THE FUTURE OF HEALTH CARE IS

A FOUR-LETTER WORD

contents

Laboratory Corporation of America® Holdings (LabCorp), an S&P 500 company, is a pioneer in commercializing new diagnostic technologies and the first in its industry to embrace genomic testing. With annual revenues of $3.6 billion in 2006, more than 25,000 employees nationwide, and more than 220,000 clients, LabCorp offers clinical assays, ranging from routine blood analyses to HIV and genomic testing. LabCorp combines its expertise in innovative clinical testing technology with its Centers of Excellence: The Center for Molecular Biology and Pathology, National Genetics Institute, Inc., ViroMed Laboratories, Inc., The Center for Esoteric Testing, DIANON Systems, Inc., US LABS, and Esoterix. Our clients include physicians, government agencies, managed care organizations, hospitals, clinical labs, and pharmaceutical companies. To learn more about our growing organization, visit our Web Site at: www.LabCorp.com.

business description

test

Today's **Lab Tests** represent some of the most compelling opportunities for improving health care for millions of people.

test offer value

Testing represents approximately 4 percent of health care expenditures, but influences more than 70 percent of health care decisions – clearly, one of health care's most compelling value propositions.

CASE STUDY:
ADVANCED LIPID PROFILES

Coronary disease kills more Americans than any other illness. That's why one of the most important steps toward preserving good health is identifying and reducing cardiovascular disease risk factors. Conventional cholesterol testing alone may not be sufficient – more than half of patients who experienced a heart attack had "normal" cholesterol test results.*

LabCorp has been a leader in bringing to market more sensitive assays, including the Vertical Auto Profile (VAP™) Cholesterol Test, developed by Atherotech, and the NMR Lipid Profile® Test, developed by LipoScience, Inc. Both provide an expanded analysis that measures cholesterol subclasses within the blood sample – indicators that can pinpoint hidden heart disease risk. These more sensitive tests provide additional information that physicians use to diagnose coronary disease earlier. An earlier diagnosis can provide an opportunity for physicians to aggressively treat the disease and possibly to prevent a catastrophic event such as a heart attack from ever occurring.

**Source: Atherotech Web Site*

test save lives

The availability of just one new test has the potential to save millions of lives.

Testing is a critical element of every phase of the health care continuum.

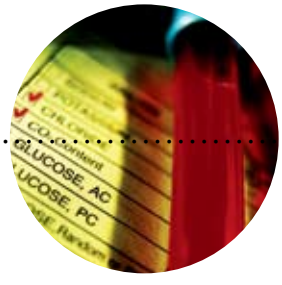
test improve care

PREVENTION

According to the CDC, hepatitis C virus (HCV) is the most common chronic blood-borne infection in the United States, with nearly four million Americans carrying the virus and approximately 2.7 million persons chronically infected. Yet, fewer than one in ten virus carriers seek treatment and many are unaware they are infected. Because there is no vaccine available for HCV, the key to preventing further spread of the virus is targeted screening of at-risk populations.* Patients who test positive for the virus can be treated, and also educated on important steps they can take to reduce the risk of transmission to others.

**Source: CDC 2006 Sexually Transmitted Diseases Treatment Guidelines*

DIAGNOSIS



Not all HCV carriers develop chronic infection or liver disease, and clinical symptoms may not appear for months or years after infection. Therefore, sophisticated and precise diagnostic tools are required to measure the status and progression of HCV. LabCorp's hepatitis C QuantaSure™ and QuantaSure™ Plus assays can detect and measure extraordinarily small levels of virus in the blood, providing physicians with an early diagnosis and critical information about a patient's HCV viral load.

TREATMENT

More precise and sensitive testing has made possible dramatic advances in the treatment of hepatitis C. In the past, the difficulty in assessing progress of the disease made the choice of clinical options difficult. Today, an HCV diagnosis need not lead to a course of continuous therapeutic trial and error for the patient. Instead, advanced RNA/DNA tests, coupled with better and more targeted treatment, result in vastly improved patient management and an enhanced quality of life.

MONITORING

The extent of fibrosis and necroinflammatory activity in the liver is a key component of assessing the need for therapy for HCV-infected patients and of predicting the likelihood of progression to cirrhosis. LabCorp's HCV FIBROSURE™ is a noninvasive blood test, which combines the results of six biochemical serum tests with a patient's age and gender to predict these destructive changes in the liver. HCV FIBROSURE™ provides a readily accessible alternative to liver biopsy, an invasive and painful procedure that carries with it the risk of serious complications.

test detect disease

Once, cervical cancer was among the most common causes of cancer death among American women, but death rates dropped by 74 percent between 1955 and 1992. This dramatic decline was due to the development and widespread application of the Pap test, which can detect changes in the cervix before cancer develops, as well as identify cancer at its early, most curable stages.

Today, cervical cancer screening has progressed to an even higher diagnostic level. LabCorp is the only national laboratory to offer Cytyc's ThinPrep® Imaging System for Pap smear analysis. The system uses computer-imaging technology to direct the technologist and pathologist to those areas of a slide that may require greater scrutiny, making sample analysis faster and more accurate. Physicians recognize the benefits to their patients of this Pap screening technology advancement. And today, LabCorp's clients choose this more sophisticated method of screening for nearly half of all liquid-based Pap smears.

Clinicians also recognize that screening for HPV, or human papillomavirus, is another valuable tool to fight this disease. HPV is the cause of almost all cases of cervical cancer. Using advanced molecular technology, HPV testing can determine if one of the HPV virus types that causes cervical cancer is present. HPV screening volumes grew by more than half in 2006. Together, the image-guided Pap and HPV assays are playing important roles in reducing overall cervical cancer deaths by an average of four percent each year.

The power of a test to detect is often priceless.

TEST PROFILE:
ONCOLOGY
THERAPY SELECTION

Breast cancers vary significantly in their aggressiveness, likelihood of recurrence and response to treatment. Modern oncology care requires the physician to customize for each patient a therapeutic regimen – which may include chemotherapy, radiation or hormone therapy – that provides the best prospects to cure the disease.

Highly sensitive tests, such as assays measuring the HER2/neu protein, can give critical prognostic information to clinicians, and help to predict the effectiveness of certain breast cancer therapies. Hormone receptor analysis and studies of proliferation markers also play critical roles in helping clinicians to select the best weapons to fight the spread or recurrence of tumors. More accurate and sensitive testing is playing a significant role in accelerating progress against breast cancer and other malignancies.

A test that becomes routine can virtually eradicate a disease.

test enhance knowledge

SOLUTIONS FOR MANAGED CARE: **CONVENIENT PATIENT ACCESS AND STANDARDIZED DATA**

Managed care organizations seek from their clinical laboratory partners not only superb scientific expertise and highly accurate testing, but also operational superiority in such areas as access to service and seamless transmission of patient data. LabCorp's leadership in customer care, standardized testing platforms and data connectivity helps managed care providers control costs and allows physicians to make better health care decisions for their patients.

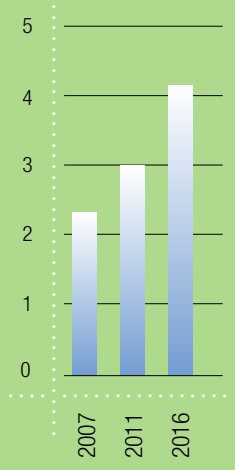
In 2006, LabCorp added more than 400 new patient service centers in support of our managed care partners to ensure that patients have over 1,700 locations to choose from to allow quick, convenient access to testing. Our capability to establish uninterrupted connectivity between physicians' offices, our laboratories and our managed care partners, coupled with the resources to aggregate and analyze a vast amount of standardized test data, offers managed care organizations new insights

We are in an era when demands on health care are greater than ever. Testing is a critical part of meeting these demands and developing new health care solutions.

test deliver solutions

PROJECTED HEALTH CARE EXPENDITURES
2007-2016
(IN BILLIONS)

Source:
Centers for Medicare & Medicaid Services, Office of the Actuary.



about their members and enables significant improvements in disease management.

Connectivity solutions benefit physicians as well. Test ordering and results delivery is made easy through the Web-based eLabCorp system, which readily adapts to physician office workflow systems and is accessible by the physician from the office, the hospital or from home, 24 hours a day, 7 days a week.

LabCorp's information systems integrate with hundreds of practice management systems, electronic medical record networks, and lab information systems. The capability to speed the throughput of enormous volumes of test results and patient data to both payers and medical providers is a key differentiator that helps make LabCorp the partner of choice for managed care customers and physician providers.

LABCORP SHAREHOLDERS' LETTER

Dear Shareholders:

2006 was another year of strong, profitable growth for LabCorp, continuing our record of increasing revenues and profits and substantially enhancing shareholder value. The year's accomplishments underscore the defining characteristics of LabCorp – setting ambitious goals and consistently attaining them.

More than a decade ago, we recognized that organic industry trends would make managed care providers increasingly important in the health care marketplace. Because of the large patient populations these organizations bring to physician offices, expanding our relationships with managed care partners affords the best opportunity to drive sustained growth. With that in mind, we set our sights on becoming the laboratory of choice for managed care companies.

We took an important step towards that goal, and achieved a highly significant milestone in the evolution of LabCorp in October. We concluded an historic, 10-year agreement with UnitedHealthcare that designates LabCorp as its exclusive national laboratory, offering a comprehensive suite of services to their members across the country.

Ramping up our infrastructure to take on significantly increased testing volumes was a formidable and challenging task. But intense effort by LabCorp personnel produced extraordinary results, and, by year's end, we opened more than 400 new patient access points and hired 1,200 new team members to ensure the highest level of service for our patients and physicians as we bring UnitedHealthcare on board.

This agreement is expected to result in incremental revenue of at least $3 billion from UnitedHealthcare and associated businesses, at EBITDA margins at least equal to our current, industry-leading levels. This is truly a landmark contract. In fact, we believe there is no other relationship in the lab industry of such scope, scale, or timeframe.

The UnitedHealthcare agreement, while clearly the largest, is but one of a series of expanded relationships that we have secured in recent years with managed care providers such as WellPoint, Cigna and Humana. LabCorp has emerged as the laboratory of choice for managed care companies as a result of three core strengths:

Quality

LabCorp's commitment to quality is deeply ingrained in the way we do business every day. It begins with a focus on scientific excellence, and an extensive record of developing and bringing to market highly advanced esoteric and genomic assays that have helped revolutionize disease diagnosis and patient care.

This agreement, which extends for a period of ten years, is expected to result in incremental revenue of at least $3 billion from UnitedHealthcare and associated businesses, at EBITDA margins at least equal to our current, industry-leading levels.

Whether the test is highly sophisticated or routine, quality and service are continually measured at every level of the process – from specimen handling and wait times at patient service centers, to the assessment of result accuracy and precision, to result turnaround times and resolution of physician and patient concerns. With standardized laboratory equipment and testing methodologies, and a single laboratory information and billing system, we deliver the highest quality laboratory services, and the most useful data, in the most efficient manner.

Innovation

The genomic age has profoundly transformed laboratory testing, fueling the development of a broad menu of more sensitive and useful tests that provide physicians with increasingly precise and predictive measurements of the likelihood, existence and progress of disease. At every step in this revolution, LabCorp has been at the forefront of improvements that have benefited physicians, patients and their families.

More than two decades ago, we built the Center for Molecular Biology and Pathology to be a driving force in molecular-based lab services. In the 1990s we introduced molecular oncology and genetic testing, heptatitis C genotyping, advanced HIV analyses and automated polymerase chain reaction (PCR) assays. During the current decade, we have accelerated our preeminent positions through acquisitions of cutting-edge labs such as DIANON *Systems*, ViroMed, National Genetics Institute, US LABS, and Esoterix and through important partnerships such as those with BioPredictive and ARCA Discovery, among others. In 2006 LabCorp continued its long-standing tradition of scientific leadership with the introduction of more than 40 significant test menu and automation enhancements.

We place an intense focus on leading in areas where diagnostic assays provide actionable information to meet unfulfilled clinical needs. For example, last year we introduced six new companion diagnostic tests, providing clinicians with innovative ways to avoid adverse drug reactions in their patients. These tests are especially important for those taking the blood thinner Wafarin, patients being treated for colorectal cancer and children with leukemia.

In 2006 these innovations allowed us to continue our industry leadership in gene-based and esoteric testing, generating some $1.2 billion in revenue, with a growth rate of more than 10 percent. At year's end, 35 percent of our total revenues were derived from genomic, esoteric and anatomic pathology tests.

Convenience

Providing best-in-class service that is convenient to patients, providers and managed care partners requires significant human resources, a large geographic footprint and systems and solutions that facilitate the exchange of test results and patient information wherever needed. Today, LabCorp employs some 6,200 highly trained phlemotomists in over 1,700 patient service centers, connected to a nationwide logistics network of 2,600 couriers who work to ensure on-time pickup, rapid turnaround and timely result reporting.

Consistency and uniformity are also key differentiators for LabCorp. We are the only laboratory of national scope that employs an identical platform of instruments throughout all of its facilities, reporting results in standardized reference ranges through a uniform lab and billing system. This uniformity allows physicians to track lab results over time, giving enormous insight into the progression of disease states and risk factors. Longitudinal data of this kind is also immensely valuable to managed care organizations as they implement decision support tools and evidence-based medicine initiatives.

Accuracy and accelerated result reporting are also strengthened through connectivity with physicians. Today, approximately 70 percent of orders are initiated and 90 percent of results are delivered electronically. Our *eLabCorp* Web-based test order and result delivery system integrates readily with practice management systems and provides

physicians and their staffs with the functionality they want.

Fundamental Drivers of Financial Success

Joined together, these three core strengths fueled our strong financial results in 2006. For the year, revenues grew to $3,590.8 million, an increase of 7.9 percent over the previous year, comprised of 4.2 percent increase in price and 3.7 percent gain in volume. Earnings before interest, taxes, depreciation and amortization (EBITDA) represented 26.1 percent of net sales – a margin that again led the industry. We achieved success in continuing to expand our margins by leveraging our infrastructure, improving automation, reducing our bad debt rate and realizing synergy opportunities.

