

LABORATORY CORP OF AMERICA HOLDINGS
Form 10-K
February 26, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number - 1-11353

LABORATORY CORPORATION OF AMERICA HOLDINGS
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-3757370
(I.R.S. Employer Identification No.)

358 South Main Street,
Burlington, North Carolina
(Address of principal executive offices)

27215
(Zip Code)

(Registrant's telephone number, including area code) 336-229-1127

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]

Accelerated Filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [] No [X].

As of June 30, 2014, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$8.6 billion, based on the closing price on such date of the registrant's common stock on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 100.3 million shares as of February 20, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

Portions of the Registrant's Notice of Annual Meeting and Proxy Statement to be filed no later than 120 days following December 31, 2014 are incorporated by reference into Part III.

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PART I

Item 1. BUSINESS

Laboratory Corporation of America® Holdings and its subsidiaries (the “Company”), headquartered in Burlington, North Carolina, is the second largest independent clinical laboratory company in the United States based on 2014 net revenues. Since the Company’s founding in 1971 as a Delaware corporation, it has grown into a national network of 39 primary laboratories and approximately 1,750 patient service centers (“PSCs”) along with a network of branches and STAT laboratories (which are laboratories that have the ability to perform certain core tests and report the results to the physician quickly). Through its national network of laboratories, the Company offers a broad range of clinical laboratory tests that are used by the medical profession in core testing, patient diagnosis, and in the monitoring and treatment of disease.

With over 36,000 employees worldwide, the Company processes tests on approximately 500,000 patient specimens daily and has laboratory locations throughout the United States and other countries including, Belgium, Canada, China, Japan, Singapore, the United Kingdom and the United Arab Emirates. Its clients include physicians, hospitals, managed care organizations, governmental agencies, employers, pharmaceutical companies and other independent clinical laboratories that do not have the breadth of its testing capabilities. The Company offers a menu of several hundred tests that are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or to search for an otherwise undiagnosed condition. The most frequently-requested of these tests include blood chemistry analyses, urinalyses, blood cell counts, thyroid tests, Pap tests, Hemoglobin A1C, PSA, STD tests (Ct, Ng, Tv, HIV), HCV tests, Vitamin D, microbiology cultures and procedures, and alcohol and other substance-abuse tests. The Company performs this core group of tests in its major laboratories using sophisticated and computerized instruments, with most results reported within 24 hours. In addition, the Company provides specialty testing services in the areas of allergy, clinical trials, diagnostic genetics, women's health, cardiovascular disease, identity, forensics, infectious disease, endocrinology, oncology, coagulation, occupational testing and pain management.

On November 2, 2014, the Company entered into a definitive merger agreement (“Merger Agreement”) to acquire Covance Inc. (“Covance”) for approximately \$6.2 billion in cash and LabCorp common stock, and the acquisition closed on February 19, 2015. Covance is a leading drug development services company providing a wide range of early stage and late stage product development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. Covance also provides laboratory testing services to the chemical, agrochemical and food industries. It has a global network of operations with offices in more than 30 countries and trial activity in more than 100 countries. The Company believes Covance is one of the world’s largest drug development services companies, based on annual net revenues, and one of a few that are capable of providing comprehensive global development services.

Covance’s early development services include preclinical services, such as toxicology, nutritional chemistry and food safety, pharmaceutical chemistry, lead optimization and translational services, and related services, as well as clinical pharmacology services such as first-in-human trials and early patient proof of concept studies. Covance’s late-stage development services include central laboratory services, clinical development services such as Phase II through IV clinical studies, market access services in support of customers’ reimbursement and health care economic consulting needs, and clinical trial support services. Covance’s services are provided across multiple facilities in the United States, Europe and Asia.

With the acquisition of Covance, which will operate as Covance Drug Development, the Company believes it has enhanced the scale and depth of its capabilities as a trusted knowledge partner for stakeholders. The combination expands the Company’s range of diagnostic offerings, and the Company believes that the combined company will

deliver faster clinical trial enrollment and drive incremental growth across both the clinical lab and drug development businesses. The transaction is expected to provide the Company with greater scale in the biopharmaceutical research and development market, while creating new and complementary revenue streams, expanding its customer base, and increasing its international presence.

Covance stockholders received \$75.76 in cash and 0.2686 shares of the Company's common stock for each share of Covance common stock they owned immediately prior to consummation of the acquisition. Former Covance stockholders own approximately 15.5% of the outstanding shares of the Company's stock following consummation of the transaction.

The description of the Company's business set forth below generally reflects the operations of the Company prior to the completion of the Covance acquisition, and the discussion of Covance Drug Development below does not cover all of the same matters as are covered for the discussion of the Company's historical business. References in this Item 1 to the "Company" do not include Covance Drug Development, except where the circumstances clearly indicate otherwise.

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available free of charge through the Investor Relations section of the Company's Website

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at www.labcorp.com as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Additionally, the Securities and Exchange Commission ("SEC") maintains an Internet Website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The public may also read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

The matters discussed in this "Business" section should be read in conjunction with the Consolidated Financial Statements found under Item 8 of Part II of this annual report, which include additional financial information about the Company, including segment information for each of the last three fiscal years regarding revenue, measures of profit and loss, and other important financial information.

The Company is committed to providing the highest quality laboratory services to its clients in full compliance with all applicable laws and regulations. The Company's Code of Business Conduct and Ethics outlines ethics and compliance policies adopted by the Company to meet this commitment. These policies apply to all employees of the Company as well as the Company's Board of Directors. The Code of Business Conduct and Ethics, as well as the Charters for the Audit, Compensation, Quality and Compliance, and Nominating and Corporate Governance Committees of the Board of Directors, and the Company's Corporate Governance Guidelines, are posted on the Company's Website www.labcorp.com. The Company has established a Compliance Action hotline (1-800-801-1005), which provides a confidential and anonymous method to report a possible violation of a LabCorp compliance policy or procedure, or an applicable law or regulation; a HIPAA Privacy hotline (1-877-234-4722), which provides a confidential and anonymous method to report a possible violation of a HIPAA privacy, security or billing policy or procedure; an Accounting hotline (1-866-469-6893), which provides a confidential and anonymous method to report a possible violation of internal accounting controls or auditing matters; and a global hotline (+800-1777-9999), which provides a confidential and anonymous method for non-US based employees to report, in local languages, a possible violation of LabCorp compliance policy or procedure or applicable law or regulation.

Acquisition of Covance

On February, 19, 2015, the Company completed its acquisition of Covance a leading drug development services company and a leader in nutritional analysis, for approximately \$6.2 billion. Covance stockholders received \$75.76 in cash and 0.2686 shares of the Company's common stock for each share of Covance common stock they owned immediately prior to the consummation of the acquisition. With the completion of this merger, former Covance stockholders own approximately 15.5% of the outstanding shares of the Company's stock.

In connection with the transaction, the Company initially put in place a \$4.25 billion bridge loan, and has since secured permanent financing, including a \$1.0 billion 5 year term loan and \$2.9 billion in long-term bonds, ranging from 5 years to 30 years. The weighted average interest rate on the \$3.9 billion of long-term debt is approximately 3.15%, while the average maturity is approximately 12 years.

Covance, headquartered in Princeton, New Jersey, offers a wide range of early-stage and late-stage drug development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. The Company believes that the Covance is one of a few providers that are capable of providing comprehensive global drug development services. Covance maintains offices in more than 30 countries.

Covance Drug Development's early development services include 1) preclinical services such as toxicology, nutritional chemistry and food safety, pharmaceutical chemistry, lead optimization and translational services, and related services, as well as 2) clinical pharmacology services such as first-in-human trials and early patient proof of concept studies. These services are provided across multiple facilities in the United States, Europe, Asia and South America.

Covance Drug Development's late-stage development services include 1) central laboratory services, 2) clinical development services such as Phase II through IV clinical studies and periapproval services, 3) market access services in support of customers' reimbursement and health care economic consulting needs, and 4) clinical trial support services. These services are also provided across multiple facilities in the United States, Europe and Asia.

The combination with Covance expands the Company's range of diagnostic offerings, and the Company believes that the combined companies will deliver faster clinical trial enrollment, and drive incremental growth across both the clinical lab and drug development businesses. The transaction will provide LabCorp with greater scale in the biopharmaceutical research and development market, while enabling new sources of revenue, an expanded customer base, and a greater international presence.

