The clinical laboratory industry consists primarily of three types of providers: hospital-based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company. The Company believes that in 2003 the entire United States clinical laboratory testing industry had estimated revenues of approximately $40 billion; approximately 53% of such revenues were attributable to hospital-affiliated laboratories, approximately 40% were attributable to independent clinical laboratories and others, and approximately 7% were attributable to physicians in their offices and laboratories. The Centers for Medicare and Medicaid Services ("CMS") of the Department of Health and Human Services ("HHS") has estimated that in 2003 there were approximately 5,000 independent clinical laboratories in the United States.

The clinical laboratory business is intensely competitive. There are presently two national independent clinical laboratories: the Company and Quest Diagnostics Incorporated ("Quest"), which had approximately $5.5 billion in revenues from clinical laboratory testing in 2005. In addition to Quest, the Company competes with many smaller independent clinical and anatomical laboratories as well as laboratories owned by hospitals and physicians. The Company believes that health care providers in selecting a laboratory often use the following factors, among others:

- accuracy, timeliness and consistency in reporting test results;
- its reputation in the medical community;
- service capability and convenience offered by the laboratory;
- number and type of tests performed; and
- pricing of the laboratory's test services.

The Company believes that it competes favorably with its principal competitors in each of these areas and is currently implementing strategies to improve its competitive position.

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

Effect of Market Changes on the Clinical Laboratory Business

Many market-based changes in the clinical laboratory business have occurred over the past ten years, primarily as a result of the shift away from traditional, fee-for-service medicine to managed-cost health care. The growth of the managed care sector and consolidation of managed care companies presents various challenges and opportunities to the Company and other independent clinical laboratories. Managed care organizations typically contract with a limited number of clinical laboratories and negotiate discounts to the fees charged by such laboratories; therefore, the Company's ability to attract and retain managed care clients will be critical. In addition, managed care organizations have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and the managed care organization agree to a per member, per month payment to pay for all authorized laboratory tests ordered during the month by the members, regardless of the number or cost of the tests actually performed. The Company makes significant efforts to ensure that esoteric tests (which are more sophisticated tests used to obtain information not provided by routine tests and generally involve a higher level of complexity and more substantial human involvement than routine tests) are excluded from capitated arrangements and therefore paid for separately by the managed care organization. Capitated payment contracts shift the risks of additional testing beyond that covered by the capitated payment to the clinical laboratory. For the year

ended December 31, 2005, such capitated contracts accounted for approximately $136.5 million or 4.1% of the Company's net sales.

In addition, Medicare (which principally services patients 65 and older), Medicaid (which principally services low-income patients) and insurers have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices, added costs and decreased test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules in conjunction with certain budgetary bills. The Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third-party payers are likely to occur as well.

Despite the potential market changes discussed above, the Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including increased knowledge of the human genome leading to an enhanced appreciation of the value of gene-based diagnostic assays and the development of new therapeutics. Additionally, these novel gene-based tests have led to an increased awareness by physicians that clinical laboratory testing is a cost-effective means of prevention and early detection of disease and monitoring of treatment.

Additional factors which may lead to future volume growth include an increase in the number and types of tests which are readily available (due to advances in technology and increased cost efficiencies) for testing of cancer and infectious diseases and the general aging of the population in the United States. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare and other third-party payers, particularly managed care organizations. In addition, movement by patients into consumer driven health plans may have an impact on the utilization of laboratory testing.

Company Strategy

The Company's strategic plan focuses on three critical priorities that provide maximum opportunity for continued growth and profitability. They are scientific differentiation, customer retention, and managed care.

Scientific Differentiation

The Company believes that it has differentiated itself from its competition and positioned itself for continued strong growth by building a leadership position in genomic and other advanced testing technologies. This leadership position enables the Company to provide a broad menu of testing services in the genetics and cancer markets, which it believes represent two of the most significant areas of future growth in the clinical laboratory industry. The Company's strategic objective is to expand its leadership position in genomic and other advanced testing technologies in order to deliver outstanding and innovative clinical testing services to patients and physicians nationwide.

The Company's acquisitions of DIANON Systems, Inc. ("DIANON"), US Pathology Labs, Inc. ("US LABS") and Esoterix, Inc. ("Esoterix") position the Company as the leading provider of cancer and specialty testing in the United States. These companies are recognized by physicians, managed care companies and other customers as leading providers of a wide range of anatomic pathology testing services, with particular strength in uropathology, dermatopathology, GI pathology and hematopathology. The Company expects that the specialized sales force, scientific expertise, efficient operating model and proprietary clinical and pathology reporting systems of these acquisitions will allow it to continue to enhance its cancer testing business. The Company began extending DIANON's standardized anatomic pathology processes to other Company pathology sites in early 2004 and has to date implemented these best practices in nine major Company sites.

Managed Care

Strong managed care partnerships are key to the Company, both to secure appropriate payment for our services and as distribution channels for the Company's new and existing products. As such, they also

contribute to the establishment and implementation of our scientific leadership priorities. The Company has devoted substantial business and scientific resources to our managed care customers to ensure that it is providing this growing segment with the creative solutions and quality services that they expect. The Company's external Managed Care Advisory Panel and internal Managed Care Economic and Scientific Advisory Review Process are critical to understanding the evolution of this business segment and communicating the economic and social benefits of advanced laboratory testing.

The Company's growing national presence provides a number of significant benefits and it intends to maintain and continue to build this presence. The Company's national network enables it to provide high-quality services to physicians, hospitals, managed care organizations and other customers across the United States. The Company's managed care contracts with United Healthcare, Aetna, Cigna, and Wellpoint demonstrate the importance of being able to deliver services on a nationwide basis. Furthermore, the Company's scale provides it with significant cost structure advantages, particularly related to supply and other operating costs.

Customer Retention

Providing exceptional customer service is one of the Company's highest priorities. Customer retention requires understanding the unique needs and challenges that face each of our customer segments and providing solutions that address them. The Company continually seeks to improve its offerings in physician education tools, integrated information management solutions, improved customer care initiatives and innovative patient information guides. These customer retention activities are designed to further our success in all aspects of our business.

In September 2005, the Company announced the launch of *e*LabCorp, a web based connectivity solution for the Company's physician clients. *e*LabCorp is a key building block in the Company's connectivity strategy and further enhances the options available to physicians to more easily order tests and access results. *e*LabCorp provides a web-based connectivity solution that integrates easily with a wide variety of existing electronic medical records and practice management systems, allowing physicians to access the web for testing services without changing the computer systems they use for the rest of their practice needs.

Laboratory Testing Operations and Services

The Company has 36 primary laboratories, and over 1,300 service sites, consisting of branches, patient service centers and STAT laboratories. A branch is a central facility which collects specimens in a region for shipment to one of the Company's laboratories for testing. A branch also is used as a base for sales staff. Generally, a patient service center is a facility maintained by the Company to serve the patients of physicians in a medical professional building or other strategic location. The patient service center collects the specimens as requested by the physician. The specimens are sent, principally through the Company's in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company's primary testing facilities for testing. Some of the Company's patient service centers also function as STAT labs, which are laboratories that have the ability to perform certain routine tests quickly and report results to the physician immediately. Patient specimens are delivered to the Company accompanied by a test request form. These forms, which are completed by the client or the Company Patient Service Technician, indicate the tests to be performed and provide the necessary billing information.

Each specimen and related request form is checked for completeness and then given a unique identification number. The unique identification number assigned to each specimen helps to ensure that the results are attributed to the correct patient. The test request forms are sent to a data entry operator who ensures that a file is established for each patient and the necessary testing and billing information is entered. Once this information is entered into the computer system, the tests are performed and the results are entered through computer interface or manually, depending upon the tests and the type of equipment involved. Most of the Company's computerized testing equipment is connected to the Company's information systems. Most routine testing is completed by early the next morning and test results are in most cases electronically delivered to clients via smart printers, personal computer-based products or computer interfaces.

Testing Services

Routine Testing

The Company currently offers a broad range of clinical laboratory tests and procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication, or to search for an otherwise undiagnosed condition. The most frequently requested tests include blood chemistry analyses, thyroid tests, urinalyses, blood cell counts, Pap tests, HIV tests, microbiology cultures and procedures and alcohol and other substance-abuse tests. These routine procedures are most often used by physicians in their outpatient office practices. Physicians may elect to send such procedures to an independent laboratory or they may choose to establish an in-house laboratory to perform some of the tests.

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

Specialty Testing

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures are more specialized in nature. One of the growth strategies of the Company is the continued expansion of its specialty testing businesses, which involve certain types of unique testing capabilities and/or client requirements. In general, the specialty testing businesses are designed to serve two market segments: (i) markets which are not typically served by the clinical testing laboratory; and (ii) markets which are served by the clinical testing laboratory and offer the possibility of adding related services (such as clinical trials or occupational drug testing) from the same supplier. The Company's research and development group continually seeks new and improved technologies for early diagnosis. For example, the Company's Center for Molecular Biology and Pathology ("CMBP") is a leader in molecular diagnostics and polymerase chain reaction ("PCR") technologies, which are often able to provide earlier and more reliable information regarding HIV, genetic diseases, cancer and many other viral and bacterial diseases. In August 2000, the Company acquired Los Angeles-based National Genetics Institute, Inc. (NGI), a leader in the development of PCR assays for Hepatitis C (HCV). In June 2001, the Company acquired Minneapolis-based Viro-Med Laboratories, Inc., which offers molecular microbial testing using real time PCR platforms. In January 2003, the Company acquired Stratford-based Dianon Systems, Inc. a leader in Anatomic Pathology testing. In February 2005, the Company acquired Irvine-based US LABS, a leader in Anatomic Pathology and oncology testing services. In May 2005, the Company acquired Austin-based Esoterix, a leading provider of specialty reference testing. Management believes these technologies may represent a significant savings to the healthcare system by increasing the detection of early stage (treatable) diseases. The following are specialty testing businesses in which the Company offers testing and related services:

Allergy Testing. The Company offers an extensive range of allergen testing services as well as computerized analysis and a treatment program that enables primary care physicians to diagnose and treat many kinds of allergic disorders.

Clinical Trials Testing. The Company regularly performs clinical laboratory testing for pharmaceutical companies conducting clinical research trials on new drugs. This testing often involves periodic testing of patients participating in the trial over several years.

Diagnostic Genetics. The Company offers cytogenetic, molecular cytogenetic, biochemical and molecular genetic tests.

Identity Testing. The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in the resolution of disputed parentage in child support litigation. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father. Management believes it is now the largest provider of identity testing services in the United States.

Infectious Disease. The Company provides complete viral load testing as well as HIV genotyping and phenotyping. In 2000, the Company added HIV GenoSure™ to its portfolio of HIV resistance testing services. The Company's use of this leading-edge technology puts it in the forefront of HIV drug resistance testing one of the most important issues surrounding the treatment of HIV. Additionally, the Company provides comprehensive testing for HCV including both PCR testing and genotyping at CMBP, NGI and Viro-Med.

Oncology Testing. The Company offers an extensive series of testing technologies that aid in diagnosing and monitoring certain cancers and predicting the outcome of certain treatments. The acquisitions of Dianon, US LABS and Esoterix further expand the company's capabilities in specialized pathology, including hematopathology.

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

The specialized testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the people, instruments and related resources for performing such procedures so that quality and efficiency can be most effectively monitored. CMBP, NGI, Viro-Med, Dianon, US LABS and Esoterix also specialize in new test development and related education and training.

Development of New Tests

Advances in medicine have begun to fundamentally change diagnostic testing, and new tests are allowing clinical laboratories to provide unprecedented amounts of health-related information to physicians and patients. Significant new tests introduced over the past several years include a gene-based test for human papilloma virus as well as tests for HIV phenotyping and cystic fibrosis. As science continues to advance, the Company expects new testing technologies to emerge; therefore, it intends to continue to invest in advanced testing capabilities so that it can remain on the cutting edge of clinical laboratory testing. The Company has added, and expects to continue to add, new testing technologies and capabilities through a combination of internal development initiatives, technology licensing and partnership transactions and selected business acquisitions. Through its national sales force, the Company rapidly introduces new testing technologies to physician customers. This differentiation is important in the retention and growth of business.

In an effort to better offer new technology as medical needs and standards of care develop, the Company has entered into a number of licensing and technology distribution agreements with such leading-edge diagnostic testing technology providers as: Atherotech and LipoScience (cardiovascular disease risk assessment), Roche, EXACT Sciences (colorectal cancer detection), BioPredictive (determination of liver fibrosis), and Cytyc (Pap screening). Details on some of these agreements are provided below:

Atherotech — In July 2003, the Company announced a marketing and distribution relationship with Atherotech, a leading cardiodiagnostic company and specialty reference laboratory, to offer its proprietary Vertical Auto Profile (VAP™) Cholesterol Test. This multi-year agreement includes a provision for the transfer of patented testing technology to the Company, after which, if certain conditions are met, the Company would become the first clinical laboratory licensed to perform the VAP cardiovascular disease risk assessment assay within its own national laboratory system.

LipoScience — In August 2005, LabCorp entered an agreement with Raleigh, NC based LipoScience to offer its proprietary NMR LipoProfile® test. The LipoProfile test is a blood test which has been shown in numerous clinical studies to be superior to LDL-cholesterol in predicting coronary heart disease events.

Roche — In July 2005, the Company announced that it will begin validation testing of Roche Diagnostics' Amplichip CYP450 test. The AmpliChip CYP450 test has been cleared by the US Food

and Drug Administration for diagnostic use. AmpliChip CYP450 test results will allow physicians to consider genetic information from patients in selecting medications for a wide variety of common conditions such as cardiac disease, chronic pain, cancer and psychiatric disorders. In November 2005, the Company announced the availability of Amplichip P450 testing services.

EXACT Sciences — In June 2002, the Company announced the creation of an exclusive, long-term strategic agreement with EXACT Sciences to commercialize PreGen-Plus, EXACT Sciences' proprietary, non-invasive technology to aid in the early detection of colorectal cancer. The Company commercially launched this gene-based test, which represents a significant new tool for the early detection of colorectal cancer, in August of 2003.

BioPredictive — During the fourth quarter of 2003, the Company and BioPredictive, a French diagnostics firm, announced an exclusive agreement that combines the Company's expertise in infectious disease testing with BioPredictive's noninvasive, predictive testing technology to quantitatively estimate liver fibrosis and necroinflammatory activity in hepatitis C ("HCV") patients. HCV FIBROSURE™ was made available in the U.S., only through the Company, beginning in the first quarter of 2004.

Cytyc — During the fourth quarter of 2004, the Company entered into a multi-year agreement with Cytyc for their ThinPrep Imaging System. The ThinPrep Imaging System is the first fully integrated, interactive computer system that assists cytotechnologists and pathologists in the primary screening and diagnosis of ThinPrep Pap Test slides.

In addition to the above mentioned license and technology distribution agreements, in August of 2003, the Company formed a new, majority-owned subsidiary for the purpose of developing new ideas, inventions, products, processes and services for diagnostic testing and monitoring in the medical, pharmaceutical, and/or therapeutic markets. The initial areas of interest include West Nile Virus, Alpha-1 Antitrypsin Deficiency, Oxidative Markers of DNA stress and Cancer Markers.

The Company's investment in new testing technologies has been significant. While the Company continues to believe its strategy of entering into licensing and technology distribution agreements with the developers of leading-edge technologies will provide future growth in revenues, there are certain risks associated with these investments. These risks include, but are not limited to, the risk that the licensed technology will not gain broad acceptance in the marketplace; or that insurance companies, managed care organizations, or Medicare and Medicaid will not approve reimbursement for these tests at a level commensurate with the costs of running the tests. Any or all of these circumstances could result in impairment in the value of certain capitalized licensing costs.

Clients

The Company provides testing services to a broad range of health care providers. During the year ended December 31, 2005, no client or group of clients under the same contract accounted for more than four percent of the Company's net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups

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

Hospitals

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

HMOs and Other Managed Care Groups

The Company serves HMOs and other managed care organizations. These medical service providers typically contract with a limited number of clinical laboratories and then designate the laboratory or laboratories to be used for tests ordered by participating physicians. The majority of the Company's managed care testing is negotiated on a fee-for-service basis. Testing is sometimes reimbursed on a capitated basis for managed care organizations. Under a capitated payment contract, the Company agrees to perform certain laboratory tests during a given month for which the managed care organization agrees to pay a flat monthly fee for each covered member. The tests covered under agreements of this type are negotiated for each contract, but usually include routine tests and exclude highly specialized tests. Many of the national and large regional managed care organizations prefer to use large independent clinical labs such as the Company because they can monitor service and performance on a national basis.

Other Institutions

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

Payers

Most testing services are billed to a party other than the physician or other authorized person who ordered the test. In addition, tests performed by a single physician may be billed to different payers depending on the medical insurance benefits of a particular patient. Payers other than the direct patient include, among others, insurance companies, managed care organizations, Medicare and Medicaid. For the year ended December 31, 2005, accessions (based on the total volume of accessions) and average revenue per accession by payer are as follows:

	Accession Volume as a % of Total	Revenue per Accession
Private Patients	2.4%	$ 135.12
Medicare, Medicaid and other	21.3%	$ 38.49
Commercial Clients	34.8%	$ 29.11
Managed Care	41.5%	$ 34.98

Investments in Joint Venture Partnerships

In conjunction with the acquisition of Dynacare in 2002, the Company holds investments in three joint venture partnerships, located in Milwaukee, Wisconsin; Ontario, Canada; and Alberta, Canada. These businesses represent partnership agreements between Dynacare and other independent diagnostic laboratory investors. Under these agreements, all partners share in the profits and losses of the businesses in proportion to their respective ownership percentages. All partners are actively involved in the major business decisions made by each joint venture.

Each of the Canadian partnerships own licenses to conduct diagnostic testing services in their respective provinces. Substantially all of their revenues are received as reimbursement from the provincial governments' health care programs. While the Canadian licenses guarantee the joint ventures the ability to conduct diagnostic testing in their respective provinces, they do not guarantee that the provincial governments will continue to reimburse diagnostic laboratory testing at current levels. If the provincial

governments decide to limit or reduce their reimbursement of laboratory diagnostic services, it could have a negative impact on the profits and cash flows the Company derives from these investments as well as possibly impair the value assigned by the Company to the Canadian joint ventures.

Sales and Marketing and Client Service

The Company offers its services through a sales force focused on serving the specific needs of customers in different market segments. These market segments generally include Specialty Cancer, Hospitals, and Primary Care. The Company's sales force is compensated through a combination of salaries, commissions and bonuses, at levels commensurate with each individual's qualifications and responsibilities. Commissions are primarily based upon the individual's productivity in generating new business for the Company, from new and existing customers.

The Company also employs regional service managers and key account executives ("KAEs") to interact with clients on an ongoing basis. KAEs monitor the status of the services being provided to clients, act as problem-solvers, provide information on new testing developments and serve as the client's regular point of contact with the Company. KAEs are compensated through a combination of salaries, bonuses, and commissions commensurate with each individual's qualifications, performance, and responsibilities.

The Company believes that the clinical laboratory service business is shifting away from the traditional direct sales structure to one in which the purchasing decisions for laboratory services are increasingly being made by managed care organizations, insurance plans, employers and even by patients themselves. In view of these changes, the Company has adapted its sales and marketing structure to more appropriately address the opportunities presented by this shift.

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, client service, test menu, the pricing of its services and its ability to employ qualified personnel.

Information Systems

The Company has developed and implemented management information systems to monitor and facilitate operations and to control costs. Substantially all financial functions are centralized in Burlington, North Carolina including purchasing, accounting, payroll and billing. Management believes this provides greater control over spending as well as increased supervision and monitoring of results of operations.

The Company believes that the health care provider's need for data will continue to place high demands on the Company's information systems staff. The Company operates several systems to handle laboratory, billing and financial data and transactions. The Company believes that the efficient handling of information involving clients, patients, payers and other parties will be a critical factor in the Company's future success. The Company's Corporate Information Systems Division manages its information resources and programs on a consolidated basis in order to achieve greater efficiency and economies of scale. The Company employs a Chief Information Officer, whose responsibility is to integrate, manage and develop the Company's information systems.

Billing

Billing for laboratory services is a complicated process involving many different payers such as doctors, patients, hundreds of different insurance companies, Medicare, Medicaid and employer groups, all of which have different billing requirements. In addition, billing process arrangements with third-party administrators, disputes regarding responsible party and auditing for specific compliance issues further complicate the billing process.

