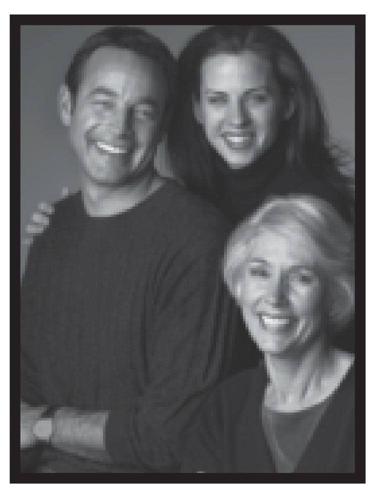


TESTING LEADERSHIP – IMPROVING HEALTH CARE

Laboratory Corporation of America® Holdings
2005 Annual Report





LABORATORY CORPORATION OF AMERICA® HOLDINGS

BUSINESS DESCRIPTION

Laboratory Corporation of America® Holdings (LabCorp), an S&P 500 company, is a pioneer in commercializing new diagnostic technologies and the first in its industry to embrace genomic testing. With annual revenues of $3.3 billion in 2005, approximately 24,000 employees nationwide, and more than 220,000 clients, LabCorp offers clinical assays, ranging from routine blood analyses to HIV and genomic testing.

LabCorp combines its expertise in innovative clinical testing technology with its Centers of Excellence: The Center for Molecular Biology and Pathology, National Genetics Institute, Inc., ViroMed Laboratories, Inc., The Center for Esoteric Testing, DIANON Systems, Inc., US LABS, and Esoterix. Our clients include physicians, government agencies, managed care organizations, hospitals, clinical labs, and pharmaceutical companies.

To learn more about our growing organization, visit our Web site at: *www.LabCorp.com*.

Selected Financial Highlights

Years 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
Diluted earnings per common share[f]	**$ 2.71**	$ 2.45	$ 2.11	$ 1.69	$ 1.26

See footnotes to Five-Year Selected Financial data beginning on page 16 of financials.

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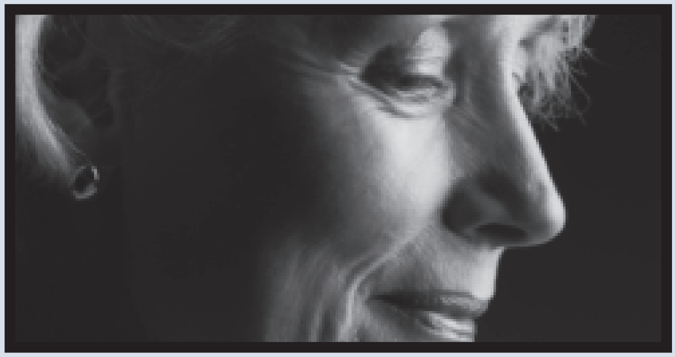
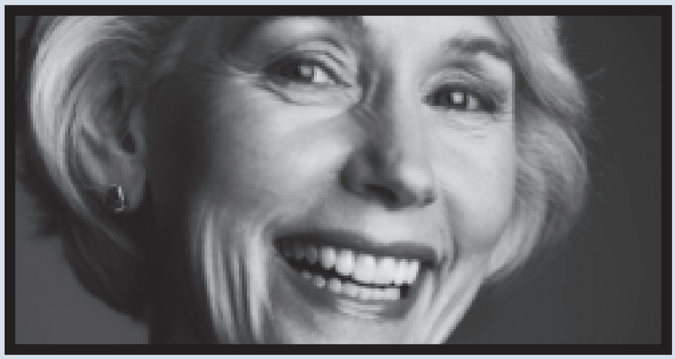
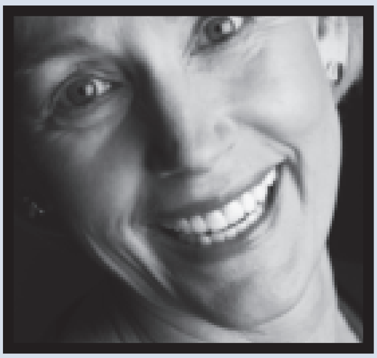






For Example – Ann

Each one of the millions of patients, both male and female, who rely upon LabCorp for their testing needs is the most important person to our Company, but let's use Ann as an example. She's one of our patient customers. And, it is Ann's health care needs and the up-to-date information her physician relies upon that guide our strategy as a business, as a Company and, ultimately, as an organization that cares for people.

Here's why.

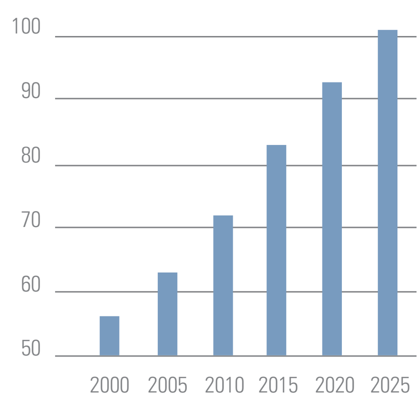
ANN IS 54 YEARS OLD.
She is not alone.