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The Clinical Laboratory Testing Industry and Competition

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, therapy selection, monitoring and treatment of diseases and other medical conditions through the examination of substances in blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical pathology testing, which is performed on body fluids including blood, or anatomical pathology testing, in which a pathologist examines histologic or cytologic samples (e.g., tissue and other samples, including human cells). Clinical and anatomical pathology procedures are frequently ordered as part of regular physician office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used in the diagnosis and management of a wide variety of medical conditions such as cancer, infectious disease, endocrine disorders, cardiac disorders and genetic disease. It is estimated that although laboratory services account for less than 3% of total U.S. health care spending (and less than 2% of Medicare expenditures), they influence 60% to 70% of physician medical decisions.

The clinical laboratory industry consists primarily of three types of providers: hospital-based laboratories, physician-office laboratories and independent clinical and anatomical pathology laboratories, such as those operated by the Company. The Company believes that in 2014, the U.S. clinical laboratory testing industry generated revenues of approximately \$60.0 billion based on Washington G-2 reports and other industry publications. The Centers for Medicare and Medicaid Services ("CMS") of the Department of Health and Human Services ("HHS") have estimated that in 2014 there were more than 8,900 hospital-based laboratories, 121,200 physician-office laboratories and 5,900 independent clinical laboratories in the U.S.

The clinical laboratory business is intensely competitive. There are presently two major national independent clinical laboratories: the Company and Quest Diagnostics® Incorporated ("Quest"). Quest had approximately \$7.4 billion in revenues in 2014. In addition, the Company competes with laboratories owned by hospitals, many smaller independent laboratories, as well as physician office laboratories. The Company believes that health care providers selecting a laboratory often consider the following factors, among others:

- accuracy, timeliness and consistency in reporting test results;
- reputation of the laboratory in the medical community or field of specialty;
- contractual relationships with managed care companies;
- service capability and convenience offered by the laboratory;
- number and type of tests performed;
- connectivity solutions offered; and
- pricing of the laboratory's services.

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

Although testing for health care purposes and customers represents the most significant portion of clinical laboratory business, clinical laboratories also perform testing for other purposes and customers. The Company performs testing in connection with clinical trials for biopharmaceutical and diagnostic development and commercialization; employment and occupational testing; DNA testing to determine parentage and to assist in forensic investigations;

veterinary testing; environmental testing; wellness testing; toxicology testing; and pain management testing. Through the acquisition of Covance, the Company will expand its testing services to include testing for nutritional chemistry and food safety.

Like the clinical laboratory industry, the contract research organization industry has many participants. These participants range from hundreds of small, limited service providers to a limited number of full service contract research organizations with global capabilities. Covance Drug Development primarily competes against in house departments of pharmaceutical companies, full-service and limited service contract research organizations and, to a lesser extent, selected universities and teaching hospitals.

There is competition for customers in the contract research organization industry on the basis of many factors, including the following: reputation for on time quality performance; expertise and experience in specific areas; scope of service offerings; strengths in various geographic markets; therapeutic areas; price; technological expertise and efficient drug development processes; ability to acquire, process, analyze and report data in a rapid and accurate manner; historic experience and relationships; ability

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to manage large scale clinical trials both domestically and internationally; quality of facilities; expertise and experience in reimbursement and healthcare consulting; and size. The Company believes that Covance Drug Development competes favorably in these areas and that the combined company will continue to compete favorably, including with respect to the strategic opportunities discussed below under Integration Strategy.

Effect of Market Changes on the Clinical Laboratory Business

In connection with significant changes to health care, the clinical laboratory business is also undergoing significant change. Medicare (which principally serves patients 65 and older), Medicaid (which principally services low-income patients) and insurers have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices, added costs and decreased utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules, and the Company believes that pressure to reduce government reimbursement will continue. In March 2010, comprehensive health care reform legislation, the Patient Protection and Affordable Care Act ("ACA"), was enacted. Among its provisions were reductions in the Medicare clinical laboratory fee schedule updates, one of which is a permanent reduction and the other of which applies from 2011 through 2015. On February 17, 2012, Congress passed legislation that reduced payment rates under the Medicare Clinical Laboratory Fee Schedule ("CLFS") by 2%, effective January 1, 2013. This reduction was applied after the adjustment of the fee schedule by the annual CPI update as reduced by the productivity adjustment (0.9%) and the 1.75% reduction under the ACA, and before the scheduled 2% sequestration reduction mandated by the Budget Control Act of 2011, which became effective April 1, 2013. The 2% sequestration reduction applied to both the CLFS, which represented approximately 11.7% of the Company's revenue in 2013, and the Physician Fee Schedule ("PFS"), which represented approximately 1.1% of the Company's revenue in 2013. During 2013, the Company also experienced significant payment reductions to certain surgical pathology procedures and a variety of other government reimbursement reductions. During 2014, the Company experienced a \$6.0 million reduction in revenue as a result of a 0.75% adjustment to the CLFS. Reimbursement to physicians under the PFS (which includes certain payments to diagnostic laboratories) was also reduced, resulting in a \$6.6 million payment reduction to the Company. During 2015, the Company faces a 0.25% payment reduction to the CLFS and an estimated \$2.1 million payment increase to the PFS, assuming the conversion factor remains constant throughout 2015. The PFS assigns relative value units to each procedure or service and a conversion factor is applied to calculate the reimbursement. The conversion factor will decrease by 21.2% on April 1, 2015 due to the Sustainable Growth Rate formula, which would result in a 21.2% payment reduction to the PFS unless Congress acts to prevent the cut, as it has acted to prevent similar cuts for the past decade.

On April 1, 2014, President Obama signed into law the Protecting Access to Medicare Act ("PAMA"), which included provisions to reform the CLFS. Under PAMA, CMS will have no authority to make CLFS adjustments based on technological changes, as CMS had proposed through rulemaking in 2013, and the annual CPI adjustments and the productivity adjustments to the CLFS enacted under the ACA will no longer apply beginning in 2017. However, beginning in 2016, applicable laboratories will be required to report private market data to CMS that CMS will use to calculate weighted median prices that will represent the new CLFS rates beginning in 2017, subject to certain phase-in limits. For 2017-2019, a test price (based on applicable CPT codes) cannot be reduced by more than 10% per year; for 2020-2022, a test price (based on applicable CPT codes) cannot be reduced by more than 15.0% per year. Reporting and pricing will occur every three years, or annually with respect to certain types of tests, to update the CLFS thereafter.

In addition, there are continuing market-based changes in the clinical laboratory business as diagnostic testing continues to shift away from traditional, fee-for-service medicine to managed care. The growth of the managed care sector and consolidation of managed care companies present various challenges and opportunities to the Company and other clinical laboratories. In 2006, the Company signed a ten-year agreement with UnitedHealthcare® to become its exclusive national laboratory. This agreement represented an industry first in terms of its length and exclusivity at a

national level. In September 2011, the Company extended this agreement for an additional two years through the end of 2018. The various managed care organizations ("MCOs") have different contracting philosophies, which are influenced by the design of their products. Some MCOs contract with a limited number of clinical laboratories and engage in direct negotiation of rates. Other MCOs adopt broader networks with generally uniform fee structures for participating clinical laboratories. In addition, some MCOs use capitation to fix the cost of laboratory testing services for their enrollees. Under a capitated reimbursement mechanism, the clinical laboratory and the MCO agree to a per member, per month payment for all authorized laboratory tests ordered during the month, regardless of the number or cost of the tests performed. For the year ended December 31, 2014, capitated contracts with MCOs accounted for approximately \$211.1 million, or 3.5% of the Company's net sales. The Company's ability to attract and retain managed care clients will become even more important as the impact of various health care reform initiatives continue, including expanded Health Insurance Exchanges and Accountable Care Organizations ("ACOs" or "ACO").

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Despite the potential market changes discussed above, the Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including an expansion of Medicaid, managed care, and private insurance exchanges, increased knowledge of the human genome leading to an enhanced appreciation of the value of gene-based diagnostic assays and the development of new therapeutics that have a “companion diagnostic” to help identify the subset of the population for whom it is effective or that may suffer adverse events.

The Company believes its enhanced esoteric menu, geographic footprint and operating efficiency provide a strong platform for growth. Additional factors that may lead to future volume growth include an increase in the number and types of tests that are readily available (due to advances in technology and increased cost efficiencies) for testing and diagnosis of disease and the general aging of the population in the U.S. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare, Medicaid, and other third-party payers, particularly MCOs. In addition, movement by patients into consumer driven health plans may have an impact on the utilization of laboratory testing.

Company Mission and Strategy

The Company's mission is to be a trusted knowledge partner for stakeholders, leading to growth in its businesses and continued creation of shareholder value. The Company will achieve this plan through the disciplined execution of its five-pillar strategy.

- Deploy capital to investments that enhance its business and return capital to shareholders,
- Enhance IT capabilities to improve the physician and patient experience,
- Continue to improve efficiency to remain the most efficient and highest value provider of laboratory services,
- Continue scientific innovation to offer new tests at reasonable and appropriate pricing, and
- Develop knowledge services.

