Optex Systems Holdings Inc
Form DEF 14C
December 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934

Check the appropriate box:

Preliminary Information Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

Definitive Information Statement

Optex Systems Holdings, Inc.

(Name of Company as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Optex Systems Holdings, Inc.

1420 Presidential Drive

Richardson, TX 75081

NOTICE OF ACTION BY WRITTEN CONSENT OF STOCKHOLDERS

NOTICE IS HEREBY GIVEN that the holders of more than a majority of the outstanding common stock of Optex Systems Holdings, Inc., a Delaware corporation (the "Company," "we", "us," or "our"), have approved the following action without a meeting of stockholders in accordance with Section 228(a) of the Delaware General Corporation Law:

. To effect a reverse split of the Company's issued and outstanding common stock in a ratio of not less than 1:2 nor more than 1:3 at the discretion of the Company's Board of Directors.

The enclosed information statement contains information pertaining to the matters acted upon.

Pursuant to rules adopted by the Securities and Exchange Commission, you may access a copy of the information statement at www.optexsys.com.

WE ARE NOT ASKING YOU FOR A PROXY, AND YOU ARE REQUESTED NOT TO SEND US A PROXY

By Order of the Board of Directors

/s/ Peter Benz
Peter Benz
Chairman of the Board

December 28, 2015

Optex Systems Holdings, Inc.

1420 Presidential Drive

Richardson, TX 75081

INFORMATION STATEMENT

Action by Written Consent of Stockholders

GENERAL INFORMATION

WE ARE NOT ASKING YOU FOR A PROXY, AND YOU ARE REQUESTED NOT TO SEND US A PROXY

This information statement is being furnished in connection with the action by written consent of stockholders of Optex Systems Holdings, Inc. (the "Company," "we", "us," or "our") taken without a meeting of stockholders to approve the actions described in this information statement. We are mailing this information statement, along with our Annual Report on Form 10-K, to our stockholders on or about December 28, 2015 to shareholders of record as of December 24, 2015.

What action was taken by written consent?

To effect a reverse split of our outstanding Common Stock in a ratio of not less than 1:2 nor more than 1:3 and to elect four new directors to our Board of Directors.

How many shares of Common Stock were outstanding on December 15, 2015?

On December 15, 2015, the date we received the consent of the holders as described in the preceding question, there were 429,898 shares of Common Stock outstanding.

What vote was obtained to approve the proposals contained in this information statement?

As further described in this Information Statement, we obtained the approval of the holders of approximately 69% of our issued and outstanding Common Stock in favor of the reverse split of our issued and outstanding Common Stock described herein. We also obtained the approval of our Board of Directors.

Who is paying the cost of this information statement?

We will pay for preparing, printing and mailing this information statement. Our costs are estimated at approximately $10,000.

APPROVAL 1: REVERSE STOCK SPLIT

General

Our board of directors and the shareholders holding a majority of our issued and outstanding Common Stock approved an amendment to our Certificate of Incorporation, as amended, to effect a reverse stock split which combines the outstanding shares of our common stock into a lesser number of outstanding shares. Our board of directors will have the sole discretion to effect the amendment and reverse stock split at any time prior to June 30, 2016, and to fix the specific ratio for the combination, provided that the ratio would be not less than 1-for-2 and not more than 1-for-3. Our board of directors will also have discretion to abandon the amendment prior to its effectiveness. Our board of directors is hereby providing you with information regarding the reverse stock split as approved by our stockholders.

Our board of directors and majority shareholder have approved an additional reverse stock split in order to again provide for meeting minimum Nasdaq requirements for listing (such as a minimum stock price of $4.00) in addition to the 1:1000 reverse split which we effected in October 2015, and the board and our majority shareholder have determined that it is in the best interests of our shareholders in general to provide our board with the flexibility to effect the reverse split if needed in a ratio of 1-for-2 to 1-for-3.

The reverse stock split proposal permits (but not require) our board of directors to effect a reverse stock split of our outstanding common stock at any time by a ratio of not less than 1-for-2 and not more than 1-for-3 with the specific ratio to be fixed within this range by our board of directors in its sole discretion. We believe that enabling our board of directors to fix the specific ratio of the reverse stock split within the stated range will provide us with the flexibility to implement it in a manner designed to maximize the anticipated benefits for our stockholders. In fixing the ratio, our board of directors may consider, among other things, factors such as: the historical trading price and trading volume of our common stock; the number of shares of our common stock outstanding; the then-prevailing trading price and trading volume of our common stock; the anticipated impact of the reverse stock split on the trading market for our common stock; and prevailing general market and economic conditions.

The reverse stock split, as approved by our stockholders, will become effective upon the filing of the amendment to our Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware, or at the later time set forth in the amendment. The filing may occur any time after 20 days from the date of completion of mailing of this Information Statement to our shareholders of record as of December 24, 2015. The exact timing of the amendment will be determined by our board of directors based on its evaluation as to if and when such action will be the most advantageous to our company and our stockholders. In addition, our board of directors reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to abandon the amendment and the reverse stock split if, at any time prior to the effectiveness of the filing of the amendment with the Secretary of State of the State of Delaware, our board of directors, in its sole discretion, determines that it is no longer in our best interest and the best interests of our stockholders to proceed.

The proposed form of amendment to our Certificate of Incorporation, as amended, to effect the reverse stock split is attached as Appendix A to this Information Statement. Any amendment to our Certificate of Incorporation, as amended, to effect the reverse stock split will include the reverse stock split ratio fixed by our board of directors, within the range approved by our stockholders.

Reasons for Proposed Amendment

Our board of directors' primary reason for approving and recommending the reverse stock split is to increase the per share price of our common stock to meet the listing requirements of the NASDAQ Capital Market ("NASDAQ"). Our board of directors believes that attaining and maintaining the listing of our common stock on NASDAQ is in the best interests of our company and its stockholders. As of December 15, 2015, our common stock has traded on the OTC Market's electronic interdealer quotation QB system ("OTCQB") in a 52 week closing price range from $2.00 to $6.60 per share. NASDAQ requires a minimum closing price of $3.00 per share in connection with the initial listing application. We are also required to meet additional conditions to list our common stock on NASDAQ and there is no guarantee that we will be able to meet those conditions. We will submit an application to list our common stock on NASDAQ at such time as determined prudent by our board of directors.

In addition, if our common stock were listed on NASDAQ, our board of directors believes that the liquidity in the trading of our common stock could be significantly enhanced, which could result in an increase in the trading price. However, despite approval of the reverse stock split by our stockholders and the implementation thereof by our board of directors, there is no assurance that our minimum bid price would be or remain following the reverse stock split over NASDAQ's minimum bid price requirement, and our common stock could fail to attain the minimum bid price requirement necessary to be listed on NASDAQ.

Our board of directors further believes that an increased stock price may encourage investor interest and improve the marketability of our common stock to a broader range of investors. We believe that the reverse stock split will make our common stock more attractive to a broader range of institutional and other investors, as we have been advised that the current market price of our common stock may affect its acceptability to certain institutional investors, professional investors and other members of the investing public. Many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. In addition, some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of our common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. We believe that the reverse stock split will make our common stock a more attractive and cost effective investment for many investors, which should enhance the liquidity available to the holders of our common stock. Accordingly, we believe that approval of the reverse stock split is in our company's and our stockholders' best interests.

Reducing the number of outstanding shares of our common stock through the reverse stock split is intended, absent other factors, to increase the per share market price of our common stock. However, other factors, such as our financial results, general market conditions and the market perception of our company, may adversely affect the market price of our common stock. As a result, there can be no assurance that the reverse stock split, if completed, will result in the intended benefits described above, that the market price of our common stock will increase following the reverse stock split or that the market price of our common stock will not decrease in the future. Additionally, we cannot assure you that the market price per share of our common stock after a reverse stock split will increase in proportion to the reduction in the number of shares of our common stock outstanding before the reverse stock split. Accordingly, the total market capitalization of our common stock after the reverse stock split may be lower than the total market capitalization before the reverse stock split.

The reverse stock split alone would have no effect on our authorized capital stock, and the total number of authorized shares (2,000,000,000) would remain the same as before the reverse stock split. This would have the effect of increasing the number of shares of our common stock available for issuance, which our board of directors believes is important to provide us with flexibility and as many alternatives as possible to obtain financing. We have no specific plans, arrangements or understandings, whether written or oral, to issue any of the shares that will be newly available following the reverse stock split. Our board of directors is also mindful about the potential dilutive effect on existing stockholders. For the reasons discussed in this proposal, our board of directors has approved and recommended a range of reverse stock split ratios to address NASDAQ’s listing price requirement in a more targeted fashion.

Determination of Ratio

The ratio of the reverse stock split, if approved and implemented, will be a ratio of not less than 1-for-2 and not more than 1-for-3, as determined by our board of directors in its sole discretion. Our board of directors believes that stockholder approval of a range of potential exchange ratios, rather than a single exchange ratio, is in the best interests of our stockholders because it provides our board of directors with the flexibility to achieve the desired results of the reverse stock split and because it is not possible to predict market conditions at the time the reverse stock split would be implemented.

