Six years ago LabCorp embarked on a journey guided *by a strategic plan.* Today, this plan remains *more relevant than ever.*

LabCorp
Laboratory Corporation of America

Annual Report 2003

LabCorp® Business Description

LabCorp is the first commercial laboratory to fully embrace genomic testing. Through a national network of laboratories, LabCorp (LH) provides more than 4,400 clinical tests. The Company has 31 primary testing locations, more than 1,100 patient service centers and serves clients in all 50 states.

Financial Highlights

Laboratory Corporation of America® Holdings
(in millions)

Year Ended December 31,	2003[a]	2002[b][c]	2001[d]	2000[e]	1999
Statement of Operations Data:					
Net sales	$2,939.4	$2,507.7	$2,199.8	$1,919.3	$1,698.7
Gross profit	1,224.6	1,061.8	925.6	766.6	629.1
Operating income	533.7	435.0	367.6	245.6	149.7
Net earnings	$ 321.0	$ 254.6	$ 179.5	$ 112.1	$ 65.4

(a) 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. See "Note 2 to the Consolidated Financial Statements" for further discussion of this acquisition. During the third and fourth quarters of 2003, the Company recorded pre-tax charges totaling $6.4 million, in connection with the integrations of its recent acquisitions. The Company also recorded certain adjustments to previously recorded restructuring charges due to changes in estimates, resulting in a net credit of approximately $4.9 million, which was recorded in the fourth quarter of 2003. Net restructuring and other special charges was $1.5 million for 2003.

(b) 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. See "Note 3 to the Consolidated Financial Statements" for further discussion of this acquisition. 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.

(c) 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. See "Note 10 to the Consolidated Financial Statements" for further discussion of the effect of SFAS No. 142.

(d) 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.

(e) In the fourth quarter of 2000, the Company recorded a $4.5 million restructuring charge relating to the closing of its Memphis drug testing facility.

(f) Long-term obligations primarily include capital lease obligations of $4.4 million, $5.5 million, $6.1 million, $7.2 million and $4.4 million at December 31, 2003, 2002, 2001, 2000 and 1999, respectively. Long-term obligations exclude amounts due to affiliates. On June 6, 2000, the Company called for redemption all of its outstanding redeemable preferred stock, resulting in the conversion of substantially all of the preferred stock into common stock. During 2001, the Company sold $744.0 million aggregate principal amount at maturity of its zero coupon convertible subordinated notes due 2021 in a private placement. The Company received approximately $488.6 million in net proceeds from the offering. The Company used a portion of the proceeds to repay $412.5 million of its term loan outstanding under its credit agreement.

Through consistent execution and constant evolution, our strategic plan has driven LabCorp's remarkable success to date. It will continue to do so. Indeed, *our strategy is connecting all of our constituencies* – patients, customers, employees and partners – at ever higher levels of service and satisfaction.

Here is a look at the *plan at work.*

From routine to genomic, LabCorp performs hundreds of thousands of tests each day.

A national logistics infrastructure coordinates the transportation of specimens and allows us to connect service sites across the country.

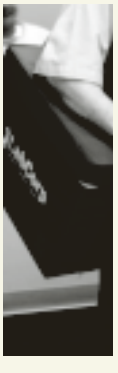
Maximize a National Infrastructure

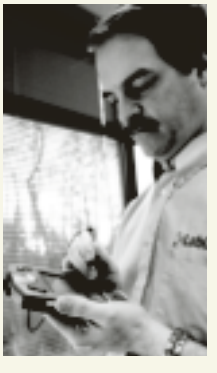
We're producing industry-leading shareholder returns.

LabCorp has generated some of the highest shareholder returns in the industry over the last five years. Economies of scale are the foundation of this performance. Our national infrastructure comprises more than 1,100 patient service centers and 31 primary testing locations serving all 50 states. These facilities process more than 340,000 specimens daily for more than 220,000 customers.

Yet, size and scale alone do not maximize performance. Operating excellence and a continuous commitment to improved efficiency are essential as well. Standardization is one of the ways we achieve this in our core lab business and it includes uniform methods, instruments, processes and procedures across all our operations. The objective is always to ensure that a specimen will generate the same result whether it is tested in a satellite or core lab, whether in San Diego or Tampa. Standardization also facilitates best practices, cost economies, vendor leverage and inventory control. Simply put, standardization is good medicine and good business and LabCorp is able to realize the benefits on an exceptional scale.

Technology also is a significant contributor to profitability. We constantly pursue state-of-the-art technology to facilitate increased productivity, improved business processes and better connectivity internally and with our customer base. As a result, our ongoing technological investment, such as a recent upgrade of all hematology instrumentation that increases throughput, is an investment that generates high return for our shareholders.





Seamless Connections

"I'm on the frontlines of our business, and there are literally hundreds of thousands, if not millions, of moving parts – specimens, customers, locations, delivery times, and routes. We need to get every detail right because every function we perform ties back to an individual patient."

– Lee Webster
Service Representative, Distribution Department

Connect More Closely *with the* Customers

We're meeting their specific needs better than ever.

The clinical laboratory business is an intensely competitive one. We realize each and every customer that we serve chooses LabCorp. Our commitment to providing the best possible customer service is one of our highest priorities. In 2004, we will invest $10 million in new customer care, genomic and managed care initiatives that came out of our recent strategic planning process.

Customer retention entails a thorough understanding of the unique needs and challenges that face each of our different customer segments and providing solutions that address them. Managed care organizations, for instance, must constantly monitor, analyze and direct care for their large patient populations. The ability to provide these organizations with highly customized reports is a value-added and essential service.

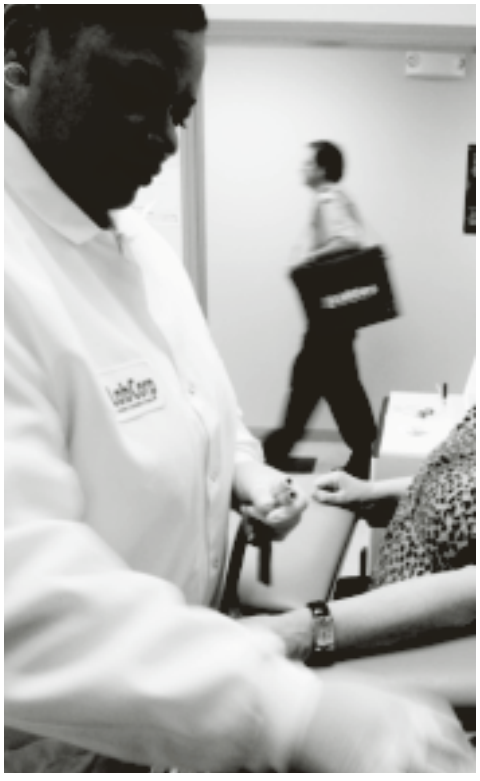
Timeliness is the issue for our hospital clients. In their arena of acute care, they need 24/7 access and we are addressing this need by continually expanding the battery of tests and services that are available to them on a round-the-clock basis.

For individual physicians, better connectivity is a service that provides convenience and additional assurances of quality. The ability to order tests and receive results electronically is leading to ever faster service and helping to minimize clinical errors. In smaller offices, where resources are often stretched the thinnest, our connectivity initiatives are enabling physicians to realize operating efficiencies of their own, while enhancing patient care.

Customer Connections

"In client services we are most effective when the client's mindset becomes part of our mindset. What do they need? What can we do to satisfy that need? What type of pressures are they up against? When you think like a customer, you usually can please the customer."

– Aisha Copeland, Shelley Royer, Angela Lee
Customer Services Support Representatives



Through our more than 1,100 patient service centers, approximately 2,500 courier service representatives and nationwide access to our scientific experts, LabCorp customers are connected to the most comprehensive laboratory services possible.

LabCorp's strategic partnerships provide access to the most advanced diagnostics, making us an industry leader in specialized genomic and esoteric testing.

Partner *with* Biotech's Best Minds

We're setting the scientific standard for the industry.

Our partnerships with biotechnology companies are an integral part of growing this business by continually identifying and introducing the most promising scientific advances. Tests that are the result of groundbreaking research are already reaching the marketplace today.

In 2003, we introduced, with EXACT Sciences Corporation, the first and only DNA-based screening test for colorectal cancer for the average-risk, asymptomatic population. This noninvasive test works by detecting mutations associated with colorectal cancer. With 80 million Americans age 50 and older who are candidates for this test, the diagnostic and potentially life-saving opportunities are sizeable.

In March 2004, through our exclusive relationship with BioPredictive, we began offering a noninvasive blood test to evaluate the extent of liver fibrosis and its rate of progression in a patient with chronic hepatitis C liver disease. Also during 2004, we expect to introduce another noninvasive test that has revolutionary potential. Through our agreement with Correlogic Systems, Inc., we plan to offer their protein pattern blood test for the early detection of ovarian cancer in high-risk women, based on genetic, family or medical history.

The common denominator for all these tests is their high degree of accuracy that can be achieved through noninvasive processes. History has shown us that affordable and accessible screening tests, such as the Pap smear, can have a profound impact on reducing the incidence and impact of cancer for patients. While this new generation of sophisticated, high-value tests are far from the commonality of a Pap smear, they are an important first step in shaping a new era of testing that can save lives.

Scientific Connections

"Genetics is not only exciting because of how rapidly our capabilities are expanding, but because of what it can do for people. Predisposition, screening and diagnostic testing at the molecular level would have been considered science fiction 50 years ago. Today, it's making a difference in the lives of thousands of patients."

– Lauren Kam-Morgan, Ph.D.
Director of Research and Development,
Center for Molecular Biology and Pathology

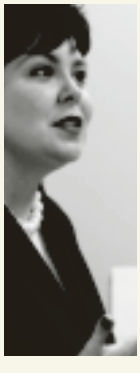
Deliver *New* Testing Capabilities

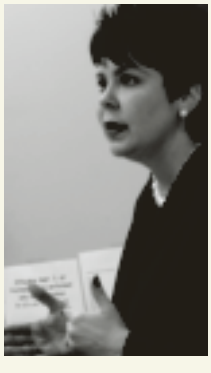
We're bringing them to the front lines of health care.

The road from a research lab to a clinical lab can be a long one for new tests. Usually, years are invested in scientific research and clinical evaluation before a test is ready for the marketplace. While LabCorp has assisted diagnostic and biotechnology companies with many of these efforts, the process of making new tests broadly available is where we bring a particularly unique set of competencies.

The introduction of a new test is a multifaceted process. Education is arguably the most important initial step. Every decision-making constituency, including physicians, payors and patients, must be made aware of a new test and its clinical utility. Often, we work closely with scientific bodies, such as the American College of Obstetricians and Gynecologists, to provide them with information which is helpful in establishing guidelines for the use of new tests by its physician members. And, thanks to intense training, our sales force is armed with encyclopedic-like knowledge of new tests and they spend significant amounts of time working one-on-one with physician clients to impart a thorough understanding of test procedures and results. For payors, we illustrate the medical and long-term economic value associated with screening, prevention and early diagnosis of many diseases. For patients, we rely on multiple mediums – from educational campaigns to medical office brochures – to help explain disease risks and testing benefits in layman's terms.

The process of bringing new tests to physicians and their patients is an effort that truly underscores the effectiveness of our strategic focus – LabCorp is better equipped than any other clinical laboratory to combine size, scope and scientific expertise to deliver new hope to patients.





Marketplace Connections

"Years ago, a new vaccine might have been the biggest medical development in the course of a physician's career. Today, there's always a major medical advance on the horizon. My job is to help physicians like Dr. Richard Gilbert at Burlington Family Practice stay current on the usefulness of important new tests in a time effective manner."

– Angela King
Genomic and Anatomic Pathology Sales Representative

LabCorp's national scale, depth and breadth of resources and scientific expertise enhance our ability to offer a broad menu of more than 4,400 assays, including the most sophisticated proteomic and genomic tests on the market.

As a large segment of the population ages and scientific advances extend life expectancy, the demand for laboratory testing continues to increase, particularly in the arena of cancer testing. More than ever, LabCorp is uniquely positioned to meet that demand.

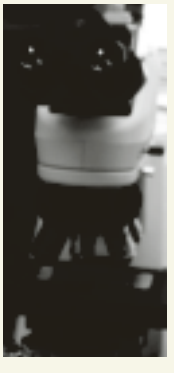
Capitalize on Industry Dynamics

We're serving the next generation of health care.

Over the past six years, LabCorp has increasingly focused its genomic and esoteric testing growth toward the area of cancer. The need is dramatic. At current incidence rates, nearly one-half of American men and over a third of American women are expected to develop cancer in their lifetime. The incidence of cancer grows dramatically with age, and, as more baby boomers cross the age of 55, there will be corresponding growth in the demand for advances in the field of oncology.

Last year's acquisition of DIANON Systems Inc., a leading provider of anatomic pathology and oncology testing in the U.S., was a key element of our cancer strategy. DIANON serves a significant number of the U.S. physicians specializing in urology, gastroenterology, dermatology, hematology and oncology – a customer base through which we can further offer our new cancer tests. DIANON also has strong brand recognition, particularly through its proprietary CarePath™ reporting system, which integrates all the clinical information into a variety of reports for the patient, physician and managed care provider.

With the operational integration of DIANON now complete, we are in the initial stages of introducing throughout LabCorp this unique reporting system as part of DIANON's standardized anatomic pathology model. In contrast to clinical laboratory tests that are highly standardized in the industry, anatomic results have historically been reported in a wide variety of formats depending on the pathologist. DIANON's anatomic pathology model is highly regarded by physicians for its information-rich standardized protocols and report language, a high degree of customization for specific medical disciplines, second review of all malignant cases and a clearly organized presentation of the results. The adoption of this new anatomic pathology model by an enterprise the size of LabCorp is expected to set a new industry standard in anatomic pathology and enhance our position as the laboratory of choice.



Personal Connections

"My pathology report to a doctor is an important basis for the treatment and care decisions he or she makes. Our specialized approach to anatomic pathology helps to ensure that communication between the lab and the doctor's office is smooth, accurate and complete."