The Company believes that the successful execution of this five-pillar strategy will fulfill its core mission of becoming a trusted knowledge partner for stakeholders, by offering the highest quality laboratory testing and most compelling value to its customers.

Pillar One: Deploy capital to investments that enhance the Company's business and return capital to shareholders

As discussed above, the Company completed its acquisition of Covance on February 19, 2015. In the fourth quarter of 2014, the Company completed its acquisitions of LipoScience, Inc., a premier esoteric laboratory focused on personalized diagnostics for cardiovascular and metabolic disorders, and Bode Technology Group, Inc., a provider of specialized forensic DNA analysis, proprietary DNA collection products, and relationship testing.

Since 2009, the Company has invested approximately \$7.9 billion in strategic business acquisitions. These acquisitions have strengthened the Company's geographic presence and expanded its specialty testing operations. The Company believes the acquisition market remains attractive with a number of opportunities to strengthen its scientific capabilities, grow esoteric testing and increase presence in key geographic areas.

The Company believes it has some of the premier genetics, oncology and infectious disease businesses in the laboratory industry. With its acquisition of Genzyme Genetics¹ in December of 2010, combined with its existing genomic capabilities, the Company offers prenatal genetic testing and access to novel testing technologies such as the SMA molecular genetics assay, and the entire Reveal[®] family of SNP Microarrays, the Inheritest[®] carrier testing assays and a complete suite of BRCA mutation tests. As market demand for prenatal genetics increases, the Company believes it is well positioned to provide the broadest range of offerings, including the services of approximately 140 genetic counselors. In oncology, the Company's broad molecular oncology test menu and specialized sales force

complement the strong pathology expertise of Genzyme Genetics and two of the Company's earlier acquisitions - Accupath Diagnostic Laboratories, Inc. dba US Labs² and Dianon Systems, Inc.³ In the area of Infectious Disease, with the acquisition of Monogram Biosciences, Inc. in 2009, the Company expanded its offerings around HIV and HCV detection and monitoring for enhanced management of these diseases.

In 2014, the Company continued to deploy cash and return value to shareholders through share repurchases. During the year, the Company acquired approximately 2.7 million LabCorp shares for \$269.0 million. Since 2003, the Company has repurchased approximately \$5.9 billion in shares at an average price of approximately \$69 per share. Following the announcement of the Covance acquisition, the Company suspended its share repurchases. The Company does not anticipate resuming its share repurchase activity in until it reaches its targeted ratio of total debt to consolidated EBITDA of 2.5 to 1.0.

1. Genzyme Genetics and its logo are trademarks of Genzyme Corporation, a Sanofi Company, and used by Esoterix Genetic Laboratories, LLC, a wholly-owned subsidiary of LabCorp, under license. Esoterix Genetic Laboratories and LabCorp are operated independently from Genzyme

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Corporation. The reproductive genetics services of Esoterix Genetic Laboratories are now offered through the Company's Integrated Genetics business.

2. The oncology services of Accupath Diagnostic Laboratories and Esoteric Genetic Laboratories are now offered through the Company's Integrated Oncology business.

3. The services of Dianon Systems are now offered through the Company's Dianon Pathology business.

Pillar Two: Enhance IT capabilities to improve the physician and patient experience

The Company is committed to becoming a trusted knowledge partner, as new developments in analytics and trending are changing existing ordering and workflow processes in the clinical laboratory industry. The Company's LabCorp Beacon® platform is a series of assets and functionalities that enhance the customer experience and provide an end-to-end lab solution. These assets and functionalities include:

Physician, patient and payer portals

Express electronic ordering for essentially all of the Company's brands and services

Integrated results viewing and enhanced reports

Lab analytics that provide one-click trending of patient, test and population data

Clinical decision support tools at the point of ordering and resulting

AccuDraw® and LabCorp TouchSM which assist phlebotomists in improving accuracy, workflow and turnaround time

Online appointment scheduling

LabCorp Beacon®: Mobile solutions for market leading mobile devices; and

Services-oriented architecture with rules-based engines, content aggregation and seamless integration with practice workflow

In 2014, the Company improved the physician and patient experience by enhancing LabCorp Beacon, EnlightenHealth: Care Intelligence, LabCorp Beacon Patient Portal, LabCorp Beacon: Mobile and EMR connectivity solutions. In addition, the Company enhanced its clinical decision support, lab ordering and result reporting services, ensuring LabCorp's position as a trusted knowledge partner. Among key capabilities introduced, the Company seamlessly integrated physician and patient educational content through a partnership with UpToDate, a diagnostic content provider owned by Wolters Kluwer. This partnership will equip clinicians with real-time contextual laboratory decision support content delivered while the clinician is reviewing results. The Company believes that providing physicians and patients with such tools is fundamental to reducing costs and improving outcomes.

The Company improved its new population health analytics program, now called EnlightenHealth: Care Intelligence, which provides health care business intelligence tools to hospitals, physician practices and ACOs. These tools assist customers in their compliance and reporting requirements with respect to efficient management of their productivity, quality and patient outcome metrics. The Company's robust rules engine maintains a large number of clinical quality measures that are highly customizable and provide full compliance with Meaningful Use requirements and ACO, Joint Commission and Physician Quality Reporting System ("PQRS") reporting requirements. Real time clinical alerts highlight gaps in care for patients and patient populations. These data driven services position LabCorp as a trusted partner to health care stakeholders, providing the knowledge to optimize decision making, improve health outcomes, and reduce treatment costs.

The Company continues to see steady adoption of LabCorp Beacon Patient Portal, where registrations exceeded 700,000 patients; and these patients reviewed an average of over 120,000 reports via the portal each month as of December 31, 2014. This Patient Portal is a secure and easy-to-use online solution that enables patients to receive and share lab results, make lab appointments, pay bills, set up automatic alerts and notifications and manage health information for the entire family.

LabCorp Beacon: Mobile allows health care providers to review lab test results as they become available via their iPhone®, iPad®, or Android™ mobile digital devices. Providers can view patient lab results, patient demographics, and contact information related to those results. LabCorp Beacon: Mobile also offers the capability to search the

Company's Directory of Services or view contact information for the Company's scientific/medical experts by discipline directly from within the application.

The Company continues to improve its Electronic Medical Record ("EMR") connectivity, interfacing to more than 650 different EMR partner solutions. The Company is working closely with leading EMR partners to streamline connectivity and enhance lab workflow, ensuring that clients can take advantage of these solutions. Over 7,000 new client EMR interfaces were added during 2014, bringing the Company's total EMR interfaces to over 40,000. The Company remains committed to its open platform strategy, allowing customers to connect seamlessly to LabCorp directly or via their EMR of choice.

In 2015, the Company will see further adoption of LabCorp Beacon and LabCorp Patient Portal as it introduces new and improved self-service capabilities and enhanced diagnostic content and tools for physicians and patients.

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Pillar Three: Continue to improve efficiency to remain the most efficient and highest value provider of laboratory services

The Company maintains a constant focus on improving productivity and lowering costs throughout all phases of its operations from specimen collection to processing and testing, result reporting and billing. The Company's automation initiatives, improvements to its logistics network and enhancements to its supply chain operations have increased its per-employee throughput in primary laboratories more than 50% since the beginning of 2008. The Company has also focused on its call center operations by improving call response time while enhancing efficiency by reducing the number of call center facilities by over 65%. Further, the Company's service metrics, customer satisfaction ratings and turnaround times consistently exceed expectations.

In 2014, the Company continued to streamline operations and reduce expenses through facility rationalization. The Company completed the consolidation of its facility in Uniondale, New York and cytogenetics lab in Monrovia, California into its Shelton, Connecticut and Santa Fe, New Mexico laboratories, respectively. The Company continues to expand its test offering and leverage increased capacity in its Center for Specialty and Clinical Testing located in Phoenix, Arizona, which began testing operations in September 2013. This world class facility is an example of the Company's commitment to re-engineering its business in order to provide a better operating platform, sustainable long-term savings and an improved customer experience.

In 2014, the Company completed the installation of its Propel™ robot in its Tampa, Florida laboratory and preparations are underway to deploy Propel™ in the Dublin, Ohio and Birmingham, Alabama facilities. These installations support the Company's strategy to deploy Propel™ throughout its network of major laboratories. The Company expects this automation to enhance efficiency and quality where installed by replacing the manual splitting and sorting process. Propel™ complements LabCorp Touch® and AccuDraw® accessioning, which provides leading-edge automation at the Company's PSCs and over 800 physician-office phlebotomy locations. LabCorp Touch® and AccuDraw® improve quality and test result availability, and allows the Company to reduce the amount of accessioning that is performed in its primary laboratories.