An Aging Population

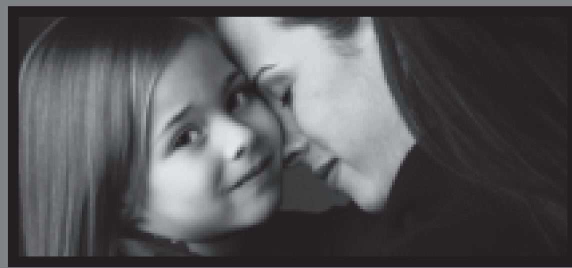
Ann is one of over 75 million baby boomers that collectively comprise an important demographic scenario for our industry. As this largest segment of the U.S. population ages, the number of individuals 55 years and older will grow over the next decade to represent approximately one-third of Americans. Laboratory testing accounts for only 4% of health care expenditures, but influences as much as 80% of all subsequent health care decisions and costs. This will become even more important as expenditures continue to rise to care for an unprecedented number of older individuals. Testing can help make sure that these dollars are spent on the treatments and therapies that most benefit patients. The value of testing in the health care continuum of prevention, diagnosis, treatment and monitoring is especially pronounced in the field of cancer, where the incidence of occurrence increases dramatically with age. As a leader in oncology testing and the second largest clinical laboratory in the world, LabCorp is in a unique position to play a critical role in what will be an extraordinary era of American health care.

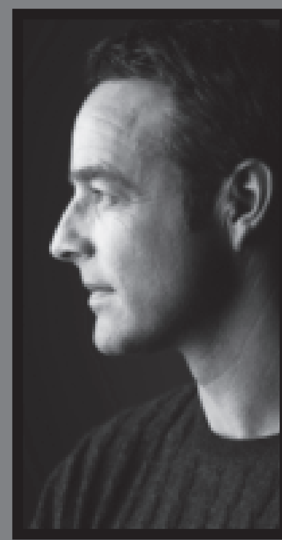
U.S. Population Age 55 and Older

(In millions)



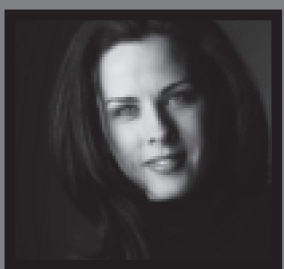
America's aging population will demand more and more health care expenditure. Testing can help make sure these increased dollars are spent wisely.


ANN AND HER FAMILY ARE MEMBERS OF AN HMO.



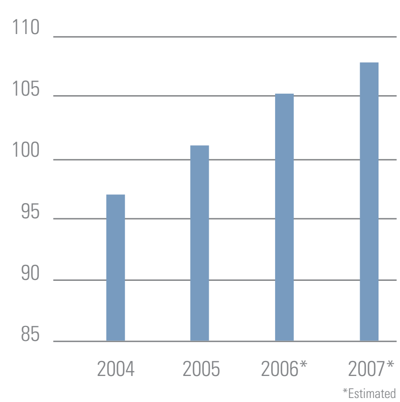




Managed Care

Ann's family and millions of other people depend on managed care companies to provide health insurance. These organizations must ensure that their large patient populations have access to high quality, cost-effective health care. Partnerships with suppliers who offer a national geographic reach and a broad product offering are key to this goal. LabCorp is a critical partner for a growing list of managed care providers. We work hand-in-hand with our managed care partners to provide their patients with the most scientifically advanced testing technology in the marketplace today, at competitive prices that help them lower their overall laboratory testing costs. This includes keeping them apprised of new tests that can better serve their patients, which, in turn, creates an important distribution channel for us in the offering of medically important new assays and technologies. Our partnerships with managed care companies capitalize on the size and scale that are inherent to both our businesses to deliver profitable growth.

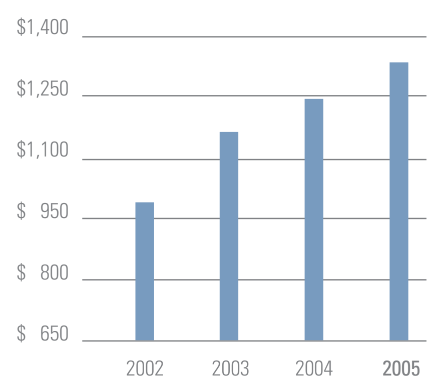
We work hand-in-hand with our managed care partners to provide their patients with the most scientifically advanced testing technology in the marketplace today, at competitive prices.