The Company utilizes a centralized billing system in the collection of substantially all of its accounts receivable. This system generates bills to customers based on the payer type. Client billing is typically generated monthly, whereas patient and third party billing are typically generated on a daily basis. Agings of accounts receivable are then monitored by billing personnel and re-bills and follow-up

activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level, based on the Company's experience with its accounts receivable. The Company writes off accounts against the allowance for doubtful accounts when they are deemed to be uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred and the account has been transferred to a third party collection agency. Third party and managed care accounts are written off when they exceed the payer's timely filing limits.

A portion of the Company's bad debt expense is the result of non-credit related issues that slow the billing process, such as missing or incorrect billing information on requisitions. The Company generally performs the requested tests and returns the test results regardless of whether billing information is incorrect or incomplete. The Company subsequently attempts to obtain any missing information or rectify any incorrect billing information received from the health care provider. The Company believes that this experience is similar to that of its primary competitors. The Company continues to focus on a number of process initiatives aimed at reducing the impact of these non-credit related issues by:

- reducing the number of requisitions received that are missing certain billing information. This involves counting the number of clinical requisitions received with missing information by ordering client, as well as determining what specific information was not provided. The Company then identifies root causes of why the information was missing and takes steps to ensure that information is provided in the future. These steps include re-educating clients as to what information is needed in order for the Company to bill and collect for the test;

- installing personal computer based products in client offices and Company locations to help with the accuracy and completeness of billing information captured on the front-end; and

- developing and implementing enhanced eligibility checking to compare information to payer records before billing.

In addition to the non-credit issues, another component of the Company's bad debt expense is related to accounts receivable from patients. This portion of the Company's bad debt expense is from the patient's unwillingness or inability to pay. The Company is implementing numerous initiatives to reduce the negative impact of patient accounts receivable by:

- collecting payment at the time of service;

- increasing training for billing personnel to improve collections during phone calls; and

- reviewing bill design and frequency.

Quality Assurance

The Company considers the quality of its tests to be of critical importance, and it has established a comprehensive quality assurance program for all of its laboratories and other facilities designed to help assure accurate and timely test results. In addition to the compulsory external inspections and proficiency programs required by CMS and other regulatory agencies, Company-wide systems and procedures are in place to emphasize and monitor quality assurance. All of the Company's regional laboratories are subject to on-site evaluations, the College of American Pathologists ("CAP") proficiency testing program, state surveys and the Company's own internal quality control programs.

External Proficiency/Accreditations. The Company participates in numerous externally-administered, blind quality surveillance programs, including the CAP program. The blind programs supplement all other quality assurance procedures and give Company management the opportunity to review its technical and service performance from the client's perspective.

Internal Quality Control. The Company regularly performs internal quality control testing by running quality control samples with known values at the same time as patient samples submitted for testing. All quality control sample test results are entered into the Company's national laboratory computer, which

connects the Company's facilities nationwide to a common on-line quality control database. This system helps technologists and technicians check quality control values and requires further prompt verification if any quality control value is out of range. The Company has an extensive, internally administered program of blind sample proficiency testing (i.e. the testing laboratory does not know the sample being tested is a quality control sample). As part of this program the Company's locations receive specimens from the Company's Quality Assurance and Corporate Technical Services departments for analysis.

The CAP accreditation program involves both on-site inspections of the laboratory and participation in CAP's proficiency testing program for all categories in which the laboratory is accredited by CAP. CAP is an independent non-governmental organization of board-certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. CAP has been accredited by CMS to inspect clinical laboratories to determine adherence to the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988 standards. A laboratory's receipt of accreditation by CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. All of the Company's major laboratories are accredited by CAP.

The Company's forensic crime laboratory, located at Research Triangle Park, NC, is accredited by the American Society of Crime Laboratory Directors, Laboratory Accreditation Board ("ASCLD/LAB") in the category of DNA testing. Under the Crime Laboratory Accreditation Program managed by the ASCLD/LAB, a crime laboratory undergoes a comprehensive and in-depth inspection to demonstrate that its management, operations, employees, procedures and instruments, physical plant, and security and personnel safety procedures meet stringent quality standards. The Company is one of 305 ASCLD accredited crime laboratories worldwide and is one of only 14 private crime laboratories holding the accreditation. Accreditation is granted for a period of five years provided that a laboratory continues to meet the standards during that period.

Employees

As of January 31, 2006, the Company had approximately 24,000 full-time equivalent employees. Subsidiaries of the Company have three collective bargaining agreements which cover approximately 700 employees. The Company believes its overall relations with its employees are good.

Regulation and Reimbursement

General

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

Regulation of Clinical Laboratories

The Clinical Laboratory Improvement Amendments of 1988 ("CLIA") extended federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. CLIA requires that all clinical laboratories must meet quality assurance, quality control and personnel standards. Laboratories also must undergo proficiency testing and are subject to inspections.

Standards for testing under CLIA are based on the complexity of the tests performed by the laboratory, with tests classified as either "high complexity", "moderate complexity", or "waived. " Laboratories performing high complexity testing are required to meet more stringent requirements than moderate complexity laboratories. Labs performing only waived tests, which are tests determined by the Food and Drug Administration to have a low potential for error and requiring little or no oversight, may apply for a certificate of waiver exempting them from most of the requirements of CLIA. All major and many smaller Company facilities hold CLIA certificates to perform high complexity testing. The Company's remaining smaller testing sites hold CLIA certificates to perform moderate complexity testing or a certificate of waiver.

The sanctions for failure to comply with CLIA requirements include suspension, revocation or limitation of a laboratory's CLIA certificate, which is necessary to conduct business, cancellation or suspension of the laboratory's approval to receive Medicare and/or Medicaid reimbursement, as well as significant fines and/or criminal penalties. The loss or suspension of a license, imposition of a fine or other penalties, or future changes in the CLIA law or regulations (or interpretation of the law or regulations) could have a material adverse effect on the Company.

The Company is also subject to state and local laboratory regulation. CLIA provides that a state may adopt laboratory regulations different from or more stringent than those under federal law, and a number of states have implemented their own laboratory regulatory schemes. State laws may require that laboratory personnel meet certain qualifications, specify certain quality controls, or require maintenance of certain records. For example, some of the Company's laboratories are subject to the State of New York's clinical laboratory regulations, which contain provisions that are more stringent than those under federal law.

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

Payment for Clinical Laboratory Services

In 2005 and 2004, the Company derived approximately 20% of its net sales from tests performed for beneficiaries of the Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation in these programs, and other government healthcare programs, because clients often want a single laboratory to perform all of their testing services. In recent years, both governmental and private sector payers have made efforts to contain or reduce health care costs, including reducing reimbursement for clinical laboratory services.

Reimbursement under the Medicare program for clinical diagnostic laboratory services is subject to a clinical laboratory fee schedule which sets the maximum amount payable in each Medicare carrier's jurisdiction. This clinical laboratory fee schedule is updated annually. Laboratories bill the program directly and must accept the scheduled amount as payment in full for covered tests performed on behalf of Medicare beneficiaries. State Medicaid programs are prohibited from paying more than the Medicare fee schedule limit for clinical laboratory services furnished to Medicaid recipients.

Payment under the fee schedule has been limited from year to year by Congressional action, including imposition of national limitation amounts and freezes on the otherwise applicable annual Consumer Price Index "CPI" updates. For most diagnostic lab tests, the national limitation is now 74% of the national median of all local fee schedules established for each test. Under a provision of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA"), the cap is set at 100% of the median for tests performed after January 1, 2001 that the Secretary determines are new tests for which no limitation amount has previously been established.

Following a five year freeze on CPI updates to the clinical lab fee schedule, there was a 1.19% increase in the fee schedule in 2003. However, in late 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("MMA") again imposed a freeze in the Consumer Price Index update of the clinical lab fee schedule for 2004 through 2008.

Separate from clinical diagnostic laboratory services, which generally are reimbursed under the Medicare laboratory fee schedule, many pathology services are reimbursed under the Medicare physician fee schedule. The physician fee schedule assigns relative value units to each procedure or service, and a conversion factor is applied to calculate the reimbursement. The physician fee schedule also is subject to adjustment on an annual basis. The formula used to calculate the fee schedule conversion factor resulted in significant decreases in payment for most physician services in 2003. However, Congress intervened and the conversion factor was increased for the period March 1, 2003 through December 31, 2003. Continued decreases were predicted for the next several years, but Congress again intervened and pursuant to a provision in the MMA, the conversion factor was increased 1.5% in 2004 and 2005. Facing yet another expected decrease in 2006, Congress mandated a freeze in the conversion factor so that it remains the same as it was in 2005, but further increases are expected in future years unless Congress acts

to change the formula used to calculate the fee schedule or continues to mandate freezes or increases each year.

The MMA also included a provision requiring CMS to conduct a demonstration program on using competitive acquisition for clinical lab tests that are furnished without a face-to-face encounter between the individual and the entity performing the test, to determine whether competitive bidding can be used to provide lab services at reduced cost to Medicare while continuing to maintain quality and access to care. In August 2005, CMS held a forum at which its proposal for a competitive bidding demonstration project was presented to representatives of the lab industry, and comments were solicited. Widespread use of competitive acquisition, if implemented for clinical lab services, could have a significant effect on the clinical laboratory industry and the Company. In addition, some States have initiated efforts to establish competitive bidding processes for the provision of laboratory services under the State Medicaid program.

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

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

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

Standard Electronic Transactions, Security and Confidentiality of Health Information

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

The Company's HIPAA project plans have two phases: (i) assessment of current systems, applications, processes and procedure testing and validation for HIPAA compliance and (ii) remediation of affected systems, applications, processes and procedure testing and validation for HIPAA compliance.

The Transactions and Code Sets Rule standardizes the format and data content to be used in the most common electronic health care transactions, including health care claims, eligibility, and health care claim status. Its purpose is to encourage the use of electronic exchanges while reducing the administrative burden associated with using different formats. The compliance date for this rule was October 16, 2002; however, covered entities (except small health plans) were permitted to file an extension plan with HHS to extend the compliance date to October 16, 2003. The extension plan described how the entity will come into compliance with the Transactions and Code Sets Rule requirements by the compliance date. The Company and its subsidiaries filed such extension plans. HHS announced contingency plans

permitting entities unable to meet the compliance date to continue to conduct transactions in legacy formats after October 16, 2003. HHS ended the contingency period for electronic claims as of October 1, 2005, but announced that contingency plans for all other transactions remained in effect. The Company believes that its claim transactions are compliant, and its contingency plan for claims has ended. Continuation of the contingency period for the remaining transactions will be determined by CMS based upon a regular assessment of the readiness of its electronic "trading partners." Although the Company believes it is compliant with respect to other transactions, the Company is operating under its own contingency plan, pursuant to which it continues to work with payers who are not prepared to meet the compliance date for those transactions.

The Privacy Rule regulates the use and disclosure of protected health information ("PHI") by covered entities. It also sets forth certain rights that an individual has with respect to his or her PHI maintained by a covered entity, such as the right to access or amend certain records containing PHI or to request restrictions on the use or disclosure of PHI. Additionally, it requires covered entities to implement certain administrative requirements, such as designating a privacy officer, drafting and implementing privacy policies and procedures, and training workforce members. Health care providers governed by the Privacy Rule were required to come into compliance by April 14, 2003.

The Security Standards establish requirements for safeguarding patient information that is electronically transmitted or electronically stored. Covered entities were required to be in compliance with the HIPAA Security Standard as of April 21, 2005. The rule establishes 42 implementation specifications, 20 of which are "required," meaning they must be implemented as specified in the rule. Twenty-two are "addressable." Some of the Security Standards are technical in nature and some may be addressed through policies and procedures for using information systems. The Company is in compliance with the HIPAA Security Standards in all material respects.

In light of the CMS Guidance and on-going contingency period, the Company believes that it is in compliance in all material respects with the Transactions and Code Sets Rule. The Company also believes that it is in compliance with all material provisions of the Privacy Rule. In this regard, the Company has set up a hotline for the reporting of possible violations. The total cost associated with the requirements of HIPAA is not expected to be material to the Company's operations or cash flows. There are, however, many unresolved issues in both of these areas and future interpretations of HIPAA could impose significant costs on the Company.

In addition to the federal HIPAA regulations described above, there are a number of state laws regarding the confidentiality of medical information, some of which apply to clinical laboratories. These laws vary widely, and new laws in this area are pending, but they most commonly restrict the use and disclosure of medical and financial information. Penalties for violation of these laws include sanctions against a laboratory's state licensure, as well as civil and/or criminal penalties. Violations of the HIPAA provisions after the applicable compliance dates could result in civil and/or criminal penalties, including significant fines and up to 10 years in prison.

Fraud and Abuse Laws and Regulations

Existing federal laws governing federal health care programs, including Medicare and Medicaid, as well as similar state laws, impose a variety of broadly described fraud and abuse prohibitions on healthcare providers, including clinical laboratories. These laws are interpreted liberally and enforced aggressively by multiple government agencies, including the U.S. Department of Justice, HHS' Office of the Inspector General ("OIG"), and various state agencies. Over the last several years, the clinical laboratory industry has been the focus of major governmental enforcement initiatives. The federal government's enforcement efforts have been increasing, in part as a result of the enactment of HIPAA, which included several provisions related to fraud and abuse enforcement, including the establishment of: a program to coordinate federal, state and local law enforcement programs; a program to conduct greater numbers of investigations, audits and inspections relating to payment for health care items and services; and a federal anti-fraud and abuse account for enforcement efforts, funded through collection of penalties and fines for violations of the health care anti-fraud and abuse laws.

The federal health care programs antikickback law (the "antikickback law") prohibits knowingly providing anything of value in return for, or to induce, the referral of Medicare or Medicaid (or other federal healthcare program) business. Violations can result in imprisonment, fines, penalties, and/or

exclusion from participation in federal health care programs. HHS has published “safe harbor” regulations which specify certain arrangements that are protected from prosecution under the antikickback law if all conditions of the relevant safe harbor are met. Failure to fit within a safe harbor does not necessarily constitute a violation of the antikickback law; rather, the arrangement would be subject to scrutiny by regulators and prosecutors and would be evaluated on a case by case basis. Many states have their own Medicaid antikickback laws and several states also have antikickback laws that apply to all payers (i.e., not just federal or state healthcare programs).

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

Another issue the OIG is concerned about involves the provision of discounts on laboratory services billed to customers in return for the referral of more lucrative federal health care program business. In a 1999 Advisory Opinion, the OIG concluded that a proposed arrangement whereby a laboratory would offer physicians significant discounts on non-federal health care program laboratory tests might violate the antikickback act. The OIG reasoned that the laboratory could be viewed as providing such discounts to the physician in exchange for referrals by the physician of business to be billed by the laboratory to Medicare at non-discounted rates. The OIG indicated that the arrangement would not qualify for protection under the discount safe harbor because Medicare and Medicaid would not get the benefit of the discount. Similarly, in 1999 correspondence, the OIG stated that if any direct or indirect link exists between a discount that a laboratory offers to a skilled nursing facility (“SNF”) for tests covered under the Medicare Prospective Payment System (“PPS”) and referrals to the laboratory of tests covered under Medicare Part B (i.e., not covered under a fixed PPS system), then the antikickback statute would be implicated.

The OIG also has issued two separate guidance documents regarding joint venture arrangements that may be viewed as suspect under the antikickback law. These documents have relevance to clinical laboratories that are part of (or are considering establishing) joint ventures with potential referral sources. The first guidance document, which focused on investor referrals to such ventures, was issued in 1989, and the more recent one, concerning contractual joint ventures, was issued in April 2003. Some of the elements of joint ventures that the OIG identified as “suspect” include: arrangements in which the capital invested by the physicians is disproportionately small and the return on investment is disproportionately large when compared to typical investment; specific selection of investors who are in a position to make referrals to the venture; and arrangements in which one of the parties to the joint venture expands into a line of business that is dependent on referrals from the other party (sometimes called “shell” joint ventures). In a recent advisory opinion, the OIG expressed concern about a proposed joint venture in which a laboratory company would assist physician groups in establishing off-site pathology laboratories. The OIG indicated that the physicians’ financial and business risk in the venture was minimal and that the physicians’ would contract out substantially all laboratory operations, committing very little in the way of financial, capital, or human resources. The OIG was unable to exclude the possibility that the arrangement was designed to permit the laboratory to pay the physician groups for their referrals, and therefore was unwilling to find that the arrangement fell within the safe harbor.

Violations of other fraud and abuse laws also can result in exclusion from participation in federal health care programs, including Medicare and Medicaid. One basis for such exclusion is an individual or entity's submission of claims to Medicare or Medicaid for items or services that are substantially in excess of that individual or entity's usual charges. In September 2003, the OIG issued a notice of proposed rulemaking to amend the pertinent federal regulations. In this notice OIG proposed to define, for the first time, the terms "substantially in excess" and "usual charges," and to clarify the meaning of "good cause" as an exception to this exclusion authority. Under the proposed regulation, the Government would determine a provider's "usual charges" by looking at the provider's charges to all customers (with a few limited exceptions). This could result in the Company (and other laboratory companies) needing to increase charges to managed care plans and other customers so that its charges to Medicare are not "substantially in excess" of its "usual charges." This notice, which solicited comments, is only a proposal, but if the regulation were to be amended as proposed, it could have an adverse effect on the Company. At this time it is impossible to predict whether this proposed change in regulations might be finalized and how any such final regulations might differ from the notice of proposed rulemaking.

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

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

Environmental, Health and Safety

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

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

workplace. During 2001, the Company voluntarily implemented the use of safety needles at all of its service locations.

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

Drug Testing

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

Controlled Substances

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

Compliance Program

Because of evolving interpretations of regulations and the national debate over health care fraud and abuse, compliance with all Medicare, Medicaid and other government-established rules and regulations has become a significant issue throughout the clinical laboratory industry. The Company has implemented a comprehensive company-wide compliance program. The objective of the Company's compliance program is to develop, implement, and update compliance safeguards as necessary. Emphasis is placed on developing compliance policies and guidelines, personnel training programs and various monitoring and audit procedures to attempt to achieve implementation of all applicable rules and regulations.

In 2001, DIANON settled a U.S. Department of Justice investigation into several of DIANON's billing practices. As part of the settlement, DIANON entered into a voluntary corporate integrity program. As part of DIANON's acquisition of UroCor Inc., DIANON assumed responsibility and liability for compliance with UroCor's existing corporate integrity agreement.

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

Item 1A. Risk Factors

Risks Associated with our Business

Changes in federal, state, local and third-party payer regulations or policies (or in the interpretation of current regulations or policies) may adversely affect governmental and third-party reimbursement for clinical laboratory testing.

Government payers, such as Medicare and Medicaid, as well as insurers, including managed care organizations, have increased their efforts to control the cost, utilization and delivery of health care services. From time to time, Congress has considered and implemented changes in the Medicare fee schedules in conjunction with budgetary legislation. Further reductions of reimbursement for Medicare services may be implemented from time to time. Reimbursement for the pathology services component of our business is also subject to statutory and regulatory reduction. Reductions in the reimbursement rates of other third-party payers may occur as well. Such changes in the past have resulted in reduced prices as well as added costs and have decreased test utilization for the clinical laboratory industry by adding often more complex new regulatory and administrative requirements. Further changes in federal, state, local and third-party payer regulations or policies may have a material adverse impact on our business.

We could face significant monetary damages and penalties and/or exclusion from the Medicare and Medicaid programs if we violate health care anti-fraud and abuse laws.

We are subject to extensive government regulation at the federal, state and local levels. Our failure to meet governmental requirements under these regulations, including those relating to billing practices and relationships with physicians and hospitals, could lead to civil and criminal penalties, exclusion from participation in Medicare and Medicaid and possible prohibitions or restrictions on the use of our laboratories. While we believe we have structured our operations and relationships with care in an effort to meet all statutory and regulatory requirements, there is a risk that government authorities might take a contrary position. Such occurrences, regardless of their outcome, could damage our reputation and adversely affect important business relationships we have with third parties.

Our business would be harmed from the loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of the Clinical Laboratory Improvement Amendments of 1988 or those of Medicare, Medicaid or other federal, state or local agencies.