In 2014, the Company completed the update of its core chemistry platform through the rollout of the Roche COBAS chemistry instrumentation. This installation included the adoption of a new middleware application, which provides staff with advanced logic and analytics during the review of patient results. This middleware will be implemented across additional testing areas in 2015.

As part of an ongoing commitment to efficiency, the Company is undergoing a comprehensive, enterprise-wide business process improvement initiative, referred to as Project LaunchPad. The Company is reengineering its systems and processes to leverage technological advancements, create a sustainable and more efficient business model, and improve the experience of all stakeholders. The Company expects this initiative to drive net savings in excess of \$100.0 million over the next three years.

Pillar Four: Continue scientific innovation to offer new tests at reasonable and appropriate pricing

Innovative tests continue to be an important growth driver for the Company. In 2014, the Company introduced 174 new assays, collaborating with leading companies and academic institutions to provide physicians and patients with the most scientifically advanced testing in the industry.

The Company is playing an important role in many aspects of the emerging model of personalized health care in which treatments and therapeutics are tailored to an individual, often based on his or her genetic signature (or that of a particular tumor/strain of virus). LabCorp is a leader in HIV genotyping, one of the first major advances in personalized medicine, which is used to test for resistance to specific drugs. The Company continues to build on this legacy through publications and the development of new tests and/or resources such as the Food and Drug

Administration ("FDA")-approved Prosigna™ Breast Cancer Prognostic Gene Signature Assay, which can assess the probability of breast cancer recurrence in certain patients.

The Company continues to invest in and deploy its next-generation sequencing ("NGS") capabilities. Throughout 2014, LabCorp experienced strong growth with its BRCA test menu for the assessment of breast cancer risk aided by its launch of the BRCA NGS assay, which includes a comprehensive panel of BRCA 1 and 2 complete gene sequence analysis and deletion/duplication testing, targeted analysis tests for other family members once a mutation is identified, and a panel for mutations prevalent among people of Ashkenazi Jewish descent. The Company also introduced HIV GenoSure ArchiveSM, the first genotypic drug resistance assay specifically designed to support individualized drug selection for HIV-1 patients with low or undetectable viral loads. HIV GenoSure ArchiveSM was developed using a NGS platform.

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The Company's test menu expansion in 2014 includes the extensive portfolio of Thermo Scientific ImmunoCAP™ allergy testing products from Thermo Fisher Scientific, Inc., and informaSeqSM Prenatal Test, a non-invasive prenatal screening test that can assess risk for abnormalities in the number of chromosomes from a single maternal blood draw. The Company's leadership role as a global provider of innovative laboratory services in working with pharmaceutical, biotechnology and in vitro diagnostics companies, is significantly enhanced following the acquisition of Covance. Prior to the acquisition, the Company developed, in-licensed and commercialized numerous genetic tests such as ALK, BRAF, EGFR, KRAS and others linked to targeted therapy options. The Company will maintain its strong focus on the development of companion diagnostics. The Company's capabilities in assay development, its access to a broad spectrum of testing platforms, and its experience with clinical trials, further complemented by Covance's robust end-to-end drug development services, enhance LabCorp's market leadership position in genomic testing.

Beyond clinical trials, there are also many examples where companion diagnostics have moved into the commercial setting and are helping improve care, such as: (1) assisting in determining the efficacy of a drug for an individual; (2) helping the physician select the correct dosage; and (3) reducing adverse events. In 2006, 13 companion diagnostics were available. By the end of 2014, that number had grown to 113, with many more in the development pipeline. Companion diagnostics are increasingly understood to be critical to the advancement of health care, as they assist in determining the efficacy of a drug for an individual, help the physician select the correct drug dosage, and reduce adverse patient events. In February 2015, the National Institutes of Health announced a new Precision Medicine Initiative, designed to further the development and use of patient-specific health care, such as companion diagnostics. The Company will continue to play an important role in both bringing new companion diagnostics to the market and making them commercially available once the drug has been approved, leveraging its experience from supporting the clinical trials that demonstrate the safety and efficacy of such products.

Pillar Five: Develop knowledge services

The Company remains committed to developing knowledge services that create value by enhancing treatment decisions, reducing health care costs and improving patient outcomes.

The Company recognizes that fundamental changes are taking place in the U.S. health care system and the clinical laboratory industry, such as health care reform, greater consumer engagement in health care decision-making, new payment models, and the movement of health care delivery toward large health systems, integrated delivery networks, and ACOs. These market shifts create demand for knowledge services, such as the Enlighten HealthSM and BeaconLBS[®] initiatives. These services create consultancy with physicians and providers, increase intimacy with patients and consumers, and strengthen relationships with other key stakeholders, all of which in turn support business growth.

In 2014, the Company created its Enlighten HealthSM division, a leading health care services business designed to modernize clinical diagnostics and advance health care technologies and innovation. Enlighten HealthSM's suite of business intelligence and patient care tools includes:

Enlighten HealthSM: Clinical Decision Support, an advanced, disease-specific, individualized lab test reporting engine that helps patients better understand and manage their chronic illness and incorporates medical guideline-directed context into lab reports for physicians and providers,

Enlighten HealthSM: Care Intelligence, a population health analytics program that aggregates and displays customizable clinical, operational and financial intelligence to assist hospitals, physician practices and ACOs with their compliance and reporting requirements,

Enlighten HealthSM: Genomics, a provider of sequencing-based diagnostic and interpretation capabilities, including the ExomeRevealSM whole exome sequencing testing service,

- Enlighten HealthSM: Genetic Counseling, a workforce of approximately 140 board-certified genetic counselors that supports both patients and physicians by identifying genetic risks, explaining appropriate

genetic testing options, discussing the implications of test results and helping patients make better health care decisions.

The Company's BeaconLBS® Platform is a point-of-care decision support service that interfaces with test ordering systems to assist physicians in lab and test selection, helping them to order the right test for the patient at the right time. Physicians, patients health care delivery systems and payers will benefit from this innovation, which will improve quality and more effectively manage costs without disrupting physician work flow. The Company's rules engine interfaces with payer policies for ordering, utilization, adjudication and payment.

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In 2013, BeaconLBS® signed an agreement with UnitedHealthCare to implement its products in Florida. UnitedHealthcare launched the laboratory benefit management program with BeaconLBS® in Florida on October 1, 2014 and its implementation is ongoing.

Covance Integration Strategy

In addition to remaining committed to its core mission of being a trusted knowledge partner for stakeholders, leading to growth in its businesses and continued creation of shareholder value, the Company intends to continue working towards integrating Covance Drug Development into its operations in order to capitalize on the enhanced capabilities of the combined company. The Company has identified three strategic opportunities as its top priorities during the initial phases of this integration: (i) deliver faster clinical trial enrollment; (ii) become the partner of choice to develop and commercialize companion diagnostics; and (iii) enhance Phase IV clinical trial experience and post-market surveillance.

Deliver faster clinical trial enrollment. Utilizing the Company's database of more than 70 million unique patient records along with Covance Drug Development's investigator database and analytic capabilities is expected to enable faster, higher-quality clinical trials, reduce trial cycle time, help to eliminate non-viable sites (the presence of which can delay recruitment), reduce costs and increase revenue for biopharmaceutical company clients.

Partner of choice to develop and commercialize companion diagnostics. As noted above, companion diagnostics will become increasingly important, and currently there are dozens of drugs in Phase III development that will require companion diagnostics. By combining Covance Drug Development's strength in central laboratory and early-stage clinical development with the Company's strength in test commercialization, the combined drug development business will be able to offer comprehensive, end-to-end support for companion diagnostic development.

Enhance Phase IV clinical trial experience and post-market surveillance. About 30 percent of Phase IV clinical trial patients drop out due to inconvenient trial procedures and the limited number of trial sites. The Company believes that its 1,750 PSCs, approximately 5,000 phlebotomists in physician offices and convenient patient web portal for scheduling can improve the Phase IV clinical trial patient experience. The Company also believes that its infrastructure will serve another important function, allowing the combined organization to collect post-approval safety data on new drugs. Since 1972, more than 25 approved drugs have been withdrawn from the market, the vast majority due to toxicity. The Company believes that Covance Drug Development's analytics capabilities can identify early safety signals, avoid extensive recalls, and find genotypical characteristics of patients who experience adverse drug reactions so that the drug can be given to patients for whom it is safe. The combined drug development business is also expected to be able to use these capabilities to assist biopharmaceutical companies in identifying new indications for their drugs through post-market studies.