Enrollment in Major Managed Care Plans
(In millions)



As managed care plan membership continues to increase, the need for suppliers like LabCorp with a broad geographic footprint and extensive product offerings grows in importance.

Annual Managed Care Revenue
(In thousands)



The considerable size and scale of the managed care industry are positive growth drivers for LabCorp as we continuously work to serve this growing segment of health care.

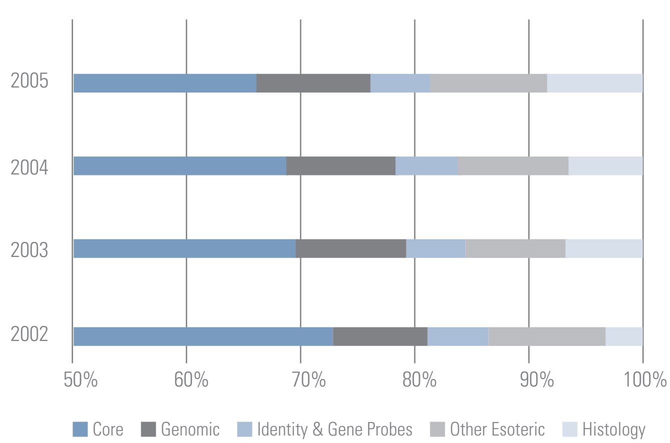
Ann's Health Is Her First Priority.

And Ann's health is our priority. LabCorp's commitment to scientific leadership that makes a difference in our patients' lives is our defining attribute. Our expertise in oncology, infectious disease, and genetic testing is industry leading. We are the home to many of the leading scientists in the testing field who focus solely on advances that will reveal ever-improving patient insight to physicians. Our scientific credentials position us as the "lab of choice" when we seek acquisition candidates and licensing partnerships to further expand our testing capabilities. We are also experts in commercializing new tests, working with our base of over 220,000 physician, managed care and other commercial customers to educate them about the benefits of emerging technologies. Most important, our scientific focus is market focused. Scientific efforts are strategically directed to areas of the market where significant unmet medical diagnostic needs exist. So that when a breakthrough occurs, there is high awareness of our product and new help for the patients of our physician customers.

Scientific efforts are strategically directed to areas of the market where significant unmet medical diagnostic needs exist.

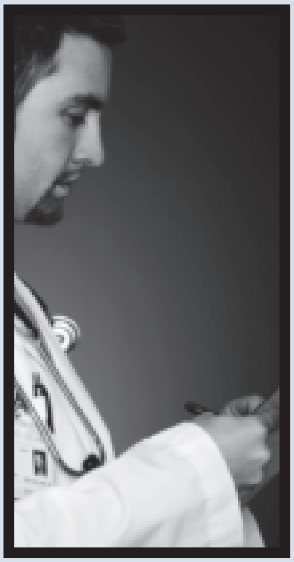
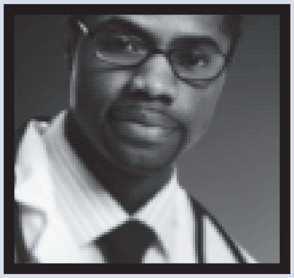
Revenue by Business Area

(Percent)



New areas of opportunity beyond our core business continue to grow as we direct our attention to those areas where needs remain unmet and where breakthroughs can offer new help to physicians and their patients.

ANN’S DOCTOR WANTS RESULTS.

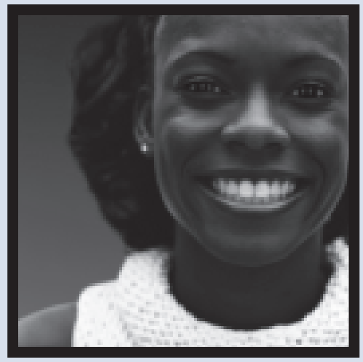



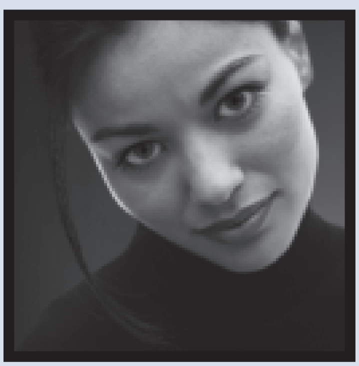
...increasing customer satisfaction and retention is one of our most important strategies.

Fast. Accurate. Convenient.