The clinical laboratory testing industry is subject to extensive regulation, and many of these statutes and regulations have not been interpreted by the courts. The Clinical Laboratory Improvement Amendments of 1988 (“CLIA”) extend federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. The sanction for failure to comply with CLIA requirements may be suspension, revocation or limitation of a laboratory’s CLIA certificate, which is necessary to conduct business, as well as significant fines and/or criminal penalties. In addition, we are subject to regulation under state law. State laws may require that laboratories and/or laboratory personnel meet certain qualifications, specify certain quality controls or require maintenance of certain records.

We cannot assure you that applicable statutes and regulations will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect our business. Potential sanctions for violation of these statutes and regulations include significant fines and the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on our business. In addition, compliance with future legislation could impose additional requirements on us which may be costly.

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

We are subject to licensing and regulation under federal, state and local laws and regulations relating

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

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

Regulations requiring the use of "standard transactions" for health care services issued under HIPAA may negatively impact our profitability and cash flows.

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

HHS issued guidance on July 24, 2003 stating that it will not penalize a covered entity for post-implementation date transactions that are not fully compliant with the transactions standards, if the covered entity can demonstrate its good faith efforts to comply with the standards. HHS' stated purpose for this flexible enforcement position was to "permit health plans to mitigate unintended adverse effects on covered entities' cash flow and business operations during the transition to the standards, as well as on the availability and quality of patient care." However, beginning October 1, 2005, the Center for Medicare and Medicaid Services no longer processes incoming non-HIPAA-compliant electronic Medicare claims.

The HIPAA transaction standards are complex, and subject to differences in interpretation by payers. For instance, some payers may interpret the standards to require us to provide certain types of information, including demographic information not usually provided to us by physicians. As a result of inconsistent application of transaction standards by payers or our inability to obtain certain billing information not usually provided to us by physicians, we could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in reimbursements and net revenues. In addition, new requirements for additional standard transactions, such as claims attachments or use of a national provider identifier, could prove technically difficult, time-consuming or expensive to implement. We are working closely with our payers to establish acceptable protocols for claims submissions and with our trade association and an industry coalition to present issues and problems as they arise to the appropriate regulators and standards setting organizations.

Compliance with the HIPAA security regulations and privacy regulations may increase our costs.

The HIPAA privacy and security regulations, which became fully effective in April 2003 and April 2005 respectively, establish comprehensive federal standards with respect to the uses and disclosures of protected health information by health plans, healthcare providers and healthcare clearinghouses, in addition to setting standards to protect the confidentiality, integrity and availability of protected health information. The regulations establish a complex regulatory framework on a variety of subjects, including:

- the circumstances under which uses and disclosures of protected health information are permitted or required without a specific authorization by the patient, including but not limited to treatment

purposes, activities to obtain payments for our services, and our healthcare operations activities;

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

We have implemented policies and procedures related to compliance with the HIPAA privacy and security regulations, as required by law. The privacy regulations establish a “floor” and do not supersede state laws that are more stringent. Therefore, we are required to comply with both federal privacy regulations and varying state privacy laws. In addition, for healthcare data transfers from other countries relating to citizens of those countries, we must comply with the laws of those other countries. The federal privacy regulations restrict our ability to use or disclose patient identifiable laboratory data, without patient authorization, for purposes other than payment, treatment or healthcare operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. The privacy and security regulations provide for significant fines and other penalties for wrongful use or disclosure of protected health information, including potential civil and criminal fines and penalties. Although the HIPAA statute and regulations do not expressly provide for a private right of damages, we also could incur damages under state laws to private parties for the wrongful use or disclosure of confidential health information or other private personal information.

Increased competition, including price competition, could have a material adverse impact on our net revenues and profitability.

The clinical laboratory business is intensely competitive both in terms of price and service. Pricing of laboratory testing services is one of the significant factors often used by health care providers and third-party payers in selecting a laboratory. As a result of the clinical laboratory industry undergoing significant consolidation, larger clinical laboratory providers are able to increase cost efficiencies afforded by large-scale automated testing. This consolidation results in greater price competition. We may be unable to increase cost efficiencies sufficiently, if at all, and as a result, our net earnings and cash flows could be negatively impacted by such price competition.

Additional competition, including price competition, could have a material adverse impact on our net revenues and profitability.

Failure to develop, or acquire, licenses for new or improved testing technologies, or our customers using new technologies to perform their own tests, may limit our ability to successfully achieve our business strategy.

The clinical laboratory testing industry is subject to changing technology and new product introductions. Our success in maintaining a leadership position in genomic and other advanced testing technologies will depend, in part, on our ability to license new and improved technologies for early diagnosis on favorable terms. We may not be able to negotiate acceptable licensing arrangements and we cannot be certain that such arrangements will yield commercially successful diagnostic tests. If we are unable to license these testing methods at competitive rates, our research and development costs may increase as a result. In addition, if we are unable to license new or improved technologies to expand our esoteric testing businesses, our testing methods may become outdated when compared with our competition and our testing volume and revenue may be materially and adversely affected.

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

Currently, most clinical laboratory testing is categorized as “high” or “moderate” complexity, and

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

Changes in payer mix, including an increase in capitated managed-cost health care or new national or networking managed care purchasing models, could have a material adverse impact on our net revenues and profitability.

Most testing services are billed to a party other than the physician or other authorized person that ordered the test. In addition, tests ordered by a single physician may be billed to different payers depending on the medical benefits of a particular patient. Increases in the percentage of services billed to government and managed care payers could have an adverse impact on our net revenues. For the year ended December 31, 2005, the percentage of accessions by payer was:

- private patients - 2.4%,
- Medicare, Medicaid and other — 21.3%,
- commercial clients - 34.8% and
- managed care — 41.5%.

Managed care providers typically contract with a limited number of clinical laboratories and then designate the laboratory or laboratories to be used for tests ordered by participating physicians. The majority of our managed care testing is negotiated on a fee-for-service basis at a discount from our patient prices. Such discounts have historically resulted in price erosion and have negatively impacted our operating margins. In addition, managed care organizations have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and managed care organization agree to a per member, per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed. Such contracts shift the risk of additional testing beyond that covered by the capitated payment to the clinical laboratory. Pursuant to legislation passed in late 2003, the percentage of Medicare beneficiaries enrolled in Medicare managed care plans is expected to increase. For the year ended December 31, 2005, capitated contracts accounted for approximately $136.5 million, or 4.1%, of our net sales.

Recently, managed care companies have announced their intention to adopt new national or networking managed care laboratory services purchasing models. If we are unable to participate in these new models, it would have a material adverse impact on our net revenues and profitability.

In addition, Medicare and Medicaid and private insurers have increased their efforts to control the cost, utilization and delivery of health care services, including clinical laboratory services. Measures to regulate health care delivery in general, and clinical laboratories in particular, have resulted in reduced prices, added costs and decreased test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements.

We expect efforts to impose reduced reimbursements and more stringent cost controls by government and other payers to continue. If we cannot offset additional reductions in the payments we receive for our services by reducing costs, increasing test volume and/or introducing new procedures, it would have a

material adverse impact on our net revenues and profitability.

A failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers, could impact our ability to successfully grow our business.

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

In addition, we rely on developing alliances with hospitals to expand our business through traditional and non-traditional business models. Reference agreements, or the traditional business model, provide a means for hospitals to outsource patient laboratory testing services that are esoteric or complex, or that are not time critical. A non-traditional business model is where we provide technical support services in a variety of health care settings. Our ability to expand the number of alliances with hospitals and maintain current alliances, many of which are terminable on short notice, could impact our ability to successfully grow our business.

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

The successful integration of any business we may acquire in the future entails numerous risks, including, among others:

- loss of key customers or employees;
- difficulty in consolidating redundant facilities and infrastructure and in standardizing information and other systems;
- failure to maintain the quality of services that such companies have historically provided;
- coordination of geographically-separated facilities and workforces; and
- diversion of management’s attention from the day-to-day business of our company.

We cannot assure you that current or future acquisitions, if any, or any related integration efforts will be successful, or that our business will not be adversely affected by any future acquisitions. Even if we are able to successfully integrate the operations of companies or businesses we may acquire in the future, we may not be able to realize the benefits that we expect to result from such integration, including projected cost savings within the projected time frame or at all.

Adverse results in material litigation matters could have a material adverse effect upon our business.

Although we are not currently involved in any material legal actions, we may become subject in the ordinary course of business to material legal action related to, among other things, intellectual property disputes, professional liability and employee-related matters, as well as inquiries from governmental agencies and Medicare or Medicaid carriers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. Legal actions could result in substantial monetary damages as well as damage to our reputation with customers, which could have a material adverse effect upon our business.

An inability to attract and retain experienced and qualified personnel could adversely affect our business.

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

Failure to maintain our days sales outstanding levels would have an adverse effect on our business.

Billing for laboratory services is a complex process. Laboratories bill many different payers such as doctors, patients, hundreds of different insurance companies, Medicare, Medicaid and employer groups, all of which have different billing requirements. We believe that our bad debt expense, which was 5.3% of our net revenues at December 31, 2005, is the result of non-credit related issues which slow the billing process and patients who are unable or unwilling to pay. If we are unable to maintain our days sales outstanding level ("DSO"), which as of December 31, 2005 was approximately 54 days, our bad debt expense and DSO could increase, which would have an adverse effect on our business.

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

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

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

Our operations may be adversely impacted by the effects of natural disasters such as hurricanes and earthquakes, or acts of terrorism or other criminal activities. Such events may result in a temporary decline in the number of patients who seek laboratory testing services. In addition, such events may temporarily interrupt our ability to transport specimens, our ability to utilize certain laboratories or to receive material from our suppliers.

Failure to comply with the Sarbanes-Oxley Act of 2002, including Section 404 of that Act which requires management to report on, and our independent registered public accounting firm to attest to and report on, our internal controls, could cause sanctions and investigations by regulatory authorities, such as the SEC.

If we are not able to continue to comply with the requirements of Section 404 in a timely manner, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in connection with continued testing and strengthening of our internal control system.

Item 2. PROPERTIES

The Company operates through a national network of 36 primary laboratories and over 1,300 service sites, consisting of branches, patient service centers and STAT laboratories. The table below summarizes certain information as to the Company's principal operating and administrative facilities as of December 31, 2005.

Location	Nature of Occupancy
Primary Laboratories:	
Birmingham, Alabama	Leased
Phoenix, Arizona	Leased
Calabasas, California	Leased
Irvine, California	Leased
Los Angeles, California	Leased
San Diego, California	Leased
San Leandro, California	Leased
Aurora, Colorado	Leased
Denver, Colorado	Leased
Stratford, Connecticut	Leased
Deerfield Beach, Florida	Leased
Tampa, Florida	Leased
Eden Prairie, Minnesota	Leased
Kansas City, Missouri	Owned
Reno, Nevada	Owned
East Windsor, New Jersey	Leased
Raritan, New Jersey	Owned
Portsmouth, New Hampshire	Leased
Uniondale, New York	Leased
Burlington, North Carolina	Owned
Research Triangle Park, North Carolina	Leased
Dublin, Ohio	Owned
Oklahoma City, Oklahoma	Leased
Brentwood, Tennessee	Leased
Knoxville, Tennessee	Leased
Austin, Texas	Leased
Dallas, Texas	Leased
Houston, Texas	Leased
Salt Lake City, Utah	Leased
Herndon, Virginia	Leased
Kent, Washington	Leased
Mt. Vernon, Washington	Leased
Fairmont, West Virginia	Leased
Corporate Headquarters Facilities:	
Burlington, North Carolina	Owned
Burlington, North Carolina	Leased

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

Item 3. LEGAL PROCEEDINGS

On June 24, 2003, the Company and certain of its executive officers were sued in the United States District Court for the Middle District of North Carolina in the first of a series of putative shareholder class actions alleging securities fraud. Shortly thereafter, five other complaints containing substantially identical allegations were filed against the Company and certain of the Company's executive officers. Each of the complaints alleges that the defendants violated the federal securities laws by making material misstatements and/or omissions that caused the price of the Company's stock to be artificially inflated between February 13 and October 3, 2002. The plaintiffs seek certification of a class of substantially all persons who purchased shares of the Company's stock during that time period and unspecified monetary damages. These six cases have been consolidated and will proceed as a single case. The plaintiffs have filed a consolidated amended complaint. On July 16, 2004, the defendants filed a motion to dismiss the consolidated complaint. The defendants deny any liability and continue to defend the case vigorously. At this time, it is premature to make any assessment of the potential outcome of the cases or whether they could have a material adverse effect on the Company's financial condition.

The Company is the appellant in a patent case originally filed by Competitive Technologies, Inc. and Metabolite Laboratories, Inc. in the United States District Court for the District of Colorado. After a jury trial, the district court entered judgment against the Company for patent infringement, with total damages and attorney's fees payable by the Company of approximately $7.8 million. The underlying judgment has been paid. The Company vigorously contested the judgment and appealed the case to the United States Court of Appeals for the Federal Circuit. On June 8, 2004, that court affirmed the judgment against the Company and, on August 5, 2004, the Company's request for rehearing was denied. On November 3, 2004, the Company filed a petition for a writ of certiorari with the United States Supreme Court. On October 31, 2005, the Court granted the Company's petition, and the case is scheduled to be argued before the Supreme Court on March 21, 2006.

The Company is also involved in various claims and legal actions arising in the ordinary course of business. These matters include, but are not limited to, intellectual property disputes, professional liability, employee related matters, and inquiries from governmental agencies and Medicare or Medicaid payers and managed care payers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. In the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company. The Company is also named from time to time in suits brought under the qui tam provisions of the False Claims Act. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal 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 and, in the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of those qui tam matters presently known to the Company is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company.

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 might 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 exposures 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, 2005 and 2004, the

Company had provided letters of credit aggregating approximately $62.6 million and $63.5 million respectively, primarily in connection with certain insurance programs.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

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

(a) Market Information

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

	High	Low
Year Ended December 31, 2004		
First Quarter	44.20	36.95
Second Quarter	42.47	38.57
Third Quarter	43.75	36.80
Fourth Quarter	50.00	41.10

	High	Low
Year Ended December 31, 2005		
First Quarter	50.60	44.63
Second Quarter	51.25	46.83
Third Quarter	51.95	46.60
Fourth Quarter	55.00	47.22

(b) Holders

On February 3**,** 2006 there were 579 holders of record of the Common Stock.

(c) Dividends

The Company has not historically paid dividends on its common stock. In addition, the Company's senior credit facilities place certain limits on the payment of dividends.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

The information required regarding "Securities Authorized for Issuance Under Equity Compensation Plans" is incorporated by reference to our Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders to be held in 2006 (the "2006 Proxy Statement") under the caption "Equity Compensation Plan Information."

(e) Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of shares of the Company's common stock made during the quarter ended December 31, 2005, by or on behalf of the Company:
(Shares in millions)

	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Repurchased Under the Program
October 1-October 31	0.9	$ 48.74	0.9	$ 129.3
November 1-November 30	0.6	49.20	0.6	100.3
December 1-December 31	6.0	52.78	6.0	285.2
Total	7.5	$ 52.03	7.5	

On December 7, 2005, the Company executed an overnight share repurchase transaction with a bank for the acquisition of 4.8 million shares of the Company's outstanding common stock for an initial purchase price of $52.04 per share. Pursuant to the agreement with the bank, the bank will purchase 4.8 million shares in the open market over a period ending no later than June 13, 2006. At the end of the purchase period, the Company will either receive from or pay to the bank a price adjustment based on the volume weighted average purchase price of the shares acquired compared to the initial purchase price. Such price adjustment can be either in cash or common stock at the discretion of the Company. The Company has limited its potential financial exposure in the event of an increase in its share price above a cap during the purchase period with respect to 2.4 million of the repurchased shares. The diluted net income per share calculation for the year ended December 31, 2005 includes the potential shares of common stock that may be issued to settle the overnight share repurchase transaction.

As of December 31, 2005, the Company had outstanding authorizations from the Board of Directors to purchase approximately $285.2 million of Company common stock.

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, 2005 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,				
	2005(a)	2004	2003(b)	2002(c)(d)	2001(e)
	(In millions, except per share amounts)				
Statement of Operations Data:					
Net Sales	$ 3,327.6	$ 3,084.8	$ 2,939.4	$ 2,507.7	$ 2,199.8
Gross profit	1,390.3	1,289.3	1,224.6	1,061.8	925.6
Operating income	618.1	598.4	533.7	435.0	367.6
Net earnings	386.2	363.0	321.0	254.6	179.5
Basic earnings per common share	$ 2.89	$ 2.60	$ 2.23	$ 1.78	$ 1.29
Diluted earnings per common share(f)	$ 2.71	$ 2.45	$ 2.11	$ 1.69	$ 1.26
Basic weighted average common shares outstanding	133.5	139.4	144.0	142.8	138.8
Diluted weighted average common shares outstanding	144.9	150.7	154.7	154.2	144.1
Balance Sheet Data:					
Cash and cash equivalents, and short-term investments	$ 63.1	$ 206.8	$ 123.0	$ 56.4	$ 149.2
Goodwill and Intangible assets, net	2,122.7	1,857.4	1,857.3	1,217.5	968.5
Total assets	3,875.8	3,626.1	3,414.9	2,580.4	1,929.6
Long-term obligations(f)	1,148.9	889.3	879.5	516.0	503.1
Total shareholders' equity	1,885.7	1,999.3	1,895.9	1,611.7	1,085.4

(a) During the third and fourth quarters of 2005, the Company began to implement its plan related to the integration of Esoterix and US LABS operations into the Company’s service delivery network. The plan is directed at reducing redundant facilities, while maintaining the goal of providing excellent customer service. In connection with the integration plan, the Company recorded $11.9 million of costs associated with the execution of the plan. The majority of these integration costs related to employee severance and contractual obligations associated with leased facilities and equipment. Of this amount, $10.1 million related to employee severance benefits for approximately 700 employees, with the remainder primarily related to contractual obligations associated with leased facilities. Employee groups being affected as a result of this plan included those involved in the collection and testing of specimens, as well as administrative and other support functions.

The Company also recorded a special charge of $5.0 million related to forgiveness of amounts owed by patients and clients as well as other costs associated with the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

(b) On January 17, 2003, the Company completed the acquisition of all of the outstanding shares of DIANON Systems, Inc. for $47.50 per share in cash, or approximately $595.6 million including transaction fees and expenses. The Company recorded net restructuring and other special charges of $1.5 million for 2003 in connection with the integrations of its recent acquisitions.

(c) On July 25, 2002, the Company completed the acquisition of all of the outstanding stock of Dynacare Inc. in a combination cash and stock transaction with a combined value of approximately $496.4 million, including transaction costs. During the third quarter of 2002, the Company recorded restructuring and other special charges totaling $17.5 million. These charges included a special bad debt provision of approximately $15.0 million related to the acquired Dynacare accounts receivable balance and restructuring expense of approximately $2.5 million relating to Dynacare integration costs of actions that impact the Company's existing employees and operations.

(d) Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets". This Standard requires that goodwill and other intangibles that are acquired in business combinations and that have indefinite useful lives are not to be amortized.

(e) During the third quarter of 2001, the Company recorded a loss of $5.5 million relating to the write-off of unamortized bank fees associated with the Company's term debt, which was repaid in September of 2001. The Company also recorded a charge of $8.9 million as a result of a payment made to a bank to terminate an interest rate swap agreement tied to the Company's term loan.

(f) Long-term obligations primarily includes the zero coupon convertible subordinated notes, the 5 1/2% senior notes due 2013, the 5 5/8% senior notes due 2015 and other long-term obligations. The accreted balance of the zero coupon subordinated notes was $544.4 million, $533.7 million, $523.2 million, and $512.9 million, and $502.8 million, at December 31, 2005, 2004, 2003, 2002 and 2001, 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 $353.0 million, $353.4 million, $353.8 million, $0, and $0, at December 31, 2005, 2004, 2003, 2002, and 2001, respectively. The principal balance of the 5 5/8% senior notes was $250.0 million at December 31, 2005 and $0 for all other years presented. The remainder of other long-term obligations consisted primarily of mortgages payable with balances of $1.5 million, $2.2 million, $2.5 million, $3.1 million, and $0.3 million, at December 31, 2005, 2004, 2003, 2002, and 2001, respectively. Long-term obligations exclude amounts due to affiliates.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

During 2005, the Company continued to strengthen its financial performance through the implementation of the Company's strategic plan and the expansion of its national platform in routine testing. This plan continues to provide growth opportunities for the Company by building a leadership position in genomic and other advanced testing technologies primarily through internal development efforts, acquisitions and technology licensing activities.