– Karin D. Berg, M.D., M.S.
Associate Medical Director,
Center for Molecular Biology and Pathology

LabCorp's Executive Committee (from left to right): David P. King, Bradford T. Smith, Thomas P. Mac Mahon, Richard L. Novak, Wesley R. Elingburg, Myla P. Lai-Goldman, M.D. and William B. Haas.

Thomas P. Mac Mahon
President and Chief Executive Officer

LETTER *to* SHAREHOLDERS

Six years ago LabCorp embarked on a journey guided by a *strategic plan.* Today, this plan remains *more relevant than ever.*

Like a well-drawn roadmap, clear planning is essential to securing success in life, and in business as well. LabCorp's substantial accomplishments in 2003 – in financial performance, in scientific leadership, in service to patients and providers – were the result of knowing exactly where we wanted to go and which roads to take. Indeed, our success and growth to date all relate directly to the execution of the strategic plan we first devised six years ago.

When we crafted that plan, the goal established for LabCorp was clear: To lead the industry in achieving long-term growth and profitability by strengthening our nationwide core testing business and expanding our higher-growth, higher-value esoteric and genomic businesses. To achieve that objective, we combined our broad geographic footprint and strong market presence in routine and esoteric testing to create the foundation upon which our genomic testing leadership can be expanded, particularly in the areas of infectious disease and cancer testing.

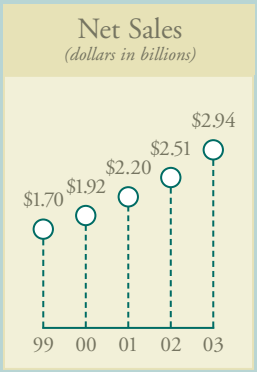
By following that roadmap carefully, and making periodic course adjustments along the way, LabCorp today has become one of the largest clinical laboratory organizations in the world, as well as the leader in developing and commercializing a broad menu of sophisticated assays that provide critical information to physicians and their patients.This scientific leadership has also enabled LabCorp to be a leader in the industry in terms of profitability, cash generation and shareholder return.

OUR STRATEGY DELIVERS IMPRESSIVE 2003 RESULTS

During 2003, our strategic plan continued to serve the Company and its shareholders well. For the year, LabCorp's sales exceeded $2.9 billion, an increase of 17.2 percent over 2002. Revenue gains were attributable to an 11.7 percent growth in volume and a 5.5 percent increase in price. Much of that pricing gain was driven by a shift in product mix towards increased genomic and histology testing. Net earnings, before restructuring charges and other special adjustments related to integrating the DIANON and Dynacare acquisitions, grew to $2.22 per diluted share, an increase of 20.7 percent over 2002.

Cash generated from operations in 2003 grew 26.8 percent to $564.3 million. Last year, these very substantial cash proceeds were directed toward three main areas. First, we strengthened our balance sheet by repaying $250 million borrowed to finance our acquisition of DIANON. Second, we reinvested in our business infrastructure by funding more than $83 million in capital investments in LabCorp equipment and facilities. Third, we enhanced shareholder value by executing a $150 million share repurchase program. In December, we announced an additional $250 million share repurchase program.

Earnings before interest, taxes, depreciation, amortization and nonrecurring restructuring items (EBITDA) grew by approximately $148 million, and we expanded our EBITDA margins from 22.5 percent of sales to 24.2 percent, once again achieving the highest margins in the industry. Going forward, our efforts to achieve still higher margins and earnings will be focused on reducing our bad debt rate, on aligning employee



LabCorp's strategic plan has contributed to consistent growth in net sales over the past five years.

productivity more closely with accession volume, and continuing to increase our higher-value, higher-margin tests, especially in our esoteric and genomic testing business segments.

Routine Testing Fuels Esoteric, Genomic Growth

The impressive financial results over the past year underscore the effectiveness of our fundamental business model. As LabCorp has grown, through both organic means and acquisition, the scope and scale of our expanded national footprint has generated significant operational efficiencies and broad customer reach. In turn, more customers and greater efficiency generate substantial cash flow for reinvestment into esoteric and genomic testing – the portion of our business where margins are highest and where there is the most potential for even higher returns.

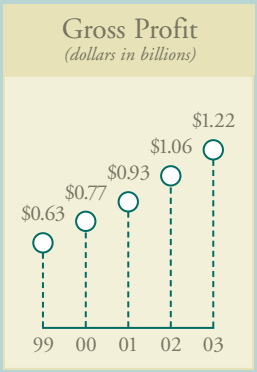
We Pursue Three Paths to Esoteric Growth

Genomic and esoteric tests have increased to a level where they now represent 30 percent of LabCorp's revenues. Year-over-year revenue growth in this segment has been robust, increasing 31 percent overall, with highly specialized genomic assays showing nearly a 40 percent revenue gain. We have secured these advances, and established our position within the industry as the foremost provider of genomic and esoteric testing, through three distinct strategic approaches:

Internal Growth When we set our strategic course six years ago, we began the journey with a powerful asset – the Center for Molecular Biology and Pathology (CMBP), a LabCorp facility whose scientists have been pioneering clinical applications for polymerase chain reaction (PCR) technology for more than 14 years. With leading-edge technological resources and world-class scientific expertise, the CMBP, along with our other centers of excellence, continues to identify, develop and bring to market sophisticated new tests used in the diagnosis and treatment of cancer, genetic diseases like cystic fibrosis, as well as infectious diseases. As we look to continue to build upon our proven record of leadership in esoteric testing, these internal resources remain an essential contributor to our success.

Acquisitions Maintaining our leadership in esoteric testing also requires LabCorp to be strategic and opportunistic in adding new enterprises to our portfolio of capabilities and technologies. Each acquisition has brought unique scientific assets – people and technology that are breaking new ground in laboratory testing. The National Genetics Institute in Los Angeles, for instance, possesses highly sensitive PCR methods for testing hepatitis C and other blood-borne infectious agents. By acquiring ViroMed in 2001, we added speed to the esoteric testing regimen, with the capability to perform molecular testing using real-time PCR platforms.

The 2003 acquisition of DIANON greatly accelerated our progress towards achieving a central component of the LabCorp strategy – to be the premier provider of oncology testing services. As a leader in specialized anatomic pathology, DIANON's reputation for customer care and service, its unique pathology model and the skill and expertise of its team of pathologists and staff is exemplary. With the integration of DIANON now complete, the work of applying its highly standardized system



Operational scale and high-value testing have generated industry-leading profitability.

for processing, diagnosing and reporting anatomic pathology specimens, a process we call "DIANIZATION," is well underway throughout our Company. The DIANON anatomic pathology model, which is highly respected in the provider community, combined with our industry-leading portfolio of tests, should position LabCorp as the clear and preferred provider in the field of cancer testing.

STRATEGIC PARTNERSHIPS To continue our premier position in genomic testing, LabCorp seeks out and secures strategic partnerships with leading biotechnology firms that possess unique products at the frontier of esoteric testing. These partnerships, several of which are exclusive, allow us to rapidly expand our portfolio of genomic assays, while affording our partners the opportunity to benefit from the breadth of LabCorp's national distribution system.

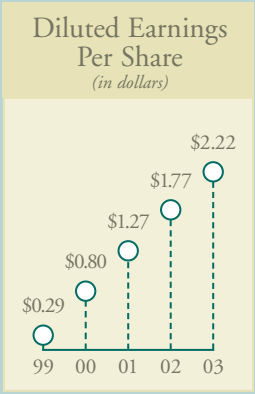
Myriad Genetics, Inc. specializes in predictive medicine with assays that utilize its proprietary genomic technologies. Our partnership with *EXACT Sciences Corporation* grants us exclusive rights to market their innovative PreGen-Plus™ colon cancer screening test for the average-risk population, the first noninvasive stool-based assay that detects genetic mutations associated with colorectal cancer.

Our work with the clinical proteomics firm *Correlogic Systems, Inc.* has positioned us to offer their protein pattern blood test, OvaCheck™, to physicians treating women at high-risk for ovarian cancer – a malignancy that is rarely detected early but is highly treatable if it is. For years LabCorp has been a leader in hepatitis C testing, and our exclusive relationship with *BioPredictive* adds to those capabilities with the addition of their new noninvasive blood test for liver fibrosis. We believe HCV FibroSURE™ has the potential to be an alternative to invasive liver biopsy to evaluate the condition of chronic hepatitis C patients.

OUR INVESTMENT IN COMMERCIALIZATION

The rate at which these tests gain market acceptance varies greatly and depends on the individual test, what alternative tests are available and the medical need for the new test. It is worth noting, however, that LabCorp has a long and successful history of gaining physician and payor acceptance for new, medically important tests, and the majority of our biotech partnerships are focused on developing tests for significant unmet medical needs. Because we are targeting areas where the need is greatest, we are optimistic that awareness among patients, physicians and payors will grow rapidly, and we are investing a significant amount of scientific and business resources to this effort.

Our licensing team continues to be very active in identifying opportunities to offer new genomic and esoteric tests. Not only do new tests fuel growth, but also they are important to expanding our test pipeline. As we gain experience in offering these tests, we also continue to improve upon them – working to enhance test performance and improve operational efficiencies through automation and applied research. Our existing partnerships with biotech firms will help assure that pipeline replenishment, while we continue to search the scientific horizon for the best opportunities to offer desirable new genomic and esoteric tests.



Earnings have increased seven-fold during the past five years.

Living The LabCorp Experience

To continue our leadership in laboratory testing requires both scientific expertise, and team members at every level of the organization who place a high premium on service excellence to physicians, payors and patients. At LabCorp, we are leaders in identifying and commercializing new products, and in operating our core business with peak efficiency, primarily because we have attracted employees and partners who are talented, innovative and who excel at meeting the expectations of our more than 220,000 clients. The approximately 23,000 LabCorp employees are *the asset* most essential for continued growth

In 2003 we launched new programs to focus our attention even more intently on this precious resource. We call it "The LabCorp Experience," and it's designed to expand opportunities for professional challenge and career growth and to enhance the workplace experience by *strengthening the connections* between each employee and their colleagues, their customers and the patients who benefit from their efforts.

Long-Term Potential

We approach 2004 and beyond with a sense of confidence that all is in place to take LabCorp to its next level of success. Our strategic planning process is dynamic, and we update our plan periodically to reflect and anticipate current market dynamics. Our integration of DIANON and Dynacare is complete and has yielded the operational and financial synergies we expected. Our routine testing business is focusing more closely on customer retention by developing additional initiatives to address the unique needs of each customer segment. And, our scientific team and biotech partnerships have a compelling array of new tests with the potential to revolutionize their respective areas of medical care.

As shareholders, I urge you to view our business in the context of our long-term potential. We realize that capital investments today are often pressured by quarterly performances that need to meet quick return expectations. But, to truly appreciate the potential of LabCorp, you must appreciate the tremendous dedication of our 23,000 employees and the incredible scientific advancements in diagnostics that are catapulting clinical laboratory testing into an entirely new realm of opportunity.

Just five years ago, "genomic" was a word few people used. Today, genomic tests are a multi-million dollar business for us. The genomic age is just unfolding. The era of personalized medicine is just beginning. And, the potential of laboratory testing to contribute new answers to medical understanding and need has just begun to be realized. We look forward to sharing this exciting journey with you.

Sincerely,

Thomas P. Mac Mahon
Chairman and Chief Executive Officer

March 31, 2004

Financial Review for
LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

Five-Year Selected Financial Data

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

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, 2003 are derived from consolidated financial statements of the Company, which have been audited by PricewaterhouseCoopers LLP, independent accountants. 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,	**2003**[a]	2002[b][c]	2001[d]	2000	1999
(Dollars in millions, except per share amounts)					
Statement of Operations Data:					
Net sales	**$2,939.4**	$2,507.7	$2,199.8	$1,919.3	$1,698.7
Gross profit	**1,224.6**	1,061.8	925.6	766.6	629.1
Operating income	**533.7**	435.0	367.6	245.6[c]	149.7
Net earnings	**321.0**	254.6	179.5	112.1	65.4
Basic earnings per common share	**$ 2.23**	$ 1.78	$ 1.29	$ 0.82	$ 0.30
Diluted earnings per common share	**$ 2.22**	$ 1.77	$ 1.27	$ 0.80	$ 0.29
Basic weighted average common shares outstanding (in thousands)	**143,969**	142,791	138,838	94,161	50,665
Diluted weighted average common shares outstanding (in thousands)	**144,756**	144,198	141,077	96,299	51,509
Balance Sheet Data:					
Cash and cash equivalents	**$ 123.0**	$ 56.4	$ 149.2	$ 48.8	$ 40.3
Intangible assets, net	**1,857.3**	1,217.5	968.5	865.7	803.9
Total assets	**3,414.9**	2,580.4	1,929.6	1,666.9	1,590.2
Long-term obligations and redeemable preferred stock[f]	**883.9**	521.5	509.2	355.8	1,041.5
Total shareholders' equity	**1,895.9**	1,611.7	1,085.4	877.4	175.5

Five-Year Selected Financial Data

(a) 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. See "Note 2 to the Consolidated Financial Statements" for further discussion of this acquisition. During the third and fourth quarters of 2003, the Company recorded pre-tax charges totaling $6.4 million, in connection with the integrations of its recent acquisitions. The Company also recorded certain adjustments to previously recorded restructuring charges due to changes in estimates, resulting in a net credit of approximately $4.9 million, which was recorded in the fourth quarter of 2003. Net restructuring and other special charges was $1.5 million for 2003.

(b) 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. See "Note 3 to the Consolidated Financial Statements" for further discussion of this acquisition. 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.

(c) 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. See "Note 10 to the Consolidated Financial Statements" for further discussion of the effect of SFAS No. 142.

(d) 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.

(e) In the fourth quarter of 2000, the Company recorded a $4.5 million restructuring charge relating to the closing of its Memphis drug testing facility.