Our board of directors would carry out a reverse stock split only upon its determination that a reverse stock split would be in the best interests of our stockholders at that time. Our board of directors would then set the ratio for the reverse stock split in an amount it determines is advisable and in the best interests of the stockholders considering relevant market conditions at the time the reverse stock split is to be implemented. In determining the ratio, following receipt of stockholder approval, our board of directors may consider, among other things:

- the historical and projected performance of our common stock;
- prevailing market conditions;

- general economic and other related conditions prevailing in our industry and in the marketplace;
- the projected impact of the selected reverse stock split ratio on trading liquidity in our common stock and our ability to list our common stock on NASDAQ;
- our capitalization (including the number of shares of our common stock issued and outstanding);
- the prevailing trading price for our common stock and the volume level thereof; and

The purpose of asking for authorization to implement the reverse stock split at a ratio to be determined by our board of directors, as opposed to a ratio fixed in advance, is to give our board of directors the flexibility to take into account then-current market conditions and changes in price of our common stock and to respond to other developments that may be deemed relevant when considering the appropriate ratio.

Potential Effects of Proposed Amendment

If our board of directors effects the reverse stock split, the reverse stock split will affect all holders of our common stock uniformly, other than those stockholders who receive special treatment upon consummation of the reverse stock split. Our board of directors and shareholders approved if our board deems it necessary, at or before the time we file our amendment to our Certificate of Incorporation, special treatment of stockholders holding less than a number of shares of our common stock equal to the product of 100 multiplied by the consequent term of the reverse stock split ratio, but at least 100 shares of our common stock, to prevent those stockholders from holding less than 100 shares after the reverse stock split. For example, if our board of directors determines to effectuate a reverse stock split at a ratio of 1-for-2, holders of fewer than 200 shares of our common stock but at least 100 shares of our common stock (as applicable, "Eligible Holders") would receive 100 shares of our common stock after the reverse stock split. The special treatment would be afforded to preserve round lot stockholders (i.e., holders owning at least 100 shares).

The following table sets forth the effect of a 1-for-2 reverse stock split and the special treatment potentially being afforded to Eligible Holders (which will only be effected if our board of so directors so determines before we file our amendment to our Certificate of Incorporation):

Number of Shares Held by Stockholder Prior to Reverse Stock Split	**Number of Shares Held by Stockholder After Reverse Stock Split**
Less than 100 shares	1 share
100 shares to 200 Shares	100 shares
201 shares	101 shares
400 shares	200 shares
2,000 shares	1,000 shares
4,000 shares	2,000 shares

The reverse stock split will not affect any stockholder's percentage ownership interest in our company, except for a nominal increase in percentage ownership interest that will accrue to Eligible Holders (if our board determines to effect round lot treatment) and except that as described below in "Fractional Shares," record holders of our common stock otherwise entitled to a fractional share as a result of the reverse stock split because they hold a number of shares not evenly divisible by the reverse stock split ratio will automatically be entitled to receive an additional fraction of a share of our common stock to round up to the next whole share. In addition, the reverse stock split will not affect any stockholder's proportionate voting power except for a nominal increase that will accrue to Eligible Holders (if our board determines to effect round lot treatment) (subject to the treatment of fractional shares).

The reverse stock split will not change the terms of our common stock. After the reverse stock split, the shares of our common stock will have the same voting rights and rights to dividends and distributions and will be identical in all other respects to our common stock now authorized. Our common stock will remain fully paid and non-assessable.

After the effective time of the reverse stock split, we will continue to be subject to the periodic reporting and other requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The reverse stock split is not intended as, and will not have the effect of, a "going private transaction" as described by Rule 13e-3 under the Exchange Act.

If we fail to meet the requirements specified in NASDAQ's listing standards, our common stock will continue to be quoted on the OTCQB under the symbol "OPXS."

After the effective time of a reverse stock split, the post-split market price of our common stock may be less than the pre-split price multiplied by the reverse stock split ratio. In addition, a reduction in number of shares of our common stock outstanding may impair the liquidity for our common stock, which may reduce the value of our common stock.

The availability of a substantial number of authorized but un-reserved shares of our common stock resulting from the reverse stock split, under various scenarios, may be construed as having an anti-takeover effect by permitting the issuance of shares of our common stock to purchasers who might oppose a hostile takeover bid or oppose any efforts to amend or repeal certain provisions in our Certificate of Incorporation or bylaws as then in effect. The proposal to effectuate the reverse stock split did not result from our knowledge of any specific effort to accumulate our securities or to obtain control of us by means of a merger, tender offer, proxy solicitation in opposition to management or otherwise, and our board of directors did not authorize the reverse stock split to increase the authorized shares of our common stock to enable us to frustrate any efforts by another party to acquire a controlling interest or to seek representation on our board of directors.

Beneficial Holders of Common Stock

Upon the implementation of the reverse stock split, we intend to treat shares held by stockholders through a bank, broker or other nominee in the same manner as registered stockholders whose shares are registered in their names. Banks, brokers or other nominees will be instructed to effect the reverse stock split for their beneficial holders holding our common stock in "street name." However, these banks, brokers or other nominees may have different procedures than registered stockholders for processing the reverse stock split. Stockholders who hold shares of our common stock with a bank, broker or other nominee and who have any questions in this regard are encouraged to contact their banks, brokers or other nominees.

Registered "Book-Entry" Holders of Common Stock

Certain of the registered holders of our common stock may hold some or all of their shares electronically in book-entry form with our transfer agent. These stockholders do not have stock certificates evidencing their ownership of our common stock. They are, however, provided with statements reflecting the number of shares registered in their accounts. Stockholders who hold shares electronically in book-entry form with our transfer agent will not need to take action to receive evidence of their shares of post-reverse stock split common stock.

Holders of Certificated Shares of Common Stock

Stockholders holding shares of our common stock in certificated form will be sent a transmittal letter by our transfer agent after the effective time of the reverse stock split. The letter of transmittal will contain instructions on how a stockholder should surrender his, her or its certificate(s) representing shares of our common stock (the "Old Certificates") to our transfer agent in exchange for certificates representing the appropriate number of shares of post-reverse stock split common stock (the "New Certificates"). No New Certificates will be issued to a stockholder

until such stockholder has surrendered all Old Certificates, together with a properly completed and executed letter of transmittal, to our transfer agent. No stockholder will be required to pay a transfer or other fee to exchange his, her or its Old Certificates. Stockholders will then receive a New Certificate(s) representing the number of shares of our common stock to which they are entitled as a result of the reverse stock split. Until surrendered, we will deem outstanding Old Certificates held by stockholders to be cancelled and only to represent the number of shares of post-reverse stock split Common Stock to which these stockholders are entitled. Any Old Certificates submitted for exchange, whether because of a sale, transfer or other disposition of stock, will automatically be exchanged for New Certificates. If an Old Certificate has a restrictive legend on its reverse side, the New Certificate will be issued with the same restrictive legend on its reverse side.

STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY STOCK CERTIFICATE(S) UNTIL REQUESTED TO DO SO.

Fractional Shares

We will not issue fractional shares in connection with the reverse stock split. Instead, stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares not evenly divisible by the reverse stock split ratio will automatically be entitled to receive an additional fraction of a share of our common stock to round up to the next whole share.

Effect of the Reverse Stock Split on Outstanding Convertible Debt, Stock Options, Warrants, and Employee Plans

Based upon the reverse stock split ratio, proportionate adjustments are generally required to be made to the per share exercise or conversion price and the number of shares issuable upon the exercise or conversion of all outstanding options, warrants or convertible debt securities entitling the holders to acquire shares of our common stock. This would result in approximately the same aggregate price being required to be paid under such options, warrants or convertible debt securities upon exercise or conversion, as applicable, and approximately the same value of shares of our common stock being delivered upon such exercise or conversion immediately following the reverse stock split as was the case immediately preceding the reverse stock split. The number of shares reserved for issuance pursuant to these securities will be reduced proportionately based upon the reverse stock split ratio.

Accounting Matters

The proposed amendment to our Certificate of Incorporation, as amended, will not affect the par value of our common stock. As a result, at the effective time of the reverse stock split, the stated capital on our balance sheet attributable to our common stock will be reduced in the same proportion as the reverse stock split ratio, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of our common stock will be reclassified for prior periods to conform to the post-reverse stock split presentation.

Certain Federal Income Tax Consequences of the Reverse Stock Split

The following summary describes certain material U.S. federal income tax consequences of the reverse stock split to holders of our common stock. Unless otherwise specifically indicated herein, this summary addresses the U.S. federal income tax consequences only to a beneficial owner of our common stock that is a United states person as defined in the Internal Revenue Code of 1986, as amended (the “Code”), or a U.S. holder. This summary does not address all of the tax consequences that may be relevant to any particular stockholder, including tax considerations that may apply to certain special classes of taxpayers under the Code.

As a result, stockholders should seek advice on the tax consequences of the reverse stock split based on their particular circumstances from an independent tax advisor.