The Company believes future performance will be positively affected by several factors: 1) The expansion of higher-value genomic tests such as Cystic Fibrosis, HCV and HIV genotyping, along with the continued growth of HIV viral load and HPV testing; 2) Transition to Cytyc's ThinPrep Imaging System; 3) Continued progress with existing licensing and business relationships (such as EXACT Sciences, Atherotech, Liposcience, and BioPredictive); 4) The Company's ongoing business acquisition strategy; and 5) Growing demand for genomic testing creating a positive shift in test mix toward higher value testing.

Continued Development of Genomic, Esoteric, and Anatomic Pathology Services

The Company's acquisitions of Dianon, US LABS, and Esoterix position the Company as the leading provider of cancer and specialty testing in the United States. At the end of December approximately 35 percent of the Company's revenues are in the genomic, esoteric, and anatomic pathology categories. Prior to the acquisition of Dianon, only 27 percent of the Company's revenues were derived from these testing categories.

In addition to greater revenue and earnings potential, these acquisitions provide the Company the opportunity to reassess the cost structure of our entire organization to eliminate any redundant functions and costs wherever they may exist. The Company's third quarter restructuring marks the beginning of the implementation of these integration efforts. In connection with these acquisitions, the Company expects to ultimately achieve cost reductions of approximately thirty million dollars on a pre-tax basis over time compared to the current run-rate.

Cytyc ThinPrep Imaging System

The acceptance of the Cytyc ThinPrep Imaging System continues to accelerate as more physicians become aware of this service and the benefits that it provides to them and to their patients. This new service offers both enhanced quality to clients and their patients as well as enhanced efficiency to the Company's labs. By the end of the fourth quarter, the ThinPrep Imaging System was being requested for approximately 31 percent of all liquid-based Pap smears ordered, up from approximately 5 percent at the end of the first quarter. On an annualized run-rate basis, this means that the Company is now performing approximately 2.3 million imaged guided Pap tests. This significant adoption rate clearly indicates that physicians recognize the benefits of this Pap screening technology advancement.

Managed Care

The Company's growth is fueled not only by the introduction of new testing capabilities, but also by expanding and strengthening relationships with managed care partners. A major driver of volume growth this year is a result of managed care relationships.

Effective October 1, 2005, the Company was awarded the exclusive national provider contract for WellPoint's PPO in the entire state of Georgia. Additionally, the Company was awarded the exclusive national lab provider contract for the Wellpoint HMO and PPO fee for service plans in Nevada effective October 15, 2005.

During 2005, the Company continued to strengthen relationships with its national managed care partners through three major initiatives.

- First, by helping managed care companies understand how the Company can help reduce their overall laboratory spending while still allowing for fair payment for the services that the Company provides. Control of “leakage” – the amount of work performed and billed by non-contracted providers – remains a major area of cost reduction opportunity for managed care companies.

- Second, by providing managed care companies with unique scientific capabilities both in traditional clinical and anatomic pathology services, and in break-through areas such as wellness.

- Third, by bringing unique connectivity and information aggregation and analysis solutions to our managed care partners.

Seasonality

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

Results of Operations (in millions)

Years ended December 31, 2005, 2004, 2003

Net Sales

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Net Sales					
Routine Testing	$ 2,197.8	$ 2,118.3	$ 2,050.3	3.8%	3.3%
Genomic and Esoteric	1,129.8	966.5	889.1	16.9%	8.7%
Total	$ 3,327.6	$ 3,084.8	$ 2,939.4	7.9%	4.9%

	Number of Accessions Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Volume					
Routine Testing	74.8	75.3	73.6	(0.7%)	2.3%
Genomic and Esoteric	17.3	15.8	14.3	9.5%	10.5%
Total	92.1	91.1	87.9	1.1%	3.6%

	Price Per Accession(PPA) Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Price					
Routine Testing	$ 29.38	$ 28.12	$ 27.84	4.5%	1.0%
Genomic and Esoteric	65.26	61.18	62.28	6.7%	(1.8%)
Total	36.12	33.86	33.43	6.7%	1.3%

The increase in net sales for the three years ended December 31, 2005 has been driven primarily by the Company's continued shift in test mix to higher priced genomic and esoteric tests. As a percentage of total net sales, genomic and esoteric tests have increased during the three year period ended December 31, 2005 from 30.2% in 2003 to 34.0% in 2005. The acquisitions of US Labs and Esoterix in 2005 will continue to build on the Company's leadership position in the genomic and esoteric market. In addition to a shift in test mix, net sales were positively impacted in 2005 by improved pricing in routine testing. The improvement in routine test pricing was the result of several factors including our emphasis on pricing discipline and the loss of a large capitated contract in Florida and a large hospital laboratory agreement.

Cost of Sales

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Cost of Sales	$ 1,937.3	$ 1,795.5	$ 1,714.8	7.9%	4.7%

Cost of sales which includes primarily laboratory and distribution costs has increased over the three year period ended December 31, 2005 primarily due to increased volume in genomic and esoteric testing and the impact of acquisitions. As a percentage of sales, cost of sales has remained relatively stable over the three year period ended December 31, 2005. Labor and testing supplies comprise over 74% of the Company's cost of sales.

Selling, General and Administrative Expenses

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Selling, general and administrative expenses	$ 703.9	$ 649.1	$ 651.8	8.4%	(0.4%)
SG&A as a % of sales	21.2%	21.0%	22.2%		

Total selling, general and administrative expenses as percentage of sales have decreased over the three year period, primarily due to the reduction in the companies bad debt expense rate. The bad debt expense rate as percentage of sales was 5.4%, 6.3% and 7.3% for the years ended December 31, 2005, 2004 and 2003 respectively. The decrease in the bad debt expense rate is the result of improved billing and collection performance. Other SG&A remained relatively flat in 2004 and increased significantly in 2005 as the Company began the integration of the Esoterix and US LABS acquisitions. The Company recorded $11.9 million in restructuring charges during the third and fourth quarters of 2005 in connection with the integration process and expects to ultimately realize savings of approximately thirty million dollars on a pre-tax basis over time compared to the current run-rate. Selling, general and administrative expenses have also increased due to the Company's investment in the sales force.

Amortization of intangibles and other assets

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Amortization of intangibles and other assets	$ 51.4	$ 42.7	$ 37.6	20.4%	13.6%

Amortization of intangibles and other assets is driven primarily by the impact of acquisitions and licensed technology. The increase during 2005 was driven primarily by the impact of the Esoterix and US LABS acquisitions. The increase during 2004 was related primarily to licensed technology as well as small acquisitions.

Investment Loss

	Years Ended December 31,		
	2005	2004	2003
Investment loss	$ (3.1)	$ --	$ --

During the second quarter of 2005, the Company recorded an investment loss of $3.1, related to a write-off of the value of warrants to purchase common stock of Exact Sciences Corporation ("Exact"), which were obtained as part of the Company's licensing agreement for Exact's PreGen Plus technology in 2002. The original term of the warrants expired in June 2005.

Restructuring and other special charges

	Years Ended December 31,		
	2005	2004	2003
Restructuring and other special charges	$ 16.9	$ (0.9)	$ 1.5

During the third and fourth quarters of 2005, the Company began to implement its plan related to the integration of Esoterix and US LABS operations into the Company's service delivery network. The plan is directed at reducing redundant facilities, while maintaining the goal of providing excellent customer service. In connection with the integration plan, the Company recorded $11.9 million of costs associated with the execution of the plan. The majority of these integration costs related to employee severance and contractual obligations associated with leased facilities and equipment. Of this amount, $10.1 million

related to employee severance benefits for approximately 700 employees, with the remainder primarily related to contractual obligations associated with leased facilities. Employee groups being affected as a result of this plan included those involved in the collection and testing of specimens, as well as administrative and other support functions.

The Company also recorded a special charge of $5.0 million related to forgiveness of amounts owed by patients and clients as well as other costs associated with the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

During the fourth quarter of 2004, the Company recorded certain adjustments to previously recorded restructuring charges due to changes in estimates, resulting in a credit of approximately of $0.9 million. During the third quarter of 2003, the Company recorded a pre-tax restructuring charge of $3.3 million in connection with the integration of DIANON. During the fourth quarter of 2003, the Company recorded a charge of $3.1 million, relating to the continuing integration of its recent acquisitions. The Company also recorded certain adjustments in the fourth quarter of 2003 to previously recorded restructuring charges due to changes in estimates, resulting in a credit of approximately $4.9 million.

Interest expense

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Interest expense	$ 34.4	$ 36.1	$ 40.9	(4.7%)	(11.7%)

The decrease in interest expense for the year ended December 31, 2004 as compared to the year ended December 31, 2003 was a direct result of debt reductions following the Company's financing of the DIANON acquisition in 2003. The decrease for the year ended December 31, 2005 as compared to the year ended December 31, 2004 is primarily the result of the completion of amortization of deferred fees associated with the zero coupon-subordinated notes in 2004.

Income from joint venture partnerships

	Years Ended December 31,			% Change	
	2005	2004	2003	2005	2004
Income from joint venture partnerships	$ 58.3	$ 51.3	$ 43.7	13.6%	17.4%

Income from investments in joint venture partnerships represents the Company's ownership share in joint venture partnerships acquired as part of the Dynacare acquisition on July 25, 2002. The increase in income from these investments is driven primarily by improvement in operational performance. A significant portion of this income is derived from investments in Ontario and Alberta, Canada, and is earned in Canadian dollars.

Income tax expense

	Years Ended December 31,		
	2005	2004	2003
Income tax expense	$ 254.5	$ 252.3	$ 219.4
Income tax expense as a % of income before tax	39.7%	41.0%	40.6%

The effective tax rate for the year ended December 31, 2005 was favorably impacted by a deduction for certain dividends received in 2005.

Liquidity, Capital Resources and Financial Position

The Company's strong cash-generating capability and financial condition provide ready access to capital markets. The Company's principal source of liquidity is operating cash flow. This cash-generating capability is one of the Company's fundamental strengths and provides substantial financial flexibility in meeting operating, investing and financing needs. In addition, the Company has revolving credit facilities that are further discussed in "Note 9 to Consolidated Financial Statements."

Operating Activities

In 2005, the Company's operations provided $574.2 million of cash, primarily reflecting the Company's solid business results, offset by net tax payments of $233.3 million and pension plan contributions of $8.0 million. The growth in the Company's cash flow from operations primarily resulted from improved earnings and the expansion of the business through acquisitions. The Company continued to focus on efforts to increase cash collections from all payers, as well as on-going improvements to the claim submission processes.

During 2005, 2004 and 2003, the Company made contributions to its defined pension plan in the amounts of $8.0 million, $60.0 million and $18.3 million, respectively. The Company expects to contribute $8.0 million to its defined benefit pension plan during 2006. See "Note 14 to the Consolidated Financial Statements" for a further discussion of the Company's pension and postretirement plans.

Investing Activities

Capital expenditures were $93.6 million, $95.0 million and $83.6 million for 2005, 2004 and 2003, respectively. The Company expects capital expenditures of approximately $100.0 to $115.0 million in 2006. The Company will continue to make important investments in information technology connectivity with its customers and financial systems. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's revolving credit facilities.

The Company has invested a total of $28.3 million over the past three years in new testing technologies and had $60.5 million net book value of capitalized patents, licenses and technology at December 31, 2005. While the Company continues to believe its strategy of entering into licensing and technology distribution agreements with the developers of leading-edge technologies will provide future growth in revenues, there are certain risks associated with these investments. These risks include, but are not limited to, the risk that the licensed technology will not gain broad acceptance in the marketplace; or that insurance companies, managed care organizations, or Medicare and Medicaid will not approve reimbursement for these tests at a level commensurate with the costs of running the tests. Any or all of these circumstances could result in impairment in the value of the related capitalized licensing costs.

Financing Activities

During 2005, the Company repurchased $588.7 million of stock representing 11.6 million shares. As of December 31, 2005, the Company had outstanding authorizations to purchase approximately $285.2 million.

Holders of the zero coupon-subordinated notes may require the Company to purchase in cash all or a portion of their notes on September 11, 2006 and 2011 at prices of $741.92 to $819.54 per note, respectively. Should the holders put the notes to the Company on any of the dates above, the Company believes that it will be able to satisfy this contingent obligation with cash on hand, borrowings on the revolving credit facility, and additional financing if necessary.

Credit Ratings

The Company's debt ratings of Baa3 from Moody's and BBB from Standard and Poor's contribute to our ability to access capital markets.

Contractual Cash Obligations

	Payments Due by Period				
	Total	**2006**	**2007-2008**	**2009-2010**	**2010 and thereafter**
Capital lease obligations	$ 4.0	$ 2.2	$ 1.8	$ --	$ --
Operating lease obligations	249.3	68.1	87.0	43.1	51.1
Contingent future licensing payments (a)	52.4	0.6	22.3	11.4	18.1
Minimum royalty payments	35.3	6.5	12.8	11.3	4.7
Minimum purchase obligations	30.3	10.3	20.0	--	--
Zero coupon-subordinated notes (b)	552.0	552.0	--	--	--
Scheduled interest payments on Senior Notes	285.0	33.3	66.6	66.6	118.5
Long-term debt	604.5	0.2	0.2	0.2	603.9
Total contractual cash obligations(c)	$ 1,812.8	$ 673.2	$ 210.7	$ 132.6	$ 796.3

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

(b) Holders of the zero coupon-subordinated notes may require the Company to purchase in cash all or a portion of their notes on September 11, 2006 and 2011 at $741.92 and $819.54 per note, respectively. Should the holders put the notes to the Company on any of the dates above, the Company believes that it will be able to satisfy this contingent obligation with cash on hand, borrowings on the revolving credit facility, and additional financing if necessary.

(c) The table does not include obligations under the Company's pension and postretirement benefit plans which are included in "Note 14 to Consolidated Financial Statements." The Company expects to contribute approximately $8 million to its defined pension plan during 2006, although it is not legally required to do so. Benefits under the Company's postretirement medical plan are made when claims are submitted for payment, the timing of which are not practicable to estimate.

Off-Balance Sheet Arrangements

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

On December 7, 2005, the Company executed an overnight share repurchase transaction with a bank for the acquisition of 4.8 million shares of the Company's outstanding common stock for an initial purchase price of $52.04 per share. Pursuant to the agreement with the bank, the bank will purchase 4.8 million shares in the open market over a period ending no later than June 13, 2006. At the end of the purchase period, the Company will either receive from or pay to the bank a price adjustment based on the volume weighted average purchase price of the shares acquired compared to the initial purchase price. Such price adjustment can be either in cash or common stock at the discretion of the Company. The Company has limited its potential financial exposure in the event of an increase in its share price above a cap during the purchase period with respect to 2.4 million of the repurchased shares. At December 31, 2005, the price adjustment would have required the Company to pay $5.3 million in cash or common stock.

Other Commercial Commitments

At December 31, 2005, the Company provided letters of credit aggregating approximately $62.6 million, primarily in connection with certain insurance programs. These letters of credit are secured by the Company's senior credit facilities and are renewed annually, around mid-year.

Based on current and projected levels of operations, coupled with availability under its new senior credit facilities, the Company believes it has sufficient liquidity to meet both its short-term and long-term cash needs.

New Accounting Pronouncements

In December 2004 the Financial Standards Accounting Board (FASB) issued FAS 123(R), Share-Based Payment (revised 2004). This Statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The Company currently estimates the adoption to impact net income by approximately $15.0, net of tax. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans.

In March, 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. This Interpretation clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Statement 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The Company does not expect that this standard will impact its financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections", which is effective for periods beginning after December 15, 2005. This statement replaces APB Opinion No. 20 "Accounting Changes" (APB 20) and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements". APB 20 previously required that most voluntary changes in accounting principle be recognized by including, in net income of the period of the change, the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. The Company does not expect that this standard will impact its financial position or results of operations.

In December 2004, the FASB issued FAS 153, Exchanges of Nonmonetary Assets. This Statement amends the guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions. That statement is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company has not historically entered into a significant level of nonmonetary transactions and therefore does not expect that this standard will impact its financial position or results unless nonmonetary transactions are

utilized in the future. This statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. The Company's critical accounting policies arise in conjunction with the following:

- Allowances for doubtful accounts
- Pension expense
- Accruals for self insurance reserves
- Income tax expense

Allowance for doubtful accounts

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

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

The following table presents the percentage of the Company's net accounts receivable outstanding by aging category at December 31, 2005 and 2004:

Days Outstanding	2005	2004
0 - 30	43.6%	47.3%
31 - 61	22.3%	19.2%
61 - 91	10.1%	10.1%
91 - 120	7.3%	6.7%
121 - 150	4.6%	5.1%
151 - 180	3.6%	3.9%
181 - 270	6.6%	6.0%
271 - 360	1.4%	1.4%
Over 360	0.5%	0.3%

Pension Expense

Substantially all employees of the Company are covered by a defined benefit retirement plan (the "Company Plan"). The benefits to be paid under the Company Plan are based on years of credited service and compensation earned while an employee of LabCorp. The Company has a second defined benefit plan which covers its senior management group and provides for additional benefits, due in part to limitations on benefits and pay imposed on the Company Plan under the Employee Retirement Income Security Act of 1974.

The Company's net pension cost is developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are updated on an annual basis at the beginning of each year. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in pension costs may occur in the future due to changes in these assumptions. The key assumptions used in accounting for the defined benefit plans were a 5.6% discount rate and an 8.5% expected long-term rate of return on plan assets as of December 31, 2005.

Discount Rate

The Company works with its independent actuary to develop a discount rate assumption used to value the benefit obligations of its retirement plans. The Company follows paragraph 186 of Financial Accounting Standard 106 in developing this rate. The Company's actuary obtains information on high-quality corporate (AA rating or higher) bonds from a nationally recognized credit rating agency. These bonds are then reviewed and outliers are discarded. The results of the actuary's discount rate analysis are then reviewed by the Company and a final decision on the discount rate assumption is made by the Company. A one percentage point reduction in the discount rate would have resulted in an increase in 2005 pension expense of $3.4 million.

Return on Plan Assets

In establishing its expected return on plan assets assumption, the Company reviews its asset allocation and develops return assumptions based on different asset classes adjusting for plan operating expenses. Actual asset over/under performance compared to expected returns will respectively decrease/increase unrecognized loss. The change in the unrecognized loss will change amortization cost in upcoming periods. A one percentage point increase in the expected return on plan assets would have resulted in a decrease in 2005 pension expense of $2.5 million.

Current year net pension cost was $9.8 million, a decrease of $1.5 million from 2004. Our actuaries have estimated that 2006 net pension cost will be higher by approximately $4.8 million than 2005 net pension cost. The decrease in the discount rate assumption during fiscal 2005 is a primary reason for this expected increase in net pension cost for 2006.

Further information on our defined benefit retirement plan is provided in note 14 to the consolidated financial statements.

Accruals for Self-insurance Reserves

Accruals for self-insurance reserves (including workers' compensation, auto and employee medical) are determined based on historical payment trends and claims history, along with current and estimated future economic conditions.

The Company is self-insured for professional liability claims arising in the normal course of business, generally related to the testing and reporting of laboratory test results. The Company records an accrual for such claims payable and claims incurred but not reported based on an actuarial assessment of the accrual driven by frequency and amounts of claims, which is performed at least annually.

While management believes these estimates are reasonable and consistent, they are by their very nature, estimates of amounts that will depend on future events. Accordingly, actual results could differ from these estimates. The Company's Audit Committee periodically reviews the Company's significant accounting policies. See "Note 1 to the Consolidated Financial Statements" for further discussion of significant accounting policies.

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. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not.