(f) Long-term obligations primarily include capital lease obligations of $4.4 million, $5.5 million, $6.1 million, $7.2 million and $4.4 million at December 31, 2003, 2002, 2001, 2000 and 1999, respectively. Long-term obligations exclude amounts due to affiliates. On June 6, 2000, the Company called for redemption all of its outstanding redeemable preferred stock, resulting in the conversion of substantially all of the preferred stock into common stock. During 2001, the Company sold $744.0 million aggregate principal amount at maturity of its zero coupon convertible subordinated notes due 2021 in a private placement. The Company received approximately $488.6 million in net proceeds from the offering. The Company used a portion of the proceeds to repay $412.5 million of its term loan outstanding under its credit agreement.

General

During 2003, the Company continued to strengthen its financial performance through the implementation of the Company's strategic plan as well as expanding 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's Center for Molecular Biology and Pathology, located in Research Triangle Park, NC is a leader in the development and application of molecular diagnostics and polymerase chain reaction, or PCR, technologies in the areas of diagnostic genetics, oncology and infectious disease. The Company believes that these technologies may represent a significant savings to the health care system by increasing the detection of early stage (treatable) diseases. The Company's National Genetics Institute in Los Angeles, CA, develops novel, highly-sensitive PCR methods used to test for hepatitis C and other infectious agents and is the only laboratory in the U.S. that is FDA-approved to screen plasma for infectious diseases. Viro-Med Laboratories, Inc., based in Minneapolis, MN, offers molecular microbial testing using real-time PCR platforms and provides significant additional capacity to support the continued expansion of the Company's advanced testing business. These Centers of Excellence enable the Company to provide a broad menu of testing services for the infectious disease and cancer markets, which the Company believes represent two of the most significant areas of future growth in the clinical laboratory industry.

The Company completed the acquisition of DIANON on January 17, 2003. This acquisition significantly enhances the Company's oncology testing capabilities and enables the Company to nationally offer the broadest menu of specialized anatomic pathology and gene-based cancer testing in the U.S. At the end of 2003, the Company was ahead of schedule with the integration and had achieved the synergy savings of approximately $26.2 million. The Company expects to achieve additional synergy savings of approximately $5.5 million by the end of 2004, and a total net savings of approximately $32.4 million by 2005. The Company began applying DIANON's standardized anatomic pathology processes in early 2004. This "DIANIZATION" of the Company will take approximately three years.

The Dynacare integration is substantially completed and is performing as expected, including the achievement of the planned total synergy savings of $45.0 million. Dynacare continues to strengthen the Company's national network of routine testing.

In March 2003, the Company purchased certain assets in Northern California from Quest Diagnostics Incorporated (Quest) for $4.5 million in cash. The assets purchased included the assignment of four contracts with independent physician associations (IPAs), as well as the leases for 46 patient service centers, five of which also serve as rapid response laboratories, located throughout Northern California. Acquiring these assets provides the Company an immediate, competitive presence in Northern California for the first time. Quest has indicated that approximately $27.0 million in annual revenues is generated by capitated fees under the IPA contracts and associated fee-for-service testing for physicians whose patients use these patient service centers, as well as from specimens received directly from the IPA physicians. The Company began the customer conversion process in June and July of 2003, which has been ongoing through the end of the year. The Company expects that incremental revenues will be approximately $9-$10 million in 2004.

The Company has announced a number of significant licensing and partnership agreements which provide it with access to new testing technologies that it expects will have an increasing impact on diagnostic testing.

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

In August of 2003, the Company announced that it had commercially launched PreGen-Plus, EXACT Sciences' proprietary, non-invasive technology to aid in the early detection of colorectal cancer. Since then, the daily number of specimens received has increased at a moderate pace and the Company has expanded its production capacity to handle higher daily volumes.

On October 21, 2003, the Company announced an exclusive agreement with BioPredictive, a French Diagnostics firm, that combines the Company's expertise in infectious disease testing with BioPredictive's noninvasive, predictive testing technology to quantitatively determine the amount of liver fibrosis, and the rate of its progression, in hepatitis C (HCV) patients. HCV FIBROSURE™ is expected to be broadly available in the U.S., only through the Company, around the beginning of the second quarter of 2004.

As a result of the exclusive sales and distribution agreement with Myriad Genetics, physicians now have the convenience of sending patients to one of the Company's patient service centers for Myriad Genetics' predisposition testing for breast, ovarian, colon and uterine cancers. The Company's relationship with Myriad Genetics makes it one of the few clinical laboratories in the U.S. to provide the entire oncology care continuum from predisposition to surveillance testing, including screening, evaluation, diagnosis and monitoring options.

In October 2002, the Company announced a collaboration with Celera to establish the clinical utility of laboratory tests based on novel diagnostic markers. The Company is continuing interactions with Celera to support the development of new gene-based assays in a variety of disease areas.

Through an agreement with Correlogic Systems, the Company plans to commercialize their protein pattern blood test for the detection of ovarian cancer, which offers the prospect of accurate and early detection of ovarian cancer. This is a common disease, which if detected early enough, is readily treated and often curable. The Company will initially plan to offer the test to those women at greater than average risk for ovarian cancer sometime during 2004.

In addition to the acquisitions and relationships discussed above, 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 loads and HPV testing; 2) Continued conversion of traditional pap smears to the newer, high value monolayer technology; 3) Continued progress with existing licensing and business relationships (such as Myriad Genetics, EXACT Sciences, Correlogic and most recently, BioPredictive); 4) The Company's ongoing business acquisition strategy; 5) Growing demand for genomic testing is creating a positive shift in test mix toward higher value testing.

On December 17, 2003, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase up to an aggregate of $250.0 million of its common stock from time-to-time. It is the Company's intention to fund future purchases of its common stock with cash flow from operations.

Seasonality

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

Year Ended December 31, 2003 Compared With Year Ended December 31, 2002.

Net sales for 2003 were $2,939.4 million, an increase of 17.2% from $2,507.7 million reported in the comparable 2002 period. Testing volume growth, measured by accessions, increased approximately 11.7% and was affected by the acquisitions of Dynacare and DIANON as well as growth in the Company's esoteric test volumes (including HPV and cystic fibrosis). Price per accession increased approximately 5.5%, compared to 2002. The growth in price was affected by this same shift in test mix and from shifts in histology testing which is primarily DIANON-related. These improvements were partially offset by the impact of severe winter

weather during the first quarter of 2003 and physician strikes to protest rising malpractice insurance rates during the second quarter.

Cost of sales, which includes primarily laboratory and distribution costs, was $1,714.8 million for 2003 compared to $1,445.9 million in 2002, an increase of 18.6%. The increase in cost of sales is primarily the result of increases in volume and supplies due to recent acquisitions, growth in the base business and growth in esoteric and genomic testing (with significant increases in cystic fibrosis and HPV testing). Cost of sales as a percentage of net sales was 58.3% for 2003 and 57.7% in 2002, reflecting the additional infrastructure costs (facilities and personnel) of Dynacare and DIANON acquisitions.

Selling, general and administrative expenses increased to $651.8 million in 2003 from $585.5 million in 2002 representing an increase of $66.3 million or 11.3%. This increase resulted primarily from personnel and other costs as a result of the recent acquisitions. As a percentage of net sales, selling, general and administrative expenses were 22.2% and 23.3% for the year ended 2003 and 2002, respectively, reflecting the realization of synergies from the Dynacare and DIANON acquisitions, as well as the Company's reduction of its bad debt expense rate by approximately 130 basis points during 2003 as compared to 2002.

The amortization of intangibles and other assets was $37.6 million and $23.8 million for 2003 and 2002, respectively. The increase in amortization expense is a result of the acquisitions of Dynacare and DIANON.

The Company recorded pre-tax restructuring charges of $3.3 million and $17.5 million during the third quarters of 2003 and 2002, respectively, in connection with the integrations of DIANON and Dynacare, Inc. During the fourth quarter of 2003, the Company recorded a charge of $3.1 million, relating to the continuing integration of its recent acquisitions. The Company also recorded certain adjustments in the fourth quarter of 2003 to previously recorded restructuring charges due to changes in estimates, resulting in a credit of approximately $4.8 million.

Interest expense was $40.9 million in 2003 compared to $19.2 million in 2002. This increase was a direct result of the Company's financing of the DIANON acquisition.

Income from equity investments was $43.7 million for the year ended December 31, 2003 compared to $13.4 million for the year end December 31, 2002. This income represents the Company's ownership share in equity affiliates acquired as part of the Dynacare acquisition on July 25, 2002. A significant portion of this income is derived from investments in Ontario and Alberta, Canada, and is earned in Canadian dollars. The strengthening of the Canadian dollar versus the U.S. dollar during the year ended December 31, 2003 has had a positive impact on this income as well as the cash generated from the Canadian investments.

The provision for income taxes as a percentage of earnings before taxes was 40.6% in 2003 compared to 41.1% in 2002. The decrease in the effective tax rate for 2003 is due to a $2.1 million state tax recovery during the third quarter of 2003.

Year Ended December 31, 2002 Compared With Year Ended December 31, 2001.

Net sales for 2002 were $2,507.7 million, an increase of 14.0% from $2,199.8 million reported in the comparable 2001 period. Testing volume, measured by accessions, increased 10.7% (primarily as a result of the Dynacare acquisition and esoteric volume growth) and price per accession increased 3.3% (due in part to the shift in test mix to higher-value esoteric tests) compared to 2001.

Cost of sales, which includes primarily laboratory and distribution costs, was $1,445.9 million for 2002 compared to $1,274.2 million in 2001, an increase of 13.5%. In the third quarter of 2002, the Company announced a slowdown in volume growth in the Carolinas. In order to reverse these declines in volume, the Company initiated a reinvestment program that included adding individuals and facilities to improve client service. Although this reinvestment moderately increased the fourth quarter expenses as expected, there was an improvement in the ratio of new to lost accounts in the affected region. Also, the Company incurred certain costs associated with the acquisition and integration of Dynacare such as additional overtime and temporary help and the payment of retention bonuses. Additional costs were incurred due to growth in esoteric and genomic testing and higher

volume of Pap tests performed using more expensive monolayer technology. Cost of sales as a percentage of net sales was 57.7% for 2002 and 57.9% in 2001.

Selling, general and administrative expenses increased to $585.5 million in 2002 from $516.5 million in 2001 representing an increase of $69.0 million or 13.4%. This increase resulted primarily from personnel and other costs as a result of the Dynacare acquisition. Selling, general and administrative expenses were 23.3% and 23.5% as a percentage of net sales in 2002 and 2001, respectively.

The amortization of intangibles and other assets was $23.8 million and $41.5 million for 2002 and 2001, respectively. The decrease in the amortization expense is due to the adoption in 2002 of the non-amortization provisions of SFAS No. 142 for goodwill offset partially by increases in identifiable intangibles amortization resulting from the acquisition of Dynacare.

During the third quarter of 2002, the Company recorded restructuring and other special charges totaling $17.5 million. The $17.5 million was comprised of a special bad debt provision of approximately $15.0 million related to the acquired Dynacare accounts receivable balance and an additional $2.5 million relating to integration costs of actions that impact the Company's existing employees and operations.

Interest expense was $19.2 million in 2002 compared to $27.0 million in 2001. The reduction in interest expense reflects the Company's lower cost of borrowings from its zero coupon-subordinated notes as well as overall market rate declines in interest rates in 2002 compared to 2001.

As a result of the Dynacare acquisition, the Company has investments in equity affiliates in Milwaukee, Wisconsin, Ontario, Canada and Alberta, Canada. These investments are accounted for under the equity method of accounting and resulted in other income of $13.4 million for 2002.

Provision for income taxes was $177.7 million in 2002 compared to $149.6 million in 2001. The effective tax rate was 41.1% in 2002 and 45.0% in 2001. The decrease in the effective tax rate is primarily due to the elimination of amortization related to goodwill upon adoption of SFAS No. 142 and, to a smaller extent, the Company's reduction of $1.7 million of valuation allowance relating to its net deferred tax assets.

Liquidity and Capital Resources

Net cash provided by operating activities was $564.3 million, $444.9 million and $316.0 million, in 2003, 2002 and 2001, respectively. The increase in cash flow from operations in both 2003 and 2002 primarily resulted from improved earnings, the expansion of the business through acquisitions, and the improvement of the Company's accounts receivable days' sales outstanding ("DSO") to 53 days at the end of 2003 from 54 days at the end of 2002. This improvement was due to Company-wide efforts to increase cash collections from all payors, as well as on-going improvements to claim submission processes. In addition, the Company continued to take steps necessary to improve DSO and cash collections by:

(1) conversion of decentralized billing locations, including former Dynacare locations, to a centralized billing system. During 2003, billing activity in numerous Dynacare sites was converted to the centralized billing system. In 2004, the Company will concentrate its conversion activities on the remaining Dynacare locations as well as its Salt Lake City, Reno, San Diego and Viro-Med facilities.
(2) continuing initiative to reduce the number of requisitions received that are missing certain billing information. This initiative involves counting the number of clinical requisitions received from an ordering client, as well as determining what specific information was not provided. The Company then identifies root causes of why the information was missing and takes steps to ensure that information is provided in the future. These steps include re-educating clients as to what information is needed in order for the Company to bill and collect for the test. As of December 31, 2003, the percentage of requisitions received which were missing billing information was 4.3% as compared to 4.6% at the end of 2002.
(3) implementation of numerous initiatives related to self-pay accounts receivable. These include: i) collecting payment at the time of service; ii) increased training for billing personnel related to improving collections during phone calls and iii) review of bill design and frequency.

Capital expenditures were $83.6 million, $74.3 million and $88.1 million for 2003, 2002 and 2001, respectively. The Company expects capital expenditures of approximately $90.0 to $100.0 million in 2004. These expenditures are intended to continue standardizing lab and billing information systems and further automate laboratory processes. The Company will continue to make important investments in information technology connectivity with its customers. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's revolving credit facilities.

On January 31, 2003, in connection with the acquisition of DIANON, the Company completed a private placement of $350.0 million in senior notes, which was used to repay the $350.0 million bridge loan that was entered into to fund part of the DIANON purchase. The notes, in an aggregate principal amount of $350.0 million, will bear an interest rate of 5.5% and resulted in net proceeds of $345.1 million.