Earnings per diluted share in 2006 increased 17. 9 percent to $3.30, compared to $2.80 in 2005, excluding the impact of restructuring and other special charges recorded in both years. And, our operations generated $632.3 million in operating cash flow, which enabled us to return considerable value to our shareholders by repurchasing $435.1 million of our stock, representing 6.7 million shares.

Core Strengths Key to Sustaining Strong Results

As we look ahead to 2007 and beyond, we are excited about the prospects to continue to grow revenues, earnings and shareholder value. The expanded infrastructure and capabilities we now have in place, especially in the Northeast, improve our ability to strengthen relationships with other managed care providers and afford physicians and patients increased access to medical testing. Our proven ability to partner with managed care organizations to make service delivery more efficient, constrain leakage and reduce their overall lab spending will continue to pay significant dividends and win additional business going forward. We believe this approach helps our customers appropriately manage our segment of health care costs in the U.S.

LabCorp's commitment to scientific leadership and innovation remains central to our organization's success. Recent advances, like the development of a novel assay for patients with chronic lymphocytic leukemia and the commercialization of ARCA Discovery's companion diagnostic for the first personalized cardiovascular medicine, bucindolol, promise not only to contribute to growth going forward but also to appreciably improve health and outcomes for thousands of patients.

As we formulate plans to extend LabCorp's successful record of growth, we never lose sight of the significant impact scientific advances, testing accuracy and commitment to quality have on millions of patients and their families. The American Cancer Society recently reported that, after 13 years of falling cancer death *rates*, the *number of U.S. cancer deaths* dropped for the second consecutive year – the first time deaths have declined two years in a row since researchers began compiling national data more than 70 years ago. Advances in diagnostic and prognostic testing have made essential contributions to achieving this exciting progress, and you may be certain that the work of LabCorp scientists will continue to be at the forefront of improvements in the diagnosis, monitoring and treatment of disease.

At the 2007 Annual Meeting, Andrew G. Wallace, M.D. will conclude his tenure as a member of LabCorp's Board of Directors. During the ten years he has served on the Board, he has provided valuable insight and advice, particularly in the area of science, as LabCorp gained momentum and success. We appreciate all of Andy's contributions and will miss his guidance.

It is fitting that we conclude this letter by thanking the 25,000 dedicated LabCorp personnel at every level of our organization who have made our successes possible. We could not have achieved the many accomplishments listed in this letter without their efforts and their "can do" attitude. In 2007 and in the years ahead, we will continue to rely on their talent, skill and commitment to achieve even more for our customers and our shareholders. It is an honor to lead and we thank them, and you, for your support.

Very truly yours,

Tom Mac Mahon
Chairman of the Board

Dave King
President and Chief Executive Officer

Tom Mac Mahon
Chairman of the Board

Dave King
President and Chief Executive Officer

Q AND A

A CONVERSATION WITH DAVE KING

Q: The last decade has brought enormous change to the clinical laboratory industry. We've seen substantial consolidation among independent labs, continued growth in managed care, and rapid development of groundbreaking technologies. What do you see on the horizon for the laboratory testing industry?

A: Our industry is at an historic inflection point, and we as an industry must make the right choices. LabCorp competes vigorously with its peers, but the interests we share with our peers are greater than the issues that divide us. Every member of our industry will continue to be affected by the competition with other providers for health care dollars and the desire of payers, both government and private, to "get more for less." Our industry needs to work together in new and unprecedented ways to make sure we secure fair reimbursement for the services we provide today, and for innovative and medically important new tests that improve patient care and outcomes. We need payers to understand that reasonable fee increases for laboratories fuel innovation that is good for patients, physicians, and our health care system. We also need to make sure that regulation of our industry is fair and sensible, balancing the need to provide assurances of test reliability to the public against the prospect of cramping laboratory innovation. Simply put, we have to more forcefully show the enormous value we bring in to the health care equation.

Q: What are those key messages?

A: A critical message is how our relatively modest piece of the health care spending pie generates enormous value for patients, for doctors and for payers as well. It is clear that one of the best ways to attack spiraling costs is through prevention and early diagnosis. The high-quality tests we provide are critically important to both. When we develop innovative screening tests, identify risk factors, diagnose chronic diseases at earlier, more treatable stages, and help select the most appropriate therapy for an individual, we are maximizing the opportunities for patients to have better outcomes and driving down the costs of future treatment. By providing broad access to new and better laboratory tests, we can, and will, help doctors help their patients live healthier lives.

Q: And who is the most important audience for those messages?

A: Clearly, our elected officials and other health policymakers need to hear us and understand

spective on Today's Laboratory Testing Industry

our industry perspective. So do the managed care plans and other payers for laboratory services. And we can't forget physicians and the patient. The other major sectors of the health care industry have traditionally been more vocal in their advocacy. So it's time for us to talk about lab testing in ways that focus on the tangible value we bring to making the delivery of health care more efficient. I'm pleased that our industry is making concerted progress towards that goal.

Q: What are the biggest challenges?

A: Innovation is critical to providing better health care, and we need to continue to offer medically important new tests. A March 2006 study* examining the impact of medical goods and services on the health of Americans during 1990–2003 strongly suggests that new clinical laboratory tests have improved the quality of information physicians and patients have about medical conditions. More appropriate and effective treatment of those conditions was therefore possible. The study also found that new laboratory procedures introduced during 1990–1998 were highly cost-effective, saving approximately 1.13 million life-years in 1998. This is truly compelling information which underscores the impressive value of laboratory testing.

We also need to fight unfair and unwise reimbursement policies. Time after time we have seen Congress freeze the clinical laboratory fee schedule whenever it needs to address health care spending. When those proposals arise, we have to effectively communicate the value that laboratory services provide, both toward the goal of reducing spending on health care services and achieving better patient outcomes. At the same time, we need a process to obtain fair reimbursement for new technology. In laboratory testing, the importance of genomics is growing every day and exponentially improving patient care. We must do better at conveying to policymakers the value of this emerging technology and that these technological advances are literally improving countless lives.

* Lichtenberg, Frank R., "The Impact of New Laboratory Procedures and Other Medical Innovations on the Health of Americans, 1990-2003: Evidence from Longitudinal, Disease-Level Data" (March 2006).

Executive Management
(left column, top to bottom) Brad Hayes, Myla Lai-Goldman, Ben Miller, Woody Cook
(right column, top to bottom) Dave King, Brad Smith, Bill Haas, Al Troub, Scott Walton

EXECUTIVE OFFICERS

David P. King
President and
Chief Executive Officer

Woodrow L. Cook
Executive Vice President,
Eastern Operations

William B. Haas
Executive Vice President,
Esoteric Business

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

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

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

Bradford T. Smith
Executive Vice President,
Corporate Affairs and Secretary

Allen W. Troub
Executive Vice President,
Western Operations

A. Scott Walton
Executive Vice President,
Strategic Planning and
Chief Information Officer

LETTER FROM
BRAD HAYES
CHIEF FINANCIAL OFFICER

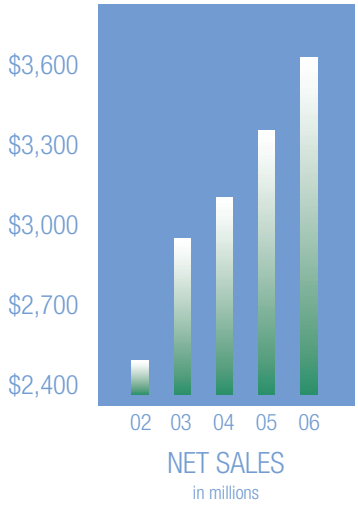
LabCorp's strategy is to lead the industry in achieving long-term growth and profitability by growing our business and becoming more efficient. This strategy rests on a solid business model with excellent financial fundamentals.

Growth in our business comes from overall industry growth drivers such as the aging population and continued adoption of esoteric testing. We expect to derive additional revenue growth from our focus on managed care, and from growth in our cancer diagnostics and cardiovascular disease testing areas. In addition to revenue growth, we expect to achieve growth in our EBITDA margins through improvements in operational efficiency, by increasing our higher-growth, higher-value esoteric and genomic businesses, by improving our accounts receivable collections experience, and by increasing the volume of testing through our existing laboratory facilities.

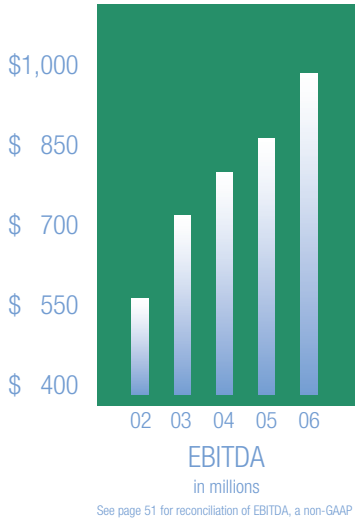
We use the cash flow generated through our increasing revenue base and expanding EBITDA margins to return value to our shareholders by both reinvesting in our business and through share repurchase. During 2006, we utilized $435.1 million of free cash flow to repurchase approximately 6.7 million shares of LabCorp common stock.

We believe that LabCorp's quality- and service-driven culture results in sound financial performance, and we look forward to delivering continued strong results to LabCorp shareholders.

.– Brad Hayes

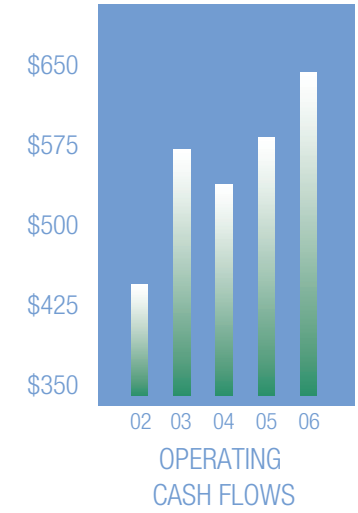


NET SALES
in millions



EBITDA
in millions

See page 51 for reconciliation of EBITDA, a non-GAAP measure, to earnings before income taxes, the most comparable measure under GAAP.



OPERATING
CASH FLOWS
in millions

contents

FIVE-YEAR SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for the five-year period ended December 31, 2006 are derived from consolidated financial statements of the Company, which have been audited by an independent registered public accounting firm. This data should be read in conjunction with the accompanying notes, the Company's consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere herein.

	Years Ended December 31,				
(in millions, except per share amounts)	**2006[a][b]**	2005[c]	2004	2003[d]	2002[e]
Statement of Operations Data					
Net Sales	**$3,590.8**	$3,327.6	$3,084.8	$2,939.4	$2,507.7
Gross profit	**1,529.4**	1,390.3	1,289.3	1,224.6	1,061.8
Operating income	**697.1**	618.1	598.4	533.7	435.0
Net earnings	**431.6**	386.2	363.0	321.0	254.6
Basic earnings per common share	**$ 3.48**	$ 2.89	$ 2.60	$ 2.23	$ 1.78
Diluted earnings per common share	**$ 3.24**	$ 2.71	$ 2.45	$ 2.11	$ 1.69
Basic weighted-average common shares outstanding	**124.1**	133.5	139.4	144.0	142.8
Diluted weighted-average common shares outstanding	**134.7**	144.9	150.7	154.7	154.2
Balance Sheet Data					
Cash and cash equivalents, and short-term investments	**$ 186.9**	$ 63.1	$ 206.8	$ 123.0	$ 56.4
Goodwill and intangible assets, net	**2,094.2**	2,122.7	1,857.4	1,857.3	1,217.5
Total assets	**4,000.8**	3,875.8	3,626.1	3,414.9	2,580.4
Long-term obligations[f]	**1,157.4**	1,148.9	889.3	879.5	516.0
Total shareholders' equity	**1,977.1**	1,885.7	1,999.3	1,895.9	1,611.7

FIVE-YEAR SELECTED FINANCIAL DATA

(a) Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires the Company to measure the cost of employee services received in exchange for all equity awards granted, based on the fair market value of the award as of the grant date. As a result of adopting SFAS 123(R), the Company recorded approximately $23.3 in stock compensation expense relating to its stock option and employee stock purchase plans for the year ended December 31, 2006. Net earnings for the year ended December 31, 2006, were reduced by $13.9, net of tax.

(b) During the second half of 2006, the Company recorded charges of approximately $12.3, primarily related to the acceleration of the recognition of stock compensation due to the announced retirement of the Company's Chief Executive Officer, effective December 31, 2006. The Company also recorded net restructuring charges of $1.0 in the third quarter of 2006, relating to certain expense-reduction initiatives undertaken across the Company's corporate and divisional operations.

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

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

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

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

(f) Long-term obligations primarily includes the zero-coupon convertible subordinated notes, the 5½% senior notes due 2013, the 5⅝% senior notes due 2015 and other long-term obligations. The accreted balance of the zero-coupon convertible subordinated notes was $554.4, $544.4, $533.7, $523.2, and $512.9, at December 31, 2006, 2005, 2004, 2003 and 2002, respectively. The balance of the 5½% senior notes, including principal and unamortized portion of a deferred gain on an interest rate swap agreement, was $352.6, $353.0, $353.4, $353.8, and $0, at December 31, 2006, 2005, 2004, 2003, and 2002, respectively. The principal balance of the 5⅝% senior notes was $250.0 at December 31, 2006 and 2005 and $0 for all other years presented. The remainder of other long-term obligations consisted primarily of mortgages payable with balances of $0.4, $1.5, $2.2, $2.5, and $3.1, at December 31, 2006, 2005, 2004, 2003, and 2002, respectively. Long-term obligations exclude amounts due to affiliates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

GENERAL

During 2006, the Company continued to strengthen its financial performance through the implementation of the Company's strategic plan and the expansion of its national platform in routine testing. This plan continues to provide growth opportunities for the Company by building a leadership position in genomic and other advanced testing technologies primarily through internal development efforts, acquisitions and technology licensing activities.