FORWARD-LOOKING STATEMENTS

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

1. changes in federal, state, local and third party payer regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party reimbursement for clinical laboratory testing;

2. adverse results from investigations of clinical laboratories by the government, which may include significant monetary damages and/or exclusion from the Medicare and Medicaid programs;

3. loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988, or those of Medicare, Medicaid, the False Claims Act or other federal, state or local agencies;

4. failure to comply with the Federal Occupational Safety and Health Administration requirements and the Needlestick Safety and Prevention Act which may result in penalties and loss of licensure;

5. failure to comply with HIPAA, which could result in significant fines;

6. failure of third party payers to complete testing with the Company, or accept or remit transactions in HIPAA-required standard transaction and code set format, could result in an interruption in the Company's cash flow;

7. increased competition, including price competition;

8. changes in payer mix, including an increase in capitated managed-cost health care or the impact of a shift to consumer-driven health plans;

9. failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers;

10. failure to retain or attract managed care business as a result of changes in business models, including new risk based or network approaches, or other changes in strategy or business models by managed care companies;

11. failure to effectively manage newly acquired businesses and the cost related to such integration;

12. adverse results in litigation matters;

13. inability to attract and retain experienced and qualified personnel;

14. failure to maintain the Company's days sales outstanding levels;

15. decrease in credit ratings by Standard & Poor's and/or Moody's;

16. failure to develop or acquire licenses for new or improved technologies, or if customers use new technologies to perform their own tests;

17. inability to commercialize newly licensed tests or technologies or to obtain appropriate reimbursement for such tests, which could result in impairment in the value of certain capitalized licensing costs;

18. inability to obtain and maintain adequate patent and other proprietary rights for protection of the Company's products and services and successfully enforce the Company's proprietary rights;

19. the scope, validity and enforceability of patents and other proprietary rights held by third parties which might have an impact on the Company's ability to develop, perform, or market the Company's tests or operate its business;

20. failure in the Company's information technology systems resulting in an increase in testing turnaround time or billing processes or the failure to meet future regulatory or customer information technology and connectivity requirements;

21. failure of the Company's existing and new financial information systems resulting in failure to meet required financial reporting deadlines;

22. failure of the Company's disaster recovery plans to provide adequate protection against the interruption of business and/or the recovery of business operations;

23. business interruption or other impact on the business due to adverse weather (including hurricanes), fires and/or other natural disasters and terrorism or other criminal acts;

24. failure by the Company to comply with the Sarbanes-Oxley Act of 2002, including Section 404 of that Act which requires management to report on, and our independent registered public accounting firm to attest to and report on, our internal controls; and

25. liabilities that result from the inability to comply with new corporate governance requirements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

The Company's zero coupon-subordinated notes contain the following two features that are considered to be embedded derivative instruments under SFAS No. 133:

1) The Company will pay contingent cash interest on the zero coupon-subordinated notes after September 11, 2006, if the average market price of the notes equals 120% or more of the sum of the issue price, accrued original issue discount and contingent additional principal, if any, for a specified measurement period.

2) Holders may surrender zero coupon-subordinated notes for conversion during any period in which the rating assigned to the zero coupon-subordinated notes by Standard & Poor's Ratings Services is BB- or lower.

Based upon independent appraisals, these embedded derivatives had no fair market value at December 31, 2005.

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

Two of the Company's joint venture partnerships operate in Canada and remit the Company's share of partnership income in Canadian Dollars. Accordingly, the cash flow received from these affiliates is subject to a certain amount of foreign currency exchange risk.

The amount of the price adjustment as required by the overnight share repurchase agreement is subject to changes in the market price of the Company's common stock.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not Applicable.

Item 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the Company's disclosure controls and procedures. Based on 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.

Management's Report 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 Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the Company's evaluation under the framework in Internal Control — Integrated Framework issued by the COSO, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2005.

The Company management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein with its report immediately preceding our audited financial statements.

Additionally, the Company's Chief Executive Officer and Chief Financial Officer determined that there have been no significant changes to the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not Applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by the item regarding directors is incorporated by reference to our Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders to be held in 2006 (the "2006 Proxy Statement") under the caption "Election of Directors." Information regarding executive officers is set forth in Item 1 of the 2006 Proxy Statement under the caption "Executive Officers."

Code of Ethics, Experts on Audit Committee

In October 2002, the Board of Directors adopted an updated set of Corporate Governance Guidelines (the "Guidelines). The Guidelines address a number of topics, including director independence, Board and Committee self-assessment, retirement, evaluation of the Chief Executive Officer, composition of the Board and succession planning. The Nominating and Corporate Governance Committee reviews the Guidelines on a regular basis and any proposed additions or amendments to the Guidelines are submitted to the Board for its consideration.

In December 2003, the Board adopted the Company's updated Code of Business Conduct and Ethics (the "Code"). The Code is a code of business conduct and ethics applicable to all directors, officers and employees of the Company, including its Chief Executive Officer and its Chief Financial Officer, Controller and other senior financial officers. The Code sets forth Company policies and expectations on a number of topics, including but not limited to, conflicts of interest, confidentiality, compliance with laws (including insider trading laws), preservation and use of Company assets, and business ethics. The Code also sets forth procedures for communicating and handling any potential conflict of interest (or the appearance of any conflict of interest) involving directors or executive officers, and for the confidential communication and handling of issues regarding accounting, internal controls and auditing matters. The Company regularly reviews the Code and proposed additions or amendments to the Code are considered and subject to approval by the Board.

In order to provide stockholders with greater knowledge regarding the Board's processes, the Guidelines and the Code adopted by the Board of Directors are posted on the Company's website at www.labcorp.com. In addition, any waivers or amendments to the Code will be posted on the Company's website.

The Company has carefully reviewed its Guidelines and Code and believes that they comply with the provisions of the Sarbanes-Oxley Act of 2002, the rules of the Commission, and the NYSE's new corporate governance listing standards regarding corporate governance policies and processes.

The Audit Committee of the Board of Directors further concluded that Wendy E. Lane has been identified as an "audit committee financial expert" as defined by Commission rules and has the "accounting or related financial management expertise" required by the Listing Standards.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the 2006 Proxy Statement under the caption "Executive Compensation."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See "Note 13 to the Consolidated Financial Statements" for a discussion of the Company's Stock Compensation Plans. Except for the above referenced footnote, the information called for by this Item is incorporated by reference in the information under the caption "Security Ownership of Certain Beneficial Owners and Management" appearing in the 2006 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable

Item 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the 2006 Proxy Statement under the caption “Principal Accountant Fees and Services.”

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

See Index on page F-1

(2) Financial Statement Schedules:

See Index on page F-1

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

(3) Index to and List of Exhibits

Exhibits:

Exhibits 10.2 through 10.4 and 10.9 through 10.19 are management contracts or compensatory plans or arrangements.

3.1 - Amended and Restated Certificate of Incorporation of the Company dated May 24, 2001 (incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Commission on October 19, 2001, File No. 333-71896).

3.2 - Amended and Restated By-Laws of the Company dated April 28, 1995 (incorporated herein by reference to the Company's report on Form 8-K, filed with the Commission on May 12, 1995).

4.1 - Specimen of the Company's Common Stock Certificate (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).

4.2 - Indenture dated September 11, 2001 between the Company and Bank of New York, as trustee (incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Commission on October 19, 2001, File No. 333-71896).

4.3 - Registration Rights Agreement dated September 11, 2001 between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Commission on October 19, 2001, File No. 333-71896).

4.4 - Rights Agreement dated December 13, 2001 between the Company and American Stock Transfer & Trust Company, as rights Agent (incorporated herein by reference to the Company's Registration Statement on Form 8-A, filed with the Commission on December 21, 2001, File No. 001-11353).

4.5 - Indenture dated as of January 31, 2003 between the Company and Wachovia Bank, National Association, as trustee (incorporated herein by reference to the January 31, 2003 Form 8-K, filed with the Commission on February 3, 2003).

4.6 - Registration Rights Agreement, dated as of January 28, 2003 between the Company and the Initial Purchasers (incorporated herein by reference to the January 31, 2003 Form 8-K, filed with the Commission on February 3, 2003).

10.1 - National Health Laboratories Incorporated Pension Equalization Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).

10.2 - Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended September 30, 2004).

10.3 - First Amendment to the Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan (incorporated herein by reference to the

Company's Quarterly Report for the period ended September 30, 2004).

10.4 -	Second Amendment to the Laboratory Corporation of America Holdings amended and restated new Pension Equalization Plan. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004)
10.5 -	National Health Laboratories 1988 Stock Option Plan, as amended (incorporated herein by reference to the Company's Registration Statement on Form S-1, filed with the Commission on July 9, 1990, File No. 33-35782).
10.6 -	National Health Laboratories 1994 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on August 12, 1994, File No. 33-55065).
10.7 -	Laboratory Corporation of America Holdings Master Senior Executive Severance Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
10.8 -	Laboratory Corporation of America Holdings Senior Executive Transition Policy (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2004).
10.9 -	Exchange Agent Agreement dated as of April 28, 1995 between the Company and American Stock Transfer & Trust Company (incorporated herein by reference to the May 12, 1995 Form 8-K).
10.10 -	$350 Million Credit Agreement dated January 13, 2005 among the Company, the lenders named therein and Credit Suisse First Boston and UBS Securities LLC, as Co-Lead Arrangers. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004)
10.11 -	Laboratory Corporation of America Holdings 1995 Stock Plan for Non-Employee Directors dated September 26, 1995 (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on September 26, 1995, File No. 33-62913).
10.12 -	Amendment to the 1995 Stock Plan for Non-Employee Directors (incorporated herein by reference to the Company's 1997 Annual Proxy Statement, filed with the Commission on June 6, 1997).
10.13 -	Amendment to the 1995 Stock Plan for Non-Employee Directors (incorporated herein by reference to Annex I of the Company's 2001 Annual Proxy Statement, filed with the Commission on April 25, 2001).
10.14 -	Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to Annex I of the Company's Registration Statement on Form S-8 filed with the Commission on December 13, 1996, File No. 333-17793).
10.15 -	Amendments to the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on January 10, 2000, File No. 333-94331).
10.16 -	Amendments to the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on May 26, 2004, File No. 333-115905).
10.17 -	Laboratory Corporation of America Holdings Amended and Restated 1999 Stock Incentive Plan (incorporated herein by reference to Annex I of the Company's 1999 Annual Proxy Statement filed with the Commission of May 3, 1999).
10.18 -	Laboratory Corporation of America Holdings 2000 Stock Incentive Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on June 5, 2000, File No. 333-38608).
10.19 -	Amendments to the 2000 Stock Incentive Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on June 19, 2002, File No. 333-90764).
10.20 -	Dynacare Inc., Amended and Restated Employee Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on August 7, 2002, File No. 333-97745).
10.21 -	DIANON Systems, Inc. 1996 Stock Incentive Plan, DIANON Systems, Inc. 1999 Stock Incentive Plan, DIANON Systems, Inc. 2000 Stock Incentive Plan, DIANON Systems, Inc. 2001 Stock Incentive Plan, and UroCor, Inc. Second Amended and

Restated 1992 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8, filed with the Commission on January 21, 2003, File No. 333-102602.

10.22 -	Laboratory Corporation of America Holdings Deferred Compensation Plan(incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.23 -	First Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan(incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.24 -	Laboratory Corporation of America Holdings Shelf Registration for the sale of senior or subordinated debt securities, preferred stock, common stock or warrants to purchase our debt securities, preferred stock and common stock (incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Commission on December 5, 2005, File No. 333-130141).
10.25 -	Third Amendment to the Laboratory Corporation of America Amended and Restated New Pension Equalization Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2005).
10.26 -	First Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2005).
10.27 -	Second Amendment to the Laboratory Corporation of America Holdings Deferred Compensation Plan (incorporated herein by reference to the Company's Quarterly Report for the period ended June 30, 2005).
12.1* -	Ratio of earnings to fixed charges
21* -	List of Subsidiaries of the Company
23.1* -	Consent of PricewaterhouseCoopers LLP
24.1* -	Power of Attorney of Jean-Luc Belingard
24.2* -	Power of Attorney of Wendy E. Lane
24.3* -	Power of Attorney of Robert E. Mittelstaedt, Jr.
24.4* -	Power of Attorney of Arthur H. Rubenstein
24.5* -	Power of Attorney of Andrew G. Wallace, M.D.
24.6* -	Power of Attorney of M. Keith Weikel
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.

S I G N A T U R E S

LABORATORY CORPORATIONOF AMERICA HOLDINGS
Registrant

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.

By: /s/THOMAS P. MAC MAHON
Thomas P. Mac Mahon
Chairman of the Board, President
and Chief Executive Officer

Dated: February 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on February 27, 2006 in the capacities indicated.

Signature	Title
/s/THOMAS P. MAC MAHON Thomas P. Mac Mahon	Chairman of the Board President and Chief Executive Officer (Principle Executive Officer)
/s/ WILLIAM B. HAYES William B. Hayes	Executive Vice President, Chief Financial Officer Executive Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ JEAN-LUC BELINGARD* Jean-Luc Belingard	Director
/s/ WENDY E. LANE* Wendy E. Lane	Director
/s/ ROBERT E. MITTELSTAEDT, JR.* Robert E. Mittelstaedt, Jr.	Director
/s/ ARTHUR H. RUBENSTEIN* Arthur H. Rubenstein	Director
/s/ ANDREW G. WALLACE, M.D.* Andrew G. Wallace, M.D.	Director
/s/ M. KEITH WEIKEL* M. Keith Weikel	Director

* Bradford T. Smith, 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/ BRADFORD T. SMITH Bradford T. Smith Attorney-in-fact	Director

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

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Laboratory Corporation of America Holdings' 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP
Greensboro, North Carolina
February 27, 2006

PART I – FINANCIAL INFORMATION

Item 1. Financial Information

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 45.4	$ 47.6
Short-term investments	17.7	159.2
Accounts receivable, net	493.4	441.4
Supplies inventories	65.4	61.5
Prepaid expenses and other	37.2	29.2
Deferred income taxes	43.2	26.3
Total current assets	702.3	765.2
Property, plant and equipment, net	381.5	360.0
Goodwill, net	1,477.0	1,300.4
Intangible assets, net	645.7	557.0
Investments in joint venture partnerships	578.9	548.5
Other assets, net	90.4	95.0
Total assets	$ 3,875.8	$ 3,626.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 116.2	$ 85.3
Accrued expenses and other	227.3	215.4
Short term borrowings and current portion of long-term debt	544.6	0.1
Total current liabilities	888.1	300.8
Long-term debt, less current portion	604.5	889.3
Deferred income taxes	408.9	346.2
Other liabilities	88.6	90.5
Total liabilities	1,990.1	1,626.8
Commitments and contingent liabilities	--	--
Shareholders' equity:		
Common stock, 126.5 and 136.2 shares outstanding at December 31, 2005 and December 31, 2004, respectively	14.8	15.1
Additional paid-in capital	1,339.7	1,504.1
Retained earnings	1,336.3	950.1
Less common stock held in treasury	(888.5)	(544.2)
Unearned restricted stock compensation	(6.9)	(7.5)
Accumulated other comprehensive earnings	90.3	81.7
Total shareholders' equity	1,885.7	1,999.3
Total liabilities and shareholders' equity	$ 3,875.8	$ 3,626.1

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

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

	Years Ended December 31,		
	2005	**2004**	**2003**
Net sales	$ 3,327.6	$ 3,084.8	$ 2,939.4
Cost of sales	1,937.3	1,795.5	1,714.8
Gross profit	1,390.3	1,289.3	1,224.6
Selling, general and administrative expenses	703.9	649.1	651.8
Amortization of intangibles and other assets	51.4	42.7	37.6
Restructuring and other special charges	16.9	(0.9)	1.5
Operating income	618.1	598.4	533.7
Other income (expenses):			
Investment loss	(3.1)	--	--
Interest expense	(34.4)	(36.1)	(40.9)
Income from joint venture partnerships, net	58.3	51.3	43.7
Investment income	1.8	3.5	5.1
Other, net	--	(1.8)	(1.2)
Earnings before income taxes	640.7	615.3	540.4
Provision for income taxes	254.5	252.3	219.4
Net earnings	$ 386.2	$ 363.0	$ 321.0
Basic earnings per common share	$ 2.89	$ 2.60	$ 2.23
Diluted earnings per common share	$ 2.71	$ 2.45	$ 2.11

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

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	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Earnings(loss)	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2002	$ 14.8	$ 1,406.5	$ 266.1	$ (4.4)	$ (41.4)	$ (29.9)	$ 1,611.7
Comprehensive earnings:							
Net earnings	--	--	321.0	--	--	--	321.0
Other comprehensive earnings:							
Foreign currency translation adjustments	--	--	--	--	--	87.8	87.8
Minimum pension liability	--	--	--	--	--	19.6	19.6
Tax effect of other comprehensive loss adjustments	--	--	--	--	--	(42.8)	(42.8)
Comprehensive earnings							385.6
Issuance of common stock under employee stock plans	0.1	21.3	--	--	--	--	21.4
Issuance of restricted stock awards	--	0.2	--	--	(0.2)	--	--
Surrender of restricted stock awards	--	--	--	--	--	--	--
Cancellation of restricted stock awards	--	(1.1)	--	--	1.1	--	--
Stock compensation	--	--	--	--	18.1	--	18.1
Income tax benefit from stock options exercised	--	8.5	--	--	--	--	8.5
Assumption of vested stock options in connection with acquisition	--	5.5	--	--	--	--	5.5
Purchase of common stock	--	--	--	(154.9)	--	--	(154.9)
BALANCE AT DECEMBER 31, 2003	$ 14.9	$ 1,440.9	$ 587.1	$ (159.3)	$ (22.4)	$ 34.7	$ 1,895.9
Comprehensive earnings:							
Net earnings	--	--	363.0	--	--	--	363.0
Other comprehensive earnings:							
Foreign currency translation adjustments	--	--	--	--	--	40.3	40.3
Minimum pension liability	--	--	--	--	--	35.6	35.6
Tax effect of other comprehensive loss adjustments	--	--	--	--	--	(28.9)	(28.9)
Comprehensive earnings							410.0
Issuance of common stock under employee stock plans	0.2	51.5	--	--	--	--	51.7
Issuance of restricted stock awards	--	0.7	--	--	(0.7)	--	--
Surrender of restricted stock awards	--	--	--	(6.8)	--	--	(6.8)
Cancellation of restricted stock awards	--	(0.1)	--	--	0.1	--	--
Stock compensation	--	--	--	--	15.5	--	15.5
Income tax benefit from stock options exercised	--	11.1	--	--	--	--	11.1
Assumption of vested stock options in connection with acquisition	--	--	--	--	--	--	--
Purchase of common stock	--	--	--	(378.1)	--	--	(378.1)
BALANCE AT DECEMBER 31, 2004	$ 15.1	$ 1,504.1	$ 950.1	$ (544.2)	$ (7.5)	$ 81.7	$ 1,999.3
Comprehensive earnings:							
Net earnings	--	--	386.2	--	--	--	386.2
Other comprehensive earnings:							
Foreign currency translation adjustments	--	--	--	--	--	14.3	14.3
Minimum pension liability	--	--	--	--	--	--	--
Tax effect of other comprehensive loss adjustments	--	--	--	--	--	(5.7)	(5.7)
Comprehensive earnings							394.8
Issuance of common stock under employee stock plans	0.2	62.3	--	--	--	--	62.5
Issuance of restricted stock awards	--	7.3	--	--	(7.3)	--	--
Surrender of restricted stock awards	--	--	--	(7.3)	--	--	(7.3)
Cancellation of restricted stock awards	--	(0.3)	--	--	0.3	--	--
Stock compensation	--	6.1	--	--	7.6	--	13.7
Income tax benefit from stock options exercised	--	11.9	--	--	--	--	11.9
Assumption of vested stock options in connection with acquisition	--	--	--	--	--	--	--
Retirement of common stock	(0.5)	(251.7)	--	--	--	--	(252.2)
Purchase of common stock	--	--	--	(337.0)	--	--	(337.0)
BALANCE AT DECEMBER 31, 2005	$ 14.8	$ 1,339.7	$ 1,336.3	$ (885.5)	$ (6.9)	$ 90.3	$ 1,885.7

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

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

	Years Ended December 31,		
	2005	**2004**	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 386.2	$ 363.0	$ 321.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	149.8	138.8	135.6
Stock compensation	13.7	15.5	18.1
Loss on sale of assets	0.2	1.0	0.2
Investment loss	(3.1)	--	--
Accreted interest on zero coupon-subordinated notes	10.7	10.5	10.3
Cumulative earnings in excess of distribution from joint venture partnerships	(11.3)	(3.5)	(5.7)
Deferred income taxes	18.5	38.9	86.3
Change in assets and liabilities (net of effects of acquisitions):			
(Increase) in accounts receivable, net	(15.0)	(8.9)	(6.0)
Decrease(increase) in inventories	0.1	(13.7)	(0.1)
(Increase)decrease in prepaid expenses and other	(5.8)	7.0	(8.5)
Increase(decrease) in accounts payable	24.1	12.3	(15.6)
(Decrease)increase in accrued expenses and other	(0.1)	(22.8)	28.7
Net cash provided by operating activities	574.2	538.1	564.3
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(93.6)	(95.0)	(83.6)
Proceeds from sale of assets	1.5	1.8	1.0
Deferred payments on acquisitions	(7.3)	(6.7)	(17.7)
Proceeds from sale of marketable securities	--	--	50.4
Distributions from joint venture partnerships in excess of cumulative earnings	--	--	1.9
Purchases of short-term investments	(987.8)	(1,445.4)	(224.4)
Proceeds from sale of short-term investments	1,129.3	1,361.3	161.3
Acquisition of licensing technology	(5.4)	(7.9)	(15.0)
Acquisition of business, net of cash acquired	(335.3)	(32.1)	(647.5)
Net cash used for investing activities	(298.6)	(224.0)	(773.6)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bridge loan	--	--	350.0
Payments on bridge loan	--	--	(350.0)
Proceeds from credit facilities	385.0	--	275.0
Payments on credit facilities	(385.0	--	(275.0)
Proceeds from senior note offering	250.0	--	350.0
Payments on other long-term debt	(0.6)	(0.4)	(0.7)
Payment of debt issuance costs	(2.4)	--	(7.3)
Termination of interest rate swap agreements	--		5.3
Payments on long-term lease obligations	(2.6)	(1.5)	(1.1)
Purchase of common stock	(583.7)	(368.1)	(154.9)
Net proceeds from issuance of stock to employees	62.1	56.3	21.0
Net cash provided by(used for) financing activities	(277.2)	(313.7)	212.3
Effect of exchange rate changes on cash and cash equivalents	(0.6)	(0.7)	0.5
Net (decrease)increase in cash and cash equivalents	(2.2)	(0.3)	3.5
Cash and cash equivalents at beginning of period	47.6	47.9	44.4
Cash and cash equivalents at end of year	$ 45.4	$ 47.6	$ 47.9

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

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 2005 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 businesses 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 36 primary laboratories and over 1,300 service sites consisting of branches, patient service centers and STAT laboratories. With approximately 24,000 employees, the Company processes tests on more than 360,000 patient specimens daily and provides clinical laboratory testing services in all 50 states, the District of Columbia, Puerto Rico, Belgium and three provinces in Canada. The Company operates in one business segment.