If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our common stock, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships that hold our common stock, and partners in such partnerships, should consult their own tax advisors regarding the U.S. federal income tax consequences of the reverse stock split.

U.S. Holders

The reverse stock split is intended to qualify as a "reorganization" under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"). Assuming the reverse stock split qualifies as a reorganization, a U.S. holder generally will not recognize gain or loss upon the exchange (or deemed exchange) of shares pursuant to the reverse stock split. The aggregate tax basis of the new shares received in the reverse stock split will be the same as the aggregate tax basis in the old shares exchanged. The holding period for the new shares will include the period during which the old shares surrendered in the reverse stock split were held.

Non-U.S. Holders

A non-U.S. holder is a beneficial owner of our common stock that is not a U.S. holder. Generally, non-U.S. holders will not recognize any gain or loss upon the reverse stock split.

Dissenters' Rights

Under the Delaware General Corporation Law, stockholders will not be entitled to dissenters' rights with respect to the proposed amendment to our Certificate of Incorporation, as amended, to effect the reverse stock split, and we do not intend to independently provide stockholders with such rights.

Certain Relationships and Related Transactions [1]

Relationship between Optex Systems, Inc. (Texas), Irvine Sensors Corporation and Longview and Alpha

Longview and Alpha were owed certain debt by Irvine Sensors Corporation including debt evidenced by (i) a December 29, 2006 Term Loan and Security Agreement executed by Irvine Sensors Corporation and Longview and Alpha, and (ii) a series of secured promissory notes purchased by them and issued to them on December 29, 2006, July 19, 2007 and November 28, 2007. As of August 24, 2008, the total amount due under all of the described notes was approximately $18.4 million. Optex Systems, Inc. (Texas), which was and is a wholly owned subsidiary of Irvine Sensors Corporation, was a guarantor of all of those notes, and pursuant to related security agreements Longview and Alpha had a validly perfected, fully enforceable security interest in all personal property of Optex Systems, Inc. (Texas). On September 19, 2008, pursuant to an Assignment and Stock/Note Issuance Agreement, Alpha and Longview transferred and assigned to Optex Systems, Inc. (Delaware) which assumed, $15 million of their respective interests and rights in the aforesaid notes and obligations to Optex Systems, Inc. (Delaware) in exchange for $9 million of equity and $6 million of debt.

Acquisition of Assets of Optex Systems, Inc. (Texas) by Optex Systems, Inc. (Delaware) on October 14, 2008

On October 14, 2008, in a purchase transaction that was consummated via public auction, Optex Systems, Inc. (Delaware) purchased all of the assets of Optex Systems, Inc. (Texas) in exchange for $15 million of Irvine Sensors Corporation debt owned by it and the assumption of approximately $3.8 million of certain Optex Systems, Inc. (Texas) liabilities. The $15 million of Irvine Sensors Corporation debt was contributed by Longview and Alpha to Optex Systems, Inc. (Delaware) in exchange for a $6 million note payable from Optex Systems, Inc. (Delaware) and a $9 million equity interest in Optex Systems, Inc. (Delaware). Longview and Alpha owned Optex Systems, Inc. (Delaware) until February 20, 2009, when Longview sold 100% of its interests in Optex Systems, Inc. (Delaware) to Sileas, as discussed below. In referring to these transactions, Optex Systems, Inc. (Delaware) is considered to be the successor entity to Optex Systems, Inc. (Texas), the predecessor entity.

Secured Promissory Notes and Common Shares Issued in connection with Purchase by Optex Systems, Inc. (Delaware)

In connection with the public sale of the Optex Systems, Inc. (Texas) assets to Optex Systems, Inc. (Delaware), Optex Systems, Inc. (Delaware) delivered to each of Longview and Alpha a Secured Promissory Note due September 19, 2011 in the principal amounts of $5,409,762 and $540,976, respectively. Each Note bears simple interest at the rate of 6% per annum, and the interest rate upon an event of default increases to 8% per annum. After 180 days from the issue date, the principal amount of the Notes and accrued and unpaid interest thereon may be converted into Optex Systems, Inc. (Delaware) common stock at a conversion price of $1.80 per share (pre-split and pre-reorganization price). The Notes may be redeemed prior to maturity at a price of 120% of the then outstanding principal amount plus all accrued and unpaid interest thereon. The obligations of Optex Systems, Inc. (Delaware) under the Notes are secured by a lien against all of the assets of Optex Systems, Inc. (Delaware) in favor of Longview and Alpha. In addition, Optex Systems, Inc. (Delaware) issued common stock to each of Longview and Alpha in the quantities of 45,081,350 and 4,918,650, respectively. On October 30, 2008, Alpha sold its Optex Systems, Inc. (Delaware) common stock to Arland Holding, Ltd. On February 20, 2009, Longview sold its Note to Sileas (see below).

[1] All share numbers in this section are stated in pre 1:1000 reverse split numbers as these are historical numbers.

Acquisition by Sileas of Longview's Interests in Optex Systems, Inc. (Delaware) on February 20, 2009

On February 20, 2009, Sileas purchased 100% of the equity and debt interest held by Longview, representing 90% of Optex Systems, Inc. (Delaware), in a private transaction. The primary reason for the acquisition was to eliminate shareholder control of Optex Systems Holdings by Longview and to limit any perception of control over the day-to-day operations of Optex Systems Holdings, whether or not such control actually existed. While Longview makes investments in a variety of companies, it strives to invest passively and leave the day-to-day operations of the companies in its investment portfolio to the management teams of those companies. In addition, the acquisition allowed Optex Systems Holdings to avoid potential conflicts of interest or other related business issues that might have adversely affected Optex Systems Holdings' operations as a result of Longview's investments in other companies.

The purchase price for the acquisition was $13,524,405. Sileas issued a purchase money note to Longview for the full amount of the purchase price in exchange for 45,081,350 shares of common stock of Optex Systems Holdings (representing 90% of the outstanding shares) and transfer to Sileas of a note dated December 2, 2008, issued by Optex Systems Holdings to Longview in the principal amount of $5,409,762. No contingent consideration is due the seller in the transaction. The obligations of Sileas under the Note are secured by a security interest in Optex Systems Holdings' common and preferred stock owned by Sileas that was granted to Longview pursuant to a Stock Pledge Agreement delivered by Sileas to Longview and also by a lien on all of the assets of Sileas. On March 27, 2009, Sileas and Alpha (which owned the balance of the $6,000,000 of the notes) exchanged the $6,000,000 aggregate principal amount of notes, plus accrued and unpaid interest thereon, for 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock.

Sileas has no operations or business activities other than holding the stock and notes described above and has no revenues, and it holds no assets other than the stock and notes described above. The management of Sileas believes that the value of its common stock and preferred stock holdings in Optex Systems Holdings will increase over time. Sileas plans to repay Longview, no later than the maturity date, through some combination of a recapitalization of Sileas equity and debt and partial or full liquidation of its interests in Optex Systems Holdings. Sileas will be limited by the extent of the stock price of Optex Systems Holdings and limitations on ability to resell the stock it owns in Optex Systems Holdings.

Secured Promissory Note Due February 20, 2016/Longview Fund, LP

As a result of the transaction described above between Sileas and Longview on February 20, 2009, Sileas, the new majority owner of Optex Systems, Inc. (Delaware), executed and delivered to Longview, a Secured Promissory Note due February 20, 2012 in the principal amount of $13,524,405. The Note bears simple interest at the rate of 4% per annum, and the interest rate upon an event of default increases to 10% per annum. In the event that a Major Transaction occurs prior to the maturity date resulting in the Borrower receiving Net Consideration with a fair market

value in excess of the principal and interest due under the terms of this Secured Note, then in addition to paying the principal and interest due, Sileas shall also pay an amount equal to 90% of the consideration. “Major Transaction” refers to a transaction whereby Optex Systems, Inc. (Delaware) would consolidate or merge into or sell or convey all or substantially all of its assets to a third party entity for more than nominal consideration, and “Net Consideration” refers to the fair market value of the consideration received in connection with a Major Transaction less all outstanding liabilities of Optex Systems, Inc. (Delaware).

On November 22, 2011 Sileas Corp and Longview Fund, LP entered into an amendment to the Secured Promissory Note that extended the maturity date for an additional two year period ending on February 20, 2014. In exchange for the extension, Sileas Corp agreed to pay Longview Fund an extension fee equal to 2% of the principal amount of this Secured Note. As a result of the agreement, the principal amount of the Note was increased $270 thousand to $13.8 million as of November 22, 2011.

On November 27, 2013 Sileas Corp. and the Longview Fund, LP entered into an amendment to the Secured Promissory Note that extended the maturity date for an additional two year period ending on February 20, 2016. In exchange for the extension, Sileas Corp. agreed to pay the Longview Fund an extension fee equal to 2% of the principal amount of this Secured Note. As a result of the amendment, the principal amount of the Note was increased by $275 thousand to $14.1 million as of November 27, 2013, 2013.