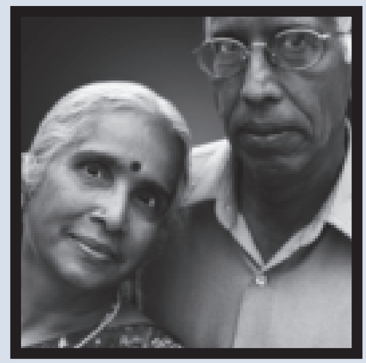
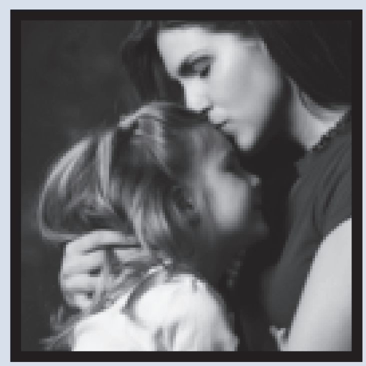
Our goal is to deliver for Ann's doctor. Practicing medicine in today's health care environment is a challenging and pressure-packed endeavor. Physicians not only need our tests to help solve complex health problems, but also need our organization to provide simple and solid customer service. Indeed, their choice for a laboratory partner is based most often on service quality. This is why increasing customer satisfaction and retention is one of our most important strategies. Specimen tracking, results reporting and customer connectivity are ongoing areas of improvement. We also have set a "one call does it all" goal for customer service. Through the consolidation of our call centers, we are enhancing the quality performance of customer care representatives and empowering them with the tools needed to answer as many questions as possible so that customers receive the maximum amount of information in a minimum amount of time. As we realize these goals, we are not only providing the results that our customers truly want, but also strengthening relationships that can improve revenue growth potential.

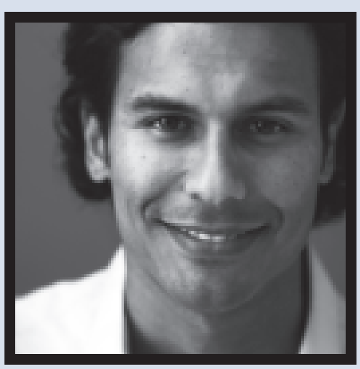
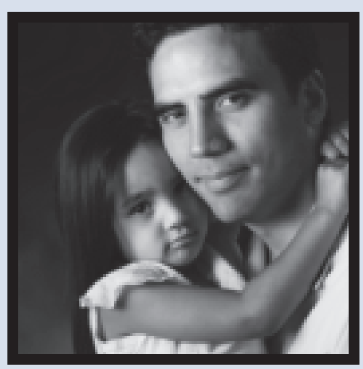
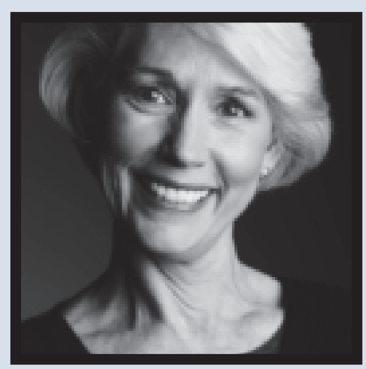




ANN IS IMPORTANT TO LABCORP and so are the millions of other individual lives that we touch each year as a leader in the clinical laboratory field. Their needs drive our strategy.

Thomas P. Mac Mahon
Chairman, President and
Chief Executive Officer

DEAR SHAREHOLDERS

LabCorp continues to thrive, grow and prosper for one reason – helping to improve the health of the patients we serve comes first. From determining where best to direct our next test development efforts to finding more efficient and innovative ways to provide physicians with essential lab information and services, the foundation of our corporate strategy starts with addressing the health care needs of thousands of individuals each day. Our disciplined adherence to this strategy for nearly a decade has driven and will continue to drive the success of LabCorp as a trusted laboratory partner for our customers and as a solid investment vehicle for our shareholders. The Company's operational and financial success in 2005 underscores this fact.

ESOTERIC TESTING FOCUS DRIVES FINANCIAL SUCCESS

Last year, our strong financial performance was driven in large part by our continued focus on growing our share in anatomic pathology and other strategically important esoteric testing categories. At the end of 2005, approximately 35 percent of our revenues were in the genomic, esoteric, and anatomic pathology testing categories. By comparison, just three years ago – at the end of 2002 – only 27 percent of our revenue was derived from these testing categories.

For the year, revenues grew to $3,327.6 million, an increase of 7.9 percent over the previous year, attributable to a 6.8 percent growth in pricing and a 1.1 percent increase in volume. Earnings before interest, taxes, depreciation and amortization (EBITDA) represented 25.4 percent of sales – a margin that continues to make us the leader in the industry. Earnings per diluted share increased 14.3 percent to $2.80, excluding the impact of restructuring and other special charges and a non-recurring investment loss, compared to $2.45 in 2004.

A hallmark of our business model is the ability to generate substantial operating cash flow – $574.2 million in 2005. When we have cash we do not need for acquisitions or other growth investments, one of our priorities is to return value to our shareholders by repurchasing shares under our Board-approved share repurchase programs. During 2005, we repurchased $589 million of stock, representing 11.8 million shares. This repurchase activity was achieved through a combination of $339 million in cash and $250 million in financing through a Senior Note issuance. The issuance of the Senior Notes allowed us to complete a significant share repurchase swiftly, while maintaining our investment grade credit rating and a solid balance sheet.