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 owns greater than 20%, and therefore 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 Company'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.

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 earnings".

Financial Statement Revision

Certain prior year amounts have been revised to present auction rate securities (ARS) and variable rate demand notes (VRDN) as short-term investments instead of cash and equivalents. The Company has revised its consolidated balance sheet for the year ended December 31, 2004 and its consolidated statements of cash flows for the years ended December 31, 2004 and 2003. As a result, the Company's investments in ARS and VRDN in the amount of $139.2 at December 31, 2004, which had previously been included in cash and cash equivalents, are presented as short-term investments in the accompanying consolidated balance sheet at December 31, 2004. In addition, the aggregate purchases and proceeds from the sale of these securities for the years ended December 31, 2004 and 2003 should have been presented in the consolidated statements of cash flows from investing activities for those years. These revisions had no impact on the Company's results of operations, changes in shareholders' equity, or cash flows from operating activities and financing activities.

ARS and VRDN do not meet the definition of a cash equivalent as defined in SFAS No. 95, "Statement of Cash Flows" ("SFAS 95") as such securities have maturity dates greater than 90 days. ARS and VRDN are variable bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. ARS and VRDN have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 1, 7, or 35 days. The Company had historically classified ARS and VRDN as cash and cash equivalents if the period between the interest rate resets was 90 days or less, which was based on the Company's ability to either liquidate its holdings or roll its investments over to the next reset period. The Company reevaluated the classification of these investments considering the maturity dates associated with the underlying bonds. The effects of this revision are summarized in the table below.

(Dollars in millions, except per share data)

	Years Ended December 31,			
	2004		2003	
	As Originally Reported	As Revised	As Originally Reported	As Revised
Cash flow from investing activities:				
Purchases of short-term investments	$ (35.0)	$ (1,445.4)	$ (20.0)	$ (224.4)
Proceeds from sale of short-term investments	35.0	1,361.3	--	161.3
Net cash used for investing activities	(139.9)	(224.0)	(730.5)	(773.6)
Net increase(decrease) in cash and cash equivalents	83.8	(0.3)	46.6	3.5
Cash and cash equivalents at beginning of year	103.0	47.9	56.4	44.4
Cash and cash equivalents at end of year	186.8	47.6	103.0	47.9

As of December 31, 2005, the Company had $17.7 of ARS and VRDN classified as short-term investments.

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 2005, 2004 and 2003, approximately 20%, 20%, and 19%, respectively of the Company's revenues were derived from tests performed for the beneficiaries of 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 2005, 2004 and 2003, approximately 4% of the Company's revenues were derived from these capitated agreements.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. 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 collection 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 $44.5 at December 31, 2005. Cash equivalents at December 31, 2005, totaled $39.4, which includes amounts invested in treasury bills and short-term bonds.

Substantially all of the Company's accounts receivable are with companies and individuals in the health care industry. 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 $105.4 and $107.9 at December 31, 2005 and 2004, 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 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: (shares in millions)

	2005			2004			2003		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share	$386.2	133.5	$ 2.89	$363.0	139.4	$ 2.60	$321.0	144.0	$ 2.23
Stock options	--	1.0		--	0.9		--	0.4	
Restricted stock awards and other	--	0.4		--	0.4		--	0.3	
Interest on convertible debt, net of tax	6.5	10.0		6.2	10.0		6.0	10.0	
Diluted earnings per share:	$392.7	144.9	$ 2.71	$369.2	150.7	$ 2.45	$327.0	154.7	$ 2.11

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,		
	2005	2004	2003
Stock options	--	1.5	3.9

Stock Compensation Plans:

The Company accounts for its employee stock option plans using the intrinsic method under APB Opinion No. 25 and related Interpretations. Accordingly, compensation for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. The Company's employee stock purchase plan is also accounted for under APB Opinion No. 25 and is treated as non-compensatory.

The Company applies the provisions of APB Opinion No. 25 in accounting for its employee stock option and stock purchase plans and, accordingly, no compensation cost has been recognized for these plans in the financial statements. Compensation cost for restricted stock awards is recorded by allocating their aggregate grant date fair value over their vesting period. Had the Company determined compensation cost based on the fair value method as defined in Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123", the impact on the Company's net earnings on a pro forma basis is indicated below:

(Dollars in millions, except per share data)

		Years Ended December 31,		
		2005	**2004**	**2003**
Net earnings, as reported		$ 386.2	$ 363.0	$ 321.0
Add: Stock-based compensation under APB 25, net of related tax effects		8.2	9.1	10.7
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects		(24.8)	(29.9)	(35.9)
Pro-forma net income		$ 369.6	$ 342.2	$ 295.8
Basic earnings per common share	As reported	2.89	2.60	2.23
	Pro forma	2.77	2.45	2.05
Diluted earnings per common share	As reported	2.71	2.45	2.11
	Pro forma	2.55	2.27	1.91

See note 13 for assumptions used in calculating pro forma compensation expense for the employee stock option and stock purchase plans.

The Company plans to adopt SFAS No. 123(R) under the modified prospective method on January 1, 2006 and currently estimates the adoption to impact net income for fiscal 2006 based on current volatility and forfeiture assumptions by approximately $15.0, net of tax. SFAS No. 123(R) eliminates the intrinsic value measurement method of accounting for services received in exchange for an award of equity instruments and requires the measurement of such services to be based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such costs must be recognized over the period during which an employee is required to provide service in exchange for the award. The standard also requires estimating the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur. SFAS No. 123(R) permits companies to adopt its requirements using either a “modified prospective” method, or a “modified retrospective” method. Under the “modified prospective” method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123(R) for all share-based payments granted after that date, and based on the requirements of SFAS No. 123(R) for all unvested awards granted prior to the effective date of SFAS No. 123(R). Under the “modified retrospective” method, the requirements are the same as under the “modified prospective” method, but such method also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123(R).

Cash Equivalents:

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

Short-Term Investments:

The items classified as short-term investments are principally ARS, VRDN, and U.S. Government Agency securities. The Company classifies the ARS and VRDN as available-for-sale. Securities accounted for as available-for-sale are required to be reported at fair value with unrealized gains and losses, net of taxes, excluded from net income and shown separately as a component of accumulated other comprehensive income within shareholders’ equity. The securities that the Company has classified as available-for-sale generally trade at par and as a result typically do not have any realized or unrealized gains or losses. No gains or losses were realized on sales of ARS and VRDN for the years ended December 31, 2005, 2004, and 2003. As of December 31, 2005, there are no unrealized holding gains or losses on these securities.

(Dollars in millions, except per share data)

The U.S. Government Agency securities with original maturities between six and twelve months are carried at cost which approximates market. It is the intent of the Company to hold these investments until they mature or are called by the issuer.

Inventories:

Inventories, consisting primarily of purchased laboratory 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 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 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 management 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 instances of impairment as of December 31, 2005.

Intangible Assets:

Prior to July 1, 2001, the cost of acquired businesses in excess of the fair value of net assets acquired was recorded as goodwill and amortized on the straight-line basis ranging from 20 to 40 years. Effective January 1, 2002, the Company adopted SFAS No. 142 “Goodwill and Other Intangible Assets”. This

standard requires that goodwill and other intangibles that are acquired in business combinations and that have indefinite useful lives are not to be amortized and are to be reviewed for impairment annually based on an assessment of fair value. Other intangibles (patents and technology, customer lists 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 for professional liability claims arising in the normal course of business, generally related to the testing and reporting of laboratory test results. The Company records a reserve for such asserted and estimated unasserted claims based on actuarial assessments of future settlement and legal defense costs.

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. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not.

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. Amounts to be paid or received under such agreements are recognized as interest income or expense in the periods in which they accrue.

The Company’s zero coupon-subordinated notes contain the following two features that are considered to be embedded derivative instruments under Statement of Financial Accounting Standards (“SFAS”) No. 133 “Accounting for Derivative Instruments and Hedging Activities”:

1) The Company will pay contingent cash interest on the zero coupon subordinated notes after September 11, 2006, if the average market price of the notes equals 120% or more of the sum of the issue price, accrued original issue discount and contingent additional principal, if any, for a specified measurement period.

2) Holders may surrender zero coupon-subordinated notes for conversion during any period in which the rating assigned to the zero coupon-subordinated notes by Standard & Poor’s Ratings Services is BB- or lower.

Based upon independent appraisals, these embedded derivatives had no fair market value at December 31, 2005 and 2004.

Fair Value of Financial Instruments:

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, income taxes receivable, senior notes 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 $567.3 and $501.3 as of December 31, 2005 and 2004, respectively.

(Dollars in millions, except per share data)

Reclassifications:

Certain amounts in the prior year's financial statements have been reclassified to conform with the current year presentation.

2. BUSINESS ACQUISITIONS

On February 3, 2005, the Company acquired all of the outstanding shares of US Pathology Labs, Inc. and Subsidiaries ("US LABS") for approximately $155 in cash. US LABS, based in Irvine, California, is a national, anatomic pathology reference laboratory devoted to comprehensive, high-quality, rapid-response cancer testing. The company provides diagnostic, prognostic, and predictive cancer testing services to hospitals, physician offices and surgery centers.

On May 11, 2005, the Company acquired all of the outstanding shares of Esoterix, Inc. and Subsidiaries ("Esoterix") for approximately $150 in cash. Esoterix, based in Austin, Texas, is a leading provider of specialty reference testing.

3. RESTRUCTURING AND OTHER SPECIAL CHARGES

During the third and fourth quarters of 2005, the Company began to implement its plan related to the integration of Esoterix and US LABS operations into the Company's service delivery network. The plan is directed at reducing redundant facilities, while maintaining the goal of providing excellent customer service. In connection with the integration plan, the Company recorded $11.9 of costs associated with the execution of the plan. The majority of these integration costs related to employee severance and contractual obligations associated with leased facilities and equipment. Of this amount, $10.1 million related to employee severance benefits for approximately 700 employees, with the remainder primarily related to contractual obligations associated with leased facilities. Employee groups being affected as a result of this plan included those involved in the collection and testing of specimens, as well as administrative and other support functions. As of December 31, 2005, the balance of accrued liabilities related to these integration activities was $3.1 and is expected to be paid in 2006.

The Company also recorded a special charge of $5.0 million related to forgiveness of amounts owed by patients and clients as well as other costs associated with the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

4. INVESTMENTS IN JOINT VENTURE PARTNERSHIPS

At December 31, 2005 the Company had investments in the following joint venture partnerships:

Location	Net Investment	Percentage Interest Owned
Milwaukee, Wisconsin	$ 4.0	50.00%
Ontario, Canada	$ 521.3	72.99%
Alberta, Canada	$ 53.6	43.37%

Each of 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. These partnerships, including the Ontario, Canada partnership, are accounted for under the equity method of accounting, as the Company does not have control of these three partnerships, due to the participating rights afforded to all partners in each agreement. The Company has no material obligations or guarantees to, or in support of, these unconsolidated joint ventures and their operations.

(Dollars in millions, except per share data)

5. ACCOUNTS RECEIVABLE, NET

	December 31, 2005	December 31, 2004
Gross accounts receivable	$ 618.0	$ 578.5
Less allowance for doubtful accounts	(124.6)	(137.1)
	$ 493.4	$ 441.4

The provision for doubtful accounts was $179.3, $192.7 and $214.2 in 2005, 2004 and 2003 respectively. In addition, in 2005 the Company recorded a special charge of $4.7 related to forgiveness of amounts owed by patients and clients in the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

6. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2005	December 31, 2004
Land	$ 14.2	$ 14.2
Buildings and building improvements	91.4	90.8
Machinery and equipment	382.9	353.2
Software	202.0	153.0
Leasehold improvements	94.3	82.0
Furniture and fixtures	24.1	19.3
Construction in progress	33.3	44.1
Buildings under capital leases	5.4	5.4
Equipment under capital leases	3.5	2.2
	851.1	764.2
Less accumulated depreciation and amortization of capital leases	(469.6)	(404.2)
	$ 381.5	$ 360.0

Depreciation expense and amortization of capital lease assets was $97.2, $93.0 and $91.6 for 2005, 2004 and 2003, respectively. Depreciation of software was $30.2, $28.9, and $29.6 for 2005, 2004 and 2003, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill (net of accumulated amortization) for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Balance as of January 1	$ 1,300.4	$ 1,285.9
Goodwill acquired during the year	171.0	17.1
Adjustments to goodwill	5.6	(2.6)
Goodwill, net	$ 1,477.0	$ 1,300.4

The components of identifiable intangible assets are as follows:

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$ 675.8	$ (181.6)	$ 596.3	$ (148.0)
Patents, licenses and technology	88.5	(28.0)	79.6	(18.3)
Non-compete agreements	25.6	(22.5)	25.2	(20.3)
Trade name	100.7	(12.8)	49.4	(6.9)
	$ 890.6	$ (244.9)	$ 750.5	$ (193.5)

(Dollars in millions, except per share data)

Amortization of intangible assets was $51.4, $42.6 and $37.6 in 2005, 2004 and 2003, respectively. Amortization expense for the net carrying amount of intangible assets is estimated to be $51.6 in fiscal 2006, $49.8 in fiscal 2007, $47.2 in fiscal 2008, $46.2 in fiscal 2009, $43.8 in fiscal 2010, and $458.7 thereafter.

The Company paid approximately $5.4 in 2005 and $7.9 in 2004 for certain exclusive and non-exclusive licensing rights to diagnostic testing technology. These amounts are being amortized over the life of the licensing agreements.

8. ACCRUED EXPENSES AND OTHER

	December 31, 2005	December 31, 2004
Employee compensation and benefits	$ 78.0	$ 68.5
Self-insurance reserves	46.1	42.0
Other tax accruals	44.4	43.9
Accrued taxes payable	9.2	15.2
Royalty and license fees payable	5.7	12.9
Accrued repurchases of common stock	15.0	10.0
Restructuring reserves	5.8	2.3
Acquisition related reserves	9.1	9.3
Interest payable	8.6	8.0
Other	5.4	3.3
	$ 227.3	$ 215.4

9. OTHER LIABILITIES

	December 31, 2005	December 31, 2004
Post-retirement benefit obligation	$ 46.1	$ 46.0
Restructuring reserves	5.9	7.5
Self-insurance reserves	13.2	13.2
Acquisition related reserves	8.8	9.6
Other	14.6	14.2
	$ 88.6	$ 90.5

10. DEBT

Short-term borrowings and current portion of long-term debt at December 31, 2005 and 2004 consisted of the following:

	December 31, 2005	December 31, 2004
Zero coupon convertible subordinated notes	$ 544.4	$ --
Current portion of long-term debt	0.2	0.1
Total short-term borrowings and current portion of long term debt	$ 544.6	$ 0.1

Long term debt at December 31, 2005 and 2004 consisted of the following:

	December 31, 2005	December 31, 2004
Zero coupon convertible subordinated notes	$ --	$ 533.7
Senior notes due 2013	353.0	353.4
Senior notes due 2015	250.0	--
Other long-term debt	1.5	2.2
Total long-term debt	$ 604.5	$ 889.3

Revolving Credit Facility

On January 13, 2005, the Company entered into a 5 year $350.0 unsecured revolving credit facility with Credit Suisse First Boston and UBS Securities LLC, acting as Co-Lead Arrangers, and a group of

financial institutions for borrowings of up to $350.0. The facility also provides for an accordion feature whereby the Company can increase the amounts available under the facility up to an additional $150.0, with the consent of the lenders, if needed to support the Company's growth. There were no balances outstanding on the Company's revolving credit facility at December 31, 2005 and December 31, 2004. The revolving credit facility bears interest at varying rates based upon the Company's credit rating with Standard & Poor's Ratings Services. As of December 31, 2005, the weighted average interest rate on the revolving credit facility was 4.87%.

The senior credit facility is available for general corporate purposes, including working capital, capital expenditures, funding of share repurchases and other payments, and acquisitions. The agreement contains certain debt covenants which require that the Company maintain leverage and interest coverage ratios of 2.5 to 1.0 and 5.0 to 1.0, respectively. Both ratios are calculated in relation to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). The covenants also restrict the payment of dividends. The Company is in compliance with all covenants at December 31, 2005.

Zero Coupon Convertible Subordinated Notes

In September 2001, the Company sold $650.0 aggregate principal amount at maturity of its zero coupon convertible subordinated notes (the "notes") due 2021 in a private placement. The Company received approximately $426.8 (net of underwriter's fees of approximately $9.8) in net proceeds from the offering. In October 2001, the underwriters exercised their rights to purchase an additional $94.0 aggregate principal amount pursuant to an overallotment option from which the Company received approximately $61.8 in net proceeds (net of underwriters fees of approximately $1.4). 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 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 2005 was approximately $64.11.

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).

Holders of the notes may require the Company to purchase in cash all or a portion of their notes on September 11, 2006 and 2011 at $741.92 and $819.54 per note, respectively, plus any accrued contingent additional principal and any accrued contingent interest thereon.

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 ranging from $741.92 at September 11, 2006 to $1,000.00 at September 11, 2021 (assuming no contingent additional principal accrues on 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.

Senior Notes due 2013

On January 17, 2003, in conjunction with the acquisition of DIANON, the Company borrowed $350.0 under a bridge loan agreement with Credit Suisse First Boston, acting as Administrative Agent. On January 31, 2003, the Company sold $350.0 aggregate principal amount of its 5 1/2% Senior Notes due February 1, 2013. Proceeds from the issuance of these Notes ($345.1), together with cash on hand was

(Dollars in millions, except per share data)

used to repay the $350.0 principal amount of the Company's bridge loan, and as a result, such bridge loan was terminated.

Senior Notes due 2015

On December 7, 2005, in conjunction with the execution of an overnight share repurchase agreement with a bank, the Company borrowed $250.0 under its revolving credit facility. On December 12, 2005, the Company sold $250.0 aggregate principal amount of Senior Notes due 2015. The Notes bear interest at the rate of 5 5/8% per annum from December 14, 2005, payable semi-annually on June 15 and December 15, commencing on June 15, 2006. Proceeds from the issuance of these Notes ($247.6), together with cash on hand, were used to repay the borrowings under the revolving credit facility.

11. 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:

	2005	2004
Issued	148.0	150.7
In treasury	(21.5)	(14.5)
Outstanding	126.5	136.2

The Company is authorized to issue up to 30.0 shares of preferred stock, par value $0.10 per share. There are no preferred shares outstanding as of December 31, 2005.