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Alpha Capital Anstalt Stock Purchase and Preferred Shares Conversions

On February 22, 2012, Alpha Capital Anstalt bought 5,000,000 shares of Optex Systems Holdings restricted common stock at a purchase price of $0.01 per share for a total purchase price of $50,000. On August 22, 2012, Alpha Capital Anstalt converted 3.64 preferred shares at a stated value of $6,860 into 2,500,000 shares of common stock at a conversion price of $0.01 per share for a total converted value of $25,000. The Common Stock was purchased or converted by Alpha in private transactions exempt from registration under Section 4(2) of the Securities Act of 1934 and is restricted from resale and the stock certificate issued bears the appropriate restrictive legend. On March 19, 2013, Alpha Capital Anstalt converted 7.29 shares of Series A preferred stock at a stated value of $6,860 into 5,000,000 shares of its Common Stock at a conversion price of $0.01 per share for a total converted value of $50,000.

Reorganization/Share Exchange

On March 30, 2009, a reorganization occurred whereby the then existing shareholders of Optex Systems, Inc. (Delaware) exchanged their shares of common stock with the shares of common stock of Optex Systems Holdings as follows:1 (i) the outstanding 85,000,000 shares of Optex Systems, Inc. (Delaware) common stock were exchanged by Optex Systems Holdings for 113,333,282 shares of Optex Systems Holdings common stock, (ii) the outstanding 1,027 shares of Optex Systems, Inc. (Delaware) Series A preferred stock were exchanged by Optex Systems Holdings for 1,027 shares of Optex Systems Holdings Series A preferred stock and (iii) the 8,131,667 shares of Optex Systems, Inc. (Delaware) common stock purchased in the private placement, which also occurred on March 30, 2009, were exchanged by Optex Systems Holdings for 8,131,667 shares of Optex Systems Holdings common stock. The per share price in the private placement was $0.15 per share of common stock, and the closing date was March 30, 2009. Optex Systems, Inc. (Delaware) remains a wholly-owned subsidiary of Optex Systems Holdings.

At the time of the reorganization, 25,000,000 shares owned by Andrey Oks, the former CEO of Optex Systems Holdings, were cancelled. Immediately prior to the closing, 17,449,991 shares of Optex Systems Holdings common stock were outstanding. The 17,449,991 shares derives from the 17,999,995 shares outstanding as of December 31, 2008 plus the 26,999,996 shares issued in conjunction with the 2.5:1 forward stock split authorized by the Sustut Board and shareholders and effected on February 27, 2009 less retirement of Andrey Oks' 25,000,000 shares and cancellation of 3,800,000 shares previously issued to Newbridge Securities Corporation, shares plus issuance of 1,250,000 shares in payment for two investor relations agreements. The total outstanding common shares of Optex Systems Holdings subsequent to the closing of the reorganization is as follows (1):

Existing Sustut Shareholders	17,449,991
Optex Systems, Inc. (Delaware) shares exchanged	113,333,282
Optex Systems, Inc. (Delaware) Private Placement shares exchanged	8,131,667

Total Shares after reorganization	138,914,940
Cancellation of shares - American Capital Ventures	(700,000)
Private placement - June 29, 2009	750,000
Issuance of shares as consideration - ZA Consulting	480,000
Shares Outstanding on September 27, 2009	139,444,940

Rule 409(b) states: “(b) The registrant shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to such person for the information.”

We made requests of counsel representing Sustut’s directors and officers to obtain additional information into the principles behind their determination that the securities of the registrant issued in the March 30, 2009 share exchange represented “fair market value” to acquire the business operations of Optex Systems, Inc. (Delaware), and they were not able to provide any information. We confirm that we have no affiliation with Sustut’s former counsel, Anslow & Jacklin, who was our only source of information regarding the prior history of Sustut and that the result of our request was that they stated they had no information and were not able to obtain further information. on this issue.

We have not been able to provide further background as to how the merger consideration was determined beyond the fact that it was determined by negotiation between Sustut and Optex Systems, Inc. (Delaware). Thus, we have invoked Rule 409(b) which states: “(b) The registrant shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to such person for the information.”

Transactions with Executive Management

See the “Executive Compensation” section of our Annual Report on Form 10-K filed with the SEC on December 15, 2015 for a discussion of the material elements of compensation awarded to, earned by or paid to our named executive officers. Other than as stated in this “Executive Compensation” section, we have not entered into any transactions with executive management.

LEGAL PROCEEDINGS

From time to time, we are involved in lawsuits, claims, investigations and proceedings, including pending opposition proceedings involving patents that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

On December 11, 2015, we had 429,898 shares of common stock, 1,001 shares of Series A preferred stock and 994 shares of Series B Preferred Stock issued and outstanding. The following table sets forth certain information with respect to the beneficial ownership of our securities as of December 11, 2015, for (i) each of our directors and executive officers; (ii) all of our directors and executive officers as a group (not noting our four new directors who have not yet been issued any stock or options which have vested); and (iii) each person who we know beneficially owns more than 5% of our common stock.

Beneficial ownership data in the table has been calculated based on Commission rules that require us to identify all securities that are exercisable or convertible into shares of our common stock within 60 days of September December 11, 2015 and treat the underlying stock as outstanding for the purpose of computing the percentage of ownership of the holder.

Except as indicated by the footnotes following the table, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all capital stock held by that person. The address of each named executive officer and director, unless indicated otherwise by footnote, is c/o our corporate headquarters.

Except as otherwise set forth below, the address of each of the persons listed below is our address.

Title of Class	Name of Beneficial Owner		Number of Shares	**Preferred Conversion**[1][5]	Combined Ownership	Percentage of Outstanding Shares	
5% Holders	Alpha Capital	(2)	10,026	457,795	467,821	12.1	%
	Sileas Corporation	(1)(3)(4)	102,185	2,541,070	2,643,255	68.4	%
Directors and Officers:	Stanley Hirschman	(1)(3)(10)	112,185	2,541,070	2,648,255	68.6	%
	Danny Schoening	(1)(6)(8)	118,600	2,541,070	2,654,669	68.8	%
	Karen Hawkins	(9)	7,750	—	5,250	0.2	%
	Chuck Trego	(11)	26,000	—	26,000	0.7	%
	David Kittay	(11)	26,000	—	26,000	0.7	%
	Owen Naccarato	(11)	26,000	—	26,000	0.7	%
	Kerry Craven	(11)	21,000	—	21,000	0.5	%
	Peter Benz (Longview Fund)	(7)	1,350	—	1,350	*	
Directors and officers as a group (7 Individuals)			236,700	2,541,071	2,777,770	71.8	%

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1 *As of April 3, 2015, Sileas has waived the right to convert its Series A preferred stock into Company common shares until such a time as a reverse stock split of our stock is effected in sufficient ratio to accommodate full conversion of both Series A and Series B preferred stock from authorized and unissued shares which occurred on October 7, 2015. In addition Sileas entered into a Blocker Agreement with us pursuant to which the Series A preferred stock shall not be convertible by Sileas into our common stock, and we shall not effect any conversion of the Series A Stock or otherwise issue any shares of our common stock pursuant hereto, to the extent (but only to the extent) that after giving effect to such conversion or other share issuance hereunder Sileas (together with its affiliates) would beneficially own in excess of 9.99% our common stock.*

2 *Represents shares held by Alpha Capital Anstalt, which is located at Pradafant 7, 9490 Furstentums, Vaduz, Lichtenstein. Before closing of the offering contemplated by this annual report, Alpha Capital Anstalt will enter into a blocker agreement with us pursuant to which it shall agree to not beneficially own 9.9% of our issued and outstanding common stock. Prior to this new blocker agreement, Alpha Capital Anstalt is subject to blocker provisions limiting it from converting its preferred stock into more than 4.9% of our issued and outstanding common stock.*

3 *Represents shares held by Sileas of which Stanley Hirschman, a Director/Officer Optex Systems Holdings, has a controlling interest (80%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Hirschman is deemed to be the beneficial owner, along with Mr. Schoening.*

4 *Sileas' ownership interest in us has been pledged to Longview as security for a loan in connection with the acquisition of Longview's interests in Optex Delaware by Sileas. Investment decisions for Longview are made by its investment advisor, Viking Asset Management, LLC. Mr. Peter Benz is the Chairman, Chief Executive Officer and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. Mr. Merrick Okamoto who is a director of us is the President and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. In the event of a default by Sileas on its debt obligation to Longview, the shares held by Sileas may be returned to Longview. Viking and Longview each may be deemed to have shared voting and dispositive authority over the shares of Our common stock if they are returned to Longview. In such an event, Mr. Benz and Mr. Okamoto, as control persons of Viking and/or Longview, may be deemed to beneficially own all such shares; however, they have stated that they would disclaim such beneficial ownership were this to occur.*

5 *Represents shares of common stock issuable upon conversion of preferred stock held by the stockholder. Sileas Corporation holds 926 of the preferred Series A shares which are convertible into 2,541,070 common shares. Alpha Capital Anstalt owns the remaining 75.5 preferred Series A shares convertible into 207,158 common shares and 384.61 shares of the preferred Series B shares which are convertible into 250,637 common shares.*