Laboratory Testing Operations and Services

The Company has a national network of primary testing laboratories, specialty testing laboratories, branches, PSCs and STAT laboratories. A branch is a central facility that collects specimens in a region for shipment to one of the Company's laboratories for testing. A branch is also frequently used as a base for sales and distribution staff. Generally, a PSC is a facility maintained by the Company to serve the patients of physicians in a medical professional building or other strategic location. The PSC staff collects the specimens for testing if requested by the physician. Most patient specimens are collected by the customer's staff. The specimens, and any accompanying documents including test request forms if the test order was not placed electronically, are collected from customer locations, including in-office phlebotomists, or PSCs and sent, principally through the Company's in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company's primary testing laboratories for testing. Test requests are completed by the client or transcribed by a Company patient service technician from a client order to

indicate the tests to be performed and provide the necessary billing information. Some of the Company's PSCs also function as STAT labs, which are laboratories that have the ability to perform certain core tests and report results to the physician quickly.

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

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Testing Services

Core Testing

The Company offers a broad range of clinical laboratory tests and procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication, or to search for an otherwise undiagnosed condition. The most frequently-requested of these core tests include blood chemistry analyses, urinalyses, blood cell counts, thyroid tests, Pap tests, Hemoglobin A1C, PSA, STD tests (Ct, Ng, Tv, HIV), HCV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. These core procedures are most often used by physicians in their outpatient office practices. Physicians may elect to send such procedures to an independent laboratory (including hospital laboratories) or they may choose to establish their own laboratory to perform some of the tests.

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

Specialty Testing

The Company's Specialty Testing Group performs esoteric testing, cancer diagnostics, clinical trials central lab services and other complex procedures. The Company's specialty testing businesses and their areas of expertise are summarized in the chart below.

The Specialty Testing Group offers advanced methods and access to scientific expertise in the following disciplines: Anatomic Pathology/Oncology. The Company offers advanced comprehensive tumor tissue analysis, including immunohistochemistry (IHC), cancer cytogenetics and fluorescence in situ hybridization (FISH) through its DIANON Pathology ("DIANON") and Integrated Oncology specialty testing laboratories. Applications for molecular diagnostics continue to increase in oncology for both the analysis of leukemia as well as the assessment of solid tumors. In cancers such as colon and lung cancer, assays such as K-ras, BRAF and EGFR mutation analysis are associated with appropriate therapy choices for a given patient (Pharmacogenomics).

Cardiovascular Disease. The Company's cardiovascular menu includes core cholesterol tests and expanded lipid profiles

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as well as a metabolic syndrome profile and tests for thrombosis and stroke. The Company also offers complete testing for monitoring disease progression and response to therapy.

Coagulation. The Company offers an extensive menu of tests for hemostasis and thrombosis, including bleeding profiles and screening tests, profiles for reproductive health, factor analysis, thrombin generation markers, and thrombotic risk evaluation.

Diagnostic Genetics. The Company offers cytogenetic, molecular cytogenetic, biochemical and molecular genetic tests. The biochemical genetics offerings include a variety of prenatal screening options including integrated and sequential prenatal assays and non-invasive prenatal testing for more sensitive assessment of Down Syndrome risk. The Company has expanded its cytogenetics offerings through the use of whole genome single-nucleotide polymorphism ("SNP") microarray technology, which provides enhanced detection of subtle chromosomal changes associated with the etiology of mental retardation, developmental delay and autism. The molecular genetics services include multiplex analyses of a variety of disorders, gene sequencing applications for both somatic and germ-line alterations and whole exome sequencing. Through Integrated Genetics, the Company provides the most comprehensive genetic test menu in the industry as well as approximately 140 genetic counselors and 6 medical geneticists to work with the Company's physician clients in optimizing patient outcomes.

Endocrinology. The Company has emerged as a leading provider of advanced hormone/steroid testing including comprehensive services for the endocrine specialist. The Company has expanded its menu in esoteric endocrine testing and has launched a companywide initiative to develop steroid testing utilizing mass spectrometry technology. Mass spectrometry is quickly becoming the gold standard for detection of low levels of small molecule steroids including testosterone in women, children and hypogonadal men. The Company additionally offers several endocrine related genetic tests that include CYP21 mutation for congenital adrenal hyperplasia, SHOX gene for short stature, RET mutation for thyroid cancer as well as extensive age and gender-related reference intervals.

Infectious Disease. The Company provides complete HIV testing services including viral load measurements, genotyping and phenotyping and host genetic factors (e.g., HLA B*5701 test) that are important tools in managing and treating HIV infections. The addition of resistance tests, PhenoSense®, PhenoSenseGT®, Trofile®, and GenoSure PRImeSM complement the existing HIV GenoSure® assay and provide an industry-leading, comprehensive portfolio of HIV resistance testing services. The Company also provides extensive testing services for HCV infections, including both viral load determinations and strain genotyping and host genetic factors (e.g. IL-28B test and HCV GenoSure® NS3/4A). The Company continues to develop molecular assays for infectious disease.

Obstetrics/Gynecology. The Company offers a comprehensive menu of women's health testing, including NuSwab® high quality convenient STD testing, as well as liquid-based Pap testing with image-guided cervical cytology for improved cervical cancer detection, and out-of-the-vial Pap testing with options for HPV, Chlamydia, and gonorrhea. The Company also offers tests and technologies that span the continuum of care for reproductive health, including maternal serum screening, prenatal diagnostics, ethnicity carrier screening, testing for causes of infertility or miscarriage and postnatal testing services.

Pharmacogenetics. The Company provides access to the latest tests in the emerging field of pharmacogenetics. These tests can help physicians understand how a patient will metabolize certain drugs, allowing them to recommend the most appropriate therapies or adjust dosing.

Clinical Trials. The Company regularly performs clinical laboratory testing for pharmaceutical and diagnostics companies conducting clinical research trials on new drugs or diagnostic assays. This testing often involves periodic testing of patients participating in the trial over several years. In 2011, the Company acquired Clearstone Central Laboratories, a global central laboratory specializing in drug development and pharmaceutical services.

Identity. The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in determining parentage for child support enforcement proceedings and determining genetic relationships for immigration purposes. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father. The Company also provides testing services in reconstruction cases, which assist in determining parentage without the presence of the parent in question.

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

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Chronic Disease Programs. The Company has leveraged Litholink®'s programmatic approach to the comprehensive treatment of chronic diseases, including kidney disease, cardiovascular disease, metabolic bone disease and diabetes and offers these Clinical Decision Support reports to both physicians and patients. The Company believes these chronic disease programs represent potential significant savings to the health care system by increasing the detection of early-stage diseases and effectively managing chronic disease conditions.

Development of New Tests

Advances in medicine continue to fundamentally change diagnostic testing, and new tests are allowing clinical laboratories to provide unprecedented amounts of health-related information to physicians and patients. New molecular diagnostic tests that have been introduced over the past several years, including a gene-based test for human papillomavirus, HIV drug resistance assays, and molecular genetic testing for cystic fibrosis, have now become part of standard clinical practice. The Company continued its industry leadership in gene-based and esoteric testing in 2014, generating \$2.0 billion in revenue. As science continues to advance, the Company expects new testing technologies to emerge; therefore, it intends to continue to invest in advanced testing capabilities so that it can remain on the cutting edge of diagnostic laboratory testing. The Company has added, and expects to continue to add, new testing technologies and capabilities through a combination of internal development initiatives, technology licensing and partnership transactions and selected business acquisitions. Through its national sales force, the Company rapidly introduces new testing technologies to physician customers. This differentiation is important in the retention and growth of business.

In 2014, the Company continued its emphasis on scientific vision and leadership with the introduction of 174 significant test menu and automation enhancements. The Company is focused on the expansion of existing programs in molecular diagnostics as well as the introduction of new assay and assay platforms through licensing partnerships, acquisitions and internal development. Evidence of the commitment to the development of new diagnostics and applications for those diagnostics was provided in the more than 148 scientific publications (articles, book chapters, books and abstracts) and presentations at scientific meetings authored by the Company's scientific team in 2014. Examples of new tests and services introduced in 2014 include:

Cardiovascular Disease Risk Assessment - The Company acquired LipoScience and is now able to provide in-house testing for NMR LDL-particles, an advanced method for the assessment of cardiovascular risk.

Infectious Diseases - The Company launched GenoSure ArchiveSM the first laboratory test to help optimize antiretroviral (ARV) drug regimens in virally suppressed HIV patients.