In conjunction with the acquisition of DIANON, the Company's planned financing of the acquisition, and announced share repurchase plan, Standard and Poor's lowered its overall rating on the Company to BBB from BBB+ and Moody's issued a Baa3 rating to the Company's newly issued Senior Notes.

On January 13, 2004, the Company entered into a new $150.0 million 364-day revolving credit facility with Credit Suisse First Boston, acting as Administrative Agent, and a group of financial institutions to replace the existing $150.0 million 364-day revolving credit facility, which had terminated. The $200.0 million three-year revolving credit facility was amended on January 14, 2003 and expires on February 18, 2005.

On January 17, 2003, in conjunction with the acquisition of DIANON, the Company borrowed $350.0 million under the DIANON Bridge Loan Agreement with Credit Suisse First Boston, acting as Administrative Agent. On January 31, 2003, the Company sold $350.0 million aggregate principal amount of its 5.5% Senior Notes due February 1, 2013. Proceeds from the issuance of these Notes ($345.1 million), together with cash on hand was used to repay the $350.0 million principal amount of the Company's bridge loan facility, and as a result, the loan was terminated. During the first quarter of 2003, the Company entered into an interest rate swap agreement with a major financial institution, solely to manage its interest rate exposure on $175.0 million of its 5.5% Senior Notes. This swap agreement was terminated during June 2003 and resulted in net proceeds to the Company of $5.3 million.

Pension Funding

During 2001, 2002 and 2003, the Company made contributions to its defined pension plan in the amounts of $18.0 million, $8.6 million and $10.2 million, respectively. The Company expects to contribute $34.6 million to its defined pension plan during 2004. See "Note 22 to the Consolidated Financial Statements" for a further discussion of the Company's pension and postretirement plans.

New Accounting Pronouncements

On December 23, 2003, the Financial Accounting Standards Board released revised Statement of Financial Accounting Standards No. 132 "Employers Disclosures about Pensions and Other Postretirement Benefits." This Standard is an amendment of SFAS No. 87, 88, and 106 and a revision of SFAS No. 132. The provisions of this Statement do not change the measurement and recognition provisions of these previously issued Statements, but requires that additional disclosures are made. Some of the required disclosures include: 1) Plan assets by category, 2) Investment policies and strategies, 3) Target allocation percentages or target ranges for plan asset categories, 4) Projections of future benefit payments, 5) Estimates of future contributions to fund pension and other postretirement benefit plans, and 6) Interim disclosures of certain items. The requirements of the standard are effective for public companies for fiscal years ending after December 15, 2003. The Company adopted this Statement for its 2003 Annual Report and Form 10-K and it does not affect the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 and FIN No. 46R are effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after December 15, 2003. The Company does not believe it has any unconsolidated variable interest entities, but has not fully completed its evaluation.

In December 2002, Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123," was issued. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require disclosure in interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has not adopted a fair-value based method of accounting for stock-based employee compensation and SFAS No. 148 has not had a material impact on its consolidated financial statements.

In July 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This Statement addresses the recognition, measurement, and reporting of costs associated with exit or disposal activities, and supercedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). The principal difference between SFAS No. 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity, including those related to employee termination benefits and obligations under operating leases and other contracts, be recognized when the liability is incurred, and not necessarily the date of an entity's commitment to an exit plan, as under EITF 94-3. SFAS No. 146 also establishes that the initial measurement of a liability recognized under SFAS No. 146 be based on fair value. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted this statement January 1, 2003 and it has not affected its financial position or results of operations.

In May 2002, SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002" was issued. This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate any inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company adopted this statement January 1, 2003 and it has resulted in the reclassification of the 2001 extraordinary loss.

Contractual Cash Obligations

	Payments Due by Period			
	Less than 1 Yr.	1-3 Yrs.	3-5 Yrs.	More than 5 Yrs.
Capital lease obligations	$ 3.5	$ 5.7	$ 1.2	$ –
Operating leases obligations	55.4	72.1	34.1	25.3
Restructuring obligations	5.0	6.7	6.2	6.8
Contingent future licensing payments	24.1[b]	13.5	18.7	–
Royalty payments	0.3	1.8	2.0	–
5½% Senior Notes	–	–	–	350.0
Zero coupon-subordinated notes	530.5[a]	–	–	–
Total contractual cash obligations	$618.8	$99.8	$62.2	$382.1

(a) Holders of the zero coupon-subordinated notes may require the Company to purchase all or a portion of their notes on September 11, 2004, 2006 and 2011 at prices ranging from $712.97 to $819.54 per note. The Company may choose to pay the purchase price in cash or common stock or a combination of cash and common stock. If the holders elect to require the Company to purchase their notes, it is the Company's current intention to retire the notes by a cash payment. However, future market conditions are subject to change. Should the holders put the notes to the Company on any of the dates above, the Company believes that it will be able to obtain alternate financing to satisfy this contingent obligation.

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

Off-Balance Sheet Arrangements

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

Other Commercial Commitments

At December 31, 2003, the Company provided letters of credit aggregating approximately $57.1 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. For a discussion of the Company's zero coupon-subordinated notes, see "Note 13 to Consolidated Financial Statements." For a discussion of the Company's new senior credit facilities, see "Note 14 to Consolidated Financial Statements."

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant estimates include the allowances for doubtful accounts, amortization lives for intangible assets, accruals for self-insurance reserves and reserves for professional liability claims.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Billings for services under third-party payor programs, including Medicare and Medicaid, are recorded as revenues net of allowances for differences between amounts billed and the estimated receipts under such programs. Adjustments to the estimated receipts, based on final settlement with the third-party payors, are recorded upon settlement as an adjustment to net revenues.

In addition, the Company has implemented a process to estimate and review the collectibility of its receivables based on the period they have been outstanding. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. The Company also assesses the current state of its billing functions in order to identify any known collection or reimbursement issues in order to assess the impact, if any, on the reserve estimates, which involves judgment. The Company believes that the collectibility of its receivables is directly linked to the quality of its billing processes, most notably, those related to obtaining the correct information in order to bill effectively for the services provided. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to bad debt expense within selling, general and administrative expenses. The Company believes that its collection and reserves processes, along with the close monitoring of its billing processes, helps reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection and reimbursement experience and billing operations.

The Company's pension expense is developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are usually 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 6.25% discount rate and an 8.5% expected return on plan assets. Compared with the prior year, net pension cost increased $5.3 million and is projected to decrease approximately $4.0 million in 2004, primarily as a result of the performance of plan assets in 2003, which should reduce 2004 plan expense by approximately $3.7 million; plan amendments, which should result in reduced 2004 plan expense by approximately $1.0 million; and offset by increased expense of approximately $0.6 million as a result of the reduction of the discount rate. In establishing its expected return on plan assets assumption, the Company reviews asset allocation considering plan maturity 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 change in the expected return assumption in the current year would have resulted in a change in pension expense of approximately $1.4 million.

Effective December 31, 2003, the Company adopted the revised Statement of Financial Accounting Standards No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits." This Standard is an amendment of SFAS No. 87, 88, and 106 and a revision of SFAS No. 132. The provisions of this Statement do not change the measurement and recognition provisions of these previously issued Statements, but requires that additional disclosures are made. Some of the required disclosures include: 1) plan assets by category, 2) investment policies and strategies, 3) target allocation percentages or target ranges for plan asset categories, 4) projections of future benefit payments, 5) estimates of future contributions to fund pension and other postretirement benefit plans, and 6) interim disclosures of certain items.

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 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. The impact of adopting SFAS No. 142 is summarized in Note 10 to the Consolidated Financial Statements.

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, 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.

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 with 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 payor 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 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 payors 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 payor mix, including an increase in capitated managed-cost health care;
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 integrate newly acquired businesses and the cost related to such integration;
11. adverse results in litigation matters;
12. inability to attract and retain experienced and qualified personnel;
13. failure to maintain the Company's days sales outstanding levels;
14. decrease in credit ratings by Standard & Poor's and/or Moody's;
15. failure to develop or acquire licenses for new or improved technologies, or if customers use new technologies to perform their own tests;
16. inability to commercialize newly licensed tests or technologies or to obtain appropriate reimbursements for such tests, which could result in impairment in the value of certain capitalized licensing costs;
17. inability to obtain and maintain adequate patent and other proprietary rights protection of the Company's products and services and successfully enforce the Company's proprietary rights;
18. the scope, validity and enforceability of patents and other proprietary rights held by third parties which might impact on the Company's ability to develop, perform, or market the Company's tests or operate its business;
19. failure in the Company's information technology systems resulting in an increase in testing turnaround time or billing processes;
20. liabilities that result from the inability to comply with new Corporate governance requirements; and
21. compliance by the Company with the Sarbanes-Oxley Act of 2002, including Section 404 of that Act which requires management to report on, and our independent auditors to attest to and report on, our internal controls, will require management to devote substantial time and attention, which could prove to be disruptive to product development and licensing, marketing and other business activities and will require additional legal, accounting and other expenses to implement the requirements of these new rules.

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. The Company had an interest rate swap agreement with a major financial institution, solely to manage its interest rate exposure on $175.0 million of its 5.5% senior notes. This swap agreement was terminated during June 2003 and the Company received net proceeds of $5.3 million. 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 three 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) Contingent additional principal will accrue on the zero coupon-subordinated notes during the two year period from September 11, 2004 to September 11, 2006, if the Company's stock price is at or below specified thresholds.
(3) 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, 2003.

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

Consolidated Balance Sheets

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

December 31,	**2003**	2002
(Dollars in Millions, Except Per Share Data)		
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 123.0**	$ 56.4
Accounts receivable, net	**432.5**	393.0
Supplies inventories	**47.0**	44.8
Prepaid expenses and other	**36.3**	33.8
Deferred income taxes	**19.1**	57.1
Total current assets	**657.9**	585.1
Property, plant and equipment, net	**361.3**	351.2
Goodwill	**1,285.9**	910.1
Intangible assets, net	**571.4**	307.4
Investments in equity affiliates	**505.3**	400.6
Other assets, net	**33.1**	26.0
	$3,414.9	$2,580.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 73.0**	$ 79.9
Accrued expenses and other	**161.1**	146.1
Zero coupon-subordinated notes	**523.2**	–
Current portion of long-term debt	**0.3**	0.4
Total current liabilities	**757.6**	226.4
Zero coupon-subordinated notes	**–**	512.9
5½% senior notes	**353.8**	–
Long-term debt, less current portion	**2.5**	3.1
Capital lease obligations	**4.4**	5.5
Deferred income taxes	**273.4**	79.3
Other liabilities	**127.3**	141.5
Commitments and contingent liabilities	**–**	–
Shareholders' equity:		
Preferred Stock, $0.10 par value; 30,000,000 shares authorized; shares issued: none		
Common stock, $0.10 par value; 265,000,000 shares authorized; 148,855,110 and 147,839,103 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	**14.9**	14.8
Additional paid-in capital	**1,440.9**	1,406.5
Retained earnings	**587.1**	266.1
Treasury stock, at cost; 5,521,620 and 97,426 shares at December 31, 2003 and December 31, 2002, respectively	**(159.3)**	(4.4)
Unearned restricted stock compensation	**(22.4)**	(41.4)
Accumulated other comprehensive earnings (loss)	**34.7**	(29.9)
Total shareholders' equity	**1,895.9**	1,611.7
	$3,414.9	$2,580.4

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

Consolidated Statements of Operations

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

Years Ended December 31,	**2003**	2002	2001
(Dollars in Millions, Except Per Share Data)			
Net sales	**$2,939.4**	$2,507.7	$2,199.8
Cost of sales	**1,714.8**	1,445.9	1,274.2
Gross profit	**1,224.6**	1,061.8	925.6
Selling, general and administrative expenses	**651.8**	585.5	516.5
Amortization of intangibles and other assets	**37.6**	23.8	41.5
Restructuring and other special charges	**1.5**	17.5	–
Operating income	**533.7**	435.0	367.6
Other income (expenses):			
Interest expense	**(40.9)**	(19.2)	(27.0)
Income from equity investments, net	**43.7**	13.4	–
Investment income	**5.1**	3.7	2.4
Other, net	**(1.2)**	(0.6)	(1.8)
Termination of interest rate swap agreement	**–**	–	(8.9)
Loss on early debt termination	**–**	–	(5.5)
Earnings before income taxes	**540.4**	432.3	326.8
Provision for income taxes	**219.4**	177.7	147.3
Net earnings	**$ 321.0**	$ 254.6	$ 179.5
Basic earnings per common share	**$ 2.23**	$ 1.78	$ 1.29
Diluted earnings per common share	**$ 2.22**	$ 1.77	$ 1.27