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

Common shares issued

	2005	2004	2003
Common stock issued at January 1	150.7	148.9	147.8
Common stock issued under employee stock plans	2.1	1.8	1.1
Retirement of common stock	(4.8)	--	--
Common stock issued at December 31	148.0	150.7	148.9

Common shares held in treasury

	2005	2004	2003
Common shares held in treasury at January 1	14.5	5.5	0.1
Purchase of common stock	6.8	8.9	5.4
Surrender of restricted stock awards	0.2	0.1	--
Common shares held in treasury at December 31	21.5	14.5	5.5

Share Repurchase Program

During fiscal 2005, the Company purchased 11.6 million shares of its common stock at a cost of $588.7 million. On December 7, 2005, the Company executed an overnight share repurchase transaction with a bank for the acquisition of 4.8 million shares of the Company's outstanding common stock for an initial purchase price of $52.04 per share. The transaction was financed with borrowings under the Company's revolving line of credit. The Company used cash on hand and the proceeds of the Senior Notes due 2015 to repay borrowings under the Company's revolving credit facility as discussed in Note 9. Pursuant to the agreement with the bank, the bank will purchase 4.8 million shares in the open market over a period ending no later than June 13, 2006. At the end of the purchase period, the Company will either receive from or pay to the bank a price adjustment based on the volume weighted average purchase

(Dollars in millions, except per share data)

price of the shares acquired compared to the initial purchase price. Such price adjustment can be either in cash or common stock at the discretion of the Company. The Company has limited its potential financial exposure in the event of an increase in its share price above a cap during the purchase period with respect to 2.4 million of the repurchased shares. The shares repurchased under the overnight share repurchase agreement were immediately canceled and returned to the status of authorized but unissued shares. The total cost of the initial purchase was approximately $251.7 million, including a $1.5 million cap premium and $0.2 million in commissions and other fees. The Company reduced common stock and additional paid in capital by approximately $0.5 and $251.2 million, respectively. The forward contract associated with the overnight share repurchase transaction is being accounted for in accordance with EITF 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock,” as an equity instrument. Any amounts paid or received in cash or stock in connection with the price adjustment will be recorded as an adjustment to Shareholders’ Equity. At December 31, 2005, the price adjustment would have required the Company to pay $5.3. The diluted net income per share calculation for fiscal 2005 includes the potential shares of common stock that may be issued to settle the overnight share repurchase transaction.

As of December 31, 2005, the Company had outstanding authorizations from the Board of Directors to purchase approximately $285.2 of Company common stock.

Stockholder Rights Plan

The Company adopted a stockholder rights plan effective as of December 13, 2001 that provides that each common stockholder of record on December 21, 2001 received a dividend of one right for each share of common stock held. Each right entitles the holder to purchase from the Company one-hundredth

of a share of a new series of participating preferred stock at an initial purchase price of four hundred dollars. These rights will become exercisable and will detach from the Company’s common stock if any person becomes the beneficial owner of 15% or more of the Company’s common stock. In that event, each right will entitle the holder, other than the acquiring person, to purchase, for the initial purchase price, shares of the Company’s common stock having a value of twice the initial purchase price. The rights will expire on December 13, 2011, unless earlier exchanged or redeemed.

Accumulated Other Comprehensive Earnings

The Company’s accumulated other comprehensive earnings were $90.3 and $81.7 at December 31, 2005 and 2004 respectively. Substantially all of the balances at December 31, 2005 and 2004 are related to the Company’s net foreign currency translation adjustments.

12. INCOME TAXES

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

Pre-tax income

	2005	2004	2003
Domestic	$ 639.7	$ 618.8	$ 545.3
Foreign	1.0	(3.5)	(4.9)
Total pre-tax income	$ 640.7	$ 615.3	$ 540.4

(Dollars in millions, except per share data)

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

	Years Ended December 31,		
	2005	**2004**	**2003**
Current:			
Federal	$ 186.5	$ 165.6	$ 100.4
State	43.0	40.5	29.2
Foreign	6.5	7.3	3.5
	$ 236.0	$ 213.4	$ 133.1
Deferred:			
Federal	$ 13.6	$ 32.1	$ 70.0
State	3.1	7.4	13.8
Foreign	1.8	(0.6)	2.5
	18.5	38.9	86.3
	$ 254.5	$ 252.3	$ 219.4

The tax benefit associated with option exercises from stock plans reduced taxes currently payable by approximately $11.9, $11.1 and $5.5 in 2005, 2004 and 2003, respectively. Such benefits are recorded as additional paid-in-capital.

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

	Years Ended December 31,		
	2005	**2004**	**2003**
Statutory federal rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax effect	4.5	4.4	4.5
Change in valuation allowance	0.2	--	--
Dividend received deduction for foreign repatriation	(1.1)	--	--
Other	1.1	1.6	1.1
Effective rate	39.7%	41.0%	40.6%

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, 2005	**December 31, 2004**
Deferred tax assets:		
Accounts receivable	$ 4.3	$ 0.4
Self-insurance reserves	18.0	17.0
Postretirement benefit obligation	18.2	18.2
Acquisition and restructuring reserves	20.1	15.8
Tax loss carryforwards	26.6	10.8
Other	6.9	3.1
	94.1	65.3
Less valuation allowance	(3.9)	(2.7)
Net deferred tax assets	90.2	62.6
Deferred tax liabilities:		
Employee benefits	(2.3)	(1.5)
Deferred earnings	(15.3)	(13.4)
Intangible assets	(268.0)	(217.8)
Property, plant and equipment	(41.8)	(47.8)
Zero coupon-subordinated notes	(69.7)	(50.7)
Currency translation adjustment	(58.7)	(51.3)
Total gross deferred tax liabilities	(455.8)	(382.5)

Net deferred tax liabilities	$ (365.6)	$ (319.9)

The Company increased its valuation allowance by approximately $1.2 during the second quarter of 2005 for a write-off of an asset that will result in a capital loss whose realization by the Company is dependant on future unforeseen capital gains. The Company has state tax loss carryovers of approximately $37.5 which expire 2006 through 2024. In addition, the Company has federal tax loss carryovers of approximately $67.3 expiring periodically through 2024. The utilization of these tax loss carryovers is limited due to change of ownership rules however at this time the Company expects to fully utilize substantially all of its tax loss carryovers.

All income tax years through and including 2002 have been finalized with the Internal Revenue Service. The Internal Revenue Service is currently examining the Company's 2003 income tax return. Management believes adequate provisions have been recorded related to all open tax years.

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

13. STOCK COMPENSATION PLANS

Stock Incentive Plans

There are currently 19.68 million shares authorized for issuance under the 2000 Stock Incentive Plan, the Amended and Restated 1999 Stock Incentive Plan and the 1994 Stock Option Plan. Each of these plans was approved by shareholders. At December 31, 2005, there were 3.6 million 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 two to three years on the anniversaries of the grant date, subject to their earlier expiration or termination.

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

(Shares in thousands)

	Number of Options	Weighted-Average Exercise Price per Options
Outstanding at January 1, 2003 (1,326 exercisable)	5,356	$ 32.71
Options granted	1,764	24.97
Granted above market value	632	30.34
Granted below market value	37	13.12
Forfeited	(437)	31.03
Exercised	(747)	20.44
Outstanding at December 31, 2003 (2,812 exercisable)	6,605	31.81
Options granted	1,757	39.00
Forfeited	(241)	36.33
Exercised	(1,743)	28.07
Outstanding at December 31, 2004 (2,867 exercisable	6,378	34.64
Options granted	1,296	47.91
Forfeited	(140)	40.39
Exercised	(1,559)	31.89
Outstanding at December 31, 2005	5,975	38.10

(Dollars in millions, except per share data)

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

Options Outstanding				Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.84 - 33.06	1,829	5.9	$27.27	1,279	$ 28.32
$ 34.25 - 39.00	1,505	8.1	$38.97	398	$ 38.91
$ 39.16 - 43.53	1,409	6.1	$42.64	1,405	$ 42.64
$ 43.53 - 49.93	1,232	9.2	$47.91	11	$ 47.96
	5,975	7.2	$38.10	3,093	$ 36.26

The Company uses the Black-Scholes model to calculate the fair value per option. The fair value per option and the assumptions used in its calculation are as follows:

	2005	2004	2003
Fair value per option	$ 15.62	$ 13.66	$ 13.43
Valuation assumptions			
Weighted average expected life (in years)	3	3	7
Risk free interest rate	4.4%	3.5%	3.2%
Expected volatility	0.4	0.5	0.5
Expected dividend yield	0.0%	0.0%	0.0%

Restricted Stock

During 2005, the Company granted aggregate awards of 151,581 shares of restricted stock at a weighted average price of $47.97 under its 2000 Stock Incentive Plan. The restricted stock becomes vested annually in equal one third increments beginning on the first anniversary of the grant. The unearned restricted stock compensation is being amortized to expense over the applicable vesting periods. For 2005, 2004 and 2003, total restricted stock compensation expense was $7.6, $15.5 and $18.1, respectively.

Performance Share Awards

During 2005, the Company granted aggregate awards of 434,025 performance share awards at a weighted average price of $47.92 under its 2000 Stock Incentive Plan. The performance share awards represent a three year award opportunity for the period 2005-2007 and become vested in 2008. 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. During 2005, the total compensation expense related to performance share awards was $6.1.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan, begun in 1997 and amended in 1999 and 2004, with 4,500,000 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 209, 247, and 290 thousand shares were purchased by eligible employees in 2005, 2004 and 2003 respectively.

(Dollars in millions, except per share data)

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:

	2005	2004	2003
Fair value per option	$ 14.40	$ 10.99	$ 7.80
Valuation assumptions			
Risk free interest rate	2.8%	1.3%	1.1%
Expected volatility	0.1	0.2	0.2
Expected dividend yield	0.0%	0.0%	0.0%

14. COMMITMENTS AND CONTINGENT LIABILITIES

On June 24, 2003, the Company and certain of its executive officers were sued in the United States District Court for the Middle District of North Carolina in the first of a series of putative shareholder class actions alleging securities fraud. Shortly thereafter, five other complaints containing substantially identical allegations were filed against the Company and certain of the Company's executive officers. Each of the complaints alleges that the defendants violated the federal securities laws by making material misstatements and/or omissions that caused the price of the Company's stock to be artificially inflated between February 13 and October 3, 2002. The plaintiffs seek certification of a class of substantially all persons who purchased shares of the Company's stock during that time period and unspecified monetary damages. These six cases have been consolidated and will proceed as a single case. The plaintiffs have filed a consolidated amended complaint. On July 16, 2004, the defendants filed a motion to dismiss the consolidated complaint. The defendants deny any liability and continue to defend the case vigorously. At this time, it is premature to make any assessment of the potential outcome of the cases or whether they could have a material adverse effect on the Company's financial condition.

The Company is the appellant in a patent case originally filed by Competitive Technologies, Inc. and Metabolite Laboratories, Inc. in the United States District Court for the District of Colorado. After a jury trial, the district court entered judgment against the Company for patent infringement, with total damages and attorney's fees payable by the Company of approximately $7.8 million. The underlying judgment has been paid. The Company vigorously contested the judgment and appealed the case to the United States Court of Appeals for the Federal Circuit. On June 8, 2004, that court affirmed the judgment against the Company and, on August 5, 2004, the Company's request for rehearing was denied. On November 3, 2004, the Company filed a petition for a writ of certiorari with the United States Supreme Court. On October 31, 2005, the Court granted the Company's petition, and the case is scheduled to be argued before the Supreme Court on March 21, 2006.

The Company is also involved in various claims and legal actions arising in the ordinary course of business. These matters include, but are not limited to, intellectual property disputes, professional liability, employee related matters, and inquiries from governmental agencies and Medicare or Medicaid payers and managed care payers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. In the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company. The Company is also named from time to time in suits brought under the qui tam provisions of the False Claims Act. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal 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 and, in the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of those qui tam matters presently known to the Company is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company.

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 might not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would

(Dollars in millions, except per share data)

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 exposures 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, 2005 and 2004, the Company had provided letters of credit aggregating approximately $62.6 and $63.5 respectively, primarily in connection with certain insurance programs. The Company's availability under its revolving credit facility is reduced by amount of these letters of credit.

The Company leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with noncancellable terms of one year or more at December 31, 2005 are as follows:

	Operating	Capital
2006	$ 72.5	$ 4.1
2007	54.1	2.4
2008	41.4	--
2009	28.1	--
2010	19.2	--
Thereafter	51.9	--
Total minimum lease payments	267.2	6.5
Less:		
Amounts included in restructuring and acquisition related accruals	(13.9)	(1.2)
Amounts representing interest	--	(0.6)
Non-cancellable sub-lease income	(4.1)	(0.7)
Total minimum operating lease payments and present value of minimum capital lease payments	$ 249.2	$ 4.0
Current		$ 1.8
Non-current		2.2
		$ 4.0

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $119.6, $106.6 and $104.2 for the years ended December 31, 2005, 2004 and 2003, respectively.

15. PENSION AND POSTRETIREMENT PLANS

Pension Plans

The Company maintains a defined contribution pension plan for all eligible employees. Eligible employees are defined as individuals who are age 21 or older, have been employed by the Company for at least one year with 1,000 hours of service during that period. Company contributions to the plan are based on a percentage of employee contributions. The cost of this plan was $12.8, $11.0 and $10.9 in 2005, 2004 and 2003, respectively.

In addition, substantially all employees of the Company are covered by a defined benefit retirement plan (the "Company Plan"). The benefits to be paid under the Company Plan are based on years of credited service and average final compensation. The Company's policy is to fund the Company Plan with at least the minimum amount required by applicable regulations.

The Company has a second defined benefit retirement plan which covers its senior management group that provides 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. This plan is an unfunded plan.

(Dollars in millions, except per share data)

The effect on operations for both of the defined benefit retirement plans are summarized as follows:

	Year end December 31,		
	2005	**2004**	**2003**
Service cost for benefits earned	$ 15.7	$ 13.9	$ 12.3
Interest cost on benefit obligation	13.8	12.8	12.9
Expected return on plan assets	(21.0)	(16.9)	(12.7)
Net amortization and deferral	1.3	1.5	3.7
Defined benefit plans costs	$ 9.8	$ 11.3	$ 16.2

A summary of the changes in the projected benefit obligations of the defined benefit retirement plans follows:

	2005	**2004**
Balance at January 1	$ 233.0	$ 203.4
Service cost	15.7	13.9
Interest cost	13.8	12.8
Actuarial loss	15.5	12.8
Amendments	(1.8)	1.2
Benefits paid	(12.8)	(11.1)
Balance at December 31	$ 263.4	$ 233.0

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

	2005	**2004**
Fair value of plan assets at beginning of year	$ 248.6	$ 177.9
Actual return on plan assets	16.8	23.4
Employer contributions	8.3	60.0
Benefits paid	(14.6)	(12.7)
Fair value of plan assets at end of year	$ 259.1	$ 248.6

The Company has recorded a prepaid asset for the defined benefit retirement plans as follows:

	December 31,	
	2005	**2004**
Excess(deficiency) of plan assets over accumulated benefit obligations	$ 4.3	$ (15.6)
Unrecognized net actuarial loss	(63.4)	(45.9)
Unrecognized prior service cost	(3.2)	(2.2)
Prepaid asset recognized	$ (62.3)	$ (63.7)

Weighted average assumptions used in the accounting for the defined benefit plans were as follows:

	2005	**2004**	**2003**
Discount rate	5.60%	6.00%	6.25%
Compensation increases	3.0%	3.0%	3.0%
Expected long term rate of return	8.5%	8.5%	8.5%

The Company’s expects to contribute approximately $8 to its defined benefit retirement plan during 2006, although it is not legally required to do so.

(Dollars in millions, except per share data)

The Company's defined benefit plans' asset allocations at December 31, 2005 and 2004, target allocation for 2006, and expected long-term rate of return by asset category are as follows:

	Target Allocation 2006	Percentage of Plan Assets at December 31, 2005	2004	Weighted-Average Expected Long-Term Rate of Return - 2005
Equity securities	70.0%	69.2%	72.3%	6.8%
Debt securities	30.0%	30.7%	27.7%	1.7%
Other	--	--	--	--

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

2006	$ 14.2
2007	16.1
2008	17.6
2009	18.7
2010	20.1
Years 2011-2015	128.0

Post-retirement Medical Plan

The Company assumed obligations under a subsidiary's postretirement 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 postretirement medical plan is shown in the following table:

	Year end December 31,		
	2005	2004	2003
Service cost for benefits earned	$ 0.7	$ 0.8	$ 0.8
Interest cost on benefit obligation	2.6	3.1	3.2
Actuarial loss	(2.2)	(1.9)	(1.9)
Net amortization and deferral	0.3	0.7	0.8
Post-retirement medical plans costs	$ 1.4	$ 2.7	$ 2.9

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

	2005	2004
Balance at January 1	$ 43.6	$ 60.5
Service cost for benefits earned	0.6	0.8
Interest cost on benefit obligation	2.6	3.1
Participants contributions	0.4	0.4
Plan amendments	--	(4.3)
Actuarial gain	(2.3)	(15.2)
Benefits paid	(1.6)	(1.7)
Balance at December 31	$ 43.3	$ 43.6

The Company has recorded a liability for the postretirement medical plan as follows:

	December 31,	
	2005	2004
Unfunded status	$ 43.3	$ 43.6
Unrecognized net actuarial loss	(5.1)	(7.7)
Unrecognized prior service cost	7.9	10.1
Net liability recognized	$ 46.1	$ 46.0

(Dollars in millions, except per share data)

The weighted-average discount rates used in the calculation of the accumulated postretirement benefit obligation was 5.6% and 6.0% as of December 31, 2005 and 2004, respectively. The health care cost trend rate-medical was assumed to be 10.0% and 10.0% as of December 31, 2005 and 2004, respectively, and the trend rate-prescription was assumed to be 12.0% and 12.0% as of December 31, 2005 and 2004, respectively, declining gradually to 5.0% in the year 2013. The health care cost trend rate has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by a percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2005 by $6.9. The impact of a percentage point change on the aggregate of the service cost and interest cost components of the 2005 postretirement benefit costs results in an increase of $0.6 or decrease of $0.5.