6 *Represents 102,185 shares held by Sileas of which Mr. Schoening, an Officer of us, has a controlling interest (15%); therefore, under Rule 13d-3 of the Exchange Act, Mr. Schoening is deemed to be the beneficial owner, along with Mr. Hirschman, of those shares.*

7 *Includes 1,350 shares of Common Stock held by Longview Fund, LP. Investment decisions for Longview are made by its investment advisor, Viking Asset Management, LLC. Mr. Peter Benz is the Chairman, Chief Executive Officer and a Managing Member of Viking Asset Management and may be deemed to control its business activities, including the investment activities of Longview. Peter Benz, as a control person of Viking and/or Longview, may be deemed to beneficially own all such shares; however, he disclaims such beneficial ownership.*

8 *Includes options to purchase 16,415 shares of our common stock which have vested and are currently exercisable.*

9 *Represents options to purchase 7,750 shares of our common stock which have vested and are currently exercisable.*

10 *Includes options for Mr. Hirschman to purchase 10,000 shares each of our common stock which have vested and are currently exercisable*

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On November 5, 2015, pursuant to the Board of Directors resolution on July 14, 2015, Optex Systems issued 99,000 common shares to the independent board members. Each independent board member was issued 21,000
11 *shares, with 7,000 shares immediately vested, and the remaining 14,000 shares to be vested over two years, at 50% per year on the grant date anniversary. Each committee chair member was granted an additional 5,000 shares, which were immediately vested on issuance.*

ADDITIONAL AVAILABLE INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and in accordance with such act we file periodic reports, documents and other information with the Securities and Exchange Commission relating to our business, financial statements and other matters. Such reports and other information may be inspected and are available for copying at the public reference facilities of the Securities and Exchange Commission at 100 F Street, N.E., Washington D.C. 20549 or may be accessed at www.sec.gov.

By Order of the Board of Directors
/s/ Peter Benz
Peter Benz
Chairman of the Board

December 28, 2015

EXHIBIT A

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF OPTEX SYSTEMS

HOLDINGS, INC.

CERTIFICATE of AMENDMENT of

CERTIFICATE of INCORPORATION

Basic earnings per common share
$
0.01

$
1.33

Diluted earnings per common share
$
0.01

$
1.31

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(in millions, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2015	2014
Net earnings	$1.0	$113.5
Foreign currency translation adjustments	(168.5)	(36.0)
Net benefit plan adjustments	0.9	2.3
Investment adjustments	(0.1)	(0.6)
Other comprehensive loss before tax	(167.7)	(34.3)
Provision for income tax related to items of other comprehensive earnings	47.1	13.6
Other comprehensive loss, net of tax	(120.6)	(20.7)
Comprehensive (loss) earnings	(119.6)	92.8
Less: Net earnings attributable to the noncontrolling interest	(0.3)	(0.4)
Comprehensive (loss) earnings attributable to Laboratory Corporation of America Holdings	$(119.9)	$92.4

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY
(in millions)
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2013	$10.5	$—	$3,373.5	$(958.9)	$66.2	$2,491.3
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	113.1	—	—	113.1
Other comprehensive earnings, net of tax	—	—	—	—	(20.7)	(20.7)
Issuance of common stock under employee stock plans	—	16.4	—	—	—	16.4
Surrender of restricted stock and performance share awards	—	—	—	(4.6)	—	(4.6)
Conversion of zero-coupon convertible debt	—	1.2	—	—	—	1.2
Stock compensation	—	11.7	—	—	—	11.7
Income tax benefit from stock options exercised	—	0.6	—	—	—	0.6
Purchase of common stock	(0.1)	(29.9)	(77.7)	—	—	(107.7)
BALANCE AT MARCH 31, 2014	$10.4	$—	$3,408.9	$(963.5)	$45.5	$2,501.3
BALANCE AT DECEMBER 31, 2014	$10.4	$—	$3,786.1	$(965.5)	$(10.5)	$2,820.5
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	0.7	—	—	0.7
Other comprehensive earnings, net of tax	—	—	—	—	(120.6)	(120.6)
Issuance of common stock for acquisition consideration	1.5	1,761.0	—	—	—	1,762.5
Issuance of common stock under employee stock plans	0.1	33.1	—	—	—	33.2
Surrender of restricted stock and performance share awards	—	—	—	(7.8)	—	(7.8)
Conversion of zero-coupon convertible debt	—	—	—	—	—	—
Stock compensation	—	26.3	—	—	—	26.3
Income tax benefit from stock options exercised	—	2.8	—	—	—	2.8
Purchase of common stock	—	—	—	—	—	—

BALANCE AT MARCH 31, 2015	$12.0	$1,823.2	$3,786.8	$(973.3)	$(131.1)	$4,517.6

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$1.0	$113.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	104.7	60.7
Stock compensation	26.3	11.7
Gain on sale of assets	(1.3)	(7.1)
Accrued interest on zero-coupon subordinated notes	0.5	0.5
Earnings in excess of distributions from equity method investments	(1.2)	(1.3)
Asset impairment	14.8	—
Deferred income taxes	17.4	10.1
Change in assets and liabilities (net of effects of acquisitions):		
Increase in accounts receivable (net)	(40.3)	(39.2)
Increase in unbilled services	(25.5)	—
Decrease in inventories	4.2	2.9
(Increase) decrease in prepaid expenses and other	(7.7)	12.2
Decrease in accounts payable	(48.9)	(27.1)
Increase in unearned revenue	14.1	—
(Decrease) increase in accrued expenses and other	(145.0)	5.4
Net cash (used in) provided by operating activities	(86.9)	142.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(33.8)	(56.5)
Proceeds from sale of assets	0.3	0.2
Proceeds from sale of investment	8.0	15.0
Investments in equity affiliates	(3.6)	(1.1)
Acquisition of businesses, net of cash acquired	(3,622.2)	(65.7)
Net cash used for investing activities	(3,651.3)	(108.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior note offerings	2,900.0	—
Proceeds from term loan	1,000.0	—
Payments on term loan	(75.0)	—
Proceeds from revolving credit facilities	60.0	—
Proceeds from bridge loan	400.0	—
Payments on bridge loan	(400.0)	—
Payments on senior notes	(250.0)	—
Payments on zero-coupon subordinated notes	—	(6.9)
Payment of debt issuance costs	(37.1)	—
Noncontrolling interest distributions	—	(0.3)
Deferred payments on acquisitions	—	(0.1)
Payments on long-term lease obligations	(1.2)	—
Excess tax benefits from stock based compensation	2.5	0.6
Net proceeds from issuance of stock to employees	30.5	16.4

Purchase of common stock	—	(107.7)
Net cash provided by (used for) financing activities	3,629.7	(98.0)
Effect of exchange rate changes on cash and cash equivalents	(25.1)	(1.3)
Net decrease in cash and cash equivalents	(133.6)	(65.1)
Cash and cash equivalents at beginning of period	580.0	404.0
Cash and cash equivalents at end of period	$446.4	$338.9

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars and shares in millions, except per share data)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The condensed consolidated financial statements include the accounts of Laboratory Corporation of America Holdings (the “Company”) and its majority-owned subsidiaries over which it exercises control. Long-term investments in affiliated companies in which the Company 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 investee’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 whose financial results are not included in the condensed consolidated financial statements.

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 period. Resulting translation adjustments are included in “Accumulated other comprehensive income.”

The accompanying condensed consolidated financial statements of the Company are unaudited. In the opinion of management, all adjustments necessary for a fair statement of results of operations, cash flows and financial position have been made. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

Effective as of the first quarter of 2015, the Company changed its operating segments due to a change in its underlying organizational model designed to support the business following the acquisition of Covance Inc. (“Covance” or “the Acquisition”) (see Note 14 - Business Segment Information). The LabCorp Diagnostics (“LCD”) segment includes operations which offer a broad range of clinical laboratory tests and procedures and is comprised of several reporting units based on geography or testing capabilities. The Covance Drug Development (“CDD”) segment includes early drug development services and central labs and clinical trial services. Through these services the Company offers its clients the ability to conduct a variety of studies, in vitro (in test tubes) and in vivo (in animals), to establish the basic pharmacokinetic effect and safety of a drug (preclinical laboratory testing). The central labs and clinical trial services operations includes a full range of clinical and clinical development support services including study design, investigator recruitment, study monitoring, data management, biostatistical analysis, medical writing, regulatory services and preparation and filing of the new drug applications with the appropriate regulatory authorities. The CDD operating segment also offers a wide-range of market access services. The central labs and clinical trials service offerings share the common objectives of demonstrating the clinical effectiveness of a compound, obtaining regulatory approval and maximizing a drug’s commercial potential.

The condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company’s 2014 Annual Report on Form 10-K. Therefore, the interim statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report.