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

Consolidated Statements of Changes in Shareholders' Equity

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

(Dollars in Millions)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2000	139.5	$14.0	$1,041.2	$(168.0)	$ –	$ (9.4)	$ (0.4)	$ 877.4
Comprehensive earnings:								
Net earnings	–	–	–	179.5	–	–	–	179.5
Other comprehensive loss:								
Cumulative effect of change in accounting principle (net-of-tax of $0.4)	–	–	–	–	–	–	0.6	0.6
Unrealized derivative loss on cash flow hedge	–	–	–	–	–	–	(9.5)	(9.5)
Termination of interest rate swap agreement	–	–	–	–	–	–	8.9	8.9
Foreign currency translation adjustments	–	–	–	–	–	–	(0.6)	(0.6)
Minimum pension liability adjustment	–	–	–	–	–	–	(7.8)	(7.8)
Comprehensive earnings (loss)								171.1
Issuance of common stock	1.6	0.2	14.8	–	–	–	–	15.0
Issuance of restricted stock awards	–	–	11.3	–	–	(11.3)	–	–
Amortization of unearned restricted stock compensation	–	–	–	–	–	7.5	–	7.5
Income tax benefit from stock options exercised	–	–	14.4	–	–	–	–	14.4
BALANCE AT DECEMBER 31, 2001	141.1	14.2	1,081.7	11.5	–	(13.2)	(8.8)	1,085.4
Comprehensive earnings:								
Net earnings	–	–	–	254.6	–	–	–	254.6
Other comprehensive loss:								
Foreign currency translation adjustments	–	–	–	–	–	–	2.3	2.3
Minimum pension liability adjustment	–	–	–	–	–	–	(43.2)	(43.2)
Tax effect of other comprehensive loss adjustments	–	–	–	–	–	–	19.8	19.8
Comprehensive earnings								233.5
Issuance of common stock	1.7	0.1	18.2	–	–	–	–	18.3
Issuance of restricted stock awards	–	–	40.9	–	–	(40.9)	–	–
Surrender of restricted stock awards	–	–	–	–	(4.4)	–	–	(4.4)
Issuance of common stock and assumption of stock options in connection with acquisition,(net of forfeitures)	5.0	0.5	249.7	–	–	(1.6)	–	248.6
Amortization of unearned restricted stock compensation	–	–	–	–	–	14.3	–	14.3
Income tax benefit from stock options exercised	–	–	16.0	–	–	–	–	16.0
BALANCE AT DECEMBER 31, 2002	147.8	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 loss:								
Foreign currency translation adjustments	–	–	–	–	–	–	87.8	87.8
Minimum pension liability adjustment	–	–	–	–	–	–	19.6	19.6
Tax effect of other comprehensive loss adjustments	–	–	–	–	–	–	(42.8)	(42.8)
Comprehensive earnings								385.6
Issuance of common stock	1.1	0.1	21.3	–	–	–	–	22.5
Issuance of restricted stock awards	–	–	0.2	–	–	(0.2)	–	–
Cancellation of restricted stock awards	–	–	(1.1)	–	–	1.1	–	–
Amortization of unearned restricted stock compensation	–	–	–	–	–	18.1	–	18.1
Income tax benefit from stock options exercised	–	–	5.5	–	–	–	–	5.5
Assumption of vested stock options in connection with acquisition	–	–	8.5	–	–	–	–	8.5
Purchase of common stock	–	–	–	–	(154.9)	–	–	(154.9)
BALANCE AT DECEMBER 31, 2003	**148.9**	**$14.9**	**$1,440.9**	**$ 587.1**	**$(159.3)**	**$(22.4)**	**$34.7**	**$1,895.9**

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

Consolidated Statements of Cash Flows

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

Years Ended December 31,	**2003**	2002	2001
(Dollars in Millions)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$ 321.0**	$ 254.6	$ 179.5
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**135.6**	101.8	104.0
Stock compensation	**18.1**	14.3	7.5
Loss on sale of assets	**0.2**	0.6	1.8
Accreted interest on zero coupon-subordinated notes	**10.3**	10.1	3.0
Loss on early debt termination	**–**	–	5.5
Termination of interest rate swap agreement	**–**	–	8.9
Cumulative earnings in excess of distribution from equity affiliates	**(5.7)**	–	–
Deferred income taxes	**86.3**	28.9	1.6
Change in assets and liabilities (net of effects of acquisitions):			
Decrease (increase) in accounts receivable, net	**(6.0)**	11.1	16.2
Increase in inventories	**(0.1)**	(1.5)	(3.6)
Decrease (increase) in prepaid expenses and other	**(8.5)**	(12.5)	5.8
(Decrease) increase in accounts payable	**(15.6)**	(7.8)	(3.4)
Increase (decrease) in accrued expenses and other	**28.7**	45.3	(10.8)
Net cash provided by operating activities	**564.3**	444.9	316.0
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(83.6)**	(74.3)	(88.1)
Proceeds from sale of assets	**1.0**	1.8	4.4
Deferred payments on acquisitions	**(17.7)**	(21.0)	(18.6)
Proceeds from sale of marketable securities	**50.4**	–	–
Distributions from equity affiliates in excess of cumulative earnings	**1.9**	1.5	–
Acquisition of licensing technology	**(15.0)**	(15.0)	–
Acquisition of businesses, net of cash acquired	**(647.5)**	(261.9)	(127.7)
Net cash used for investing activities	**$(710.5)**	$(368.9)	$(230.0)

(continued)

Consolidated Statements of Cash Flows

LABORATORY CORPORATION OF AMERICA® HOLDINGS 2003

Years Ended December 31, (Dollars in Millions)	**2003**	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bridge loan	**$ 350.0**	$ –	$ –
Payments on bridge loan	**(350.0)**	–	–
Proceeds from credit facilities	**275.0**	330.0	75.0
Payments on credit facilities	**(275.0)**	(330.0)	(75.0)
Proceeds from senior note offering	**350.0**	–	–
Proceeds from zero coupon-subordinated notes	**–**	–	499.8
Payments on other long-term debt	**(0.7)**	(204.6)	(478.5)
Payment of debt issuance costs	**(7.3)**	(3.2)	(11.2)
Termination of interest rate swap agreement	**5.3**	19.6	(8.9)
Payments on long-term lease obligations	**(1.1)**	(1.1)	(1.1)
Purchase of common stock	**(154.9)**	–	–
Net proceeds from issuance of stock to employees	**21.0**	18.2	14.9
Net cash provided by (used for) financing activities	**212.3**	(171.1)	15.0
Effect of exchange rate changes on cash and cash equivalents	**0.5**	2.3	(0.6)
Net (decrease) increase in cash and cash equivalents	**66.6**	(92.8)	100.4
Cash and cash equivalents at beginning of period	**56.4**	149.2	48.8
Cash and cash equivalents at end of period	**$ 123.0**	$ 56.4	$ 149.2
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	**$ 12.1**	$ 1.5	$ 23.2
Income taxes, net of refunds	**107.9**	135.0	127.7
Disclosure of noncash financing and investing activities:			
Issuance of restricted stock awards	**0.2**	40.9	11.3
Assumption of vested stock options in connection with acquisition	**8.5**	5.0	–
Surrender of restricted stock awards	**–**	4.4	–
Issuance of common stock in acquisitions	**–**	245.6	–

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

(Dollars in millions, except per share data)

1. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation:

Laboratory Corporation of America Holdings with its subsidiaries (the "Company") is the second largest independent clinical laboratory company in the United States based on 2003 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 31 primary testing facilities and over 1,200 service sites consisting of branches, patient service centers and STAT laboratories. With approximately 23,000 employees, the Company processes tests on more than 340,000 patient specimens daily and provides clinical laboratory testing services in all 50 states, the District of Columbia, Puerto Rico and two provinces in Canada. The Company operates in one business segment.

The consolidated financial statements include the accounts of Laboratory Corporation of America Holdings and its subsidiaries after elimination of all material intercompany accounts and transactions. On January 17, 2003, the Company completed the acquisition of DIANON, a leading provider of anatomic pathology and oncology testing services. On July 25, 2002, the Company completed the acquisition of Dynacare, a provider of clinical laboratory testing services. Disclosure of certain business combination transactions is included in Notes 2, 3 and 4 – Business Acquisitions.

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 (loss)."

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. As a result of the Company's cash management system, checks issued but not presented to the banks for payment may create negative book cash balances. Such negative balances are included in trade accounts payable and totaled $17.7 and $23.1 at December 31, 2003 and 2002, respectively.

Inventories:

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

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 three 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) Contingent additional principal will accrue on the zero coupon-subordinated notes during the two-year period from September 11, 2004 to September 11, 2006, if the Company's stock price is at or below specified thresholds.
(3) 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.

(Dollars in millions, except per share data)

Based upon independent appraisals, these embedded derivatives had no fair market value at December 31, 2003 and 2002.

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.

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.

Fair Value of Financial Instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, income taxes receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The fair market value of the zero coupon-subordinated notes, based on market pricing, was approximately $465.6 and $495.2 as of December 31, 2003 and 2002, respectively.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, 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 $121.4 at December 31, 2003. Cash equivalents at December 31, 2003, totaled $93.9, which includes amounts invested in treasury bills and short-term bonds.

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

Accounts receivable balances (gross) from Medicare and Medicaid were $100.4 and $96.1 at December 31, 2003 and 2002, respectively.

(Dollars in millions, except per share data)

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 payor programs including the Medicare and Medicaid programs. Billings for services under third-party payor 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 2003, 2002 and 2001, approximately 19%, 16%, and 16%, respectively, of the Company's revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. Under capitated agreements with managed care customers, the Company recognizes 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.

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.

Stock Splits:

On June 11, 2001, the Company effected a two-for-one stock split through the issuance of a stock dividend of one new share of common stock for each share of common stock held by shareholders of record on June 4, 2001. On May 10, 2002, the Company effected a two-for-one stock split through the issuance of a stock dividend of one new share of common stock for each share of common stock held by shareholders of record on May 3, 2002. All references to common stock, common shares outstanding, average number of common shares outstanding, stock options, restricted shares and per share amounts in the Consolidated Financial Statements and Notes to Consolidated Financial Statements have been restated to reflect common stock splits and the reverse split on a retroactive basis.

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.

(Dollars in millions, except per share data)

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. Had the Company determined compensation cost based on the fair value method as defined in SFAS No. 123, the impact on the Company's net earnings on a pro forma basis is indicated below:

Years ended December 31,		**2003**	2002	2001
Net earnings, as reported		**$321.0**	$254.6	$179.5
Add: Stock-based compensation under APB 25		**–**	–	–
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects		**(25.2)**	(20.7)	(12.2)
Pro forma net income		**$295.8**	$233.9	$167.3
Basic earnings per common share	As reported	**$ 2.23**	$ 1.78	$ 1.29
	Pro forma	**2.05**	1.64	1.20
Diluted earnings per common share	As reported	**$ 2.22**	$ 1.77	$ 1.27
	Pro forma	**2.04**	1.62	1.18

The pro forma weighted average fair values at date of grant for options issued during 2003, 2002 and 2001 were $13.43, $23.50 and $19.72, respectively, and were estimated using the Black-Scholes option pricing model. Weighted average assumptions for the expected life in years, volatility and dividend yield were 7 years, .5, and 0% for each of the three years ended December 31, 2003. Interest rate assumptions were 3.2%, 3.0% and 4.3% for the years ended December 31, 2003, 2002 and 2001, respectively. Compensation cost for restricted stock awards is recorded by allocating their aggregate grant date fair value over their vesting period.

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 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 restricted stock awards and outstanding stock options.

The following represents a reconciliation of the weighted average shares used in the calculation of basic and diluted earnings per share:

Years ended December 31,	**2003**	2002	2001
Basic	**143,969,177**	142,791,247	138,837,750
Assumed conversion/ exercise of:			
Stock options	**449,439**	584,259	1,116,399
Restricted stock awards	**337,440**	822,210	1,123,294
Diluted	**144,756,056**	144,197,716	141,077,443

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:

December 31,	**2003**	2002	2001
Stock Options	**3,902,019**	2,012,960	29,738

The Company's zero coupon-subordinated notes are contingently convertible into 9,977,634 shares of common stock and are not currently included in the diluted earnings per share calculation because these notes were not convertible according to their terms during 2003, 2002 and 2001.

(Dollars in millions, except per share data)

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 and deferred tax assets, amortization lives for intangible assets and accruals for self-insurance reserves. 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.

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 entity level by a 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, 2003.

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 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 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. With the adoption of SFAS No. 142, the Company reassessed the useful lives of these intangible assets and determined that no changes are currently necessary.

Research and Development:

In August 2003, the Company formed a new, majority-owned subsidiary with a former owner of the Company's subsidiary, National Genetics Institute, Inc. In conjunction with the formation of this subsidiary, the principals entered into a two-year joint venture agreement whereby the Company will fund a total of $3.0 for research and development efforts to be conducted on behalf of the newly formed subsidiary. It is the Company's policy to expense all research and development costs when incurred. As of December 31, 2003, the Company had incurred approximately $0.3 in costs associated with this venture.

Reclassifications:

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

(Dollars in millions, except per share data)

2. BUSINESS ACQUISITION – DIANON SYSTEMS, INC.

On January 17, 2003, the Company completed the acquisition of all of the outstanding shares of DIANON Systems, Inc. (DIANON) for $47.50 per share in cash, or approximately $596.0 including transaction fees and expenses, and converted approximately 390,000 vested DIANON employee stock options into approximately 690,000 vested Company options valued at $8.5. The transaction total of approximately $604.5 was funded by a combination of cash on hand, borrowings under the Company's senior credit facilities and a bridge loan facility.

DIANON is a leading provider of anatomic pathology and oncology testing services in the U.S. and had 2001 revenues of approximately $125.7. DIANON had approximately 1,100 employees at the closing date of the acquisition and processed more than 8,000 samples per day in one main testing facility and four regional labs.

The acquisition of DIANON was accounted for under the purchase method of accounting. As such, the cost to acquire DIANON has been allocated to the assets and liabilities acquired based on estimated fair values as of the closing date. The consolidated financial statements include the results of operations of DIANON subsequent to the closing of the acquisition.

The following table summarizes the Company's purchase price allocation related to the acquisition of DIANON based on the fair value of the assets acquired and liabilities assumed on the acquisition date.

	Fair Values as of January 17, 2003
Current assets	$ 87.7
Property, plant and equipment	28.3
Goodwill	355.5
Identifiable intangible assets	271.5
Other assets	3.0
Total assets acquired	746.0
Current liabilities	$ 33.1
Other liabilities	108.4
Total liabilities assumed	141.5
Net assets acquired	$604.5

As a result of this acquisition, the Company recorded an addition to non-deductible goodwill of approximately $355.5, an addition to customer lists of approximately $227.8 (expected period of benefit of 30 years, non-deductible for tax) and an addition to trade names of approximately $43.7 (expected period of benefit of 15 years, non-deductible for tax).

The Company believes that the combined company is now in a position nationally to offer to both primary care physicians and specialists such as oncologists, urologists and gastroenterologists, the broadest range of leading-edge anatomic, genomic and clinical testing technology for the large and rapidly growing cancer diagnostic market.