The Company continues to have strong relationships with national managed care organizations such as Aetna, Cigna, Humana, UnitedHealthcare, and Wellpoint. These relationships were a major driver of volume growth this year is a result of managed care relationships. On October 3, 2006, the Company announced that it has entered into a new, ten-year agreement with UnitedHealthcare Insurance Company (UnitedHealthcare), effective January 1, 2007. Under the terms of the Agreement, the Company became UnitedHealthcare's exclusive national laboratory, offering a comprehensive suite of services, and will also work with other regional and local laboratory providers to selectively develop, implement and manage for UnitedHealthcare a series of laboratory networks in selected regions across the United States. As part of this network development and oversight process, the Company assumed responsibility for managing the Oxford Health Plans laboratory network located in the greater New York metropolitan region effective January 1, 2007. Also effective January 1, 2007, the Company became the exclusive national capitated UnitedHealthcare laboratory provider for the HMO benefit plans of PacifiCare of Colorado, Neighborhood Health Partnership in Florida, and Mid Atlantic Medical Services, L.L.C. (MAMSI) in Maryland and Virginia, and will remain the exclusive provider for HMO benefit plans for PacifiCare of Arizona. Over a period of several years, the Company will continue to perform more of UnitedHealthcare's testing. During the first three years of the ten-year agreement, the Company has committed to reimburse UnitedHealthcare up to $200 for transition costs related to developing an expanded network in the Oxford, MAMSI and Neighborhood Health Partnership markets, as well as in California and Colorado.

Over the term of the agreement, the Company expects to realize additional revenues in excess of $3 billion from UnitedHealthcare and associated business. In anticipation of the additional volume from this agreement, as of January 1, 2007, the Company has opened over four hundred patient access points and hired over twelve hundred employees, including phlebotomists, couriers, laboratory technicians and sales people. In addition, the company has invested approximately $16.0 in capital projects relating to the United Healthcare contract.

Seasonality

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

RESULTS OF OPERATIONS

Years ended December 31, 2006, 2005, and 2004

Net Sales

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Net sales					
Routine Testing	**$2,347.6**	$2,197.8	$2,118.3	**6.8%**	3.8%
Genomic and Esoteric	**1,243.2**	1,129.8	966.5	**10.0%**	16.9%
Total	**$3,590.8**	$3,327.6	$3,084.8	**7.9%**	7.9%

	Number of Accessions Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Volume					
Routine Testing	**76.7**	74.8	75.3	**2.6%**	(0.7%)
Genomic and Esoteric	**18.8**	17.3	15.8	**8.6%**	9.5%
Total	**95.5**	92.1	91.1	**3.7%**	1.1%

	Price Per Accession (PPA) Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Price					
Routine Testing	**$30.60**	$29.38	$28.12	**4.1%**	4.5%
Genomic and Esoteric	**$66.14**	$65.26	$61.18	**1.3%**	6.7%
Total	**$37.59**	$36.12	$33.86	**4.1%**	6.7%

The increase in net sales for the three years ended December 31, 2006 has been driven primarily by the Company's continued shift in test mix to higher priced genomic and esoteric tests and the impact of acquisitions. As a percentage of total net sales, genomic and esoteric tests have increased during the three year period ended December 31, 2006 from 31.3% in 2004 to 34.6% in 2006. The acquisitions of US Labs and Esoterix in 2005 have helped to build on the Company's leadership position in the genomic and esoteric market. In addition to a shift in test mix, net sales were positively impacted in 2006 by improved pricing and volume in routine testing.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

Cost of Sales

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Cost of sales	**$2,061.4**	$1,937.3	$1,795.5	**6.4%**	7.9%
Cost of sales as a % of sales	**57.4%**	58.2%	58.2%		

Cost of sales, which includes primarily laboratory and distribution costs, has increased over the three year period ended December 31, 2006 primarily due to increased volume in genomic and esoteric testing and the impact of acquisitions. In addition, the Company incurred approximately $14 in costs in the fourth quarter of 2006 to add to its patient service delivery capabilities in preparation for its new contract with UnitedHealthcare. As a percentage of sales, cost of sales has remained relatively stable during 2004 and 2005, but has declined during 2006, as the Company has leveraged volume and price growth over its laboratory infrastructure. Labor and testing supplies comprise over 75% of the Company's cost of sales.

Selling, General and Administrative Expenses

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Selling, general and administrative expenses	**$779.1**	$703.9	$649.1	**10.7%**	8.4%
SG&A as a % of sales	**21.7%**	21.2%	21.0%		

Total selling, general and administrative expenses as percentage of sales have increased slightly over the three year period ended December 31, 2006. The Company has reduced its bad debt expense rate over the three year period from 6.3% in 2004 to 4.8% in 2006. The decrease in the bad debt expense rate is the result of improved billing and collection performance. Other SG&A expenses remained relatively flat in 2004 and increased significantly in 2005 as the Company began the integration of the Esoterix and US LABS acquisitions. Other SG&A expenses increased in 2006 due to the Company's adoption of SFAS 123(R) during the first quarter of 2006, which required the Company to record compensation expense of $23.3 related to its stock option and stock purchase plans. During the second half of fiscal year 2006, the Company recorded charges of approximately $12.4, primarily related to the acceleration of the recognition of stock compensation due to the announced retirement of the Company's Chief Executive Officer, which was effective December 31, 2006.

Amortization of Intangibles and Other Assets

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Amortization of intangibles and other assets	**$52.2**	$51.4	$42.7	**1.6%**	20.4%

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

Investment Loss

	Years Ended December 31,		
	2006	2005	2004
Investment loss	**$ –**	$(3.1)	$ –

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

Restructuring and Other Special Charges

	Years Ended December 31,		
	2006	2005	2004
Restructuring and other special charges	**$1.0**	$16.9	$(0.9)

During the third quarter of 2006, the Company recorded net restructuring charges of $1.0 relating to certain expense-reduction initiatives undertaken across the Company's corporate and divisional operations.

During the third and fourth quarters of 2005, the Company began to implement its plan related to the integration of Esoterix and US LABS operations into the Company's service delivery network. The plan is directed at reducing redundant facilities, while maintaining the goal of providing excellent customer service. In connection with the integration plan, the Company recorded $11.9 of costs associated with the execution of the plan. The majority of these integration costs related to employee severance and contractual obligations associated with leased facilities and equipment. Of this amount, $10.1 related to employee severance benefits for approximately 700 employees, with

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

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

During 2005, the Company also recorded a special charge of $5.0 related to forgiveness of amounts owed by patients and clients as well as other costs associated with the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

During the fourth quarter of 2004, the Company recorded certain adjustments to previously recorded restructuring charges due to changes in estimates, resulting in a credit of approximately of $0.9 million.

Interest Expense

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Interest expense	**$47.8**	$34.4	$36.1	**39.0%**	(4.7%)

The increase in interest expense for the year ended December 31, 2006 as compared to the year ended December 31, 2005 was driven by the issuance of the 5⅝% senior notes due 2015 in December 2005. The decrease for the year ended December 31, 2005 as compared to the year ended December 31, 2004 is primarily the result of the completion of amortization of deferred fees associated with the zero-coupon subordinated notes in 2004.

Income from Joint Venture Partnerships

	Years Ended December 31,			% Change	
	2006	2005	2004	**2006**	2005
Income from joint venture partnerships	**$66.7**	$58.3	$51.3	**14.4%**	13.6%

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

Income Tax Expense

	Years Ended December 31,		
	2006	2005	2004
Income tax expense	**$289.3**	$254.5	$252.3
Income tax expense as a % of income before tax	**40.1%**	39.7%	41.0%

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

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

The Company's strong cash-generating capability and financial condition provide ready access to capital markets. The Company's principal source of liquidity is operating cash flow. This cash-generating capability is one of the Company's fundamental strengths and provides substantial financial flexibility in meeting operating, investing and financing needs. In addition, the Company has revolving credit facilities that are further discussed in "Note 11 to Consolidated Financial Statements."

Operating Activities

In 2006, the Company's operations provided $632.3 of cash, reflecting the Company's solid business results. The growth in the Company's cash flow from operations primarily resulted from improved earnings. The Company continued to focus on efforts to increase cash collections from all payers, as well as on-going improvements to the claim submission processes.

During 2006, 2005 and 2004, the Company made contributions to its defined pension plan in the amounts of $0.0, $8.0 and $60.3, respectively. The Company does not expect to contribute to its defined benefit pension plan during 2007 and is not legally required to do so. See "Note 16 to the Consolidated Financial Statements" for a further discussion of the Company's pension and post-retirement plans.

Investing Activities

Capital expenditures were $115.9, $93.6 and $95.0 for 2006, 2005 and 2004, respectively. The Company expects capital expenditures of approximately $130 to $170 in 2007, including anticipated capital expenditures related to the UnitedHealthcare contract. The Company will continue to make important investments in information technology connectivity between its customers and financial systems. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's revolving credit facilities as needed.

The Company has invested a total of $13.9 over the past three years in new testing technologies and had $51.0 net book value of capitalized patents, licenses and technology at December 31, 2006. While the Company continues to believe its strategy of entering into licensing and technology distribution agreements with the developers of leading-edge technologies will provide future growth in revenues, there are certain risks associated with these investments. These risks include, but are not limited to, the risk that the licensed technology will not gain broad acceptance in the marketplace; or that insurance companies, managed care organizations, or Medicare and Medicaid will not approve reimbursement for these tests at a level commensurate with the costs of running the tests. Any or all of these circumstances could result in impairment in the value of the related capitalized licensing costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

Financing Activities

During 2006, the Company repurchased $435.1 of stock representing 6.7 million shares. As of December 31, 2006, the Company had outstanding authorizations from the Board of Directors to purchase approximately $350.2 of Company common stock.

On September 22, 2006, the Company announced that it had commenced an exchange offer related to its zero-coupon subordinated notes due 2021. In the exchange offer, the Company offered to exchange a new series of zero-coupon convertible subordinated notes due September 11, 2021 (the "New Notes") and an exchange fee of $2.50 per $1,000 aggregate principal amount at maturity for all of the outstanding zero-coupon subordinated notes due 2021 (the "Old Notes").

The purpose of the exchange offer was to exchange the Old Notes for the New Notes with certain different terms, including the addition of a net share settlement feature. The net share settlement feature will require the Company to satisfy its obligation due upon conversion to holders of the New Notes in cash for a portion of the conversion obligation equal to the accreted principal of the New Notes and in shares for the remainder of the conversion value. In addition, the New Notes provide that the Company will eliminate its option to issue shares in lieu of paying cash if and when the Company repurchases the New Notes at the option of holders.

On October 23, 2006, the exchange offer expired. Following settlement of the exchange, $741.2 in aggregate principal amount at maturity of the New Notes and $2.6 in aggregate principal amount at maturity of the Old Notes were outstanding.

Credit Ratings

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

Contractual Cash Obligations

	Payments Due by Period				
	Total	2007	2008–2009	2010–2011	2011 and thereafter
Capital lease obligations	$ 0.6	$ 0.6	$ –	$ –	$ –
Operating lease obligations	287.3	78.8	104.2	55.8	48.5
Contingent future licensing payments[(a)]	55.9	3.8	19.3	12.6	20.2
Minimum royalty payments	28.9	6.5	12.6	6.2	3.6
Minimum purchase obligations	20.0	10.0	10.0	–	–
Zero-coupon subordinated notes[(b)]	554.4	554.4	–	–	–
Scheduled interest payments on Senior Notes	251.7	33.3	66.6	66.6	85.2
Long-term debt	603.0	1.0	1.0	1.0	600.0
Total contractual cash obligations[(c)(d)]	$1,801.8	$688.4	$213.7	$142.2	$757.5

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

(b) Holders of the zero-coupon subordinated notes may require the Company to purchase in cash all or a portion of their notes on September 11, 2011 at $819.54 per note. Should the holders put the notes to the Company on that date, the Company believes that it will be able to satisfy this contingent obligation with cash on hand, borrowings on the revolving credit facility, and additional financing if necessary. As announced by the Company on January 9, 2007, holders of the zero-coupon subordinated notes may choose to convert their notes subject to terms as defined in the note agreement. See "Note 11 to Consolidated Financial Statements" for further information regarding the Company's zero-coupon subordinated notes.

(c) The table does not include obligations under the Company's pension and post-retirement benefit plans, which are included in "Note 16 to Consolidated Financial Statements." Benefits under the Company's post-retirement medical plan are made when claims are submitted for payment, the timing of which are not practicable to estimate.

(d) The table does not include the Company's contingent obligation to reimburse up to $200.0 in transitional costs during the first three years of the UnitedHealthcare contract.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

Off-Balance Sheet Arrangements

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

Other Commercial Commitments

At December 31, 2006, the Company provided letters of credit aggregating approximately $111.7, primarily in connection with certain insurance programs and contractual guarantees on obligations under the Company's new contract with UnitedHealthcare. The UnitedHealthcare contract requires that the Company provide a $50.0 letter of credit, as security for the Company's contingent obligation to reimburse up to $200.0 in transitional costs during the first three years of the contract. Letters of credit provided by the Company are secured by the Company's senior credit facilities and are renewed annually, around mid-year.

At December 31, 2006, the Company was named as guarantor on approximately $6.4 of equipment leases. These leases were entered into by a joint venture that the Company owns a fifty percent interest in and have a five year term.

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

New Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies how companies should recognize, measure, present, and disclose uncertain tax positions. FIN 48 also provides guidance on derecognition, interest and penalties, accounting for interim periods, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006 and the Company is adopting the interpretation effective January 1, 2007. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings. Based on our evaluation as of December 31, 2006, the Company does not believe that FIN 48 will have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for the Company as of January 1, 2008. The Company is currently assessing the impact, if any, of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact, if any, of SFAS 159 on its consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

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

- Revenue recognition and allowances for doubtful accounts
- Pension expense
- Accruals for self insurance reserves
- Income taxes

Revenue Recognition and Allowance for Doubtful Accounts

Revenue is recognized for services rendered when test results are reported to the ordering physician and the testing process is complete. The Company's sales are generally billed to three types of payers – clients, patients and third parties, such as managed care companies, Medicare and Medicaid. For clients, sales are recorded on a fee-for-service basis at the Company's client list price, less any negotiated discount. Patient sales are recorded at the Company's patient fee schedule, net of any discounts negotiated with physicians on behalf of their patients. The Company bills third party payers in two ways – fee-for-service and capitated agreements. Fee-for-service third party payers are billed at the Company's patient fee schedule amount, and third party revenue is recorded net of contractual discounts. These discounts are recorded at the transaction level at the time of sale based on a fee schedule that is maintained for each third party payer. The majority of the Company's third party sales are recorded using an actual or contracted fee schedule at the time of sale. For the remaining third party sales, estimated fee schedules are maintained for each payer. Adjustments to the estimated payment amounts are recorded at the time of final collection and settlement

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

of each transaction as an adjustment to revenue. These adjustments are not material to the Company's results of operations in any period presented. The Company periodically adjusts these estimated fee schedules based upon historical payment trends. Under capitated agreements with managed care companies, the Company recognizes revenue based on a negotiated monthly contractual rate for each member of the managed care plan regardless of the number or costs of services performed.