Summary of Significant Accounting Policies

The following information summarizes the significant accounting policies of the Company's new CDD segment. The significant accounting policies of the LCD segment, which are largely comprised of the historic operations of the Company prior to the Acquisition, have not changed since 2014 and are described in the Company's 2014 Annual Report on Form 10-K.

Revenue Recognition

CDD recognizes revenue either as services are performed or products are delivered, depending on the nature of the work contracted. Historically, a majority of CDD’s net revenues have been earned under contracts which range in duration from a few months to two years, but can extend in duration up to five years or longer. CDD also has committed minimum volume arrangements with certain clients with initial terms that generally range in duration from three to ten years. Underlying these arrangements are individual project contracts for the specific services to be provided. These arrangements enable CDD's clients to secure its services in exchange for which they commit to purchase an annual minimum dollar value of services. Under these types of arrangements, if the annual minimum dollar value of service commitment is not reached, the client is required to pay CDD for the shortfall. Progress towards the achievement of annual minimum dollar value of service commitments is monitored throughout the year. Annual minimum commitment shortfalls are not included in net revenues until the amount has been determined and agreed to by the client.

Service contracts generally take the form of fee-for-service or fixed-price arrangements. In cases where performance spans multiple accounting periods, revenue is recognized as services are performed, measured on a proportional-performance basis, generally using output measures that are specific to the service provided. Examples of output measures in early development service include among others the number of slides read, or specimens prepared for preclinical laboratory services, or number of dosings or number of volunteers enrolled for clinical pharmacology. Examples of output measures in the clinical trials services include among others, number of investigators enrolled, number of sites initiated, number of patients enrolled and number of monitoring visits completed. Revenue is determined by dividing the actual units of work completed by the total units of work required under the contract and multiplying that percentage by the total contract value. The total contract value, or total contractual payments, represents the aggregate contracted price for each of the agreed upon services to be provided. CDD does not have any contractual arrangements spanning multiple accounting periods where revenue is recognized on a proportional-performance basis under which the Company has earned more than an immaterial amount of performance-based revenue (i.e., potential additional revenue tied to specific deliverables or performance). Changes in the scope of work are common, especially under long-term contracts, and generally result in a change in contract value. Once the client has agreed to the changes in scope and renegotiated pricing terms, the contract value is amended with revenue recognized as described above. Estimates of costs to complete are made to provide, where appropriate, for losses expected on contracts. Costs are not deferred in anticipation of contracts being awarded, but instead are expensed as incurred.

Billing schedules and payment terms are generally negotiated on a contract-by-contract basis. In some cases, CDD bills the client for the total contract value in progress-based installments as certain non-contingent billing milestones are reached over the contract duration, such as, but not limited to, contract signing, initial dosing, investigator site initiation, patient enrollment or database lock. The term “billing milestone” relates only to a billing trigger in a contract whereby amounts become billable and payable in accordance with a negotiated predetermined billing schedule throughout the term of a project. These billing milestones are not performance-based (i.e., there is no potential additional consideration tied to specific deliverables or performance). In other cases, billing and payment terms are tied to the passage of time (e.g., monthly billings). In either case, the total contract value and aggregate amounts billed to the client would be the same at the end of the project. While CDD attempts to negotiate terms that provide for billing and payment of services prior or within close proximity to the provision of services, this is not always possible, and there are fluctuations in the levels of unbilled services and unearned revenue from period to period. While a project is ongoing, cash payments are not necessarily representative of aggregate revenue earned at any particular point in time, as revenues are recognized when services are provided, while amounts billed and paid are in accordance with the negotiated billing and payment terms.

In some cases, payments received are in excess of revenue recognized. For example, a contract invoicing schedule may provide for an upfront payment of 10% of the full contract value upon contract signing, but at the time of signing performance of services has not yet begun. Payments received in advance of services being provided are deferred as unearned revenue on the balance sheet. As the contracted services are subsequently performed and the associated revenue is recognized, the unearned revenue balance is reduced by the amount of revenue recognized during the period.

In other cases, services may be provided and revenue recognized before the client is invoiced. In these cases, revenue recognized will exceed amounts billed, and the difference, representing an unbilled receivable, is recorded for the amount that is currently unbillable to the customer pursuant to contractual terms. Once the client is invoiced, the unbilled services are reduced for the amount billed, and a corresponding account receivable is recorded. All unbilled services are billable to customers within one year from the respective balance sheet date.

Most contracts are terminable with or without cause by the client, either immediately or upon notice. These contracts often require payment to CDD of expenses to wind down the study or project, fees earned to date and, in some cases, a

termination fee or a payment to CDD of some portion of the fees or profits that could have been earned by CDD under the contract if it had not been terminated early. Termination fees are included in net revenues when services are performed and realization is assured. In connection with the management of multi-site clinical trials, CDD pays on behalf of its customers fees to investigators, volunteers and other out-of-pocket costs (such as for travel, printing, meetings, couriers, etc.), for which it is reimbursed at cost, without mark-up or profit. Investigator fees are not reflected in total revenues or expenses where CDD acts in the capacity of an agent on behalf of the pharmaceutical company sponsor, passing through these costs without risk or reward to CDD. All other out-of-pocket costs are included in total revenues and expenses.

Foreign Currencies

For subsidiaries outside of the United States that operate in a local currency environment, income and expense items are translated to United States dollars at the monthly average rates of exchange prevailing during the period, assets and liabilities are translated at period-end exchange rates and equity accounts are translated at historical exchange rates. Translation adjustments are accumulated in a separate component of shareholders' equity in the consolidated balance sheets and are included in the determination

of comprehensive income in the consolidated statements of comprehensive earnings and consolidated statements of changes in shareholders' equity. Transaction gains and losses are included in the determination of net income in the consolidated statements of operations.

Prepaid Expenses and Other Current Assets

In connection with the management of multi-site clinical trials, CDD pays on behalf of its customers certain out-of-pocket costs, for which the Company is reimbursed at cost, without mark-up or profit. Amounts receivable from customers in connection with such out-of-pocket pass-through costs are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets and totaled $72.4 at March 31, 2015.

Reimbursable Out-of-Pocket Expenses

CDD pays on behalf of its customers certain out-of-pocket costs for which the Company is reimbursed at cost, without mark-up or profit. Out-of-pocket costs paid by CDD are reflected in operating expenses, while the reimbursements received are reflected in revenues in the consolidated statements of operations. CDD excludes from revenue and expense in the consolidated statements of operations fees paid to investigators and the associated reimbursement since CDD acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments.

Cost of Revenue

Cost of revenue includes direct labor and related benefit charges, other direct costs, shipping and handling fees, and an allocation of facility charges and information technology costs. Selling, general and administrative expenses consist primarily of administrative payroll and related benefit charges, advertising and promotional expenses, administrative travel and an allocation of facility charges and information technology costs. Cost of advertising is expensed as incurred.

New Accounting Pronouncements

In April 2014, the FASB issued a new accounting standard on discontinued operations that significantly changes criteria for discontinued operations and disclosures for disposals. Under this new standard, to be a discontinued operation, a component or group of components must represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Expanded disclosures for discontinued operations include more details about earnings and balance sheet accounts, total operating and investing cash flows, and cash flows resulting from continuing involvement. The guidance is to be applied prospectively to all new disposals of components and new classifications as held for sale beginning in 2015, with early adoption allowed in 2014. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued the converged standard on revenue recognition with the objective of providing a single, comprehensive model for all contracts with customers to improve comparability in the financial statements of companies reporting using International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles. The standard contains principles that an entity must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity must recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. An entity can apply the revenue standard retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. As originally issued, the new revenue recognition standard would be effective for the Company beginning January 1, 2017. However, in April, 2015, the FASB voted to propose a one-year deferral of the effective date of the standard. If the proposal is adopted, the standard will be effective for the Company beginning January 1, 2018, with early adoption permitted for annual periods beginning after December 16, 2016. The Company is currently evaluating the expected impact of the standard.