Breast Cancer Tests - The Company transitioned its suite of BRCA 1/2 tests which identify gene mutations or alternations that signal an increased risk for several specific types of cancer, including breast cancer and ovarian cancer to next generation testing. Additionally, during 2014 the Company was one of the first to launch the ProsignaTM Breast Cancer Prognostic Gene Signature Assay, an FDA approved breast cancer prognostic 50 gene signature assay developed by NanoString® Technologies, Inc. ProsignaTM provides a risk category and a numerical score to assess the probability of breast cancer recurrence in certain female breast cancer patients and provides physicians and their patients a new and important diagnostic tool, in conjunction with other clinical and pathological factors, to help monitor and treat breast cancer recurrence. For postmenopausal female breast cancer patients who have undergone surgery in conjunction with locoregional treatment, ProsignaTM's assessment of recurrence can be a useful tool in conjunction with other clinical and pathological factors to help guide treatment and monitoring strategies.

Coagulation - The Company introduced a mass spectroscopy based method serotonin release assay. This assay is important for diagnosing heparin-induced thrombocytopenia and is the first non-radio labeled assay to be offered for

such testing.

Obstetrics and Gynecology - In 2014 the Company launched the informaSeqSM Prenatal Test. This test is an advanced, non-invasive, next-generation prenatal screening test that can assess risk for multiple fetal chromosomal aneuploidies, or abnormalities in the number of chromosomes, from a single maternal blood draw.

Genomic Testing - The Company introduced ExomeRevealSM, a whole exome sequencing testing service. Increasing evidence suggests that early genetic diagnosis can improve clinical outcomes, and ExomeRevealSM will provide genome-wide interpretation for children with serious childhood genetic diseases as well as additional diagnostic information for patients of any age.

The Company continues its collaboration with university, hospital and academic institutions such as Duke University, The Johns Hopkins University, the University of Minnesota and Yale University to license and commercialize new diagnostic tests.

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Covance Drug Development Services

Preclinical Services

Covance Drug Development's preclinical services include toxicology services, pharmaceutical chemistry, nutritional chemistry and related services. The preclinical area has been a source of innovation by introducing new technologies for client access to data such as StudyTracker®, electronic animal identification, multimedia study reports and animal and test tube measures of induced cell proliferation or reproduction. StudyTracker® is an internet based client access product that allows clients of toxicology, bioanalytical, metabolism and reproductive and developmental toxicology services to review study data and schedules on a near real time basis. Covance has preclinical laboratories in locations that include Madison, Wisconsin, Greenfield, Indiana, Chantilly, Virginia, Battle Creek, Michigan and Indianapolis, Indiana in the United States; Harrogate and Alnwick in the United Kingdom; Muenster, Germany; Shanghai, China; Porcheville, France; and Singapore.

Toxicology. Covance Drug Development's preclinical toxicology services include in vivo toxicology studies, which are studies of the effects of drugs in animals; genetic toxicology studies, which include studies of the effects of drugs on chromosomes, as well as on genetically modified mice; and other specialized toxicology services. For example, Covance provides immunotoxicology services in which it assesses the impact of drugs or chemicals on the structure and function of the immune system and reproductive toxicology services which help its clients assess the risk that a potential new medicine may cause birth defects.

Pharmaceutical Chemistry. In Covance Drug Development's pharmaceutical chemistry services, it determines the metabolic profile and bioavailability of drug candidates.

Nutritional Chemistry and Food Safety. In Covance Drug Development's nutritional chemistry services, it offers a broad range of services to the food, nutraceutical and animal feed industries, including nutritional analysis and equivalency, nutritional content fact labels, microbiological and chemical contaminant safety analysis, pesticide screening and stability testing.

Research Products. Covance Drug Development provides purpose bred animals for biomedical research. The purpose bred research animals it provides are purchased by pharmaceutical and biotechnology companies, university research centers and contract research organizations as part of required preclinical animal safety and efficacy testing. Through a variety of processes, technology and specifically constructed facilities, Covance Drug Development provides purpose bred, pre acclimated and specific pathogen free animals that meet its clients' rigorous quality control requirements. Covance Drug Development also has a dedicated animal biosafety level 2 (ABSL 2) containment vivarium to allow it to provide full service vaccine testing.

Lead Optimization and Translational Services. Covance Drug Development provides lead optimization and translational services including custom immunology and polyclonal and monoclonal antibody services, metabolism studies and pharmacokinetic screening as well as non GLP toxicology, in vivo pharmacology, imaging services and biomarker services. Covance Drug Development provides GLP and non GLP biomarker services, offers bioimaging capabilities and cardiac related biomarkers for animals and humans, and has created a Biomarker Center of Excellence dedicated to the development, validation and testing of biomarkers.

Bioanalytical Services. Covance Drug Development's bioanalytical testing services, which are conducted in its bioanalytical laboratory in Indianapolis, Indiana and in its immunoanalytical facility in Chantilly, Virginia, as well as in its laboratories in Madison, Wisconsin, Harrogate, United Kingdom and Shanghai, China, help determine the appropriate dose and frequency of drug application from late discovery evaluation through Phase III clinical testing on a full scale, globally integrated basis.

Clinical Pharmacology Services

Covance Drug Development provides clinical pharmacology services, including first in human trials, and early patient proof of concept studies of new pharmaceuticals at its four clinics located throughout the United States and its clinic in Leeds, United Kingdom.

Central Laboratory Services

Through four central laboratories, one in each of the United States, Switzerland, Singapore, and China, Covance Drug Development provides central laboratory services to biotechnology and pharmaceutical customers. Covance Drug Development also has an alliance for central laboratory services testing in Japan with BML, Inc., a leading Japanese laboratory testing company.

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Covance Drug Development's capabilities provide clients the flexibility to conduct studies on a multinational and simultaneous basis. The data it provides is combinable and results in global clinical trial reference ranges because it uses consistent laboratory methods, identical reagents and calibrators, and similar equipment globally. Combinable data eliminates the cumbersome process of statistically correlating results generated using different methods and different laboratories on different equipment.

Covance Drug Development also employs a proprietary clinical trials management system that enables it to enter a sponsor's protocol requirements directly into its database. The laboratory data can be audited because all laboratory data can be traced to source documents. In addition, the laboratories are capable of delivering customized data electronically within 24 hours of test completion. Covance Drug Development also offers pharmacogenomic testing and sample storage technologies in conjunction with its central laboratory services. Central laboratory services also offers LabLink, an internet based client access program that allows clients to review and query clinical trial lab data on a near real time basis.

Covance Drug Development's central laboratories have an automated kit production line that is located in the United States and supplies kits to investigator sites around the world. This system allows the flexibility to expand kit production volume more quickly and uses consistent methods to reduce supply variation for Covance Drug Development's clients. An automated kit receipt line was introduced in Covance Drug Development's United States central laboratory in 2013.

Covance Drug Development has a state of the art biorepository facility in Greenfield, Indiana dedicated to long term storage of clinical trial specimens. This facility is able to store a wide range of specimens, including plasma, serum, whole blood, DNA, PBMC and tissue.

In 2013, Covance Drug Development commenced offering companion diagnostic services, which support the parallel development of a new medicine and its companion diagnostic assay, and external laboratory management services, which help clients select, qualify, contract with and manage outside laboratories.

Clinical Development Services

Covance Drug Development offers a comprehensive range of clinical trial services, including the full management of Phase II through IV clinical studies. Covance Drug Development has extensive experience in all significant therapeutic areas, and it provides the following core services either on an individual or aggregated basis to meet its clients' needs: study design and modeling; coordination of study activities; trial logistics; monitoring of study site performance; clinical data management and biostatistical analysis; and medical writing and regulatory services.

Covance Drug Development has extensive experience in managing clinical trials in the North America, Europe, South America and Asia Pacific regions. These trials may be conducted separately or simultaneously as part of a multinational development plan. Covance can manage every aspect of clinical trials from clinical development plans and protocol design to New Drug Applications, among other supporting services. Over the last several years, clinical development services have continued its expansion into Eastern Europe, the Middle East, Asia Pacific and South America.

Covance Drug Development uses Xcellerate®, a proprietary methodology designed to help optimize clinical trial performance to assist biopharmaceutical companies in improving quality, reducing waste, and decreasing trial timelines. The Xcellerate® methodology enables on-site custom recommendations, investigator and geographic selection to enhance clinical trial design and execution.

Covance Drug Development offers a range of periapproval services, which are studies conducted "around the time of New Drug Application approval," generally after a drug has successfully undergone clinical efficacy and safety testing and the New Drug Application has been submitted to the FDA. These services include:

• Treatment Investigational New Drug applications;

• Phase IIIb clinical studies, which involve studies conducted after New Drug Application submission, but before regulatory approval is obtained;

• Phase IV clinical studies, which are studies conducted after initial approval of the drug; and

• Product withdrawal support services and other types of periapproval studies such as post marketing surveillance studies, FDA mandated post marketing commitments generally focusing on characterizing a drug's safety in large,

diverse patient groups, and prescription to over the counter switch studies.