The Company has a formal process to estimate and review the collectibility of its receivables based on the period of time they have been outstanding. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level. The Company's process for determining the appropriate level of the allowance for doubtful accounts involves judgment, and considers such factors as the age of the underlying receivables, historical and projected collection experience, and other external factors that could affect the collectibility of its receivables. Accounts are written off against the allowance for doubtful accounts based on the Company's write off policy (e.g. when they are deemed to be uncollectible). In the determination of the appropriate level of the allowance, accounts are progressively reserved based on the historical timing of cash collections relative to their respective aging categories within the Company's receivables. These collection and reserve processes, along with the close monitoring of the billing process, help reduce the risks of material revisions to reserve estimates resulting from adverse changes in collection or reimbursement experience. The following table presents the percentage of the Company's net accounts receivable outstanding by aging category at December 31, 2006 and 2005:

Days Outstanding	2006	2005
0–30	**44.9%**	43.6%
31–61	**19.3%**	22.3%
61–91	**11.2%**	10.1%
91–120	**7.3%**	7.3%
121–150	**5.2%**	4.6%
151–180	**3.6%**	3.6%
181–270	**6.6%**	6.6%
271–360	**1.6%**	1.4%
Over 360	**0.3%**	0.5%

Pension Expense

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

The Company's net pension cost is developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates and expected return on plan assets, which are updated on an annual basis at the beginning of each year. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in pension costs may occur in the future due to changes in these assumptions. The key assumptions used in accounting for the defined benefit retirement plans were a 6.0% discount rate and an 8.5% expected long-term rate of return on plan assets as of December 31, 2006.

Discount Rate

The Company works with its independent actuary to develop a discount rate assumption used to value the benefit obligations of its retirement plans. The Company follows paragraph 186 of Financial Accounting Standard 106 in developing this rate. The Company's actuary obtains information on high-quality corporate (AA rating or higher) bonds from a nationally recognized credit rating agency. These bonds are then reviewed and outliers are discarded. The results of the actuary's discount rate analysis are then reviewed by the Company and a final decision on the discount rate assumption is made by the Company. A one percentage point reduction in the discount rate would have resulted in an increase in 2006 pension expense of $4.0 million.

Return on Plan Assets

In establishing its expected return on plan assets assumption, the Company reviews its asset allocation and develops return assumptions based on different asset classes adjusting for plan operating expenses. Actual asset over/under performance compared to expected returns will respectively decrease/increase unrecognized loss. The change in the unrecognized loss will change amortization cost in upcoming periods. A one percentage point increase in the expected return on plan assets would have resulted in a decrease in 2006 pension expense of $2.5 million.

Current year net pension cost excluding the impact of the $0.7 million non-recurring CEO retirement charge was $14.7 million, an increase of $4.7 million from 2005. Our actuaries have estimated that 2007 net pension cost will be approximately $14.7 million.

Further information on our defined benefit retirement plan is provided in note 16 to the consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)

Accruals for Self-Insurance Reserves

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

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

While management believes these estimates are reasonable and consistent, they are by their very nature, estimates of amounts that will depend on future events. Accordingly, actual results could differ from these estimates. The Company's Audit Committee periodically reviews the Company's significant accounting policies.

Income Taxes

The Company accounts for income taxes utilizing the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not.

FORWARD-LOOKING STATEMENTS

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

1. changes in federal, state, local and third party payer regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party coverage or reimbursement for clinical laboratory testing;
2. adverse results from investigations of clinical laboratories by the government, which may include significant monetary damages and/or exclusion from the Medicare and Medicaid programs;
3. loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988, or those of Medicare, Medicaid, the False Claims Act or other federal, state or local agencies;
4. failure to comply with the Federal Occupational Safety and Health Administration requirements and the Needlestick Safety and Prevention Act, which may result in penalties and loss of licensure;
5. failure to comply with HIPAA, which could result in significant fines;
6. failure of third party payers to complete testing with the Company, or accept or remit transactions in HIPAA-required standard transaction and code set format, could result in an interruption in the Company's cash flow;
7. increased competition, including price competition;
8. changes in payer mix, including an increase in capitated managed-cost health care or the impact of a shift to consumer-driven health plans;
9. failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers;
10. failure to retain or attract managed care business as a result of changes in business models, including new risk based or network approaches, or other changes in strategy or business models by managed care companies;

11. failure to effectively manage newly acquired businesses and the cost related to such integration;
12. adverse results in litigation matters;
13. inability to attract and retain experienced and qualified personnel;
14. failure to maintain the Company's days sales outstanding levels;
15. decrease in credit ratings by Standard & Poor's and/or Moody's;
16. failure to develop or acquire licenses for new or improved technologies, or if customers use new technologies to perform their own tests;
17. inability to commercialize newly licensed tests or technologies or to obtain appropriate coverage or reimbursement for such tests, which could result in impairment in the value of certain capitalized licensing costs;
18. inability to obtain and maintain adequate patent and other proprietary rights for protection of the Company's products and services and successfully enforce the Company's proprietary rights;
19. the scope, validity and enforceability of patents and other proprietary rights held by third parties which might have an impact on the Company's ability to develop, perform, or market the Company's tests or operate its business;
20. failure in the Company's information technology systems resulting in an increase in testing turnaround time or billing processes or the failure to meet future regulatory or customer information technology and connectivity requirements;
21. failure of the Company's existing and new financial information systems resulting in failure to meet required financial reporting deadlines;
22. failure of the Company's disaster recovery plans to provide adequate protection against the interruption of business and/or the recovery of business operations;
23. business interruption or other impact on the business due to adverse weather (including hurricanes), fires and/or other natural disasters and terrorism or other criminal acts;
24. liabilities that result from the inability to comply with new corporate governance requirements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

Based upon independent appraisals, these embedded derivatives had no fair market value at December 31, 2006.

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the Company's evaluation under the framework in Internal Control – Integrated Framework issued by the COSO, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2006.

The Company management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein with its report immediately preceding our audited financial statements.

David P. King
President and Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of Laboratory Corporation of America Holdings' consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Laboratory Corporation of America Holdings and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 14 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

As discussed in Note 16 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit and other post-retirement plans as of December 31, 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP
Greensboro, North Carolina

February 26, 2007

CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51.5	$ 45.4
Short-term investments	135.4	17.7
Accounts receivable, net	541.3	493.4
Supplies inventories	84.3	65.4
Prepaid expenses and other	53.2	37.2
Deferred income taxes	21.3	43.2
Total current assets	887.0	702.3
Property, plant and equipment, net	393.2	381.5
Goodwill, net	1,484.0	1,477.0
Intangible assets, net	610.2	645.7
Investments in joint venture partnerships	577.9	578.9
Other assets, net	48.5	90.4
Total assets	$4,000.8	$3,875.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 133.5	$ 116.2
Accrued expenses and other	243.0	227.3
Short-term borrowings and current portion of long-term debt	554.4	544.6
Total current liabilities	930.9	888.1
Long-term debt, less current portion	603.0	604.5
Deferred income taxes	409.2	408.9
Other liabilities	80.6	88.6
Total liabilities	2,023.7	1,990.1
Commitments and contingent liabilities	–	–
Shareholders' equity:		
Common stock, 122.2 and 126.5 shares outstanding at December 31, 2006 and December 31, 2005, respectively	14.4	14.8
Additional paid-in capital	1,027.7	1,339.7
Retained earnings	1,767.9	1,336.3
Less common stock held in treasury	(891.6)	(888.5)
Unearned restricted stock compensation	–	(6.9)
Accumulated other comprehensive earnings	58.7	90.3
Total shareholders' equity	1,977.1	1,885.7
Total liabilities and shareholders' equity	$4,000.8	$3,875.8

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)	Years Ended December 31, 2006	2005	2004
Net sales	**$3,590.8**	$3,327.6	$3,084.8
Cost of sales	**2,061.4**	1,937.3	1,795.5
Gross profit	**1,529.4**	1,390.3	1,289.3
Selling, general and administrative expenses	**779.1**	703.9	649.1
Amortization of intangibles and other assets	**52.2**	51.4	42.7
Restructuring and other special charges	**1.0**	16.9	(0.9)
Operating income	**697.1**	618.1	598.4
Other income (expenses):			
Investment loss	**–**	(3.1)	–
Interest expense	**(47.8)**	(34.4)	(36.1)
Income from joint venture partnerships, net	**66.7**	58.3	51.3
Investment income	**7.7**	1.8	3.5
Other, net	**(2.8)**	–	(1.8)
Earnings before income taxes	**720.9**	640.7	615.3
Provision for income taxes	**289.3**	254.5	252.3
Net earnings	**$ 431.6**	$ 386.2	$ 363.0
Basic earnings per common share	**$ 3.48**	$ 2.89	$ 2.60
Diluted earnings per common share	**$ 3.24**	$ 2.71	$ 2.45

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Restricted Stock Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2003	$14.9	$1,440.9	$ 587.1	$(159.3)	$(22.4)	$ 34.7	$1,895.9
Comprehensive earnings:							
Net earnings	–	–	363.0	–	–	–	363.0
Other comprehensive earnings:							
Foreign currency translation adjustments	–	–	–	–	–	40.3	40.3
Minimum pension liability	–	–	–	–	–	35.6	35.6
Tax effect of other comprehensive loss adjustments	–	–	–	–	–	(28.9)	(28.9)
Comprehensive earnings							410.0
Issuance of common stock under employee stock plans	0.2	51.5	–	–	–	–	51.7
Issuance of restricted stock awards	–	0.7	–	–	(0.7)	–	–
Surrender of restricted stock awards	–	–	–	(6.8)	–	–	(6.8)
Cancellation of restricted stock awards	–	(0.1)	–	–	0.1	–	–
Stock compensation	–	–	–	–	15.5	–	15.5
Income tax benefit from stock options exercised	–	11.1	–	–	–	–	11.1
Purchase of common stock	–	–	–	(378.1)	–	–	(378.1)
BALANCE AT DECEMBER 31, 2004	$15.1	$1,504.1	$ 950.1	$(544.2)	$ (7.5)	$ 81.7	$1,999.3
Comprehensive earnings:							
Net earnings	–	–	386.2	–	–	–	386.2
Other comprehensive earnings:							
Foreign currency translation adjustments	–	–	–	–	–	14.3	14.3
Tax effect of other comprehensive loss adjustments	–	–	–	–	–	(5.7)	(5.7)
Comprehensive earnings							394.8
Issuance of common stock under employee stock plans	0.2	62.3	–	–	–	–	62.5
Issuance of restricted stock awards	–	7.3	–	–	(7.3)	–	–
Surrender of restricted stock awards	–	–	–	(7.3)	–	–	(7.3)
Cancellation of restricted stock awards	–	(0.3)	–	–	0.3	–	–
Stock compensation	–	6.1	–	–	7.6	–	13.7
Income tax benefit from stock options exercised	–	11.9	–	–	–	–	11.9
Retirement of common stock	(0.5)	(251.7)	–	–	–	–	(252.2)
Purchase of common stock	–	–	–	(337.0)	–	–	(337.0)
BALANCE AT DECEMBER 31, 2005	$14.8	$1,339.7	$1,336.3	$(888.5)	$ (6.9)	$ 90.3	$1,885.7
Comprehensive earnings:							
Net earnings	–	–	431.6	–	–	–	431.6
Other comprehensive earnings:							
Foreign currency translation adjustments	–	–	–	–	–	(1.1)	(1.1)
Tax effect of other comprehensive loss adjustments	–	–	–	–	–	0.4	0.4
Comprehensive earnings							430.9
Adoption of FASB Statement No. 158, net of tax	–	–	–	–	–	(30.9)	(30.9)
Issuance of common stock under employee stock plans	0.2	91.8	–	–	–	–	92.0
Surrender of restricted stock awards	–	–	–	(3.1)	–	–	(3.1)
Reversal of unamortized deferred compensation balance	–	(6.9)	–	–	6.9	–	–
Stock compensation	–	52.7	–	–	–	–	52.7
Income tax benefit from stock options exercised	–	11.3	–	–	–	–	11.3
Retirement of common stock	(0.6)	(460.9)	–	–	–	–	(461.5)
BALANCE AT DECEMBER 31, 2006	**$14.4**	**$1,027.7**	**$1,767.9**	**$(891.6)**	**$ –**	**$ 58.7**	**$1,977.1**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions, except per share data)	Years Ended December 31, 2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$ 431.6**	$ 386.2	$ 363.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**155.0**	149.8	138.8
Stock compensation	**52.7**	13.7	15.5
Loss on sale of assets	**0.8**	0.2	1.0
Investment loss	**–**	3.1	–
Accreted interest on zero-coupon subordinated notes	**10.9**	10.7	10.5
Cumulative earnings in excess of distribution from joint venture partnerships	**(1.0)**	(11.3)	(3.5)
Deferred income taxes	**36.7**	18.5	38.9
Change in assets and liabilities (net of effects of acquisitions):			
(Increase) in accounts receivable(net)	**(47.9)**	(15.0)	(8.9)
(Increase) decrease in inventories	**(18.8)**	0.1	(13.7)
(Increase) decrease in prepaid expenses and other	**(16.0)**	(5.8)	7.0
(Decrease) increase in accounts payable	**(17.6)**	24.1	12.3
Increase (decrease) in accrued expenses and other	**45.9**	(0.1)	(22.8)
Net cash provided by operating activities	**632.3**	574.2	538.1
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(115.9)**	(93.6)	(95.0)
Proceeds from sale of assets	**0.9**	1.5	1.8
Deferred payments on acquisitions	**(4.0)**	(7.3)	(6.7)
Purchases of short-term investments	**(1,589.7)**	(987.8)	(1,445.4)
Proceeds from sale of short-term investments	**1,472.0**	1,129.3	1,361.3
Acquisition of licensing technology	**(0.6)**	(5.4)	(7.9)
Acquisition of businesses, net of cash acquired	**(36.0)**	(335.3)	(32.1)
Net cash used for investing activities	**(273.3)**	(298.6)	(224.0)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from credit facilities	**95.0**	385.0	–
Payments on credit facilities	**(95.0)**	(385.0)	–
Proceeds from senior note offering	**–**	250.0	–
Bank overdraft	**34.9**	–	–
Payments on other long-term debt	**(1.2)**	(0.6)	(0.4)
Payment of debt issuance costs	**–**	(2.4)	–
Payments on long-term lease obligations	**(1.8)**	(2.6)	(1.5)
Excess tax benefits from stock based compensation	**9.1**	–	–
Purchase of common stock	**(476.5)**	(583.7)	(368.1)
Net proceeds from issuance of stock to employees	**82.0**	62.1	56.3
Net cash provided by (used for) financing activities	**(353.5)**	(277.2)	(313.7)
Effect of exchange rate changes on cash and cash equivalents	**0.6**	(0.6)	(0.7)
Net increase (decrease) in cash and cash equivalents	**6.1**	(2.2)	(0.3)
Cash and cash equivalents at beginning of year	**45.4**	47.6	47.9
Cash and cash equivalents at end of year	**$ 51.5**	$ 45.4	$ 47.6

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation:

Laboratory Corporation of America Holdings with its subsidiaries (the "Company") is the second largest independent clinical laboratory company in the United States based on 2006 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty and niche businesses based on certain types of specialized testing capabilities and client requirements, such as oncology testing, HIV genotyping and phenotyping, diagnostic genetics and clinical research trials.