(Dollars in millions, except per share data)

3. BUSINESS ACQUISITION – DYNACARE INC.

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 including transaction costs. The Company also converted approximately 553,958 unvested Dynacare stock options into 297,013 unvested Company options to acquire shares of the Company at terms comparable to those under the predecessor Dynacare plan. This conversion of outstanding unvested options increased the non-cash consideration of the transaction by approximately $5.0 and resulted in the recording of initial deferred compensation of approximately $2.5. In conjunction with this acquisition, the Company repaid Dynacare's existing $204.4 of senior subordinated unsecured notes, including a call premium of approximately $7.0. The transaction was financed by issuing approximately 4.9 million shares of the Company's common stock, valued at approximately $245.6, assuming unvested Dynacare options valued at $5.0, and using $245.8 in available cash and the proceeds of a $150.0 bridge loan and borrowings of $50.0 under the Company's $300.0 senior credit facilities.

The Company terminated a number of interest rate swap agreements related to Dynacare's existing senior subordinated unsecured notes. The $19.6 the Company received upon termination of these swap agreements was included in the estimated fair value of the net assets acquired as of July 25, 2002.

Dynacare had 2001 revenues of approximately $238.0 and had approximately 6,300 employees at the closing date of the acquisition. Dynacare operated in 21 states and two provinces in Canada with 24 primary laboratories, two esoteric laboratories, 115 rapid response labs and 302 patient service centers.

The acquisition of Dynacare was accounted for under the purchase method of accounting. As such, the cost to acquire Dynacare has been allocated to the assets and liabilities acquired based on fair values as of the closing date. The consolidated financial statements include the results of operations of Dynacare subsequent to the closing of the acquisition.

The following table summarizes the Company's purchase price allocation related to the acquisition of Dynacare based on the fair value of the assets acquired and liabilities assumed on the acquisition date.

	Fair Values as of July 25, 2002
Current assets	$100.2
Property, plant and equipment	48.0
Goodwill	173.3
Identifiable intangible assets	52.5
Investment in equity affiliates	402.1
Other assets	23.2
Deferred compensation	2.5
Total assets acquired	801.8
Current liabilities	268.1
Long-term debt	12.9
Other liabilities	24.4
Total liabilities assumed	305.4
Net assets acquired	$496.4

As a result of this acquisition, the Company recorded an addition to non-deductible goodwill of approximately $173.3 and an addition to customer lists of approximately $52.5 (expected period of benefit of 15 years). The investments in equity affiliates include $341.7 of Canadian licenses (with an indefinite life and deductible for tax).

The Company believes that the acquisition of Dynacare enhances its ability to provide health coverage in the United States and Canada by expanding its customer base and service capabilities. The Company believes that the price paid for the outstanding shares of Dynacare was competitive with market conditions existing at the time.

(Dollars in millions, except per share data)

The following unaudited pro forma combined financial information for the years ended December 31, 2003 and 2002 assumes that the DIANON and Dynacare Inc. acquisitions which were closed by the Company on January 17, 2003 and July 25, 2002, respectively, were acquired on January 1, 2002:

Years Ended December 31,	**2003**	2002
Net sales	**$2,947.4**	$2,867.7
Net earnings	**321.1**	255.3
Diluted earnings per common share	**$ 2.22**	$ 1.73

4. BUSINESS ACQUISITIONS – OTHER

On June 4, 2001, the Company completed the acquisition of Minneapolis-based Viro-Med Inc. for approximately $31.7 in cash and contingent future payments of $12.0 ($3.7 and $7.9 earned and paid in 2002 and 2001, respectively) based upon attainment of specific earnings targets. Viro-Med's revenues for the year ended December 31, 2000 were approximately $25.2.

On April 30, 2001, the Company completed the acquisition of all of the outstanding stock of Path Lab Holdings, Inc. (Path Lab), which is based in Portsmouth, New Hampshire, for approximately $83.0 in cash and contingent future payments of $25.0 ($11.1 and $5.5 earned and paid in 2002 and 2001, respectively) based upon attainment of specific earnings targets. Path Lab's revenues for the year ended December 31, 2000 were approximately $51.6.

5. INVESTMENTS IN EQUITY AFFILIATES

At December 31, 2003 (as a result of the Dynacare acquisition) the Company had investments in the following equity affiliates:

Location	Net Investment	Percentage Interest Owned
Milwaukee, Wisconsin	$ 3.5	50.00%
Ontario, Canada	$452.6	72.99%
Alberta, Canada	$ 49.2	43.37%

Each of the joint venture agreements that govern the conduct of business of these equity affiliates mandates unanimous agreement between partners on all major business decisions as well as providing other preemptive rights to each partner. These investments are accounted for under the equity method of accounting. The Company has no material obligations or guarantees to, or in support of, these unconsolidated joint ventures and their operations.

Condensed financial information for the Ontario, Canada equity affiliate as of December 31, 2003 and for the period of January 1, 2003 through December 31, 2003 is as follows:

Current assets	$ 20.8
Other assets	99.2
Total assets	120.0
Total liabilities	14.5
Shareholders' equity	105.5
Total liabilities and shareholders' equity	$120.0
Net sales	$133.9
Gross profit	$ 74.0
Net earnings	$ 48.5

6. INTEGRATION OF DYNACARE AND DIANON

During the third quarter of 2002, the Company finalized its plan related to the integration of Dynacare's U.S. operations into the Company's service delivery network. The plan focuses on reducing redundant facilities, while maintaining a focus on providing excellent customer service. A reduction in staffing will occur as the Company executes the integration plan and consolidates duplicate or overlapping functions and facilities. Employee groups being affected as a result of this plan include those involved in the collection and testing of specimens, as well as administrative and other support functions.

In connection with the Dynacare integration plan, the Company recorded $14.6 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 the total costs indicated above, $12.1 related to actions that impact the employees and operations of Dynacare, and was accounted

(Dollars in millions, except per share data)

for as a cost of the Dynacare acquisition and included in goodwill. Of the $12.1, $6.0 related to employee severance benefits for approximately 722 employees, with the remainder primarily related to contractual obligations associated with leased facilities and equipment. In addition, the Company recorded restructuring expense of $2.5, relating to integration costs of actions that impact the Company's existing employees and operations. Of this amount $1.0 related to employee severance benefits for approximately 78 employees, with the remainder primarily related to contractual obligations associated with leased facilities and equipment.

The Company also recorded a special bad debt provision of approximately $15.0 related to the acquired Dynacare accounts receivable balance. This provision, based on Company experience, was made in anticipation of changes in staffing and collection procedures that will occur as the Company converts Dynacare customers to LabCorp's billing system and related customer service organization.

In connection with the DIANON integration plan, the Company recorded $20.8 of costs associated with the execution of the plan. The majority of these integration costs related to contractual obligations associated with leased facilities and equipment ($12.7) and employee severance ($8.1). These costs were accounted for as costs of the DIANON acquisition.

During the third and fourth quarters of 2003, the Company recorded a pre-tax restructuring charge totaling $6.4 in connection with the continuing integration of its recent acquisitions. Substantially all of this charge relates to the fair value of employee severance benefits for approximately 730 employees. 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 net credit of approximately $4.9.

7. RESTRUCTURING AND NON-RECURRING CHARGES

The following represents the Company's restructuring activities for each of the years in the three years ended December 31, 2003:

	Severance Costs	Lease and Other Facility Costs	Total
Balance at January 1, 2001	$ 1.9	$20.1	$22.0
Reclassifications non-cash items	(0.7)	0.2	(0.5)
Cash payments	(1.0)	(4.5)	(5.5)
Balance at December 31, 2001	0.2	15.8	16.0
Dynacare integration	7.0	7.6	14.6
Reclassifications non-cash items	–	(1.2)	(1.2)
Cash payments	(1.4)	(1.9)	(3.3)
Balance at December 31, 2002	5.8	20.3	26.1
DIANON integration	8.1	12.7	20.8
Restructuring charges	4.6	1.8	6.4
Restructuring adjustments	(0.8)	(4.1)	(4.9)
Cash payments	(13.7)	(3.9)	(17.6)
Balance at December 31, 2003	**$ 4.0**	**$26.8**	**$30.8**
Current			$15.0
Non-current			15.8
			$30.8

(Dollars in millions, except per share data)

8. ACCOUNTS RECEIVABLE, NET

December 31,	**2003**	2002
Gross accounts receivable	**$565.5**	$536.2
Less allowance for doubtful accounts	**(133.1)**	(143.2)
	$432.5	$393.0

The provision for doubtful accounts was $214.2, $214.9 and $202.5 in 2003, 2002 and 2001 respectively.

9. PROPERTY, PLANT AND EQUIPMENT, NET

December 31,	**2003**	2002
Land	**$ 15.3**	$ 15.3
Buildings and building improvements	**90.4**	89.5
Machinery and equipment	**473.5**	409.7
Leasehold improvements	**81.1**	76.2
Furniture and fixtures	**17.5**	16.9
Construction in progress	**28.4**	30.0
Buildings under capital leases	**5.4**	5.4
Equipment under capital leases	**2.2**	3.8
	713.8	646.8
Less accumulated depreciation and amortization of capital lease assets	**(352.5)**	(295.6)
	$361.3	$351.2

Depreciation expense and amortization of capital lease assets was $91.6, $73.0 and $59.6 for 2003, 2002 and 2001, respectively.

10. GOODWILL AND INTANGIBLE ASSETS

Goodwill at December 31, 2003 and 2002 consisted of the following:

	2003	2002
Goodwill	**$1,477.9**	$1,102.1
Less: accumulated amortization	**(192.0)**	(192.0)
Goodwill, net	**$1,285.9**	$910.1

The changes in the gross carrying amount of goodwill for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Balance as of January 1	**$1,102.1**	$ 911.3
Goodwill acquired during the year	**388.7**	190.8
Adjustments to goodwill	**(12.9)**	–
Balance as of December 31	**$1,477.9**	$1,102.1

The components of identifiable intangible assets are as follows:

December 31,	**2003**		2002	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Customer lists	**$582.5**	**$118.1**	$338.4	$ 90.8
Patents, licenses and technology	**67.2**	**11.1**	55.2	6.0
Non-compete agreements	**23.0**	**18.1**	21.3	16.1
Trade name	**49.6**	**3.6**	5.9	0.5
	$722.3	**$150.9**	$420.8	$113.4

Amortization of intangible assets was $37.6, $23.8 and $41.5 in 2003, 2002 and 2001, respectively. Amortization expense for the net carrying amount of intangible assets is estimated to be $41.0 in fiscal 2004, $40.3 in fiscal 2005, $38.9 in fiscal 2006, $37.4 in fiscal 2007, and $35.4 in fiscal 2008.

The Company paid approximately $15.0 in 2003 and $15.0 in 2002 for certain exclusive and non-exclusive licensing rights to diagnostic testing technology. These amounts are being amortized over the life of the licensing agreement.

(Dollars in millions, except per share data)

The following table presents net earnings and basic and diluted earnings per common share, adjusted to reflect results as if the non-amortization provisions of SFAS No. 142 had been in effect for the periods presented.

December 31,	**2003**	2002	2001
Net earnings attributable to common shareholders	**$321.0**	$254.6	$179.5
Add back: goodwill amortization, net of tax	**–**	–	25.0
Adjusted net earnings attributable to common shareholders	**$321.0**	$254.6	$204.5
Basic earnings per share:			
Reported basic earnings per share	**$ 2.23**	$ 1.78	$ 1.29
Add back: goodwill amortization, net of tax	**–**	–	0.18
Adjusted basic earnings per share	**$ 2.23**	$ 1.78	$ 1.47
Diluted earnings per share:			
Reported diluted earnings per share	**$ 2.22**	$ 1.77	$ 1.27
Add back: goodwill amortization, net of tax	**–**	–	0.18
Adjusted diluted earnings per share	**$ 2.22**	$ 1.77	$ 1.45

11. ACCRUED EXPENSES AND OTHER

December 31,	**2003**	2002
Employee compensation and benefits	**$ 60.6**	$ 60.8
Acquisition related accruals	**7.1**	15.5
Restructuring reserves	**15.0**	10.0
Accrued taxes payable (receivable)	**(2.6)**	(19.6)
Other tax accruals	**28.8**	26.0
Self-insurance reserves	**34.1**	28.5
Interest payable	**8.4**	0.8
Swap payable	**–**	10.9
Royalty payable	**5.0**	6.0
Other	**4.7**	7.2
	$161.1	$146.1

12. OTHER LIABILITIES

December 31,	**2003**	2002
Acquisition related accruals	**$ 1.3**	$ 2.0
Restructuring reserves	**15.8**	16.1
Minimum pension liability	**37.0**	56.6
Post-retirement benefit obligation	**45.0**	42.9
Self-insurance reserves	**17.9**	20.9
Other	**10.3**	3.0
	$127.3	$141.5

13. ZERO COUPON-SUBORDINATED NOTES

In September 2001, the Company sold $650.0 aggregate principal amount at maturity of its zero coupon convertible subordinated notes (the "notes") due 2021 in a private placement. The Company received approximately $426.8 (net of underwriter's fees of approximately $9.8) in net proceeds from the offering. In October 2001, the underwriters exercised their rights to purchase an additional $94.0 aggregate principal amount pursuant to an overallotment option from which the Company received approximately $61.8 in net proceeds (net of underwriters fees of approximately $1.4). The notes, which are subordinate to the Company's bank debt, were sold at an issue price of $671.65 per $1,000 principal amount at maturity (representing a yield to maturity of 2.0% per year). Each one thousand dollar principal amount at maturity of the notes is convertible into 13.4108 shares of the Company's common stock, subject to adjustment in certain circumstances, if one of the following conditions occurs:

(1) If the sales price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding quarter reaches specified thresholds (beginning at 120% and declining 0.1282% per quarter until it reaches approximately 110% for the quarter beginning July 1, 2021 of the accreted conversion price per share of common stock on the last day of the preceding quarter). The accreted

(Dollars in millions, except per share data)

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 2003 was approximately $62.14.

(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 all or a portion of their notes on September 11, 2004, 2006 and 2011 at prices ranging from $712.97 to $819.54, plus any accrued contingent additional principal and any accrued contingent interest thereon. The Company may choose to pay the purchase price in cash, common stock or a combination of cash and common stock. If the holders elect to require the Company to purchase their notes it is the Company's current intention to retire the notes by a cash payment.