ACQUISITIONS

We were pleased to be able not only to complete major share repurchases in 2005, but also to invest significantly in opportunities that will help sustain long-term growth and profitability. Given attractive industry fundamentals and growth prospects, reinvestment in the business remains our top priority. We capitalized on numerous opportunities to do so during the year. These included the acquisitions of US LABS and Esoterix which, combined, represented a $305 million investment. Esoterix helps us build upon our scientific leadership with its menu of specialized tests and highly regarded brands. As a leader in anatomic pathology and oncology testing, US LABS also further strengthened our growing position in cancer diagnostics.

CANCER TESTING

Our focus on pathology and oncology testing is well placed given the widespread incidence of cancer. Over one million Americans are diagnosed each year. Men have a nearly 50 percent lifetime risk of developing cancer, while one in three women have a likelihood of doing so. Clinical testing is a vital part of the prevention, early detection, treatment and monitoring of cancer. Effective tests save lives and improve outcomes.

It is hard to find a better example of this than in the fight against cervical cancer. Pap screening technology has lowered the rate of cervical cancer dramatically over the years. The introduction of the Cytec ThinPrep Imaging System has further advanced this technology through quicker and more consistent analysis. As the first national lab to offer image guided Pap testing services, we have seen demand increase dramatically over the past year, rising from near zero at year-end 2004 to an annualized rate of 2.3 million tests at the end of 2005. This significant adoption rate clearly indicates that, when given the choice, physicians recognize the benefits to their patients of this Pap screening technology advancement. We are pleased with the adoption of this testing service and view this as a key growth driver for LabCorp in 2006.

It is well documented that human papillomavirus, or HPV, is the cause of almost all cases of cervical cancer. HPV testing is another area of significant growth for LabCorp as physicians begin to incorporate it into their treatment regimens. HPV testing is recommended by the American College of Obstetrics and Gynecology (ACOG) as a cervical cancer screening test for women over 30 years of age. Though adoption rates have been slow, orders for reflex and primary screening for HPV jumped 77 percent in the fourth quarter of 2005 versus the fourth quarter of 2004. As more physicians become aware of this testing as a primary screening tool and its importance in the early detection of cervical cancer, we expect adoption of HPV testing to continue to accelerate.

TESTING ADVANCES

Beyond the oncology arena, there are a number of other new testing opportunities that we look forward to developing in the coming year. In conjunction with our National Genetics Institute, we have developed an enhanced HIV screening assay that can help identify newly infected HIV patients up to six weeks sooner than the standard HIV screening antibody. Through the use of a proprietary pooling approach, this new test also can be performed very efficiently on a large scale, creating potential cost savings for our customers. ViroMed, another LabCorp subsidiary, also has introduced a molecular test that provides rapid diagnosis for the typing of influenza A strains, including the avian flu H5N1, that will be beneficial in the surveillance and monitoring of influenza activity.

LabCorp has recently made available P450 genotyping and phenotyping assays using the Roche Diagnostics AmpliChip™. Variants in the P450 genes, which metabolize up to 45 percent of all prescription drugs, can cause individuals to metabolize medications differently and cause serious side effects. This pharmacogenetic test can assist physicians in better prescribing medications, improving effectiveness, saving costs and avoiding potential serious drug interactions. In conjunction with the P450 tests, we also are offering the Signature Genetics'™ drug response interpretation service through a license agreement with Seryx, LLC. Through an easy to interpret report, this reporting service helps physicians make appropriate dosing and treatment decisions.

Whether new assays come from acquisition, license or internal development, all are consistent with our continuing focus on the identification and commercialization of advanced testing technologies. In appropriate cases, we will invest in technologies in advance and wait for their adoption as they become standard of care. These new tests have made LabCorp the clear leader in anatomic pathology and esoteric testing, helped us deliver higher margins, and continue to provide us with an important competitive differentiator in the marketplace.

MANAGED CARE

This differentiation is especially valuable as we continue our strategy of strengthening relationships with our managed care partners. We made significant progress during 2005, increasing revenues from managed care by 7.3 percent. Part of this growth is due to our relationship with WellPoint, which has continued to expand. During 2005, we became the exclusive national laboratory provider for WellPoint's PPO fee-for-service plans in Georgia and for their HMO and PPO fee-for-service plans in Nevada. Additionally, we have been awarded the exclusive national provider contract for WellPoint's PPO and HMO in Colorado effective March 1, 2006. We continue to build relationships with UnitedHealthcare, Aetna and Cigna as well.

"Gains in operational efficiencies combined with our focus on capitalizing on new testing capabilities create a formula for continued growth and profitability in the years to come."