The following assumed benefit payments under the Company's postretirement 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:

2006	$ 1.3
2007	1.4
2008	1.5
2009	1.7
2010	1.8
Years 2011-2015	11.2

The Medicare Prescription Drug Improvement and Modernization Act of 2003 ("the Act") was signed into law on December 8, 2003. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) which will begin in 2006. The Company has concluded that its post-retirement health care plan provides prescription drug benefits that will qualify for the federal subsidy provided by the Act. The assumed benefit payments table above includes the impact of the Act.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Years Ended December 31,		
	2005	**2004**	**2003**
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$ 19.3	$ 19.3	$ 12.1
Income taxes, net of refunds	233.3	170.7	107.9
Disclosure of non-cash financing and investing activities:			
Issuance of restricted stock awards	7.3	0.7	0.2
Assumption of vested stock options in connection with acquisitions	--	--	8.5
Surrender of restricted stock awards	7.3	6.8	--
Accrued repurchases of common stock	15.0	10.0	--

17. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year ended December 31, 2005				
	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Full Year**
Net sales	$799.1	$853.3	$852.9	$822.3	$3,327.6
Gross profit	338.3	364.9	354.6	332.5	1,390.3
Net earnings	96.6	106.0	94.7	88.9	386.2
Basic earnings per common share	0.72	0.79	0.71	0.68	2.89
Diluted earnings per common share	0.67	0.74	0.66	0.64	2.71

(Dollars in millions, except per share data)

Year ended December 31, 2004

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$752.5	$784.3	$781.5	$766.5	$3,084.8
Gross profit	317.6	339.7	325.9	306.1	1,289.3
Net earnings	87.3	98.3	92.6	84.8	363.0
Basic earnings per common share	0.62	0.70	0.67	0.62	2.60
Diluted earnings per common share	0.58	0.66	0.63	0.58	2.45

18. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS 153, *Exchanges of Nonmonetary Assets*. This Statement amends the guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions.* That statement is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception to for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company has not historically entered into a significant level of nonmonetary transactions and therefore does not expect that this standard will impact is financial position or results.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*(FIN 47) which is effective for fiscal years ending after December 15, 2005 and is an interpretation of FASB Statement No. 143, “Accounting for Asset Retirement Obligations”. FIN 47 requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. The adoption of FIN 47 did not have a material impact on the consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154 “Accounting Changes and Error Corrections”, which is effective for periods beginning after December 15, 2005. This statement replaces APB Opinion No. 20 “Accounting Changes” (APB 20) and SFAS No. 3 “Reporting Accounting Changes in Interim Financial Statements”. APB 20 previously required that most voluntary changes in accounting principle be recognized by including, in net income of the period of the change, the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. The Company does not expect that this standard will impact its financial position or results of operations.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Years Ended December 31, 2005, 2004 and 2003
(Dollars in millions)

	Balance at beginning of year	Additions: Charged to Costs and Expense	Additions: Additions as a Result of Acquisitions	Other (Deduct-ions Additions(1)	Balance at end of year
Year ended December 31, 2005:					
Applied against asset Accounts:					
Allowance for doubtful accounts	$ 137.1	$ 184.0	$ 17.0	$ (213.5)	$124.6
Valuation allowance-deferred tax assets	$ 2.7	$ 1.2	$ --	--	$ 3.9
Year ended December 31, 2004:					
Applied against asset Accounts:					
Allowance for doubtful accounts	$ 133.1	$ 192.7	$ --	$ (188.7)	$137.1
Valuation allowance-deferred tax assets	$ 2.7	$ --	$ --	--	$ 2.7
Year ended December 31, 2003:					
Applied against asset Accounts:					
Allowance for doubtful accounts	$ 143.2	$ 211.2	$ 3.0	$ (224.3)	$133.1
Valuation allowance-deferred tax assets	$ 2.8	$ --	$ --	(0.1)	$ 2.7

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

Exhibit 12.1

STATEMENT OF COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(dollars in millions, except ratio information)

	Fiscal Years Ended December 31,				
	2001	2002	2003	2004	2005
Income (loss) from continuing operations before income taxes	332.3	432.3	540.4	615.3	640.7
Fixed Charges:					
Interest on long-term and short-term debt including amortization of debt expense	27.0	19.2	40.9	36.1	34.4
Portion of rental expense as can be demonstrated to be representative of the interest factor	24.9	28.7	34.7	35.5	39.9
Total fixed charges	51.9	47.9	75.6	71.6	74.3
Earnings before income taxes plus fixed charges	384.2	480.2	616.0	686.9	715.0
Ratio of earnings to fixed charges	7.40	10.03	8.15	9.59	9.62

ATTACHMENT B- LABORATORY CORPORATION OF AMERICA HOLDINGS
SCHEDULE OF SUBSIDIARIES
December 31, 2005

ALL SUBSIDIARIES ARE DIRECTLY OR INDIRECTLY 100% OWNED BY THE PARENT UNLESS OTHERWISE NOTED

Laboratory Corporation of America Holdings (LCAH) (Parent)
- Incorporated March 8, 1994 in Delaware as National Health Laboratories Holdings Inc.(NHLHI) and renamed April 28, 1995 in connection with the merger of Roche Biomedical Laboratories, Inc. (RBL) and NHLHI
- Clinical laboratory testing operation

Subsidiaries:

Laboratory Corporation of America (LCA)
- Incorporated March 23, 1971 in Delaware as DCL Health Laboratories Incorporated, on May 28, 1974 name was changed to National Health Laboratories Incorporated (NHL), and renamed Laboratory Corporation of America in connection with the merger on April 28, 1995
- Clinical laboratory testing operation

DIANON Systems, Inc.
- Acquired January 17, 2003
- 100% owned by LCAH
- Clinical laboratory testing operation
- Urocor Acquisition Corp.
- Non-operating, 100% owned by DIANON Systems, Inc.
- Decision Diagnostics LLC (aka DaVinici/Medicorp LLC)
- 50% owned by DIANON Systems, Inc.
- MD Datacor Inc.
- 14% owned by DIANON

Dynacare Laboratories, Inc.
- 100% owned by LCA, acquired July 25, 2002
- U.S. Joint Ventures
- UHS/DL, LP (Tennessee)
- 94.8%owned by Dynacare Laboratories, Inc., 0.4% owned by DL/UHS, Inc.
- DL/UHS, Inc. (Tennessee)
- 50% owned by Dynacare Laboratories, Inc.
- Currently negotiating to increase our ownership percentage
- United Dynacare LLC (Milwaukee)
- 50% owned by Dynacare Laboratories, Inc.
- U. S. Subsidiaries
- Dynacare Holdco LLC
- 100% owned by Dynacare Company
- Dynacare Northwest Inc.
- 100% owned by Dynacare Laboratories, Inc.
- Clinical Laboratories Cheyenne
- 100% owned by Dynacare Laboratories, Inc.
- Dynacare Southwest Laboratories, Inc.
- 100% owned by Dynacare Laboratories, Inc.
- HHD Gen Par Inc.
- 100% owned by Dynacare Laboratories, Inc.
- HH/DL LP
- 49.5% owned by Dynacare Southwest Laboratories Inc., 49.5% by Dynacare Laboratories, Inc. and 1% by HHD Gen Par Inc.
- Managing Partner: HHD Gen Par Inc.
- SW/DL LP
- 99% owned by HH/DL LP and 1% by HHD Gen Par, Inc.
- Managing Partner: HHD Gen Par Inc.
- Dynacare Louisiana, L.L.C.
- 100% owned by Dynacare Laboratories, Inc.
- Dynacare Laboratories, Inc. manages as member

Clipper Holdings Inc. (Clipper)
- Acquired July 25, 2002 as a subsidiary of LCAH
- Holds certain clinical laboratory assets in the U.S. and Canada
- Canadian Subsidiaries
- 3065619 Nova Scotia Co.
- 100% owned by Clipper Holdings, Inc.
- Dynacare Company
- 100% owned by 3065619 Nova Scotia Co.
- Execmed Health Services Inc.
- 100% owned by Dynacare Company
- 896988 Ontario Inc.
- 100% owned by Dynacare Company
- Dynacare Realty Inc.
- 100% owned by Dynacare Company
- Glen Ames LLP - Real estate LP managing one building, 50% owned by Dynacare Realty, Inc.

o Dynacare G.P. Inc.
o 100% owned by Dynacare Company
o Dynacare Laboratories Limited Partnership
o Limited Partnership 99.9% owned by Dynacare Company and 0.1% owned by Dynacare GP, Inc.
o Canadian Joint Ventures
o Dynacare - Gamma Medical Laboratories
o 72.99% owned by Dynacare Labs Limited Partnership
o Dynacare - Gamma Medical Laboratory subsidiaries - all 100% owned by the partnership except as noted
o GDML LeaseCo Inc.
o Ultra-Med Developments Inc.
o Gamma Dynacare Leasing Corporation
o Dynacare X-Ray Services Limited
o RD Belenger and Associates Ltd. - 70% ownership by Dynacare-Gamma
o Centre Diagnostique Analab Inc. - 75% ownership by Dynacare-Gamma
o Dynacare Gamma Institutional Laboratory Services Limited
o Has 50% ownership in SD Laboratories Inc.
o Dynacare - Kasper Medical Laboratories
o 43.37% owned by Dynacare Labs Limited Partnership
o Dynacare - Kasper Medical Laboratories subsidiaries - all 100% owned by the partnership
o Dynacare Kasper Medical Sales Inc.
o Dynacare Kasper Medical Laboratories (Northern Alberta) Inc.
o Dynacare Kasper Medical Laboratories Inc.

o Dynacare non-operating entities identified subsequent to the acquisition of Dynacare Inc. on July 25, 2002
o The following non-operating entities, some of which have real estate interests, have been identified subsequent to the 7/25/02 acquisition. We are currently researching these entities for additional information regarding their directors and officers.
o 978550 Ontario Ltd.
o DHG Place Du Centre Clinique
o 947342 Ontario Ltd.
o 3901858 Canada Inc.
o Roselat Developments Limited
o 563911 Ontario Limited
o 591893 Alberta Ltd.
o 794475 Ontario Inc.
o 942489 Ontario Ltd.
o 949235 Ontario Ltd.
o Amherstview Medical Centre Developments Inc.
o 900747 Ontario Ltd.
o 925893 Ontario Ltd.
o 942487 Ontario Ltd.
o 942492 Ontario Ltd.
o 978551 Ontario Ltd.
o Glen Davis Equities Ltd.
o Lawrence-Curlew Medical Centre Inc.
o L.R.C. Management Service Inc.
o Toronto Argyro Medical Laboratories Ltd.
o Woodstock Medical Arts Building Inc.
o Stockwin Corporation Ltd.
o Thistle Place Care Corp.
o Dynacare US Financing LLC
o St. Joseph's Health Centre
o Dynacare International Inc.
o Dynacare Canada Inc.
o 977681 Ontario Inc.
o 958069 Ontario Inc.
o 942491 Ontario Limited
o 925893 Ontario Limited
o 879606 Ontario Limited
o 854512 Ontario Limited
o 829318 Ontario Limited
o 3024539 Nova Scotia Company
o 1004679 Ontario Limited

Clinical Laboratories, Inc.
o LCAH acquired 100% ownership on June 1, 2003
o Provides clinical laboratory testing services

New Molecular Diagnostics Ventures LLC
o Incorporated 9/15/03 in Delaware
o 90% owned by LCAH
o Established to seek out new diagnostic testing opportunities

LabCorp Limited
o Incorporated May 20, 1996 in the United Kingdom
o Provides sales services for clinical trials, currently inactive

Lab Delivery Service of New York City, Inc.
o Incorporated March 5, 1974 in New York
o Provides general delivery services of laboratory specimens and

materials throughout the New York area

LabCorp bvba
- Previously a joint venture. LCAH acquired 100% ownership on April 27, 2001
- Belgian corporation providing clinical trials testing services

Viro-Med Laboratories, Inc.
- LCAH acquired 100% ownership on May 31, 2001
- Minnesota corporation providing clinical laboratory testing services

National Genetics Institute
- LCAH acquired 100% ownership on July 31, 2000
- California corporation providing clinical laboratory testing services

Path Lab Holdings, Inc.
- LCAH acquired 100% ownership on April 30, 2001
- Delaware holding company

Path Lab, Inc. d/b/a LabCorp
- 100% ownership by Path Lab Holdings, Inc.
- New Hampshire corporation providing clinical laboratory testing services

Center for Genetic Services, Inc.
- LCAH acquired 100% ownership on August 30, 2001
- Texas corporation providing clinical laboratory testing services

Persys Technology Inc.
- LCAH acquired 100% ownership on April 23, 2004
- Software company developing/maintaining laboratory system interfaces

US Pathology Labs, Inc.
- LCAH acquired 100% ownership on February 5, 2005
- Corporation providing clinical laboratory testing services

Accupath Diagnostics Laboratories, Inc dba US LABS
- 100% ownership by US Pathology Labs, Inc.
- Corporation providing clinical laboratory testing services

US Labs Fountain Valley Inc.
- 100% ownership by US Pathology Labs, Inc.
- Inactive Corporation formerly providing clinical laboratory testing services

US Labs, Inc.
- 100% ownership by US Pathology Labs, Inc.
- Inactive Corporation formerly providing clinical laboratory testing services

Esoterix, Inc.
- LCAH acquired 100% ownership on February 5, 2005
- Corporation providing clinical laboratory testing services

Colorado Coagulation Consultants, Inc.
- 100% ownership by Esoterix, Inc.

The Esoterix Center for Infectious Disease, Inc.
- 100% ownership by Esoterix, Inc.

Esoterix Molecular Genetics, Inc.
- 100% ownership by Esoterix, Inc.

Applied Genetics, Inc.
- 100% ownership by Esoterix, Inc.

The Esoterix Center for Clinical Trials, Inc.
- 100% ownership by Esoterix, Inc.

Cytometry Associates, Inc.
- 100% ownership by Esoterix, Inc.

Cytometry Associates (UK) Limited
- 100% ownership by Esoterix, Inc.

Allergy Testing Laboratories, Inc.
- 100% ownership by Esoterix, Inc.

Endocrine Sciences, Inc.
- 100% ownership by Esoterix, Inc.

Esoterix BV
- 100% ownership by Esoterix, Inc.

Long Beach Genetics, Inc.
- 100% ownership by Esoterix, Inc.

Subsidiaries no longer in existence:

CompuChem Corporation
- Incorporated May 15, 1984 in Massachusetts and acquired by RBL February 11, 1992
- Holding company for CompuChem Laboratories, Inc.
- Merged with and into National Laboratory Center, Inc. 12/31/97

CompuChem Laboratories, Inc.
- Incorporated December 22, 1980 in Delaware and acquired by RBL February 11, 1992
- Conducted toxicology and drugs of abuse laboratory testing services for health care professionals and industrial clients
- Merged with and into National Laboratory Center, Inc. 12/31/97 (after CompuChem Corporation merged)

ChemWest Analytical Laboratories, Inc.
- Incorporated July 18, 1986 in Delaware and acquired by RBL February 11, 1992
- Previously provided environmental Laboratory testing services
- Inactive since June 23, 1993
- Merged with and into National Laboratory Center, Inc. 12/31/97 (after CompuChem Corporation merged)

Allied Clinical Laboratories, Inc., a Delaware corporation
- Incorporated April 20, 1989 in Delaware and acquired by NHL June 23, 1994
- Holding company for Allied Clinical Laboratories, Inc. (Oregon)
- Merged with and into LCA 12/27/96

Allied Clinical Laboratories, Inc., an Oregon corporation
- Incorporated August 26, 1970 in Oregon as Rice Clinical Laboratories, Inc. and acquired June 23, 1994 by NHL
- Clinical laboratory testing operation
- Merged with and into Allied Clinical Laboratories, Inc., a Delaware corporation 12/27/96

LabCorp Occupational Testing Services, Inc. (LOTS) (f/k/a National Laboratory Center, Inc.)
- Incorporated in Tennessee April 25, 1985 and acquired by Parent July 14, 1995
- Conducts toxicology and drugs of abuse laboratory testing services for health care professionals and industrial clients
- Merged with and into LCAH on January 1, 2000.

Executive Tower Travel Inc.
- Incorporated February 4, 1994 in Delaware by NHL
- Previously provided travel services for employees of Parent and subsidiaries and utilized for benefits coordination
- Merged into LCA on 1/21/03.

PoisonLab, Inc.
- California corporation acquired by LCA on March 3, 2000
- Provides clinical laboratory testing services
- Merged into LCA 3/31/03.

Tower Collection Center, Inc.
- Incorporated June 15, 1994 in Delaware as a subsidiary of RBL
- Provided accounts receivable collection services to Parent and subsidiaries
- Merged into LCAH 12/31/02.

Burt Medical Laboratory, Inc.
- Inactive Connecticut corporation
- Dissolved on 10/18/01.

LTC Services and Holdings, Inc.
- 100% ownership by Path Lab Holdings, Inc.
- New Hampshire holding
- Merged into Path Lab Holdings, Inc. March 2003

LabCorp Delaware, Inc.
- Incorporated June 8, 1998 in Delaware as a subsidiary of LCAH
- Holds certain clinical laboratory assets
- Dissolved on 9/27/04

MWorld, Inc.
- 100% ownership by LTC Services and Holdings, Inc.
- Inactive New York corporation
- Merged into Path Lab Holdings, Inc. March 2003

3065703 Nova Scotia Company
- 100% owned by 3065619 Nova Scotia Co.
- Merged into Dynacare Company April 2003

3033331 Nova Scotia Company
- 100% owned by Dynacare Financing GP (a U.S. subsidiary 1% owned by 3065703 Nova Scotia Company and 99% owned by Dynacare Company)
- Merged into Dynacare Company April 2003

Dynacare Financing GP
- 1% owned by 3065703 Nova Scotia Company and 99% owned by Dynacare Company
- Dissolved into Dynacare Company 4/01/03

Dynacare Delaware Financing LLC
- 100% owned by 3033331 Nova Scotia Company
- Merged into Dynacare Laboratories, Inc. 4/01/03

Dynacare Texas Shareholder Inc.
- 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. 3/31/03

Dynacare Holdings Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. 3/31/03

Dynacare Texas Laboratories, Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. 3/28/03

Dynacare Laboratory Management, Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. 3/31/03

Dynacare Louisiana Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. 3/31/03

SVL Inc.

o 100% owned by Dynacare Northwest Inc.

o Merged into Dynacare Northwest 3/31/03

HT/DL LP

o 99% owned by Dynacare Laboratory Management, Inc. and 1% by Dynacare Texas Laboratories, Inc.

o Dissolved 3/31/03

Dynacare Laboratories Investments, Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Dynacare Laboratories, Inc. on 3/31/03

3065702 Nova Scotia Company

o Amalgamated into Dynacare Company on 7/25/03

The Dynacare Health Group Inc.

o Amalgamated into Dynacare Company on 7/25/03

Dynacare Inc.

o Amalgamated into Dynacare Company on 7/25/03

Brampton Glendale Pharmacy

o Sold 7/22/03

Dynacare Acquisition, Inc.

o Dissolved on 5/25/04

Dynacare Ilinois Inc.

o Dissolved on 5/25/04

Dynacare Laboratory Holdings, Inc.

o Dissolved on 5/25/04

Dynacare Texas LP, Inc.

o Dissolved on 5/25/04

Dynacare Oklahoma Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Clinical Laboratory Cheyenne on 1/20/05

LabSouth Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Clinical Laboratory Cheyenne on 1/20/05

Dynacare Mississippi Inc.

o 100% owned by Dynacare Laboratories, Inc.

o Merged into Clinical Laboratory Cheyenne on 1/20/05

Uranium Development, Inc.

o Incorporated on December 13, 2004 in Delaware

o Merged into US Pathology Laboratories, Inc. on 2/5/05

Eskimo Development, Inc.

o Incorporated on March 29, 2005 in Delaware

o Merged into Esoterix, Inc on 5/11/05

Dynagene, LLC

o Incorporated on January 18, 2001 in Delaware

o Cancelled on 12/23/05

Medical Management Services, Inc.

o 100% ownership by Path Lab, Inc.

o Corporation providing clinical laboratory testing services

o Dissolved on 12/23/05

Springfield Medical Laboratory, Inc.

o 100% ownership by Medical Management Services, Inc.

o Corporation providing clinical laboratory testing services

o Dissolved on 12/23/05

Exhibit 23.1

PricewaterhouseCoopers LLP
Suite 250
101 CentrePort Drive
Greensboro NC 27409
Telephone (336) 665 2700
Facsimile (336) 665 2699

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-71896), Form S-3ASR (No. 333-130141) and Forms S-8 (No. 33-43006, No. 33-55065, No. 333-39735, No. 333-94329, No. 333-115905, No. 333-102602, No. 333-90764, and No. 333-97745) of Laboratory Corporation of America Holdings of our report dated February 27, 2006, relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Greensboro, North Carolina
February 27, 2006

EXHIBIT 24.1

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/s/ JEAN LUC BELINGARD

Jean-Luc Belingard

EXHIBIT 24.2

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/s/ WENDY E. LANE

Wendy E. Lane

EXHIBIT 24.3

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/s/ ROBERT E. MITTELSTAEDT, JR.

Robert E. Mittelstaedt, Jr.

EXHIBIT 24.4

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/s/ ARTHUR H. RUBENSTEIN

Arthur H. Rubenstein

EXHIBIT 24.5

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/S/ ANDREW G. WALLACE, M.D.

Andrew G. Wallace, M.D.

EXHIBIT 24.6

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 2005 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 2006.

By:/s/ M. KEITH WEIKEL

M. Keith Weikel

Exhibit 31.1

Certification

I, Thomas P. Mac Mahon, certify that:

1. I have reviewed this annual report on Form 10-K of Laboratory Corporation of America Holdings;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2006

By: /s/ THOMAS P. MAC MAHON
Thomas P. Mac Mahon
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification

I, William B. Hayes, certify that:

1. I have reviewed this annual report on Form 10-K of Laboratory Corporation of America Holdings;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2006

By: /s/ WILLIAM B. HAYES
William B. Hayes
Chief Financial Officer
(Principal Financial Officer)

Exhibit 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)

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Laboratory Corporation of America Holdings (the "Company"), each hereby certifies that, to his knowledge on the date hereof:

(a) the Form 10-K of the Company for the Period Ended December 31, 2005 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ THOMAS P. MAC MAHON
Thomas P. Mac Mahon
Chief Executive Officer
February 27, 2006

By: /s/ WILLIAM B. HAYES
William B. Hayes
Chief Financial Officer
February 27, 2006