Since its founding in 1971, the Company has grown into a network of 36 primary laboratories and over 1,700 service sites consisting of branches, patient service centers and STAT laboratories. With over 25,000 employees, the Company processes tests on more than 370,000 patient specimens daily and provides clinical laboratory testing services in all 50 states, the District of Columbia, Puerto Rico, Belgium and three provinces in Canada. The Company operates in one business segment.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries for which it exercises control. Long-term investments in affiliated companies in which the Company owns greater than 20%, and therefore exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which the Company does not exercise significant influence (generally, when the Company has an investment of less than 20% and no representation on the Company's Board of Directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. The Company does not have any variable interest entities or special purpose entities.

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the year. Resulting translation adjustments are included in "Accumulated other comprehensive earnings."

Revenue Recognition:

Sales are recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payer programs including various managed care organizations, as well as the Medicare and Medicaid programs. Billings for services under third party payer programs are included in sales net of allowances for contractual discounts and allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement as an adjustment to revenue. In 2006, 2005 and 2004, approximately 20% of the Company's revenues were derived from tests performed for the beneficiaries of the Medicare and Medicaid programs. The Company has capitated agreements with certain managed care customers and recognizes related revenue based on a predetermined monthly contractual rate for each member of the managed care plan regardless of the number or cost of services provided by the Company. In 2006, 2005 and 2004, approximately 4% of the Company's revenues were derived from these capitated agreements.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Significant estimates include the allowances for doubtful accounts, deferred tax assets, fair values and amortization lives for intangible assets and accruals for self-insurance reserves and pensions. The allowance for doubtful accounts is determined based on historical collection trends, the aging of accounts, current economic conditions and regulatory changes. Actual results could differ from those estimates.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The Company maintains cash and cash equivalents with various major financial institutions. The total cash balances on deposit that exceeded the balances insured by the F.D.I.C., were approximately $15.3 at December 31, 2006. Cash equivalents at December 31, 2006, totaled $46.0, which includes amounts invested in treasury bills and short-term bonds.

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

Accounts receivable balances (gross) from Medicare and Medicaid were $99.3 and $105.4 at December 31, 2006 and 2005, respectively.

Earnings per Share:

Basic earnings per share is computed by dividing net earnings, less preferred stock dividends and accretion, by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net earnings including the impact of dilutive adjustments by the weighted-average number of common shares outstanding plus potentially dilutive shares, as if they had been issued at the beginning of the period presented. Potentially dilutive common shares result primarily from the Company's outstanding stock options, restricted stock awards, performance share awards, and shares issuable upon conversion of zero-coupon subordinated notes.

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

	2006			2005			2004		
(shares in millions)	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share:	**$431.6**	**124.1**	**$3.48**	$386.2	133.5	$2.89	$363.0	139.4	$2.60
Stock options	**–**	**1.3**		–	1.0		–	0.9	
Restricted stock awards and other	**–**	**0.7**		–	0.4		–	0.4	
Interest on convertible debt, net of tax	**5.3**	**8.6**		6.5	10.0		6.2	10.0	
Diluted earnings per share:	**$436.9**	**134.7**	**$3.24**	$392.7	144.9	$2.71	$369.2	150.7	$2.45

The following table summarizes the potential common shares not included in the computation of diluted earnings per share because their impact would have been antidilutive:

	Years Ended December 31,		
	2006	2005	2004
Stock options	**1.1**	–	1.5

Stock Compensation Plans:

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires the Company to measure the cost of employee services received in exchange for all equity awards granted, based on the fair market value of the award as of the grant date. SFAS 123(R) supersedes Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation and Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). The Company has adopted SFAS 123(R) using the modified prospective application method of adoption which requires the Company to record compensation cost related to unvested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123(R) and recognized on a straight line basis over the service periods of each award. The Company calculated forfeiture rates for 2006 based on its historical experience.

Prior to 2006, the Company accounted for stock-based compensation in accordance with APB 25 using the intrinsic value method, which did not require that compensation cost be recognized for the Company's stock option and stock purchase plans provided the option exercise price was established at the common stock fair market value on the date of grant. Under APB 25, the Company was required to record expense over the vesting period for the value of its restricted stock and performance share awards. Prior to 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS No. 148), as if the fair value method defined by SFAS No. 123 had been applied to all of its stock-based compensation.

As a result of adopting SFAS 123(R), the Company's net earnings were reduced by $13.9 ($23.3 on a pre-tax basis). The impact on both basic and diluted earnings per share for the year ended December 31, 2006 was $0.11 per share. In addition, in connection with the adoption of SFAS 123R, net cash provided by operating activities decreased and net cash provided by financing activities increased for the year ended December 31, 2006 by $9.1 related to excess tax benefits from stock-based compensation arrangements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

During the second half of 2006, the Company recorded charges of approximately $11.6, related to the acceleration of the recognition of stock compensation due to the announced retirement of the Company's Chief Executive Officer, effective December 31, 2006.

The following tables summarize the components of the Company's stock-based compensation programs recorded as expense for the years ended December 31, 2006, 2005, and 2004:

	2006			2005			2004		
	Pre-tax Expense	Tax Benefit	Net	Pre-tax Expense	Tax Benefit	Net	Pre-tax Expense	Tax Benefit	Net
Stock option and stock purchase plans	**$23.3**	**$ (9.4)**	**$13.9**	$ –	$ –	$ –	$ –	$ –	$ –
Restricted stock and performance share awards	**17.7**	**(7.1)**	**10.6**	13.7	(5.5)	8.2	15.5	(6.4)	9.1
CEO retirement charge	**11.6**	**(4.6)**	**7.0**	–	–	–	–	–	–
Total share based compensation	**$52.7**	**$(21.1)**	**$31.6**	$13.7	$(5.5)	$8.2	$15.5	$(6.4)	$9.1

The following table shows the pro forma net income for the years ended December 31, 2005 and 2004 as if the fair value based method had been applied to all awards:

	2005	2004
Net earnings, as reported	$386.2	$363.0
Add: Stock-based compensation recorded as expense, net of related tax effects	8.2	9.1
Deduct: Total stock-based compensation determined under fair value method for all awards, net of related tax effects	(24.8)	(29.9)
Pro forma net income	$369.6	$342.2
Basic earnings per common share		
As reported	$2.89	$2.60
Pro forma	2.77	2.45
Diluted earnings per common share		
As reported	$2.71	$2.45
Pro forma	2.55	2.27

See note 14 for assumptions used in calculating pro forma compensation expense for the employee stock option and stock purchase plans.

Cash Equivalents:

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

Short-Term Investments:

The items classified as short-term investments are principally Auction Rate Securities (ARS), Variable Rate Demand Notes (VRDN), and U.S. Government Agency securities. The Company classifies the ARS and VRDN as available-for-sale. Securities accounted for as available-for-sale are required to be reported at fair value with unrealized gains and losses, net of taxes, excluded from net income and shown separately as a component of accumulated other comprehensive income within shareholders' equity. The securities that the Company has classified as available-for-sale generally trade at par and as a result typically do not have any realized or unrealized gains or losses. No gains or losses were realized on sales of ARS and VRDN for the years ended December 31, 2006, 2005, and 2004. As of December 31, 2006, there are no unrealized holding gains or losses on these securities. The Company had $135.4 and $17.7 of ARS and VRDN classified as short-term investments as of December 31, 2006 and 2005, respectively.

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

Inventories:

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

Property, Plant and Equipment:

Property, plant and equipment are recorded at cost. The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Depreciation and amortization expense is computed on all classes of assets based on their estimated useful lives, as indicated below, using principally the straight line method.

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

Leasehold improvements and assets held under capital leases are amortized over the shorter of their estimated lives or the term of the related leases. Expenditures for repairs and maintenance are charged to operations as incurred. Retirements, sales and other disposals of assets are recorded by removing the cost and accumulated depreciation from the related accounts with any resulting gain or loss reflected in operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

Capitalized Software Costs:

The Company capitalizes purchased software which is ready for service and capitalizes software development costs incurred on significant projects starting from the time that the preliminary project stage is completed and management commits to funding a project until the project is substantially complete and the software is ready for its intended use. Capitalized costs include direct material and service costs and payroll and payroll-related costs. Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system, generally five years.

Long-Lived Assets:

Goodwill is evaluated for impairment by applying a fair value based test on an annual basis and more frequently if events or changes in circumstances indicate that the asset might be impaired.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of assets to be held and used is determined by the Company at the level for which there are identifiable cash flows by comparison of the carrying amount of the assets to future undiscounted net cash flows before interest expense and income taxes expected to be generated by the assets. Impairment, if any, is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets (based on market prices in an active market or on discounted cash flows). Assets to be disposed of are reported at the lower of the carrying amount or fair value.

The Company completed an annual impairment analysis of its indefinite lived assets, including goodwill, and has found no instances of impairment as of December 31, 2006.

Intangible Assets:

Intangible assets (patents and technology, customer lists and non-compete agreements), are amortized on a straight-line basis over the expected periods to be benefited, such as legal life for patents and technology, 10 to 25 years for customer lists and contractual lives for non-compete agreements.

Debt Issuance Costs:

The costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the terms of the related debt.

Professional Liability:

The Company is self-insured for professional liability claims arising in the normal course of business, generally related to the testing and reporting of laboratory test results. The Company records a reserve for such asserted and estimated unasserted claims based on actuarial assessments of future settlement and legal defense costs.

Income Taxes:

The Company accounts for income taxes utilizing the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not.

Derivative Financial Instruments:

Interest rate swap agreements, which have been used by the Company from time to time in the management of interest rate exposure, are accounted for at fair value.

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

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

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

Based upon independent appraisals, these embedded derivatives had no fair market value at December 31, 2006 and 2005.

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Fair Value of Financial Instruments:
The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, income taxes receivable, senior notes and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The fair market value of the zero-coupon subordinated notes, based on market pricing, was approximately $729.7 and $567.3 as of December 31, 2006 and 2005, respectively.

2. BUSINESS ACQUISITIONS

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

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

3. CEO RETIREMENT

On July 21, 2006, the Company announced the retirement of its Chief Executive Officer ("CEO"), Thomas P. Mac Mahon, effective December 31, 2006. During the second half of 2006, the Company recorded charges of approximately $12.3, which included $11.6 related to the acceleration of the recognition of stock compensation and $0.7 related to the acceleration of certain defined benefit plan obligations.

On July 20, 2006, Mr. Mac Mahon entered into a consulting agreement with the Company effective January 1, 2007, following the announcement of his retirement as CEO on December 31, 2006. The agreement provides for additional services to be provided by Mr. Mac Mahon following the termination of his employment as CEO to assist the Company during a transition period. Mr. Mac Mahon will remain as Chairman of the Board. The Agreement provided for an additional five years of age for purposes of calculating pension benefits. The agreement has a term of six months up to sixteen months.

On November 29, 2006, Mr. Mac Mahon entered into an Aircraft Time Sharing Agreement with the Company. Under the provisions of this agreement, Mr. Mac Mahon may sublease from time to time aircraft possessed by the Company, subject to the prior permission and approval of the Company provided such use shall not be for purposes of providing transportation of passengers or cargo in air commerce for compensation or hire. The agreement is for a one-year period and automatically renews for additional one-year periods until 2026 in the absence of written notice of non-renewal at least ten days prior to the applicable renewal period. Mr. Mac Mahon is responsible for the direct operating costs of the aircraft for each flight undertaken under this time sharing agreement.

4. RESTRUCTURING AND OTHER SPECIAL CHARGES

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

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

5. INVESTMENTS IN JOINT VENTURE PARTNERSHIPS

At December 31, 2006 the Company had investments in the following joint venture partnerships:

Location	Net Investment	Percentage Interest Owned
Milwaukee, Wisconsin	$ 4.2	50.00%
Ontario, Canada	518.8	72.99%
Alberta, Canada	54.8	43.37%

Each of the joint venture agreements that govern the conduct of business of these partnerships mandates unanimous agreement between partners on all major business decisions as well as providing other participating rights to each partner. These partnerships, including

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

Condensed unconsolidated financial information for the joint venture partnerships is shown in the following table.

	2006	2005
As of December 31:		
Current assets	$ 54.6	$ 55.0
Other assets	133.6	132.0
Total assets	$188.2	$187.0
Current liabilities	$ 24.6	$ 24.4
Other liabilities	0.6	1.4
Total liabilities	25.2	25.5
Partners' equity	163.0	161.5
Total liabilities and Partners equity	$188.2	$187.0

	2006	2005	2004
For the period January 1 – December 31:			
Net sales	$361.7	$321.4	$280.8
Gross profit	165.3	144.6	127.2
Net earnings	102.0	93.1	77.8

The Company's recorded investments in the Ontario and Alberta joint venture partnerships at December 31, 2006, include $417.6 and $46.5, respectively of value assigned to these two partnerships' Canadian licenses (with an indefinite life and deductible for tax), to conduct diagnostic testing services in their respective provinces.