Successful partnerships with managed care companies are defined by our ability to help our managed care partners control their costs, while also improving patient care. LabCorp's leadership in commercializing innovative new testing, combined with our nationwide service and sophisticated information systems capabilities make us an ideal partner for leading managed care organizations.

As we move forward in the managed care arena, we will work with our partners to help them reduce their "leakage" payments to non-contracted providers, which is a major cost reduction opportunity for managed care companies. We will also provide them with what we believe is the industry's most in-depth menu of unique, value-added scientific capabilities, anatomic pathology services and wellness testing capabilities. Finally, our ability to establish unique connectivity between the lab and the managed care customer, as well as tools to aggregate and analyze the vast amount of laboratory results data to discover new insights about their population, further differentiates LabCorp as the provider of choice for these critical customers.

LOOKING AHEAD

With another successful year behind us, we are energized by the prospects before us in 2006. A major effort will be the elimination of redundant costs as US LABS and Esoterix take their place as part of the LabCorp system. Over the years, we have proven our ability to rapidly integrate new acquisitions and gain maximum efficiencies from the combined organizations. We expect these efforts will result in annual cost reductions of approximately $30 million by mid 2007. Gains in operational efficiencies combined with our focus on capitalizing on new testing capabilities create a formula for continued growth and profitability in the years to come.

LabCorp's services make a difference in the lives of our patients. Results of testing performed by LabCorp provide valuable information to patients, and allow their physicians to make informed treatment decisions. Every day, 24,000 LabCorp employees dedicate themselves to this task. Without this dedication, LabCorp's success would not have been possible.

It is very gratifying to report LabCorp's ongoing success to you. With compelling industry fundamentals, a sound business model, a strong competitive position and a proven ability to capitalize on market potential, I am confident that LabCorp has more success ahead and more opportunity to reward our shareholders. Thank you for your support.

Thomas P. Mac Mahon

Thomas P. Mac Mahon
Chairman, President and
Chief Executive Officer
April, 2006

*For Reconciliation of Non-GAAP Financial Measures, see page 59.

BOARD OF DIRECTORS

Laboratory Corporation of America® Holdings 2005

Thomas P. Mac Mahon
Chairman of the Board,
President and
Chief Executive Officer

Jean-Luc Bélingard
Director
Chief Executive Officer of Ipsen SA, a diversified French health care holding company
Committees: Compensation, Ethics and Quality Assurance

Wendy E. Lane
Director
Chairman of Lane Holdings, Inc., an investment firm
Committees: Audit, Nominating and Corporate Governance

Robert E. Mittelstaedt, Jr.
Director
Dean and Professor, W.P. Cary School of Business, Arizona State University
Committees: Audit, Nominating and Corporate Governance

Arthur H. Rubenstein, MBBCh
Director
Executive Vice President, University of Pennsylvania Health System and Dean of the School of Medicine
Committees: Audit, Ethics and Quality Assurance

Andrew G. Wallace, M.D.
Director
Former Dean of Dartmouth Medical School
Committees: Compensation, Nominating and Corporate Governance

M. Keith Weikel, Ph.D.
Director
Senior Vice President and Chief Operating Officer of HCR Manor Care, Inc.
Committees: Compensation, Ethics and Quality Assurance

Board of Directors
(left column, top to bottom)
Wendy Lane, Arthur Rubenstein, MBBCh, Robert Mittelstaedt, Andrew Wallace, M.D.
(right column, top to bottom)
Thomas Mac Mahon, Keith Weikel, Ph.D., Jean-Luc Bélingard

FINANCIALS

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FIVE-YEAR SELECTED FINANCIAL DATA

Laboratory Corporation of America® Holdings 2005

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,				
(dollars in millions, except per share amounts)	**2005[a]**	2004	2003[b]	2002[c][d]	2001[e]
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	**$ 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 include 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, $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.

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 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 image 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 breakthrough 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 doctors' 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

Years ended December 31, 2005, 2004, and 2003

Net Sales

	Years Ended December 31,			% Change	
(dollars in millions)	**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	
(dollars in millions)	**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	
(dollars in millions)	**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 Company's 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	
(dollars in millions)	**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,		
(dollars in millions)	**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,		
(dollars in millions)	**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 $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 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	
(dollars in millions)	**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	
(dollars in millions)	**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,		
(dollars in millions)	**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 ongoing 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 nonmonetary 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 – 60	**22.3%**	19.2%
61 – 90	**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.

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.

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.

Thomas P. Mac Mahon
Chairman of the Board,
President and Chief Executive Officer

William B. Hayes
Executive Vice President,
Chief Financial Officer and Treasurer

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

In our opinion, the consolidated financial statements 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 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. 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

CONSOLIDATED BALANCE SHEETS

Laboratory Corporation of America® Holdings 2005

(dollars 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.