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 used a portion of the proceeds to repay $412.5 of its term loan outstanding under its credit agreement and to pay $8.9 to terminate the interest rate swap agreement tied to the Company's term loan. The Company recorded a loss of $5.5 relating to the write-off of unamortized bank fees associated with the Company's term debt.

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

14. LONG-TERM DEBT

In February 2002, the Company entered into two senior credit facilities with Credit Suisse First Boston, acting as Administrative Agent, and a group of financial institutions totaling $300.0. The senior credit facilities consisted of a 364-day revolving credit facility in the principal amount of $100.0 and a three-year revolving credit facility in the principal amount of $200.0. Based upon the Company's rating as of December 31, 2003, the effective rate under the $200.0 and $100.0 facilities was LIBOR plus 82.5 basis points and LIBOR plus 87.5 basis points, respectively. There were no balances outstanding on the Company's senior credit facilities at December 31, 2003 and 2002.

On January 13, 2004, the Company entered into a new $150.0 364-day revolving credit facility with Credit Suisse First Boston, acting as Administrative Agent, and a group of financial institutions to replace the existing $150.0 364-day revolving credit facility, which had terminated. The $200.0 three-year revolving credit facility was amended on January 14, 2003 and expires on February 18, 2005. These credit facilities bear interest at varying rates based upon the Company's credit rating with Standard & Poor's Ratings Services.

The senior credit facilities are available for general corporate purposes, including working capital, capital expenditures, funding of share repurchases and other payments, and acquisitions. The agreements contain 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. The Company is in compliance with all covenants.

On July 24, 2002, in conjunction with the acquisition of Dynacare, the Company borrowed $150.0 under the Dynacare Bridge Loan Agreement, which had an original maturity date of July 23, 2003. On November 29, 2002, the Company repaid all outstanding balances under the Dynacare Bridge Loan, and as a result, the loan was terminated.

(Dollars in millions, except per share data)

On January 17, 2003, in conjunction with the acquisition of DIANON, the Company borrowed $350.0 under the DIANON 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 5.5% 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 facility, and as a result, the loan was terminated.

15. STOCK REPURCHASE PROGRAM

On October 22, 2002, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase up to an aggregate of $150.0 of its common stock from time-to-time. It is the Company's intention to fund future purchases of its common stock with cash flow from operations. There were no Company purchases of its common stock during 2002.

On December 17, 2003, the Company's Board of Directors authorized a stock repurchase program under which the Company may purchase up to an aggregate of $250.0 million of its common stock from time-to-time. During the third quarter of 2003, the Company completed this program purchasing approximately 5.2 million shares of its common stock totaling approximately $150.0 with cash flow from operations.

16. 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.

17. INTEREST RATE SWAP AGREEMENTS

In the second quarter of 2003 the Company terminated its interest rate swap agreement with a major financial institution and received net proceeds of $5.3 of which $1.4 was credited to interest expense and a gain of $3.9 was deferred and is being amortized to interest expense through 2013.

In the third quarter of 2001, in conjunction with the early retirement of its long-term debt, the Company terminated its interest rate swap agreement with a bank by making a settlement payment of $8.9 with a portion of the proceeds from the sale of zero coupon-subordinated notes. In accordance with the provisions of SFAS No. 133, as amended, this interest rate swap agreement had been designated as a cash flow hedge and carried on the balance sheet at fair value with a corresponding offset in accumulated other comprehensive loss.

18. INCOME TAXES

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

Pre-tax income:

	2003	2002	2001
Domestic	**$545.3**	$440.6	$336.6
Foreign	**(4.9)**	(8.3)	(4.3)
Total pre-tax income	**$540.4**	$432.3	$332.3

(Dollars in millions, except per share data)

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

Years Ended December 31,	**2003**	2002	2001
Current:			
Federal	**$104.2**	$118.0	$122.8
State	**29.2**	28.4	25.2
Foreign	**(0.3)**	2.4	–
	$133.1	$148.8	$148.0
Deferred:			
Federal	**$ 70.0**	$ 26.0	$ (2.3)
State	**13.8**	4.7	3.9
Foreign	**2.5**	(1.8)	–
	86.3	28.9	1.6
	$219.4	$177.7	$149.6

The tax benefit associated with option exercises from stock plans reduced taxes currently payable by approximately $5.5, $16.0 and $14.4 in 2003, 2002 and 2001, 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,	**2003**	2002	2001
Statutory federal rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal income tax effect	**4.5**	4.5	4.9
Non-deductible amortization of intangible assets	**–**	–	2.3
Change in valuation allowance	**–**	(0.4)	–
Other	**1.1**	2.0	2.8
Effective rate	**40.6%**	41.1%	45.0%

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,	**2003**	2002
Deferred tax assets:		
Accounts receivable	**$ 12.5**	$ 36.2
Self-insurance reserves	**17.3**	18.8
Postretirement benefit obligation	**17.8**	17.0
Acquisition and restructuring reserves	**22.7**	17.5
Tax loss carryforwards	**18.2**	6.8
Employee benefits	**13.1**	26.0
Other	**(1.1)**	8.0
	100.5	130.3
Less valuation allowance	**(2.7)**	(2.8)
Net deferred tax assets	**97.8**	127.5
Deferred tax liabilities:		
Deferred earnings	**(12.1)**	(9.6)
Intangible assets	**(221.0)**	(88.5)
Property, plant and equipment	**(46.3)**	(34.8)
Zero coupon-subordinated notes	**(33.6)**	(18.1)
Currency translation adjustment	**(35.5)**	–
Other	**(3.6)**	1.3
Total gross deferred tax liabilities	**(352.1)**	(149.7)
Net deferred tax liabilities	**$(254.3)**	$ (22.2)

Based upon the realization of certain capital loss carryforwards, the Company reduced its valuation allowance applied against its deferred tax assets by approximately $1.7 during the second quarter of 2002. The current valuation allowance brings the Company's net deferred tax assets to a level where management believes it is more likely than not the tax benefits will be realized.

The Company's effective tax rate was reduced due to a $2.1 state tax recovery in the third quarter of 2003.

The Company has been notified its 2001 and 2002 income tax returns will be examined by the Internal Revenue Service. In addition, the Internal Revenue Service has concluded its examination of the Company's 2000, 1999 and 1998 income tax returns and has issued a report of its findings. While the Company will appeal certain issues of the examination, management believes adequate provisions have been recorded relating to the concluded examination.

(Dollars in millions, except per share data)

The Company has state tax loss carryforwards of approximately $19.6 which expire 2003 through 2018. In addition, as a result of the Dynacare, Inc. acquisition, the Company has federal tax loss carryovers of approximately $15.6 expiring periodically through 2021.

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

19. STOCK COMPENSATION PLANS

In May 2000, the shareholders approved the 2000 Stock Incentive Plan, authorizing 6.8 million shares for issuance under the plan plus the remaining shares available from the Amended and Restated 1999 Stock Incentive Plan and the 1994 Stock Option Plan (the "Prior Plans"). The effect was to increase to 11.68 million, the number of shares available under the 2000 Stock Incentive Plan and Prior Plans.

In May 2002, the shareholders approved an amendment to the 2000 Stock Incentive Plan authorizing an additional 8.0 million shares. The effect was to increase to an aggregate of 19.68 million shares for issuance under the 2000 Stock Incentive Plan.

On January 17, 2003, the Company converted approximately 378,422 vested DIANON stock options into 669,614 vested Company options to acquire shares of the Company at terms comparable to those under the predecessor DIANON plan. The Company is not expecting to make further grants from this plan.

During 2003, there were 2,433,540 options granted to officers and key employees of the Company (which include 669,614 options assumed upon the acquisition of DIANON). The exercise price for these options ranged from $1.84 to $35.93 per share. Also, during 2003, two grants of restricted stock, for an aggregate of 19,559 shares were awarded to members of the Company's Board of Directors under the 2000 Stock Incentive Plan at market values on the dates of grant of $30.36 and $31.35. Restrictions limit the sale or transfer of these shares during a six-year vesting period when the restrictions lapse. Upon issuance of stock in 2003 under the 2000 Incentive Plan, unearned compensation of $0.2 was recorded as additional paid-in capital and an equivalent amount was charged to shareholders' equity as unearned restricted stock compensation.

The plan provides for accelerated vesting of outstanding restricted shares in percentages of 33.3%, 66.7% or 100%, if certain predefined two-year profitability targets are achieved as of December 31, 2003 or certain three-year profitability targets are achieved as of December 31, 2004. The unearned restricted stock compensation is being amortized to expense over the applicable vesting periods. For 2003, 2002 and 2001, total restricted stock compensation expense was $18.1, $14.3 and $7.5, respectively. Total restricted shares granted in 2002 and 2001 were 966,408 and 348,488, respectively. At December 31, 2003, there were 6,843,687 additional shares available for grant under the Company's stock option plans.

The Company has an employee stock purchase plan, begun in 1997 and amended in 1999, with 3,000,000 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. A summary of shares issued is as follows:

	2001	2002	2003	2004
January	102,627	73,514	149,020	133,431
July	61,752	75,446	140,524	

Pro forma compensation expense is calculated for the fair value of the employee's purchase right using the Black-Scholes model. Assumptions include a weighted average life of approximately one-half year, dividend yield of 0%, risk free interest rates for each six-month period as follows: 2003 – 1.3% and 0.9%; 2002 – 1.8% and 1.8% and 2001 – 5.8% and 3.5% and volatility rates for each of the following six-month periods: 2003 – .3 and .2; 2002 – .2 and .8 and 2001 – .4 and .3.

(Dollars in millions, except per share data)

The per share weighted average grant date fair value of the benefits under the employee stock purchase plan for the first and second six-month periods is as follows:

	2003	2002	2001
First six months	**$6.98**	$11.87	$11.51
Second six months	**$8.67**	$18.21	$ 8.79

The following table summarizes grants of non-qualified options made by the Company to officers and key employees 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:

	Number of Options	Weighted Average Price per Option
Outstanding at January 1, 2001 (671,835 exercisable)	3,130,752	$14.426
Options granted	2,094,976	$33.069
Forfeited	(197,922)	$21.828
Exercised	(1,121,872)	$ 9.967
Outstanding at December 31, 2001 (729,504 exercisable)	3,905,934	$25.331
Options granted at market value	2,186,818	$42.524
Granted above market value	77,750	$28.910
Granted below market value	199,240	$18.626
Forfeited	(316,568)	$29.902
Exercised	(697,394)	$18.976
Outstanding at December 31, 2002 (1,326,120 exercisable)	5,355,780	$32.711
Options granted at market value	1,763,926	$24.967
Granted above market value	632,410	$30.343
Granted below market value	37,204	$13.120
Forfeited	(436,685)	$20.444
Exercised	(747,202)	$20.444
Outstanding at December 31, 2003	**6,605,433**	**$31.805**
Exercisable at December 31, 2003	**2,811,938**	**$30.878**

Options issued above or below market value during 2003 and 2002 were issued in conjunction with the acquisitions of DIANON and Dynacare.

The weighted-average remaining life of options outstanding at December 31, 2003 is approximately 7.8 years.

(Dollars in millions, except per share data)

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

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.84 – 24.24	556,165	5.56	$13.643	494,285	$13.033
$24.46 – 32.50	2,304,648	8.48	$25.747	552,951	$28.046
$33.06 – 37.90	1,702,454	7.12	$33.127	1,078,994	$33.124
$39.34 – 48.02	2,042,166	8.10	$42.485	685,708	$42.492
	6,605,433			2,811,938	

20. RELATED PARTY TRANSACTIONS

On February 21, 2002, the Company filed a registration statement on Form S-3, relating to the sale by Roche of 7,000,000 shares of the Company's common stock, with a 700,000 share over-allotment option. At that time, Roche owned 10,705,074 shares of common stock (approximately 15.13% of the common stock then outstanding). On March 12, 2002, Roche sold 7,000,000 shares of common stock and on March 18, 2002, an additional 700,000 shares of common stock were sold to cover over-allotments of shares leaving Roche with 3,005,074 shares of the Company's outstanding common stock, or approximately 4.22% at March 31, 2002.

Roche entered into a number of call option contracts with respect to the remaining 3,005,074 shares of the Company's common stock it owned at March 31, 2002, which were not covered by the registration statement. The Company has been informed that each of these call option contracts was exercised in full by July 2002, and as a result, Roche no longer owns any shares of the Company's common stock.

The Company purchased certain items, primarily laboratory testing supplies from various affiliates of Roche Holdings, Inc. ("Roche"). Total purchases from these affiliates, which are recorded in cost of sales, were $55.2 and $62.3 in 2002 and 2001, respectively. In addition, the Company made royalty payments to Roche for diagnostic technology in the amounts of $4.7 in 2002 and $4.4 in 2001. Amounts due to Roche and its affiliates at December 31, 2002 were $3.3. Revenue received from Roche for laboratory services was $1.4 in 2002 and $2.6 in 2001. Amounts due from Roche and its affiliates at December 31, 2002 were $0.6.

21. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in litigation purporting to be a nation-wide class action involving the alleged overbilling of patients who are covered by private insurance. The Company has reached a settlement with the class that will not materially differ from accruals previously established or have a material adverse effect on the Company. The Company has now substantially implemented its obligations under the settlement. On January 9, 2001, the Company was served with a complaint in North Carolina which purported to be a class action and made claims similar to those referred to above. That claim has now been dismissed with prejudice.

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.

(Dollars in millions, except per share data)

Since that date, at least five other complaints containing substantially identical allegations have been 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 defendants deny any liability and intend 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 in the United States District Court for the District of Colorado. The Company has disputed liability and contested the case vigorously. After a jury trial, the district court entered judgment against the Company for patent infringement. The Company appealed the case to the United States Court of Appeals for the Federal Circuit. The Company has received a letter from its counsel dated February 7, 2003 and February 6, 2004, stating "it remains our opinion that the amended judgment and order will be reversed on appeal."