6. ACCOUNTS RECEIVABLE, NET

	December 31, 2006	December 31, 2005
Gross accounts receivable	$ 643.6	$ 618.0
Less allowance for doubtful accounts	(102.3)	(124.6)
	$ 541.3	$ 493.4

The provision for doubtful accounts was $176.5, $179.3 and $192.7 in 2006, 2005 and 2004 respectively. In addition, in 2005 the Company recorded a special charge of $4.7 related to forgiveness of amounts owed by patients and clients in the areas of the Gulf Coast severely impacted by hurricanes Katrina and Rita.

7. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2006	December 31, 2005
Land	$ 14.6	$ 14.2
Buildings and building improvements	93.6	91.4
Machinery and equipment	421.1	382.9
Software	239.5	202.0
Leasehold improvements	100.1	94.3
Furniture and fixtures	25.9	24.1
Construction in progress	36.2	33.3
Buildings under capital leases	5.4	5.4
Equipment under capital leases	3.5	3.5
	939.9	851.1
Less accumulated depreciation and amortization of capital lease assets	(546.7)	(469.6)
	$ 393.2	$ 381.5

Depreciation expense and amortization of capital lease assets was $102.2, $97.2 and $93.0 for 2006, 2005 and 2004, respectively. Depreciation of software was $33.8, $30.2, and $28.9 for 2006, 2005 and 2004, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill (net of accumulated amortization) for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Balance as of January 1	$1,477.0	$1,300.4
Goodwill acquired during the year	19.6	171.0
Adjustments to goodwill	(12.6)	5.6
Goodwill, net	$1,484.0	$1,477.0

The components of identifiable intangible assets are as follows:

	December 31, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$690.3	$(215.7)	$675.8	$(181.6)
Patents, licenses and technology	89.1	(38.0)	88.5	(28.0)
Non-compete agreements	27.4	(23.9)	25.6	(22.5)
Trade name	100.5	(19.5)	100.7	(12.8)
	$907.3	$(297.1)	$890.6	$(244.9)

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A summary of intangible assets acquired during 2006, and their respective weighted-average amortization periods are as follows:

	Amount	Weighted-Average Amortization Period
Customer lists	$14.5	10.0
Patents, licenses and technology	0.6	6.3
Non-compete agreements	1.8	5.0
	$16.9	9.3

Amortization of intangible assets was $52.2, $51.4 and $42.7 in 2006, 2005 and 2004, respectively. Amortization expense of intangible assets is estimated to be $51.8 in fiscal 2007, $49.2 in fiscal 2008, $48.2 in fiscal 2009, $45.8 in fiscal 2010, $41.8 in fiscal 2011, and $373.4 thereafter.

The Company paid approximately $0.6 in 2006 and $5.4 in 2005 for certain exclusive and non-exclusive licensing rights to diagnostic testing technology. These amounts are being amortized over the life of the licensing agreements.

9. ACCRUED EXPENSES AND OTHER

	December 31, 2006	December 31, 2005
Employee compensation and benefits	**$109.7**	$ 78.0
Self-insurance reserves	**46.1**	46.1
Other tax accruals	**53.0**	44.4
Accrued taxes payable	**1.6**	9.2
Royalty and license fees payable	**6.5**	5.7
Accrued repurchases of common stock	**–**	15.0
Restructuring reserves	**3.3**	5.8
Acquisition related reserves	**6.5**	9.1
Interest payable	**8.6**	8.6
Other	**7.7**	5.4
	$243.0	$227.3

10. OTHER LIABILITIES

	December 31, 2006	December 31, 2005
Post-retirement benefit obligation	**$45.8**	$46.1
Restructuring reserves	**3.0**	5.9
Self-insurance reserves	**13.2**	13.2
Acquisition related reserves	**3.9**	8.8
Other	**14.6**	14.6
	$80.5	$88.6

11. DEBT

Short-term borrowings and current portion of long-term debt at December 31, 2006 and 2005 consisted of the following:

	December 31, 2006	December 31, 2005
Zero-coupon convertible subordinated notes	**$554.4**	$544.4
Current portion of long-term debt	**–**	0.2
Total short-term borrowings and current portion of long term debt	**$554.4**	$544.6

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	December 31, 2006	December 31, 2005
Senior notes due 2013	**$352.6**	$353.0
Senior notes due 2015	**250.0**	250.0
Other long-term debt	**0.4**	1.5
Total long-term debt	**$603.0**	$604.5

Revolving Credit Facility

On January 13, 2005, the Company entered into a 5 year $350.0 unsecured revolving credit facility with Credit Suisse First Boston and UBS Securities LLC, acting as Co-Lead Arrangers, and a group of financial institutions for borrowings of up to $350.0. The facility also provides for an accordion feature whereby the Company can increase the amounts available under the facility up to an additional $150.0, with the consent of the lenders, if needed to support the Company's growth. There were no balances outstanding on the Company's revolving credit facility at December 31, 2006 and December 31, 2005. The revolving credit facility bears interest at varying rates based upon the Company's credit rating with Standard & Poor's Ratings Services. As of December 31, 2006, the interest rate on the revolving credit facility was 5.8%.

The senior credit facility is available for general corporate purposes, including working capital, capital expenditures, funding of share repurchases and other payments, and acquisitions. The agreement contains certain debt covenants which require that the Company maintain leverage and interest coverage ratios of 2.5 to 1.0 and 5.0 to 1.0, respectively. Both ratios are calculated in relation to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). The covenants also restrict the payment of dividends. The Company is in compliance with all covenants at December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Zero-Coupon Convertible Subordinated Notes

In 2001, the Company sold $744.0 aggregate principal amount at maturity of its zero-coupon convertible subordinated notes (the "notes") due 2021. The notes, which are subordinate to the Company's bank debt, were sold at an issue price of $671.65 per $1,000 principal amount at maturity (representing a yield to maturity of 2.0% per year). Each one thousand dollar principal amount at maturity of the notes is convertible into 13.4108 shares of the Company's common stock, subject to adjustment in certain circumstances, if one of the following conditions occurs:

1) If the sales price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding quarter reaches specified thresholds (beginning at 120% and declining 0.1282% per quarter until it reaches approximately 110% for the quarter beginning July 1, 2021 of the accreted conversion price per share of common stock on the last day of the preceding quarter). The accreted conversion price per share will equal the issue price of a note plus the accrued original issue discount and any accrued contingent additional principal, divided by the number of shares of common stock issuable upon conversion of a note on that day. The conversion trigger price for the fourth quarter of 2006 was approximately $65.37.

2) If the credit rating assigned to the notes by Standard & Poor's Ratings Services is at or below BB-.

3) If the notes are called for redemption.

4) If specified corporate transactions have occurred (such as if the Company is party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of its assets).

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

The Company may redeem for cash all or a portion of the notes at any time on or after September 11, 2006 at specified redemption prices per one thousand dollar principal amount at maturity of the notes.

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

On September 19, 2006, the Company announced that for the period of September 12, 2006 to March 11, 2007, the zero-coupon subordinated notes will accrue contingent cash interest at a rate of no less than 0.125% of the average market price of a zero-coupon subordinated note for the five trading days ended September 7, 2006, in addition to the continued accrual of the original issue discount.

On October 2, 2006, the Company announced that its zero-coupon subordinated notes could be converted into Common Stock at the conversion rate of 13.4108 per $1,000 principal amount at maturity of the notes, subject to the terms of the zero-coupon subordinated notes and the Indenture, dated as of September 11, 2001 between the Company and The Bank of New York, as trustee and conversion agent. In order to exercise the option to convert all or a portion of the zero-coupon subordinated notes, Holders were required to validly surrender their zero-coupon subordinated notes at any time during the calendar quarter beginning October 1, 2006, through the close of business on the last business day of the calendar quarter, which was 5:00 p.m., New York City time, on Friday, December 29, 2006. At December 31, 2006, $1.3 of the $744 aggregate principal amount at maturity had been converted into 0.017 shares of the Company's common stock.

Exchange Offer for Zero-Coupon Subordinated Notes

On September 22, 2006, the Company announced that it had commenced an exchange offer related to its zero-coupon subordinated notes due 2021. In the exchange offer, the Company offered to exchange a new series of zero-coupon convertible subordinated notes due September 11, 2021 (the "New Notes") and an exchange fee of $2.50 per $1,000 aggregate principal amount at maturity for all of the outstanding zero-coupon subordinated notes due 2021 (the "Old Notes").

The purpose of the exchange offer was to exchange the Old Notes for the New Notes with certain different terms, including the addition of a net share settlement feature. The net share settlement feature will require the Company to satisfy its obligation due upon conversion to holders of the New Notes in cash for a portion of the conversion obligation equal to the accreted principal of the New Notes and in shares for the remainder of the conversion value. In addition, the New Notes provide that the Company will eliminate its option to issue shares in lieu of paying cash if and when the Company repurchases the New Notes at the option of holders.

On October 23, 2006, the exchange offer expired. Following settlement of the exchange, $741.2 in aggregate principal amount at maturity of the New Notes and $2.6 in aggregate principal amount at maturity of the Old Notes were outstanding.

On January 9, 2007, the Company announced that its zero-coupon subordinated notes could be converted into Common Stock subject to the terms of the note and Indenture agreements dated September 11, 2001 for the Old Notes and to the note and Indenture agreements dated October 24, 2006 for the New Notes. In order to exercise the option

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to convert all or a portion of the LYONs or Zero-Coupon Notes, holders must validly surrender their LYONs or Zero-Coupon Notes at any time during the calendar quarter through the close of business at 5:00p.m., New York City time, on Monday, April 2, 2007.

Senior Notes due 2013

On January 17, 2003, in conjunction with the acquisition of DIANON, the Company borrowed $350.0 under a bridge loan agreement with Credit Suisse First Boston, acting as Administrative Agent. On January 31, 2003, the Company sold $350.0 aggregate principal amount of Senior Notes due January 31, 2013. The Notes bear interest at the rate of 5½% per annum from February 1, 2003, payable semi-annually on February 1 and August 1, commencing on August 1, 2003. Proceeds from the issuance of these Notes ($345.1), together with cash on hand was used to repay the $350.0 principal amount of the Company's bridge loan, and as a result, such bridge loan was terminated.

Senior Notes due 2015

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

12. PREFERRED STOCK AND COMMON SHAREHOLDERS' EQUITY

The Company is authorized to issue up to 265.0 shares of common stock, par value $0.10 per share. The Company's treasury shares are recorded at aggregate cost. Common shares issued and outstanding are summarized in the following table:

	2006	2005
Issued	**143.8**	148.0
In treasury	**(21.6)**	(21.5)
Outstanding	**122.2**	126.5

The Company is authorized to issue up to 30.0 shares of preferred stock, par value $0.10 per share. There are no preferred shares outstanding as of December 31, 2006.

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

Common shares issued

	2006	2005	2004
Common stock issued at January 1	**148.0**	150.7	148.9
Common stock issued under employee stock plans	**2.5**	2.1	1.8
Retirement of common stock	**(6.7)**	(4.8)	–
Common stock issued at December 31	**143.8**	148.0	150.7

Common shares held in treasury

	2006	2005	2004
Common shares held in treasury at January 1	**21.5**	14.5	5.5
Purchase of common stock	**–**	6.8	8.9
Surrender of restricted stock awards	**0.1**	0.2	0.1
Common shares held in treasury at December 31	**21.6**	21.5	14.5

Share Repurchase Program

During fiscal 2006, the Company purchased 6.7 shares of its common stock (including 3.4 shares acquired in an accelerated share repurchase transaction) at a total cost of $438.6. As of December 31, 2006, the Company had outstanding authorizations from the Board of Directors to purchase approximately $350.2 of Company common stock.

On November 6, 2006, the Company executed an accelerated share repurchase transaction with an affiliate of Lehman Brothers Inc. for the acquisition of 3.4 shares of the Company's outstanding common stock for an initial purchase price of $73.40 per share. The Company used cash on hand to pay for the shares. The purchase price for these shares is subject to an adjustment based on the volume weighted-average price of the Company's stock during a period following execution of the agreement. The total cost of the initial purchase was approximately $253.6, including a cap premium of $3.5. The forward contract associated with the accelerated share repurchase transaction was accounted for in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," ("EITF 0019") as an equity instrument. The purchase price adjustment was settled in the first quarter of 2007 and resulted in the receipt of 0.1 additional shares by the Company. The purchase price adjustment did not require the Company to make any additional cash payment. The initial shares repurchased under the accelerated share repurchase agreement were retired.

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On December 7, 2005, the Company executed an overnight share repurchase transaction with a bank for the acquisition of 4.8 shares of the Company's outstanding common stock for an initial purchase price of $52.04 per share. The transaction was financed with borrowings under the Company's revolving line of credit. The Company used cash on hand and the proceeds of the Senior Notes due 2015 to repay borrowings under the Company's revolving credit facility. Pursuant to the agreement with the bank, the bank purchased 4.8 shares in the open market over the period ended June 13, 2006. At the end of the purchase period, the Company made a cash payment of $22.9 to the bank to settle its obligation for the purchase price adjustment based on the volume weighted-average purchase price of the shares acquired compared to the initial purchase price. The total cost of the initial purchase was approximately $251.7, including a $1.5 cap premium and $0.2 in commissions and other fees. The shares repurchased under the overnight share repurchase agreement were immediately canceled and returned to the status of authorized but unissued shares. The Company reduced common stock and additional paid in capital by approximately $0.5 and $251.2, respectively to record the initial purchase price. The forward contract associated with the overnight share repurchase transaction was accounted for in accordance with EITF 00-19 as an equity instrument. The $22.9 paid in connection with the price adjustment was recorded as a reduction to additional paid in capital. The diluted net income per share calculation for the year ended December 31, 2006 includes the potential shares of common stock that could have been issued to settle the overnight share repurchase transaction.