CONSOLIDATED STATEMENTS OF OPERATIONS

Laboratory Corporation of America® Holdings 2005

(dollars 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.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Laboratory Corporation of America® Holdings 2005

(dollars 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	$(888.5)	$ (6.9)	$ 90.3	$1,885.7

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Laboratory Corporation of America® Holdings 2005

(dollars 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 businesses, net of cash acquired	(335.3)	(32.1)	(647.5)
Net cash used for investing activities	$ (298.6)	$ (224.0)	$(773.6)

(dollars in millions)	Years Ended December 31, 2005	2004	2003
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 agreement	–	–	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 year	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.

(Dollars in millions, except per share data)

Note 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

(Dollars in millions, except per share data)

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.

	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.

(Dollars in millions, except per share data)

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:

	2005			2004			2003		
(Shares in millions)	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.

Note 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.

Note 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 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.

Note 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%

(Dollars in millions, except per share data)

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.

Note 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.

Note 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 lease assets	(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.

Note 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

(Dollars in millions, except per share data)

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)

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.

Note 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

Note 9

OTHER LIABILITIES

	December 31, 2005	December 31, 2004
Postretirement 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

(Dollars in millions, except per share data)

Note 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

(Dollars in millions, except per share data)

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 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.

Note 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.

(Dollars in millions, except per share data)

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 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.

(Dollars in millions, except per share data)

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.

Note 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

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 dependent 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.

Note 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	Average 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.

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

	2005	2004	2003
Fair value of the employees' purchase right	**$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%

(Dollars in millions, except per share data)

Note 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.

(Dollars in millions, except per share data)

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 and $63.5, respectively, primarily in connection with certain insurance programs. The Company's availability under its revolving credit facility is reduced by the amount of these letters of credit.

The Company leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with non-cancellable 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.

(Dollars in millions, except per share data)

Note 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.

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	$12.3
Interest cost on benefit obligation	**13.8**	12.8	12.9
Expected return on plan assets	**(21.0)**	(16.9)	(12.7)
Net amortization and deferral	**1.3**	1.5	3.7
Defined benefit plan costs	**$ 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 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:

Asset Category	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

Postretirement 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
Postretirement medical plan costs	**$1.4**	$2.7	$2.9

A summary of the changes in the accumulated postretirement 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

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.

(Dollars in millions, except per share data)

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 postretirement 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.

Note 16

SUPPLEMENTAL CASH FLOW INFORMATION

	Years Ended December 31,		
	2005	2004	2003
Supplemental schedule of cash flow information:			
Cash paid during 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 acquisition	**–**	–	8.5
Surrender of restricted stock awards	**7.3**	6.8	–
Accrued repurchases of common stock	**15.0**	10.0	–

(Dollars in millions, except per share data)

Note 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

	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

(Dollars in millions, except per share data)

Note 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 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.

EBITDA represents earnings before interest, income taxes, depreciation, amortization, and nonrecurring charges, and includes the Company's proportional share of the underlying EBITDA of the income from joint venture partnerships. The Company uses EBITDA extensively as an internal management performance measure and believes it is a useful, and commonly used measure of financial performance in addition to earnings before taxes and other profitability measurements under generally accepted accounting principles ("GAAP"). EBITDA is not a measure of financial performance under GAAP. It should not be considered as an alternative to earnings before income taxes (or any other performance measure under GAAP) as a measure of performance or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles earnings before income taxes, representing the most comparable measure under GAAP, to EBITDA for the years ended December 31, 2005 and 2004:

	Years ended December 31,	
	2005	2004
Earnings before income taxes	$640.7	$615.3
Add (subtract):		
Interest expense	34.4	36.1
Investment income	(1.8)	(3.5)
Other (income) expense, net	–	1.8
Depreciation	97.2	93.0
Amortization	51.4	42.7
Restructuring and other special charges	16.9	(0.9)
Non-recurring investment loss	3.1	–
Joint venture partnerships' depreciation and amortization	3.9	3.3
EBITDA	$845.8	$787.8

Earnings per diluted share excluding the impact of restructuring charges and a non-recurring investment loss is not a measure recognized under GAAP. The following table reconciles earnings per diluted share, representing the most comparable measure under GAAP, to earnings per diluted share excluding the impact of restructuring charges and a non-recurring investment loss for the years ended December 31, 2005:

	Year ended December 31,
	2005
Earnings per diluted share	$2.71
Impact per diluted share:	
Restructuring and other special charges, net of tax ($10.2 ÷144.9)	0.07
Non-recurring investment loss, net of tax ($3.1 ÷144.9)	0.02
Earnings per diluted share, excluding restructuring and other special charges and a non-recurring investment loss	$2.80