The Company is a party to two lawsuits involving Chiron Inc. relating to Hepatitis C and HIV testing. Chiron asserts that the Company has infringed on Chiron's patents in each of these areas. The Company denies liability and intends to contest the suits vigorously. It is premature at this juncture to assess the likely outcome of these matters, or to determine whether they will have a material effect on the Company.

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 payors and managed care payors requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. In the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company. The Company is also named from time to time in suits brought under the *qui tam* provisions of the False Claims Act. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal health care programs. They may remain under seal (hence, unknown to the Company) for some time while the government decides whether to intervene on behalf of the *qui tam* plaintiff. Such claims are an inevitable part of doing business in the health care field today and, in the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of those *qui tam* matters presently known to the Company is not expected to have a material adverse effect on the financial position, results of operations or liquidity of the Company.

The Company believes that it is in compliance in all material respects with all statutes, regulations and other requirements applicable to its clinical laboratory operations. The clinical laboratory testing industry is, however, subject to extensive regulation, and many of these statutes and regulations have not been interpreted by the courts. There can be no assurance therefore that 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.

(Dollars in millions, except per share data)

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, 2003 and 2002, the Company had provided letters of credit aggregating approximately $57.1 and $45.6 respectively, primarily in connection with certain insurance programs.

The Company leases various facilities and equipment under noncancellable lease arrangements. Future minimum rental commitments for leases with noncancellable terms of one year or more at December 31, 2004 are as follows:

	Operating	Capital
2004	$ 55.4	$ 3.5
2005	42.4	2.8
2006	29.7	2.9
2007	20.3	1.2
2008	13.8	–
Thereafter	25.3	–
Total minimum lease payments	186.9	10.4
Less:		
Amounts included in restructuring accruals	–	2.6
Amount representing interest	–	2.1
Total minimum operating lease payments and present value of minimum capital lease payments	$186.9	$ 5.7
Current		$ 1.3
Non-current		4.4
		$ 5.7

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $104.2, $86.1 and $74.8 for the years ended December 31, 2003, 2002 and 2001, respectively.

22. PENSION AND POSTRETIREMENT 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 six consecutive months and have completed 1,000 hours of service. Company contributions to the plan are based on a percentage of employee contributions. The cost of this plan was $10.9, $8.5 and $8.3 in 2003, 2002 and 2001, 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 plan which covers its senior management group that provides for the payment of the difference, if any, between the amount of any maximum limitation on annual benefit payments under the Employee Retirement Income Security Act of 1974 and the annual benefit that would be payable under the Company Plan but for such limitation. This plan is an unfunded plan.

(Dollars in millions, except per share data)

The components of net periodic pension cost for both of the defined benefit plans are summarized as follows:

	Company Plans		
Years ended December 31,	**2003**	2002	2001
Components of net periodic benefit cost			
Service cost	**$ 12.3**	$ 11.9	$ 11.2
Interest cost	**12.9**	12.4	11.4
Expected return on plan assets	**(12.7)**	(13.7)	(13.5)
Net amortization and deferral	**3.7**	0.3	(1.5)
Net periodic pension cost	**$ 16.2**	$ 10.9	$ 7.6

	Company Plans	
December 31,	**2003**	2002
Change in benefit obligation		
Benefit obligation at beginning of year	**$199.5**	$173.7
Service cost	**12.3**	11.9
Interest cost	**12.9**	12.4
Actuarial loss	**(8.3)**	13.2
Amendments	**0.3**	–
Benefits paid	**(13.3)**	(11.7)
Benefit obligation at end of year	**203.4**	199.5
Change in plan assets		
Fair value of plan assets at beginning of year	**139.5**	151.1
Actual return on plan assets	**33.4**	(18.2)
Employer contributions	**18.3**	18.3
Benefits paid	**(13.3)**	(11.7)
Fair value of plan assets at end of year	**177.9**	139.5
Unfunded status, end of year	**25.5**	60.0
Unrecognized net actuarial loss	**(42.2)**	(76.3)
Unrecognized prior service cost	**1.7**	3.3
Additional minimum liability	**37.0**	56.6
Accrued pension liability	**$ 22.0**	$ 43.6

At December 31, 2003, the additional minimum liability of the Company's Cash Balance Retirement Plan exceeded the unrecognized prior service cost by $37.0. This amount has been recorded as an increase to accumulated other comprehensive loss.

Assumptions used in the accounting for the defined benefit plans were as follows:

	Company Plans		
	2003	2002	2001
Weighted average discount rate	**6.25%**	6.75%	7.25%
Weighted average rate of increase in future compensation levels	**3.0%**	4.0%	4.0%
Weighted average expected long-term rate of return	**8.5%**	9.0%	9.0%

The Company's defined benefit plans asset allocation at December 31, 2003, and 2002, target allocation for 2004, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2004	Percentage of Plan Assets at December 31, 2003	2002	Weighted Average Expected Long-Term Rate of Return–2003
Equity Securities	70.0%	70.6%	67.5%	6.7%
Debt Securities	30.0%	26.3%	28.4%	1.8%
Other	–	3.1%	4.2%	0.0%

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 components of postretirement benefit expense are as follows:

Year ended December 31,	**2003**	2002	2001
Service cost	**$ 0.8**	$ 0.9	$ 1.0
Interest cost	**3.2**	3.3	3.4
Net amortization and deferral	**(1.9)**	(1.1)	(1.1)
Actuarial loss	**0.8**	0.4	0.7
Postretirement benefit costs	**$ 2.9**	$ 3.5	$ 4.0

(Dollars in millions, except per share data)

A summary of the components of the accumulated postretirement benefit obligation follows:

December 31,	**2003**	2002
Retirees	**$ 19.5**	$ 17.2
Fully eligible active plan participants	**19.9**	15.5
Other active plan participants	**21.1**	24.8
	$ 60.5	$ 57.5

A reconciliation of the funded status of the December 31, postretirement benefit plan and accrued liability follows:

December 31,	**2003**	2002
Accumulated postretirement benefit obligation, beginning of year	**$ 57.5**	$ 45.6
Changes in benefit obligation due to:		
Service cost	**0.8**	0.9
Interest cost	**3.2**	3.3
Plan participants contributions	**0.3**	0.3
Amendments	**(5.8)**	–
Actuarial (gain) loss	**6.0**	8.5
Benefits paid	**(1.5)**	(1.1)
Accumulated postretirement benefit obligation, end of year	**60.5**	57.5
Unrecognized net actuarial loss	**(23.6)**	(18.5)
Unrecognized prior service cost	**7.8**	3.9
Accrued postretirement benefit obligation	**$ 44.7**	$ 42.9

The weighted average discount rates used in the calculation of the accumulated postretirement benefit obligation was 6.4% and 6.9% as of December 31, 2003 and 2002, respectively. The health care cost trend rate–medical was assumed to be 9.0% and 7.0% as of December 31, 2003 and 2002, respectively, and the trend rate–prescription was assumed to be 12.0% and 10.6% as of December 31, 2003 and 2002, respectively, declining gradually to 5.0% in the year 2011. 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, 2003 by $10.0. The impact of a percentage point change on the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost results in an increase of $0.7 or decrease of $0.6.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“the Act”). The Act expanded Medicare to include, for the first time, coverage for prescription drugs. The Company expects that this legislation will eventually reduce the Company’s cost for its subsidiary’s postretirement medical plan. At present, no analysis of the potential reduction in the Company’s costs or obligations has been performed. Under the Company’s accounting policy, the financial effect of this legislation is expected to be reflected during 2004.

(Dollars in millions, except per share data)

23. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

Year ended December 31, 2003	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$712.2	$743.7	$752.0	$731.5	$2,939.4
Gross profit	296.4	316.5	310.9	300.8	1,224.6
Net earnings	73.9	86.4	83.1	77.6	321.0
Basic earnings per common share	0.51	0.60	0.58	0.55	2.23
Diluted earnings per common share	0.51	0.60	0.58	0.54	2.22

Year ended December 31, 2002	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$590.0	$612.4	$655.2	$650.1	$2,507.7
Gross profit	258.3	276.3	273.3	253.9	1,061.8
Net earnings	65.8	78.5	57.3	53.0	254.6
Basic earnings per common share	0.47	0.56	0.40	0.36	1.78
Diluted earnings per common share	0.46	0.55	0.39	0.36	1.77

24. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 and FIN No. 46R are effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after December 15, 2003. The Company does not believe it has any unconsolidated variable interest entities, but has not fully completed its evaluation.

In December 2002, Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123", was issued. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require disclosure in interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not intend to adopt a fair-value based method of accounting for stock-based employee compensation and does not believe that SFAS No. 148 will have a material impact on its consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 changes current practice in

accounting for and disclosure of guarantees and will require certain guarantees to be recorded as liabilities at fair value on the balance sheet. Previous practice required that liabilities related to guarantees be recorded only when a loss is probable and reasonably estimable, as those terms are defined in SFAS No. 5, "Accounting for Contingencies." Interpretation No. 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The disclosure requirements of Interpretation No. 45 were effective December 31, 2002. The initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not have any guarantees that require disclosure or further recognition under Interpretation No. 45.

In July 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This Statement addresses the recognition, measurement, and reporting of costs associated with exit or disposal activities, and supercedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). The principal difference between SFAS No. 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity, including those related to employee termination benefits and obligations under operating leases and other contracts, be recognized when the liability is incurred, and not necessarily the date of an entity's commitment to an exit plan, as under EITF 94-3. SFAS No. 146 also establishes that the initial measurement of a liability recognized under SFAS No. 146 be based on fair value. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted this statement January 1, 2003 and it had no effect on our financial position or results of operations.

In May 2002, SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002" was issued. This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends SFAS No. 13, "Accounting for Leases," to eliminate any inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after May 15, 2002. The Company adopted this statement January 1, 2003 and it resulted in the reclassification of the 2001 extraordinary loss to other income (expense).

Report of Independent Auditors

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

In our opinion, the balance sheets and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Laboratory Corporation of America Holdings and its subsidiaries (the Company) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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 based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As discussed in Note 1 to the financial statements, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" which changed the method of accounting for goodwill and other intangible assets effective January 1, 2002.

PricewaterhouseCoopers LLP
Greensboro, North Carolina
February 12, 2004

Shareholder and Company Information

Laboratory Corporation of America® Holdings 2003

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/Media Contacts
Pamela J. Sherry
Senior Vice President, Investor Relations/
Corporate Communications
336-436-4855

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 Auditors

PricewaterhouseCoopers LLP
101 Centreport Drive
Greensboro, NC 27409

Annual Meeting

The annual meeting of shareholders will be held at 9:00 a.m. on May 12, 2004 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:

Pamela J. Sherry
Laboratory Corporation
of America Holdings
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, 2003 and subsequent SEC filings.

Common Stock

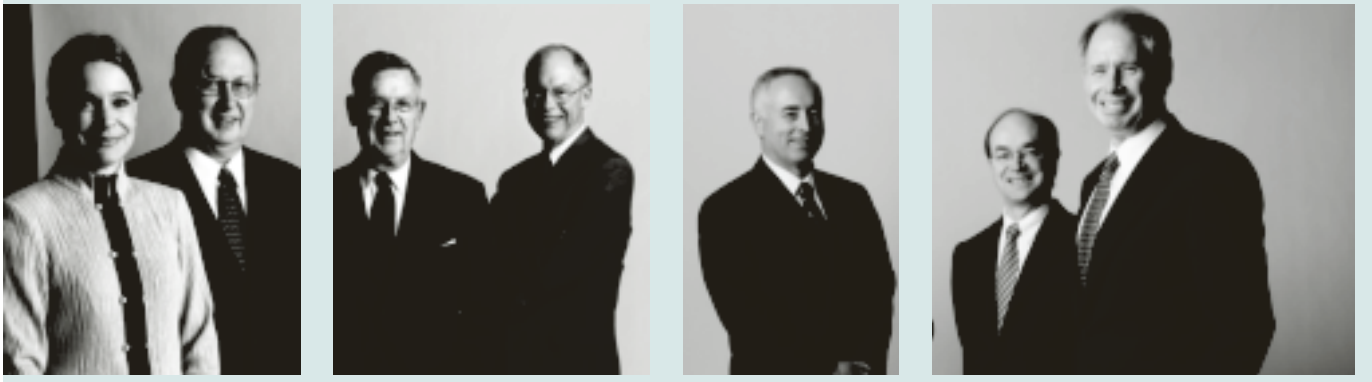
LabCorp common stock trades on the New York Stock Exchange ("NYSE") under the symbol, LH. The high and low prices of the stock for each quarter during 2003 and 2002, are listed below. During 2002, LabCorp's shareholders approved a 2-for-1 stock split. The reported sales prices reflect such stock split. On February 27, 2004, there were 696 holders of record of common stock. There were no common stock dividends during any of the periods presented below.

2003	**High**	**Low**
First Quarter	**30.040**	**22.210**
Second Quarter	**32.630**	**25.940**
Third Quarter	**32.660**	**28.200**
Fourth Quarter	**37.720**	**28.210**

2002	High	Low
First Quarter	49.120	38.150
Second Quarter	52.375	43.300
Third Quarter	45.210	26.000
Fourth Quarter	34.050	18.510

Directors and Officers

Laboratory Corporation of America® Holdings 2003



Left to right: Wendy E. Lane, M. Keith Weikel, Ph.D., Andrew G. Wallace, M.D., James B. Powell, M.D., Robert E. Mittelstaedt, Jr., Jean-Luc Bélingard, and Thomas P. Mac Mahon

Board of Directors

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

James B. Powell, M.D.
Director
Former President and Chief Executive Officer
of TriPath Imaging, Inc., a developer of analytical
systems for cytology and pathology
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

Executive Officers

Thomas P. Mac Mahon
President and Chief Executive Officer

Wesley R. Elingburg
Executive Vice President, Chief Financial Officer and Treasurer

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

William B. Haas
Executive Vice President, Sales and Marketing

David P. King
Executive Vice President,
Strategic Planning and Corporate Development

Richard L. Novak
Executive Vice President and Chief Operating Officer

Bradford T. Smith
Executive Vice President, Chief Legal Officer and Secretary

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