Stockholder Rights Plan

The Company adopted a stockholder rights plan effective as of December 13, 2001 that provides that each common stockholder of record on December 21, 2001 received a dividend of one right for each share of common stock held. Each right entitles the holder to purchase from the Company one-hundredth of a share of a new series of participating preferred stock at an initial purchase price of four hundred dollars. These rights will become exercisable and will detach from the Company's common stock if any person becomes the beneficial owner of 15% or more of the Company's common stock. In that event, each right will entitle the holder, other than the acquiring person, to purchase, for the initial purchase price, shares of the Company's common stock having a value of twice the initial purchase price. The rights will expire on December 13, 2011, unless earlier exchanged or redeemed.

Accumulated Other Comprehensive Earnings

The components of accumulated other comprehensive earnings are as follows:

	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Adoption of FASB Statement No. 158	Accumulated Other Comprehensive Earnings
Balance at December 31, 2003	$ 55.7	$(21.0)	$ –	$ 34.7
Current year adjustments	40.3	35.6	–	75.9
Tax effect of adjustments	(14.7)	(14.2)	–	(28.9)
Balance at December 31, 2004	81.3	0.4	–	81.7
Current year adjustments	14.3	–	–	14.3
Tax effect of adjustments	(5.7)	–	–	(5.7)
Balance at December 31, 2005	89.9	0.4	–	90.3
Current year adjustments	(1.1)	–	(51.2)	(52.3)
Tax effect of adjustments	0.4	–	20.3	20.7
Balance at December 31, 2006	**$ 89.2**	**$ 0.4**	**$(30.9)**	**$ 58.7**

13. INCOME TAXES

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

Pre-tax income

	2006	2005	2004
Domestic	**$717.4**	$639.7	$618.8
Foreign	**3.5**	1.0	(3.5)
Total pre-tax income	**$720.9**	$640.7	$615.3

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

	Years Ended December 31,		
	2006	2005	2004
Current:			
Federal	**$204.0**	$186.5	$165.6
State	**43.2**	43.0	40.5
Foreign	**5.4**	6.5	7.3
	$252.6	$236.0	$213.4
Deferred:			
Federal	**$ 26.3**	$ 13.6	$ 32.1
State	**7.5**	3.1	7.4
Foreign	**2.9**	1.8	(0.6)
	36.7	18.5	38.9
	$289.3	$254.5	$252.3

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The tax benefit associated with option exercises from stock plans reduced taxes currently payable by approximately $20.4, $11.9 and $11.1 in 2006, 2005 and 2004, respectively. Such benefits are recorded as additional paid-in-capital.

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

	Years Ended December 31,		
	2006	2005	2004
Statutory federal rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal income tax effect	**4.3**	4.5	4.4
Change in valuation allowance	**–**	0.2	–
Dividend received deduction for foreign repatriation	**–**	(1.1)	–
Other	**0.8**	1.1	1.6
Effective rate	**40.1%**	39.7%	41.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2006	December 31, 2005
Deferred tax assets:		
Employee compensation and benefits	**$ 43.9**	$ –
Accounts receivable	**–**	4.3
Self-insurance reserves	**22.3**	18.0
Post-retirement benefit obligation	**18.1**	18.2
Acquisition and restructuring reserves	**6.2**	20.1
Tax loss carryforwards	**16.9**	26.6
Other	**1.7**	6.9
	109.1	94.1
Less valuation allowance	**(3.9)**	(3.9)
Net deferred tax assets	**$ 105.2**	$ 90.2
Deferred tax liabilities:		
Employee compensation and benefits	**–**	(2.3)
Accounts receivable	**(14.7)**	–
Deferred earnings	**(18.1)**	(15.3)
Intangible assets	**(282.0)**	(268.0)
Property, plant and equipment	**(29.8)**	(41.8)
Zero-coupon subordinated notes	**(90.6)**	(69.7)
Currency translation adjustment	**(57.9)**	(58.7)
Total gross deferred tax liabilities	**(493.1)**	(455.8)
Net deferred tax liabilities	**$(387.9)**	$(365.6)

The Company has state tax loss carryovers of approximately $29.3, which expire in 2007 through 2024. In addition, the Company has federal tax loss carryovers of approximately $41.4 expiring periodically through 2024. The utilization of these tax loss carryovers is limited due to change of ownership rules. However, at this time the Company expects to fully utilize substantially all of its tax loss carryovers.

All income tax years through and including 2003 have been finalized with the Internal Revenue Service. Management believes adequate provisions have been recorded related to all open tax years.

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

14. STOCK COMPENSATION PLANS

Stock Incentive Plans

There are currently 19.7 million shares authorized for issuance under the 2000 Stock Incentive Plan, the Amended and Restated 1999 Stock Incentive Plan and the 1994 Stock Option Plan. Each of these plans was approved by shareholders. At December 31, 2006, there were 1.9 million additional shares available for grant under the Company's stock option plans.

Stock Options

The following table summarizes grants of non-qualified options made by the Company to officers, key employees, and non-employee directors under all plans. Stock options are generally granted at an exercise price equal to or greater than the fair market price per share on the date of grant. Also, for each grant, options vest ratably over a period of three years on the anniversaries of the grant date, subject to their earlier expiration or termination.

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

	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	6.0	$38.10		
Granted	1.4	58.58		
Exercised	(2.1)	35.65		
Cancelled	(0.2)	50.90		
Outstanding at December 31, 2006	**5.1**	**$44.10**	**7.0**	**$150.2**
Vested and expected to vest at December 31, 2006	**5.0**	**$43.73**	**7.0**	**$147.3**
Exercisable at December 31, 2006	**2.5**	**$36.76**	**5.7**	**$93.6**

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(Dollars and shares in millions, except per share data)

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. The amount of intrinsic value will change based on the fair market value of the Company's stock.

Cash received by the Company from option exercises, the actual tax benefit realized for the tax deductions and the aggregate intrinsic value of options exercised from option exercises under all share-based payment arrangements during the years ended December 31, 2006, 2005, and 2004 were as follows:

	2006	2005	2004
Cash received by the Company	**$72.9**	$49.7	$48.9
Tax benefits realized	**$19.0**	$11.0	$10.2
Aggregate intrinsic value	**$48.0**	$27.9	$25.8

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

	Options Outstanding			Options Exercisable	
		Weighted-Average			
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 4.84 – 33.06	1.0	4.7	$28.69	1.0	$28.68
$34.25 – 39.00	1.0	7.1	$38.96	0.5	$38.93
$39.15 – 43.53	0.8	5.1	$42.38	0.7	$42.39
$47.89 – 47.89	1.0	8.2	$47.89	0.3	$47.89
$48.02 – 59.37	1.3	9.1	$58.43	–	$48.66
	5.1	7.0	$44.10	2.5	$36.76

The following table shows the weighted-average grant-date fair values of options and the weighted-average assumptions that the Company used to develop the fair value estimates:

	2006	2005	2004
Fair value per option	**$12.24**	$15.62	$13.66
Valuation assumptions			
Weighted-average expected life (in years)	**3.1**	3.1	3.1
Risk free interest rate	**4.3%**	4.4%	3.5%
Expected volatility	**0.2**	0.4	0.5
Expected dividend yield	**0.0%**	0.0%	0.0%

The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free interest rate for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility of the Company's stock is based on historical volatility of the Company's stock. The Company uses historical data to calculate the expected life of the option. Groups of employees and non-employee directors that have similar exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation purposes. For 2006, expense related to the Company's stock option plan totaled $21.0.

Restricted Stock and Performance Shares

The following table summarizes grants of restricted stock and performance shares ("nonvested shares") made by the Company to officers, key employees, and non-employee directors under all plans. Restricted stock becomes vested annually in equal one third increments beginning on the first anniversary of the grant. The performance share awards represent a three year award opportunity for the period 2005-2007 and become vested in 2008. Performance share awards are subject to certain earnings per share and revenue targets, the achievement of which may increase or decrease the number of shares which the grantee receives upon vesting. The unearned restricted stock and performance share compensation is being amortized to expense over the applicable vesting periods. For 2006, 2005 and 2004, total restricted stock and performance share compensation expense was $17.7, $13.7 and $15.5, respectively.

The fair value of restricted stock and performance share awards is determined based on the closing price of the Company's common stock on the day immediately preceding the grant date.

(Dollars and shares in millions, except per share data)

The following table shows a summary of nonvested shares for the year ended December 31, 2006:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2006	**1.0**	**$45.16**
Granted	**0.2**	**58.60**
Vested	**(0.2)**	**41.58**
Adjustments	**0.1**	**48.10**
Nonvested at December 31, 2006	**1.1**	**$48.01**

As of December 31, 2006, there was $19.7 of total unrecognized compensation cost related to nonvested restricted stock and performance share-based compensation arrangements granted under the stock incentive plans. That cost is expected to be recognized over a weighted-average period of 1.5 years.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan, begun in 1997 and amended in 1999 and 2004, with 4.5 million shares of common stock authorized for issuance. The plan permits substantially all employees to purchase a limited number of shares of Company stock at 85% of market value. The Company issues shares to participating employees semi-annually in January and July of each year. Approximately 207, 209, and 247 thousand shares were purchased by eligible employees in 2006, 2005 and 2004 respectively. For 2006, expense related to the Company's employee stock purchase plan was $2.3.

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

	2006	2005	2004
Fair value of the employee's purchase right	**$11.48**	$14.40	$10.99
Valuation assumptions			
Risk free interest rate	**5.0%**	2.8%	1.3%
Expected volatility	**0.1**	0.1	0.2
Expected dividend yield	**0.0%**	0.0%	0.0%

15. COMMITMENTS AND CONTINGENT LIABILITIES

The Company was an appellant in a patent case originally filed by Competitive Technologies, Inc. and Metabolite Laboratories, Inc. in the United States District Court for the District of Colorado. After a jury trial, the district court entered judgment against the Company for patent infringement, with total damages and attorney's fees payable by the Company of approximately $7.8. The underlying judgment has been paid. The Company vigorously contested the judgment and appealed the case ultimately to the United States Supreme Court. On June 22, 2006, the Supreme Court dismissed the Company's appeal and the case has been remanded to the District Court for further proceedings including resolution of a related declaratory judgment action initiated by the Company addressing the plaintiffs' claims for post trial damages. The Company does not expect the resolution of these issues to have a material adverse effect on its financial position, results of operations or liquidity.

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

The Company believes that it is in compliance in all material respects with all statutes, regulations and other requirements applicable to its clinical laboratory operations. The clinical laboratory testing industry is, however, subject to extensive regulation, and the courts have not interpreted many of these statutes and regulations. There can be no assurance therefore that those applicable statutes and regulations might not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company. Potential sanctions for violation of these statutes and regulations include significant fines and the loss of various licenses, certificates and authorizations.

(Dollars and shares in millions, except per share data)

Under the Company's present insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company is responsible for the uninsured portion of losses related primarily to general, professional and vehicle liability, certain medical costs and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 2006 and 2005, the Company had provided letters of credit aggregating approximately $111.7 and $62.6 respectively, primarily in connection with certain insurance programs and contractual guarantees on obligations under a new customer contract. The Company's availability under its revolving credit facility is reduced by amount of these letters of credit.

On October 3, 2006, the Company announced that it had entered into a new, ten-year agreement with UnitedHealthcare Insurance Company (UnitedHealthcare), effective January 1, 2007. Under the terms of the Agreement, the Company became UnitedHealthcare's exclusive national laboratory, offering a comprehensive suite of services, and will also work with other regional and local laboratory providers to selectively develop, implement and manage for UnitedHealthcare a series of laboratory networks in selected regions across the United States. During the first three years of the ten-year agreement, the Company has committed to reimburse UnitedHealthcare up to $200 for transition costs related to developing an expanded network in the Oxford, MAMSI and Neighborhood Health Partnership markets, as well as in California and Colorado.

The Company leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with non-cancelable terms of one year or more at December 31, 2006 are as follows:

	Operating	Capital
2007	$ 83.4	$ 1.3
2008	64.6	–
2009	47.6	–
2010	33.2	–
2011	25.8	–
Thereafter	49.4	–
Total minimum lease payments	304.0	1.3
Less:		
Amounts included in restructuring and acquisition related accruals	(14.9)	(0.4)
Amounts representing interest	–	(0.1)
Non-cancellable sub-lease income	(1.8)	(0.2)
Total minimum operating lease payments and present value of minimum capital lease payments	$287.3	$ 0.6
Current		$ 0.6
Non-current		–
		$ 0.6

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $130.9, $119.6 and $106.6 for the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2006, the Company was named as guarantor on approximately $6.4 of equipment leases. These leases were entered into by a joint venture that the Company owns a fifty percent interest in and have a five year term.

16. PENSION AND POST-RETIREMENT PLANS

Effective December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans" (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other post-retirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. The impact of SFAS No. 158 as of December 31, 2006, was a decrease of the Company's other assets by $26.4, increase of its accrued liabilities by $4.5 for pension and post-retirement medical benefits, which resulted in a decrease to shareholders' equity of approximately $30.9, net of tax in the Company's consolidated balance sheet as of December 31, 2006.

Pension Plans

The Company maintains a defined contribution retirement plan for substantially all employees. Company contributions to the plan are based on a percentage of employee contributions. The cost of this plan was $13.8, $12.8 and $11.0 in 2006, 2005 and 2004, respectively.

In addition, substantially all employees of the Company are covered by a defined benefit retirement plan (the "Company Plan"). The benefits to be paid under the Company Plan are based on years of credited service and average final compensation. The Company's policy is to fund the Company Plan with at least the minimum amount required by applicable regulations. The Company did not make any contributions to the Company Plan in 2006 and at the present time, does not plan to make any contributions in 2007.