SHAREHOLDER AND COMPANY INFORMATION

Laboratory Corporation of America® Holdings 2005

Corporate Headquarters
358 South Main Street
Burlington, NC 27215
336-584-5171

Information Sources
Information about LabCorp is available from the following Company sources:

Investor Relations Contact
Scott Fleming
Vice President,
Investor Relations
336-436-4879

Center for Molecular Biology and Pathology
800-533-0567

Center for Occupational Testing
800-833-3984

Center for Esoteric Testing
Reference Testing
800-334-5161
Paternity/Identity
800-742-3944

LabCorp Drug Development Laboratory Services
888-244-4102

Web Site
www.LabCorp.com

Shareholder Direct Service
800-LAB-0401 (800-522-0401)
Call this number 24 hours a day and learn the most current earnings information and hear the most recent news releases and a corporate profile, speak with a shareholder services representative, or ask to receive a variety of printed information by fax or mail. This same information is available from our Web site: *www.LabCorp.com*.

Transfer Agent
American Stock Transfer & Trust Company
Shareholder Services
6201 Fifteenth Avenue
Brooklyn, NY 11219
800-937-5449
www.amstock.com

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
101 Centreport Drive, Suite 250
Greensboro, NC 27409

Annual Meeting
The annual meeting of shareholders will be held at 9.00 a.m. on May 17, 2006 at The Paramount Theater, 128 East Front Street, Burlington, NC 27215.

Form 10-K
Copies of Form 10-K as filed with the Securities and Exchange Commission are available without cost to shareholders by writing to:
Laboratory Corporation of America Holdings
Investor Relations Department
358 South Main Street
Burlington, NC 27215

Safe Harbor
Forward-looking statements in this annual report are subject to change based on various important factors, including without limitation, competitive actions in the marketplace and adverse actions of governmental and other third-party payors. Actual results could differ materially from those suggested by these forward-looking statements. Further information on potential factors which could affect the Company's financial results is included in the Company's Form 10-K for the year ended December 31, 2005 and subsequent filings.

Common Stock
LabCorp common stock trades on the New York Stock Exchange (NYSE) under the symbol LH. The high and low prices of the stock for each quarter during 2005 and 2004 follow. On February 3, 2006, there were 579 holders of record of common stock. There were no common stock dividends during any of the periods that follow.

2005	High	Low
First Quarter	$50.60	$44.63
Second Quarter	51.25	46.83
Third Quarter	51.95	46.60
Fourth Quarter	55.00	47.22

2004	High	Low
First Quarter	$44.20	$36.95
Second Quarter	42.47	38.57
Third Quarter	43.75	36.80
Fourth Quarter	50.00	41.10

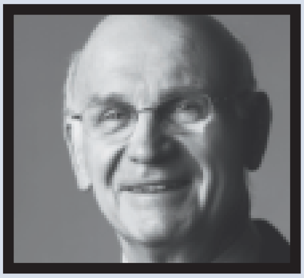
Corporate Governance, Code Of Business Conduct And Ethics
The Company's Corporate Governance Guidelines, the Charters of its Audit Committee, Compensation Committee, Ethics and Quality Assurance Committee and Nominating and Corporate Governance Committee as well as the Company's Code of Business Conduct and Ethics are available on the Company's Web Site at www.LabCorp.com. You can also obtain a hard copy of these documents, without charge, upon written request to Scott Fleming, Laboratory Corporation of America Holdings, 358 South Main Street, Burlington, NC 27215.

The Company submitted, on June 17, 2005 without qualification, the Annual Certification of the Chief Executive Officer to the New York Stock Exchange ("NYSE") regarding the NYSE corporate governance listing standards pursuant to Section 303A.12(a) of the NYSE Listing Standards. The Company filed its Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2, respectively, to its Annual Report on Form 10-K for fiscal year 2005 filed with the Securities and Exchange Commission on February 28, 2006.

EXECUTIVE OFFICERS

Laboratory Corporation of America® Holdings 2005





Thomas P. Mac Mahon
Chairman, President and
Chief Executive Officer

William B. Haas
Executive Vice President,
Esoteric Business

William B. Hayes (Brad)
Executive Vice President,
Chief Financial Officer
and Treasurer

David P. King
Executive Vice President,
Chief Operating Officer

Myla P. Lai-Goldman, M.D.
Executive Vice President,
Chief Scientific Officer and
Medical Director

Benjamin R. Miller
Executive Vice President,
Sales, Marketing and
Managed Care

Richard L. Novak
Executive Vice President,
Strategic Planning and Corporate
Development

Bradford T. Smith
Executive Vice President,
Corporate Affairs

Management Team

(left column, top to bottom)
Tom Mac Mahon, Dave King,
Brad Smith, Ben Miller

(right column, top to bottom)
Brad Hayes, Rich Novak,
Myla Lai-Goldman, M.D., Bill Haas

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