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Market Access Services

Covance Drug Development offers a wide range of reimbursement and healthcare economics consulting services, including outcomes and pharmacoeconomic studies, reimbursement planning, reimbursement advocacy programs, risk evaluation and mitigation strategy (“REMS”) services, registry services, specialty pharmacy services and managed market contracting services. Pharmaceutical, biotechnology and medical device manufacturers purchase these services from Covance Drug Development to help optimize their return on research and development investments. Covance Drug Development offers InTeleCenter® services that employ state of the art phone, internet and electronic media to manage customer communications. InTeleCenter® programs include reimbursement hotlines, patient assistance programs and patient compliance REMS programs.

Clients

The Company provides testing services to a broad range of health care providers and other customers. During the year ended December 31, 2014, no client or group of clients under the same contract accounted for more than 9.5% of the Company’s consolidated net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups. Physicians requiring testing for their patients are one of the Company’s primary sources of requests for testing services. Fees for clinical laboratory testing services rendered for these physicians are billed either to the physician, to the patient or the patient’s third-party payer such as an insurance company, Medicare or Medicaid. Billings are typically on a fee-for-service basis. If the billings are to the physician, they are based on a customer fee schedule and are subject to negotiation. Otherwise, the patient or third-party payer is billed at the Company’s patient fee schedule, subject to third-party payer contract terms and negotiation by physicians on behalf of their patients. Patient sales are recorded at the Company’s patient fee schedule, net of any discounts negotiated with physicians on behalf of their patients, or fees made available through charity care or an uninsured patient program. Revenues received from Medicare and Medicaid billings are based on government-set fee schedules and reimbursement rules.

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

Managed Care Organizations. The Company serves many MCOs, and these organizations have different contracting philosophies, that are influenced by the design of the products. Some MCOs contract with a limited number of clinical laboratories and engage in direct negotiation of rates. Other MCOs adopt broader networks with generally uniform fee structures for participating clinical laboratories. In addition, some MCOs use capitation to fix the cost of laboratory testing services for their enrollees. Under a capitated reimbursement mechanism, the clinical laboratory and the MCO agree to a per member, per month payment to pay for all authorized laboratory tests ordered.

Other Institutions. The Company serves other institutions, including government agencies, large employers, pharmaceutical companies and other independent clinical laboratories that do not have the breadth of the Company’s testing capabilities. These institutions typically pay on a negotiated fee-for-service basis.

With its acquisition of Covance, the Company's client base has expanded both in size and character. Covance Drug Development provides its services, on a global basis, primarily to the pharmaceutical and biotechnology industries. Covance Drug Development serves in excess of 1,000 biopharmaceutical companies, ranging from the world's largest pharmaceutical companies and biotechnology companies to small and start up organizations.

Payers

Testing services are billed to Medicare, Medicaid, commercial clients, MCOs and other insurance companies, independent physicians and physician groups, hospitals and private patients. Tests ordered by a physician may be billed to different payers depending on the medical benefits of a particular patient. Most testing services are billed to a party other than the physician or other authorized person who ordered the test. For the year ended December 31, 2014, requisitions (based on the total volume of

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requisitions excluding the Company's non-U.S. clinical diagnostic laboratory operations in Ontario, Canada, which is reviewed separately by corporate management for the purposes of allocation of resources) and average revenue per requisition by payer are as follows:

	Requisition Volume as a % of Total	Revenue per Requisition
Private Patients	1.3	\$ 193.08
Medicare and Medicaid	14.4	\$49.21
Commercial Clients	34.6	\$40.76
Managed Care	49.7	\$41.94

A portion of the managed care fee-for-service revenues are collectible from patients in the form of deductibles, copayments, coinsurance and non-covered tests.

For the Company's subsidiary operations in Ontario, Canada, the Ministry of Health determines who can establish a licensed community medical laboratory and caps the amount that each of these licensed laboratories can bill the government sponsored health care plan. The Ontario government-sponsored health care plan covers the cost of clinical laboratory testing performed by the licensed laboratories. The provincial government discounts the annual testing volumes based on certain utilization discounts and establishes an annual maximum it will pay for all community laboratory tests. The agreed-upon reimbursement rates are subject to Ministry of Health review at the end of each year and can be adjusted (at the government's discretion) based upon the actual volume and mix of test work performed by the licensed providers in the province during the year. In 2014, the amount of the Company's cap revenue derived from the Ontario government sponsored health care plan was CN\$202.1 million.

Seasonality

The Company experiences seasonality in its testing business. The volume of testing generally declines during the year-end holiday periods and other major holidays. Volume can also decline due to inclement weather, reducing net revenues and cash flows. Given the seasonality of the testing business, comparison of results for successive quarters may not accurately reflect trends or results for the full year.

Investments in Joint Venture Partnerships

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

The Canadian partnership has a license to conduct diagnostic testing services in the province of Alberta. Substantially all of its revenue is received as reimbursement from the Alberta government's health care programs. While the Canadian license guarantees the joint venture the ability to conduct diagnostic testing in Alberta, it does not guarantee that the provincial government will continue to reimburse diagnostic laboratory testing in future years at current levels. If the provincial government decides to limit or reduce its reimbursement of laboratory diagnostic services, it would have a negative impact on the profits and cash flows the Company derives from its Canadian joint venture. In December 2013, Alberta Health Services ("AHS"), the Alberta government's health care program, issued a request for proposals for laboratory services that includes the scope of services performed by the Canadian partnership. In October 2014, AHS informed the Canadian partnership that it was not selected as the preferred

proponent. In November 2014, the Canadian partnership submitted a vendor bid appeal and it is vigorously protesting the contract award. AHS has established a Vendor Bid Appeal Panel to hear the appeal, and the hearing occurred on February 23-25, 2015, and a decision is pending. If the AHS contract award remains with the preferred proponent, then the Canadian partnership's revenues would decrease substantially and the carrying value of the Company's investment could potentially be impaired.

Sales, Marketing and Client Service

The Company offers its diagnostic services through a sales force focused on serving the specific needs of customers in different market segments. These market segments generally include Primary Care, Obstetrics-Gynecology, Specialty Medicine (e.g., Infectious Disease, Endocrinology, Gastroenterology and Rheumatology), Oncology and Hospitals.

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The Company's sales force is compensated through a combination of salaries, commissions and bonuses at levels commensurate with each individual's qualifications, performance and responsibilities. The general sales force is responsible for both new sales and customer retention. This general sales force is also supported by a team of clinical specialists who focus on selling esoteric testing and meeting the unique needs of the specialty medicine markets.

The Company competes primarily on the basis of quality of testing, breadth of menu, price, innovation of services, convenience and access points throughout the nation.

Information Systems

The Company has developed and implemented information management systems ("IS") supporting its operations, as well as positioning the Company as a trusted knowledge partner. The Company operates standard platforms for its core business services including laboratory, billing, financial and reporting systems. These standard systems ensure consistency and availability on a national scale. Additionally, the Company continues to expand its primary laboratory capabilities with services supporting digital pathology and enhanced specialty lab solutions. With approximately 90.7% of its domestic revenue (approximately 85.9% of consolidated revenue) processed through these systems, the Company's centralized IS platforms provide tremendous operational efficiencies, enabling the Company to provide consistent, structured, and standardized laboratory results and superior patient care at a national level.

In response to continued market demand for electronic laboratory data and a commitment to improving the physician and patient experience, the Company continues to expand its LabCorp Beacon® platform with new capabilities and services. The Company continues to leverage information technology advancements to deliver enhanced services through its LabCorp Beacon: Patient product and expanded access to AccuDraw® and LabCorp Touch® capabilities. Additionally, the Company will continue to expand and improve client connectivity through its LabCorp Beacon platform designed to improve lab-related workflow such as ordering tests and sharing, viewing and analyzing lab results. The platform is also available in a mobile edition accessible via market leading mobile devices. LabCorp Beacon is a key component of the Company's connectivity portfolio, whereby the Company provides physicians a choice of tailored solutions that also include robust integration with electronic medical records/electronic health records and personal health records ("PHR") applications.

The focus on the advancement of health information technology is a reflection of the growing demand for self-service, integrated health care data and decision support capabilities. The Company's centralized analytic platform delivers enhanced analytic services and decision support to physicians, hospitals, local communities, state agencies and national networks. The Company has a number of new population health analytics programs in development to provide health care business intelligence tools to hospitals, physician practices, and ACOs. These tools assist customers in their compliance and reporting requirements with respect to efficient management of their productivity, quality and patient outcome metrics. The Company's robust rules engine maintains a large number of clinical quality measures that are highly customizable and provide full compliance with Meaningful Use requirements and ACO, Joint Commission and PQRS reporting requirements. Real time clinical alerts highlight gaps in care for patients and patient populations. These industry-leading, data driven services position LabCorp as a trusted partner to health care stakeholders, providing the knowledge to optimize decision making, improve health outcomes and reduce treatment costs.