The Company also has a nonqualified supplemental retirement plan which covers its senior management group that provides for the payment of the difference, if any, between the amount of any maximum limitation on annual benefit payments under the Employee Retirement Income Security Act of 1974 and the annual benefit that would be payable under the Company Plan but for such limitation. This plan is an unfunded plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and shares in millions, except per share data)

The effect on operations for both the defined benefit retirement plan and the nonqualified supplemental retirement plan are summarized as follows:

	Years Ended December 31,		
	2006	2005	2004
Service cost for benefits earned	**$ 17.1**	$ 15.7	$ 13.9
Interest cost on benefit obligation	**14.5**	13.8	12.8
Expected return on plan assets	**(21.4)**	(21.0)	(16.9)
Net amortization and deferral	**4.4**	1.3	1.5
CEO retirement charge	**0.7**	–	–
Defined benefit plan costs	**$ 15.3**	$ 9.8	$ 11.3

Amounts included in accumulated other comprehensive earnings consist of unamortized net loss of $47.1 and unrecognized prior service cost of $4.0. The accumulated other comprehensive earnings that are expected to be recognized as components of the defined benefit plan costs during 2007 are $1.9 related to amortization of net loss and $0.6 related to recognition of prior service costs.

A summary of the changes in the projected benefit obligations of the defined benefit retirement plan and the nonqualified supplemental retirement plan are summarized as follows:

	2006	2005
Balance at January 1	**$263.4**	$233.0
Service cost	**17.1**	15.7
Interest cost	**14.5**	13.8
Actuarial loss	**(1.4)**	15.5
Amendments	**(0.7)**	(1.8)
Benefits paid	**(15.1)**	(12.8)
CEO retirement charge	**0.7**	–
Balance at December 31	**$278.5**	$263.4

The Accumulated Benefit Obligation was $273.3 and $258.8 at December 31, 2006 and 2005, respectively.

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

	2006	2005
Fair value of plan assets at beginning of year	**$259.1**	$248.6
Actual return on plan assets	**32.4**	16.8
Employer contributions	**0.4**	8.3
Benefits paid	**(17.2)**	(14.6)
Fair value of plan assets at end of year	**$274.7**	$259.1

Weighted-average assumptions used in the accounting for the defined benefit retirement plan and the nonqualified supplemental retirement plan are summarized as follows:

	2006	2005	2004
Discount rate	**6.00%**	5.60%	6.00%
Compensation increases	**3.0%**	3.0%	3.0%
Expected long term rate of return	**8.5%**	8.5%	8.5%

The Company maintains an investment policy for the management of the Company Plan's assets. The objective of this policy is to build a portfolio designed to achieve a balance between investment return and asset protection by investing in equities of high quality companies and in high quality fixed income securities which are broadly balanced and represent all market sectors. The Company's plan asset allocations at December 31, 2006 and 2005 for the defined benefit retirement plan and the nonqualified supplemental retirement plan are summarized as follows, target allocation for 2007, and expected long-term rate of return by asset category are as follows:

		Percentage of Plan Assets at December 31,		Weighted-Average Expected Long-Term Rate of Return – 2006
Asset Category	Target Allocation 2007	**2006**	2005	
Equity Securities	70.0%	**69.9%**	69.2%	**6.8%**
Debt Securities	30.0%	**30.1%**	30.7%	**1.7%**

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

2007	$18.0
2008	18.9
2009	19.4
2010	20.8
2011	22.3
Years 2012 – 2016	141.6

(Dollars and shares in millions, except per share data)

Post-Retirement Medical Plan

The Company assumed obligations under a subsidiary's post-retirement medical plan. Coverage under this plan is restricted to a limited number of existing employees of the subsidiary. This plan is unfunded and the Company's policy is to fund benefits as claims are incurred. The effect on operations of the post-retirement medical plan is shown in the following table:

	Years Ended December 31,		
	2006	2005	2004
Service cost for benefits earned	**$ 0.6**	$ 0.7	$ 0.8
Interest cost on benefit obligation	**2.2**	2.6	3.1
Actuarial loss	**(2.1)**	(2.2)	(1.9)
Net amortization and deferral	**–**	0.3	0.7
Post-retirement medical plan costs	**$ 0.7**	$ 1.4	$ 2.7

Amounts included in accumulated other comprehensive earnings consist of unamortized net loss of $5.9 and unrecognized prior service credit of $5.8. The accumulated other comprehensive earnings that are expected to be recognized as components of the post-retirement medical plan cost during 2007 are $0.1 related to amortization of net loss and ($2.1) related to recognition of prior service credits.

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

	2006	2005
Balance at January 1	**$43.3**	$43.6
Service cost for benefits earned	**0.6**	0.6
Interest cost on benefit obligation	**2.3**	2.6
Participants contributions	**0.4**	0.4
Actuarial gain	**0.8**	(2.3)
Benefits paid	**(1.6)**	(1.6)
Balance at December 31	**$45.8**	$43.3

The weighted-average discount rates used in the calculation of the accumulated post-retirement benefit obligation was 6.0% and 5.6% as of December 31, 2006 and 2005, respectively. The health care cost trend rate-medical was assumed to be 10.0% and 10.0% as of December 31, 2006 and 2005, respectively, and the trend rate-prescription was assumed to be 12.0% and 12.0% as of December 31, 2006 and 2005, respectively, declining gradually to 5.0% in the year 2014. The health care cost trend rate has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by a percentage point in each year would increase the accumulated post-retirement benefit obligation as of December 31, 2006 by $6.9. The impact of a percentage point change on the aggregate of the service cost and interest cost components of the 2006 post-retirement benefit costs results in an increase of $0.5 or decrease of $0.4.

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

2007	$1.5
2008	1.6
2009	1.7
2010	1.9
2011	2.1
Years 2012–2016	13.1

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Years Ended December 31,		
	2006	2005	2004
Supplemental schedule of cash flow information:			
Cash paid during period for:			
Interest	**$ 33.3**	$ 19.3	$ 19.3
Income taxes, net of refunds	**223.2**	233.3	170.7
Disclosure of non-cash financing and investing activities:			
Issuance of restricted stock awards	**8.9**	7.3	0.7
Surrender of restricted stock awards	**3.1**	7.3	6.8
Accrued repurchases of common stock	**–**	15.0	10.0

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18. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year Ended December 31, 2006				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	**$878.6**	**$903.7**	**$909.9**	**$898.6**	**$3,590.8**
Gross profit	**372.7**	**392.8**	**384.9**	**379.0**	**1,529.4**
Net earnings	**101.9**	**116.4**	**109.6**	**103.7**	**431.6**
Basic earnings per common share	**0.82**	**0.94**	**0.88**	**0.84**	**3.48**
Diluted earnings per common share	**0.76**	**0.87**	**0.81**	**0.81**	**3.24**

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

19. NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies how companies should recognize, measure, present, and disclose uncertain tax positions. FIN 48 also provides guidance on derecognition, interest and penalties, accounting for interim periods, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006 and the Company is adopting the interpretation effective January 1, 2007. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings. Based on its evaluation as of December 31, 2006, the Company does not believe that FIN 48 will have a material impact on its financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for the Company as of January 1, 2008. The Company is currently assessing the impact, if any, of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact, if any, of SFAS 159 on its consolidated financial statements.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

EBITDA represents earnings before interest, income taxes, depreciation, amortization, and nonrecurring charges, and includes the Company's proportional share of the underlying EBITDA of the income from joint venture partnerships. The Company uses EBITDA extensively as an internal management performance measure and believes it is a useful, and commonly used measure of financial performance in addition to earnings before taxes and other profitability measurements under generally accepted accounting principles ("GAAP"). EBITDA is not a measure of financial performance under GAAP. It should not be considered as an alternative to earnings before income taxes (or any other performance measure under GAAP) as a measure of performance or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles earnings before income taxes, representing the most comparable measure under GAAP, to EBITDA for the years ended December 31, 2006 and 2005:

Earnings per diluted share excluding the impact of restructuring charges and a non-recurring investment loss is not a measure recognized under GAAP. The following table reconciles earnings per diluted share, representing the most comparable measure under GAAP, to earnings per diluted share excluding the impact of restructuring charges and a non-recurring investment loss for the years ended December 31, 2006 and 2005:

	Years Ended December 31,	
	2006	2005
Earnings per diluted share	**$3.24**	$2.71
Impact per diluted share:		
Restructuring and other special charges	**0.06**	0.07
Non-recurring investment loss, net of tax	**–**	0.02
Earnings per diluted share, excluding the impact of restructuring and other special charges	**$3.30**	$2.80

Years Ended December 31,

	2006	2005	2004	2003	2002
Earnings before income taxes	**$720.9**	$640.7	$615.3	$540.4	$432.3
Add (subtract):					
Interest expense	**47.8**	34.4	36.1	40.9	19.2
Investment income	**(7.7)**	(1.8)	(3.5)	(5.1)	(3.7)
Other (income) expense, net	**2.8**	–	1.8	1.2	0.6
Depreciation	**102.2**	97.2	93.0	91.6	73.0
Amortization	**52.2**	51.4	42.7	37.6	23.8
Restructuring and other special charges [b), (c), (d), (e)]	**13.4**	16.9	(0.9)	1.5	17.5
Joint venture partnerships' depreciation and amortization	**4.1**	3.9	3.3	3.4	1.1
Non-recurring investment loss [(c)]	**–**	3.1	–	–	–
Impact of adoption of SFAS 123(R) [(a)]	**23.3**	–	–	–	–
EBITDA	**$959.0**	$845.8	$787.8	$711.5	$563.8

(a) Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No.123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the Company to measure the cost of employee services received in exchange for all equity awards granted, based on the fair market value of the award as of the grant date. As a result of adopting SFAS 123(R), the Company recorded approximately $23.3 in stock compensation expense relating to its stock option and employee stock purchase plans for the year ended December 31, 2006. Net earnings for the year ended December 31, 2006, were reduced by $13.9, net of tax.

(b) During the second half of 2006, the Company recorded charges of approximately $12.3, primarily related to the acceleration of the recognition of stock compensation due to the announced retirement of the Company's Chief Executive Officer, effective December 31, 2006. The Company also recorded net restructuring charges of $1.0 in the third quarter of 2006, relating to certain expense-reduction initiatives undertaken across the Company's corporate and divisional operations. The after tax impact of all of these combined charges reduced net earnings for the year by $8.0 million and 2006 diluted EPS by $0.06 ($8.0 million divided by 134.7 million shares).

(c) During the third and fourth quarters of 2005, the Company recorded restructuring and other special charges of $10.0 million and $6.9 million, respectively, in connection with the integration of US LABS and Esoterix, as well as losses realized as a result of Hurricane Katrina. The after tax impact of these combined charges reduced net earnings by $10.2 million, and diluted EPS by $0.07 ($10.2 million divided by 144.9 million shares).

During the second quarter of 2005, the Company wrote-off the recorded value of warrants to acquire shares of Exact Sciences of $3.1 million. The after tax impact of this non-recurring investment loss reduced net earnings by $3.1 million and diluted EPS by $0.02 (3.1 million divided by 144.9 million shares).

(d) During the third quarter of 2003, the Company recorded net restructuring and other special charges of $1.5 for 2003 in connection with the integrations of its acquisition of Dianon Systems, Inc.

(e) During the third quarter of 2002, the Company recorded restructuring and other special charges totaling $17.5 related to the acquisition of Dynacare, Inc.

SHAREHOLDER AND COMPANY INFORMATION

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Information about LabCorp is available from the following Company sources:

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336-436-4879

Center for Molecular Biology and Pathology
800-533-0567

Center for Occupational Testing
800-833-3984

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

LabCorp Drug Development Laboratory Services
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Web Site
www.LabCorp.com

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

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

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

Annual Meeting
The annual meeting of shareholders will be held at 9.00 a.m. EDT on May 16, 2007 at The Paramount Theater, 128 East Front Street, Burlington, NC 27215.

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

Safe Harbor
Forward-looking statements in this annual report are subject to change based on various important factors, including without limitation, competitive actions in the marketplace and adverse actions of governmental and other third-party payors. Actual results could differ materially from those suggested by these forward-looking statements. Further information on potential factors which could affect the Company's financial results is included in the Company's Form 10-K for the year ended December 31, 2006 and subsequent filings.

Common Stock
LabCorp common stock trades on the New York Stock Exchange (NYSE) under the symbol LH. The high and low prices of the stock for each quarter during 2006 and 2005 follow. On February 9, 2007, there were 554 holders of record of common stock. There were no common stock dividends during any of the periods that follow.

2006	High	Low
First Quarter	**$59.39**	**$53.68**
Second Quarter	**62.80**	**56.39**
Third Quarter	**68.84**	**61.94**
Fourth Quarter	**73.94**	**65.21**

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

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

The Company submitted, on June 14, 2006 without qualification, the Annual Certification of the Chief Executive Officer to the New York Stock Exchange ("NYSE") regarding the NYSE corporate governance listing standards pursuant to Section 303A.12(a) of the NYSE Listing Standards. The Company filed its Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2, respectively, to its Annual Report on Form 10-K for fiscal year 2006 filed with the Securities and Exchange Commission on February 27, 2007.

Thomas P. Mac Mahon
Chairman

Bradford T. Smith
Vice Chairman
Executive Vice President,
Corporate Affairs and Secretary

David P. King
President and
Chief Executive Officer

Kerrii B. Anderson
Chief Executive Officer and
President of Wendy's International, Inc.

Jean-Luc Bélingard [2, 3]
Chief Executive Officer of Ipsen SA,
a diversified French health care
holding company

Wendy E. Lane [1,4]
Chairman of Lane Holdings, Inc.,
an investment firm

Robert E. MIttelstaedt, Jr. [1,4]
Dean and Professor, W.P. Cary School
of Business, Arizona State University

Arthur H. Rubenstein, MBBCh [1,3]
Executive Vice President, University of
Pennsylvania Health System and Dean
of the School of Medicine

Andrew G. Wallace, M.D. [2,4]
Former Dean of Dartmouth
Medical School

M. Keith Weikel, Ph.D. [2,3].
Senior Vice President and
Chief Operating Officer of
HCR Manor Care, Inc.

BOARD OF DIRECTORS

Board of Directors
(left column, top to bottom) Tom Mac Mahon, Dave King, Andrew Wallace, Jean-Luc Bélingard, Wendy Lane
(right column, top to bottom) Brad Smith, Kerrii Anderson, Robert Mittelstaedt, Arthur Rubenstein, Keith Weikel

Committees:
1 Audit
2 Compensation
3 Ethics and Quality Assurance
4 Nominating and Corporate Governance

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Laboratory Corporation of America® Holdings
358 South Main Street
Burlington, NC 27215
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