Billing

Billing for laboratory services is a complicated process involving many payers such as MCOs, Medicare, Medicaid, physicians and physician groups, hospitals, patients and employer groups, all of which have different billing

requirements. In addition, billing process arrangements with third-party administrators may further complicate the billing process.

The Company utilizes a centralized billing system in the collection of approximately 90.7% of its domestic revenue (85.9% of consolidated revenue). This system generates bills to customers based on payer type. Client billing is typically generated monthly, whereas patient and third-party billing are typically generated daily. Agings of accounts receivable are then monitored by billing personnel and re-bills and follow-up activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level, based on the Company's experience with its accounts receivable. The Company writes off accounts against the allowance for doubtful accounts when accounts receivable are deemed to be uncollectible. For client billing, third party and managed care, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred and the account has been transferred to a third-party collection agency.

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A significant portion of the Company's bad debt expense is related to accounts receivable from patients who are unwilling or unable to pay. In 2014, the Company continued its focus on process initiatives to reduce the negative impact of patient accounts receivable by collecting payment at the point of service and refining its internal patient collection cycle. The Company is also focused on an enterprise-wide effort as part of Project LaunchPad to identify clients with high concentrations of write offs and implement strategies to improve the financial performance of those accounts.

Another component of the Company's bad debt expense is the result of non-credit related issues that slow the billing process, such as missing or incorrect billing information on requisitions. The Company vigorously attempts to obtain any missing information or rectify any incorrect billing information received from the health care provider. However, the Company typically performs the requested tests and returns the test results regardless of whether billing information is incorrect or incomplete. The Company believes that this experience is similar to that of its primary competitors. The Company continues to focus on process initiatives aimed at reducing the impact of these non-credit related issues by reducing the number of requisitions received that are missing billing information or have incorrect information. This is accomplished through on-going identification of root-cause issues, training provided to internal and external resources involved in the patient data capture process, and an emphasis on the use of electronic requisitions.

Quality

The Company has established a comprehensive quality management program for its laboratories and other facilities designed to assure that quality systems and processes are in place to facilitate accurate and timely test results. This includes licensing, credentialing, training and competency of professional and technical staff, and process audits. In addition to the external inspections and proficiency testing programs required by CMS and other regulatory agencies, systems and procedures are in place to emphasize and monitor quality. All of the Company's laboratories are subject to on-site regulatory evaluations, external proficiency testing programs (e.g., the College of American Pathologists, or "CAP"), state surveys and the Company's own quality audit programs.

Quality also encompasses all facets of the Company's service, including turnaround time, client service, patient satisfaction, and billing. The Company's quality assessment program includes measures that compare its current performance against desired performance goals detailed in its quality improvement plan. Using quality assessment techniques, the Company's laboratories employ a variety of programs to monitor critical aspects of service to its clients and patients.

In addition, the Company's supply chain management department provides oversight to monitor and control vendor products and performance, and plays an essential role in the Company's approach to quality through improvements in automation.

Customer Interaction. Processes to continually improve the customers' experience with the Company are essential. Use of technology and improvements in workflow within the Company's PSCs are helping to reduce patient wait times by expediting the patient registration process (through LabCorp Patient Appointment Scheduling) and ensuring that appropriate specimens are obtained based upon requested test requirements (through LabCorp TouchSM and AccuDraw[®]).

Specimen Management. The use of logistics and specimen tracking technology allows the timely transportation, monitoring, and storage of specimens. The Company is continually improving its ability to timely collect, transport and track specimens from clients and between LabCorp locations.

Quality Control. The Company regularly performs quality control testing by running quality control samples with known values at the same time patient samples are tested. Quality control test results are entered into the Company's computerized quality control database. In addition, the patient mean is continually monitored to detect potential analytical variances during testing. The real-time monitoring for any statistically and clinically significant analytical differences enables technologists and technicians to take immediate and appropriate corrective action prior to release of patient results.

Internal Proficiency Testing. The Company has an extensive internal proficiency testing program in which each laboratory receives samples to test. This internal proficiency program serves to test the Company's analytical and post-analytical phases of laboratory testing service including order entry, requisitioning systems, accuracy, precision of its testing protocols, and technologist/technician performance. This program supplements the external proficiency programs required by the laboratory accrediting agencies.

Accreditation. The Company participates in numerous externally-administered quality surveillance programs, including the CAP program. CAP is an independent non-governmental organization of board-certified pathologists which offers an accreditation program to which laboratories voluntarily subscribe. CAP has been granted deemed status authority by CMS to inspect clinical laboratories to determine adherence to the Clinical Laboratory Improvement Amendments of 1988 ("CLIA") standards. The CAP program involves both on-site inspections of the laboratory and participation in CAP's proficiency testing program for all categories

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in which the laboratory is accredited. All of the Company's major laboratories are accredited by CAP. A laboratory's receipt of accreditation by CAP satisfies the CMS requirement for certification.

The Company's forensic crime laboratories located in Dallas, TX and Lorton, VA are accredited to ISO/IEC 17025:2005 by the American Society of Crime Laboratory Directors, Laboratory Accreditation Board ("ASCLD/LAB") in the discipline of Biology and categories of nuclear DNA, mitochondrial DNA, body fluid identification and individual characteristic database testing. Under the accreditation program managed by the ASCLD/LAB, a crime laboratory undergoes a comprehensive and in-depth inspection to demonstrate that its management, operations, employees, procedures and instruments, physical plant, and security and personnel safety procedures meet stringent quality standards.

The Company's full service forensic facilities in the United Kingdom are accredited to ISO/IEC 17025:2005 by the United Kingdom Accreditation Service in many areas of forensic analysis. These facilities provide crime scene investigative services, collecting samples for DNA analysis, mitochondrial DNA, microscopic analysis, tool marks, paint, and other forms of forensic testing.

The Company has eight labs that have received ISO 15189:2007 accreditation. The ISO 15189:2007 standard recognizes the technical competence of medical laboratories, thus providing a ready means for customers to find reliable high quality testing. The list below reflects the Company's labs that have achieved this accreditation and the year in which they achieved it.

- ¶ LabCorp's Regional Testing Facility, Dallas, TX - April, 2014
- ¶ LabCorp's Regional Testing Facility, Denver, CO - March, 2014
- ¶ Integrated Genetics, Santa Fe, NM, October, 2013
- ¶ Integrated Genetics, Westborough, MA - September, 2013
- ¶ LabCorp's Regional Testing Facility, Phoenix, AZ - April, 2013
- ¶ LabCorp's Regional Testing Facility, Birmingham, AL - February, 2013
- ¶ Integrated Oncology, Brentwood, TN - February, 2012
- ¶ Viomed, Burlington, NC - January, 2012
- ¶ Center for Molecular Biology and Pathology (CMBP), Research Triangle Park, North Carolina - February, 2011
- ¶ LabCorp's Regional Testing Facility, Tampa, FL - January, 2010
- ¶ Integrated Oncology, Phoenix, AZ - September, 2009

Intellectual Property Rights

The Company relies on a combination of patents, trademarks, copyrights, trade secrets and nondisclosure and non-competition agreements to establish and protect its proprietary technology. The Company has filed and obtained numerous patents in the U.S. and abroad, and regularly files patent applications, when appropriate, to establish and protect its proprietary technology. From time to time, the Company also licenses U.S. and non-U.S. patents, patent applications, technology, trade secrets, know-how, copyrights or trademarks owned by others. The Company believes, however, that no single patent, technology, trademark, intellectual property asset or license is material to its business as a whole.

Employees

As of December 31, 2014 the Company had over 36,000 full-time equivalent employees worldwide. Subsidiaries of the Company have three collective bargaining agreements, which cover approximately 625 employees. The Company's success is highly dependent on its ability to attract and retain qualified employees, and the Company believes that it

has good working relationships with its employees. As of December 31, 2014, Covance had over 12,000 equivalent full-time employees, approximately 47% of whom were employed outside of the United States and 12,185 of whom were full time employees. Covance Drug Development is not a party to any collective bargaining agreements.

Regulation and Reimbursement

General

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

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Regulation of Clinical Laboratories

CLIA extends federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. CLIA requires that all clinical laboratories meet quality assurance, quality control and personnel standards. Laboratories also must undergo proficiency testing and are subject to inspections.