In August 2014, the FASB issued a new accounting standard that explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related financial statement footnote disclosures in certain

circumstances. Under this standard, in connection with each annual and interim period, management must assess whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). Management shall consider relevant conditions and events that are known and reasonably knowable at such issuance date. Substantial doubt about an entity's ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after issuance date. Disclosures will be required if conditions or events give rise to substantial doubt. This standard is effective for the Company for the annual period ending after December 15, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

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In April 2015, the FASB issued an update which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard is effective for the Company beginning January 1, 2016. The new guidance will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

2. BUSINESS ACQUISITIONS

On February 19, 2015, the Company completed the Acquisition for $6,150.7. The Company issued debt and common stock to fund the Acquisition. Covance stockholders received $75.76 in cash and 0.2686 shares of the Company's common stock for each share of Covance common stock they owned. The Company financed the transaction with $3,900.0 of debt, 15.3 shares of its common stock and $488.2 of available cash, $400.0 of which was derived from a bridge term loan credit facility. On January 30, 2015, the Company issued $2,900.0 in debt securities, consisting of $500.0 aggregate principal amount of 2.625% Senior Notes due 2020, $500.0 aggregate principal amount of 3.20% Senior Notes due 2022, $1,000.0 aggregate principal amount of 3.60% Senior Notes due 2025 and $900.0 aggregate principal amount of 4.70% Senior Notes due 2045 (together, the "Acquisition Notes"). The Company also entered into a $1,000.0 term loan facility which was advanced in full on February 19, 2015. The term loan credit facility will mature five years after the closing date of the Acquisition and may be prepaid without penalty.
The allocation of purchase price is preliminary and subject to change. The primary areas of the purchase price that are not yet finalized are related to certain income tax items, unearned revenue, intangible assets, property, plant and equipment, working capital adjustments as defined in the purchase agreement, amortization and depreciation lives, and residual goodwill. Accordingly, adjustments will be made to the values of the assets acquired and liabilities assumed as additional information is obtained about the facts and circumstances that existed at the valuation date. The preliminary valuation of acquired assets and assumed liabilities at the date of the Acquisition, include the following:

Consideration Transferred	
Cash consideration	$4,388.2
Stock consideration	1,762.5
	$6,150.7
Net Assets Acquired	
Cash and cash equivalents	$780.8
Accounts receivable	334.8
Unbilled services	138.7
Inventories	51.9
Prepaid expenses and other	261.4
Deferred income taxes	34.4
Property, plant and equipment	844.2
Goodwill	3,176.1
Customer relationships	1,917.2
Trade names and trademarks	289.4
Land use right	4.9
Other assets	15.2
Total assets acquired	7,849.0
Accounts payable	190.8
Accrued expenses and other	280.8
Unearned revenue	168.0

Deferred income taxes	730.2
Senior notes	250.0
Other liabilities	78.5
Total liabilities acquired	1,698.3
Net assets acquired	$6,150.7

As noted above, the valuation of acquired intangible assets is preliminary as of March 31, 2015. Similarly, the amortization periods are preliminary until the valuation is finalized. The preliminary amortization periods for intangible assets acquired are 27 years for customer relationships, 15 years for trade names and trademarks, and 3 years for land use right.

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The Acquisition contributed $267.2 and $56.2 of revenue and net loss, respectively, during the three months ended March 31, 2015.

Unaudited Pro Forma Information

The Company completed the Acquisition on February 19, 2015. Had the Acquisition been completed as of the beginning of 2014, the Company's pro forma results for 2015 and 2014 would have been as follows:

	Three Months Ended March 31,	
	2015	2014
Total revenues	$2,146.4	$2,097.0
Operating income	250.1	78.6
Net income	110.4	(25.1)
Earnings per share:		
Basic	$1.09	$(0.25)
Diluted	$1.08	$(0.25)

The unaudited pro forma results reflect certain adjustments related to past operating performance, acquisition costs and acquisition accounting adjustments, such as increased amortization expense based on the estimated fair value of assets acquired, the impact of the Company’s new financing arrangements, and the related tax effects. The pro forma results include costs directly attributable to the Acquisition which are not expected to have a continuing impact on the combined company, such as transactions costs of $207.6; comprised of change in control, retention and severance arrangements of $26.8; acceleration of stock based compensation of $43.2 and related employer taxes of $9.4; legal, advisor and success fees of $75.6; write-off of bridge and other deferred financing fees of $15.2; and make-whole payments of $37.4 made in connection with the prepayment of Covance's existing private placement debt, all of which are included in the pro forma results of operations for the three months ended March 31, 2014. The pro forma results do not include any anticipated synergies which may be achievable subsequent to the Acquisition. To produce the unaudited pro forma financial information, the Company adjusted Covance’s assets and liabilities to their estimated fair value based on a preliminary valuation obtained prior to closing the transaction. The Company has not completed the detailed valuation work necessary to arrive at the final estimates of the fair value of the Covance assets acquired and the liabilities assumed and the related allocation of purchase price. These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

During the three months ended March 31, 2015, the Company also acquired various laboratories and related assets for approximately $14.7 in cash (net of cash acquired). The purchase consideration for these acquisitions has been allocated to the estimated fair market value of the net assets acquired, including approximately $3.4 in identifiable intangible assets (primarily customer relationships and non-compete agreements) and a residual amount of goodwill of approximately $11.5. These acquisitions were made primarily to extend the Company's geographic reach in important market areas and/or enhance the Company's scientific differentiation and esoteric testing capabilities. The Company's results would not have been materially different from its pro forma results had the Company's other 2015 acquisitions occurred at the beginning of 2014.

3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings attributable to Laboratory Corporation of America Holdings 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 earlier of the date of issuance or the beginning of the period presented. Potentially dilutive common shares result primarily from the Company’s

outstanding stock options, restricted stock awards, restricted stock units, 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:

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	Three Months Ended March 31,					
	2015			2014		
	Earnings	Shares	Per Share Amount	Earnings	Shares	Per Share Amount
Basic earnings per share:						
Net earnings	$0.7	91.9	$0.01	$113.1	85.2	$1.33
Dilutive effect of employee stock options and awards	—	1.2		—	0.9	
Effect of convertible debt	—	0.7		—	0.5	
Diluted earnings per share:						
Net earnings including impact of dilutive adjustments	$0.7	93.8	$0.01	$113.1	86.6	$1.31

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:

	Three Months Ended March 31,	
	2015	2014
Stock options	—	—

4. RESTRUCTURING AND OTHER SPECIAL CHARGES

During the first three months of 2015, the Company recorded net restructuring and other special charges of $19.3. The charges were comprised of $3.2 related to severance and other personnel costs along with $16.1 in costs associated with facility closures and impairment of certain information technology assets.

In addition, during the first three months of 2015, the Company recorded $6.0 in consulting expenses (recorded in selling, general and administrative expenses) relating to fees incurred as part of its business process improvement initiative (“Project LaunchPad”). The Company also recorded $166.0 of deal costs related to the Acquisition, of which $80.6 is included in selling, general and administrative expenses, $32.8 is included in cost of revenue, and $52.6 is included in interest expense.

During the first three months of 2014, the Company recorded net restructuring and other special charges of $7.6. The charges were comprised of $2.8 related to severance and other personnel costs along with $4.9 in costs associated with facility closures and general integration initiatives. These charges were offset by the reversal of previously established reserves of $0.1 in unused severance.

The following represents the Company’s restructuring reserve activities for the period indicated:

	Severance and Other Employee Costs	Lease and Other Facility Costs	Total
Balance as of December 31, 2014	$0.4	$21.7	$22.1
Restructuring charges	3.2	16.1	19.3
Reduction of prior restructuring accruals	—	—	—
Cash payments and other adjustments	(2.9)	(17.0)	(19.9)
Balance as of March 31, 2015	$0.7	$20.8	$21.5
Current			$7.5
Non-current			14.0
			$21.5

5. GOODWILL AND INTANGIBLE ASSETS

As of March 31, 2015, the Company has recorded goodwill of $6,282.2, which includes a preliminary goodwill balance of $3,176.1 related to the Acquisition. Effective in the first quarter of 2015, the Company changed its operating segments due to a change in its underlying organizational model designed to support the business following the Acquisition (see Note 14 - Business Segment Information). The Company did not operate under the realigned operating segment structure prior to the first quarter of 2015. This change in segments resulted in a reassignment of goodwill of approximately $110.5 among some of the Company’s

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reportable segments (and reporting units) based on relative fair value. Prior period information has been retrospectively adjusted to reflect this reassignment.

The following is a summary of the Company's goodwill by reportable segment, reflecting the retrospective reassignment as of December 31, 2014:

LCD	$2,988.9
CDD	110.5
	$3,099.4

During the first quarter of 2015, the Company recorded additional goodwill of $3,176.1 related to the Acquisition. The Company has preliminarily assigned the assets and liabilities acquired. The Company intends to finalize the assignment of the goodwill from the Acquisition during 2015 and could be substantially complete in the second quarter.

The changes in the carrying amount of goodwill for the three month period ended March 31, 2015 and for the year ended December 31, 2014 are as follows:

	LCD		CDD		Total	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Balance as of January 1	$2,988.9	$2,912.3	$110.5	$110.5	$3,099.4	$3,022.8
Goodwill acquired during the period	11.5	81.8	3,176.1	—	3,187.6	81.8
Adjustments to goodwill	(4.8)	(5.2)	—	—	(4.8)	(5.2)
Balance at end of period	$2,995.6	$2,988.9	$3,286.6	$110.5	$6,282.2	$3,099.4

The components of identifiable intangible assets are as follows:

	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$3,281.0	$(630.1)	$2,650.9	$1,361.6	$(606.8)	$754.8
Patents, licenses and technology	122.2	(98.4)	23.8	125.9	(95.9)	30.0
Non-compete agreements	46.1	(33.2)	12.9	45.6	(31.7)	13.9
Trade names	424.3	(95.8)	328.5	133.3	(91.6)	41.7
Land use right	4.9	(0.2)	4.7	—	—	—
Canadian licenses	582.5	—	582.5	635.4	—	635.4
	$4,461.0	$(857.7)	$3,603.3	$2,301.8	$(826.0)	$1,475.8

Amortization of intangible assets for the three month periods ended March 31, 2015 and March 31, 2014 was $31.4 and $21.0, respectively. Amortization expense for the net carrying amount of intangible assets is estimated to be $132.8 for the remainder of fiscal 2015, $171.4 in fiscal 2016, $164.2 in fiscal 2017, $152.2 in fiscal 2018, $145.2 in fiscal 2019 and $2,239.8 thereafter.

6. DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015	December 31, 2014
Zero-coupon convertible subordinated notes	$94.4	$93.9
5.625% senior notes due 2015	250.0	250.0
Current portion of capital leases	4.2	3.2
Total short-term borrowings and current portion of long-term debt	$348.6	$347.1

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Long-term debt at March 31, 2015 and December 31, 2014 consisted of the following:

	March 31, 2015	December 31, 2014
3.125% senior notes due 2016	$325.0	$325.0
2.20% senior notes due 2017	500.0	500.0
2.50% senior notes due 2018	400.0	400.0
4.625% senior notes due 2020	634.0	618.5
2.625% senior notes due 2020	500.0	—
3.75% senior notes due 2022	500.0	500.0
3.20% senior notes due 2022	500.0	—
4.00% senior notes due 2023	300.0	300.0
3.60% senior notes due 2025	1,000.0	—
4.70% senior notes due 2045	900.0	—
Revolving credit facility	60.0	—
Term loan	925.0	—
Capital leases	53.7	39.2
Total long-term debt	$6,597.7	$2,682.7

Senior Notes
As a result of the Acquisition, the Company assumed privately placed senior notes in an aggregate principal amount of $250.0 issued pursuant to a Note Purchase Agreement dated October 2, 2013. On March 5, 2015, the Company caused Covance to prepay all of the outstanding Senior Notes at 100 percent of the principal amount plus accrued interest, and a total make-whole amount of $37.4 which was expensed. The Note Purchase Agreement terminated effective March 5, 2015 in connection with the prepayment of the Senior Notes.
During the third quarter of 2013, the Company entered into two fixed-to-variable interest rate swap agreements for its 4.625% senior notes due 2020 with an aggregate notional amount of $600.0 and variable interest rates based on one-month LIBOR plus 2.298% to hedge against changes in the fair value of a portion of the Company's long term debt. These derivative financial instruments are accounted for as fair value hedges of the senior notes due 2020. These interest rate swaps are included in other long term assets and added to the value of the senior notes, with an aggregate fair value of $34.0 at March 31, 2015.
Zero-Coupon Subordinated Notes

On March 11, 2015, the Company announced that for the period from March 12, 2015 to September 11, 2015, 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 March 6, 2015, in addition to the continued accrual of the original issue discount.
On April 1, 2015, the Company announced that its zero-coupon subordinated notes may be converted into cash and common stock at the conversion rate of 13.4108 per $1,000.0. principal amount at maturity of the notes, subject to the terms of the zero-coupon subordinated notes and the Indenture, dated as of October 24, 2006 between the Company and The Bank of New York Mellon, as trustee and the conversion agent. In order to exercise the option to convert all or a portion of the zero-coupon subordinated notes, holders are required to validly surrender their zero-coupon subordinated notes at any time during the calendar quarter beginning April 1, 2015, through the close of business on the last business day of the calendar quarter, which is 5:00 p.m., New York City time, on Tuesday, June 30, 2015. If notices of conversion are received, the Company plans to settle the cash portion of the conversion obligation (i.e. the accreted principal amount of the securities to be converted) with cash on hand and/or borrowings under its revolving

credit facility. The remaining amount, if any, will be settled with shares of common stock.

Credit Facilities

On November 2, 2014, in connection with entering into the Merger Agreement with Covance, the Company entered into a bridge facility commitment letter. Under the bridge facility commitment letter, the lenders agreed to provide a $4,250.0 senior unsecured bridge term loan credit facility which consisted of a $3,850.0 364-day unsecured debt bridge tranche and a $400.0 60-day unsecured cash bridge tranche for the purpose of financing all or a portion of the cash consideration and the fees and expenses in connection with the transactions contemplated by the Merger Agreement. The bridge facility was permitted to be drawn only in a single drawing on the closing date of the Acquisition.

On December 19, 2014, the Company entered into a five-year term loan credit facility in the principal amount of $1,000.0 for the purpose of financing a portion of the cash consideration and the fees and expenses in connection with the Acquisition. Pursuant to the bridge facility commitment letter, upon the Company’s entry into the term loan credit facility, the $4,250.0 bridge facility was reduced to a $3,250.0 commitment, comprising a $2,850.0 364-day unsecured debt bridge tranche and a $400.0 60-day cash bridge tranche. The $1,000.0 of term loan commitments made under the term loan credit facility reduced the debt bridge tranche under the bridge facility dollar for dollar.

The term loan credit facility was advanced in full on February 19, 2015, the date of the Company’s completion of the Acquisition. The term loan credit facility will mature five years after the closing date of the Acquisition and may be prepaid without penalty. The term loan balance at March 31, 2015 was $925.0.

On December 19, 2014, the Company also entered into an amendment and restatement of its existing senior revolving credit facility, which was originally entered into on December 21, 2011. The senior revolving credit facility consists of a five-year revolving facility in the principal amount of up to $1,000.0, with the option of increasing the facility by up to an additional $250.0, subject to the agreement of one or more new or existing lenders to provide such additional amounts and certain other customary conditions. The new revolving credit facility also provides for a subfacility of up to $100.0 for swing line borrowings and a subfacility of up to $125.0 for issuances of letters of credit. The new revolving credit facility is permitted to be used for general corporate purposes, including working capital, capital expenditures, funding of share repurchases and certain other payments, and acquisitions and other investments. There was $60.0 and $0.0 outstanding on the Company's revolving credit facility at March 31, 2015 and December 31, 2014, respectively.

On January 30, 2015, the Company issued the Acquisition Notes, which represent $2,900.0 in debt securities consisting of $500.0 aggregate principal amount of 2.625% Senior Notes due 2020, $500.0 aggregate principal amount of 3.20% Senior Notes due 2022, $1,000.0 aggregate principal amount of 3.60% Senior Notes due 2025 and $900.0 aggregate principal amount of 4.70% Senior Notes due 2045. Net proceeds from the offering of the Acquisition Notes were $2,870.2 after deducting underwriting discounts and other estimated expenses of the offering. Net proceeds were used to pay a portion of the cash consideration and the fees and expenses in connection with the Acquisition. Pursuant to the bridge facility commitment letter, upon the Company’s issuance of the Acquisition Notes the remaining $2,850.0 364-day unsecured debt bridge tranche under the senior unsecured bridge term loan credit facility was terminated.

On February 13, 2015, the Company entered into a 60-day cash bridge term loan credit facility in the principal amount of $400.0 for the purpose of financing a portion of the cash consideration and the fees and expenses in connection with the Acquisition. The 60-day cash bridge term loan credit facility was entered into on the terms set forth in the bridge facility commitment letter for the $400.0 60-day cash bridge tranche. The 60-day cash bridge term loan credit facility was advanced in full on February 19, 2015, the date of the Company’s completion of the Acquisition. On March 16, 2015, the Company elected to prepay the bridge facility without penalty.

Under the term loan facility and the revolving credit facility, the Company is subject to negative covenants limiting subsidiary indebtedness and certain other covenants typical for investment grade-rated borrowers, and the Company is required to maintain a leverage ratio that declines over time. Prior to the Acquisition closing date, the leverage ratio was required to have been no greater than 3.75 to 1.0 calculated by excluding the $2,900.0 in Acquisition Notes. From and after the Acquisition closing date, the leverage ratio must be no greater than 4.75 to 1.0 with respect to the last day of each of the first four fiscal quarters ending on or after the closing date, 4.25 to 1.0 with respect to the last day of each of the fifth through eighth fiscal quarters ending after the closing date, and 3.75 to 1.0 with respect to the last day of each fiscal quarter ending thereafter. The Company was in compliance with all covenants in the term loan facility and the new revolving credit facility at March 31, 2015. As of March 31, 2015, the ratio of total debt to consolidated last twelve months EBITDA was 4.2 to 1.0.

The term loan credit facility accrues interest at a per annum rate equal to, at the Company's election, either a LIBOR rate plus a margin ranging from 1.125% to 2.00%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.125% to 1.00%. Advances under the revolving credit facility will accrue interest at a per annum rate equal to, at the Company's election, either a LIBOR rate plus a margin ranging from 1.00% to 1.60%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.00% to 0.60%. Fees are payable on outstanding letters of credit under the new revolving credit facility at a per annum rate equal to the applicable margin for LIBOR loans, and the Company is required to pay a facility fee on the aggregate commitments under the new revolving credit facility, at a per annum rate ranging from 0.125% to 0.40%. The interest margin applicable to the credit facilities, and the facility fee and letter of credit fees payable under the new revolving credit facility, are based on the Company's senior credit ratings as determined by Standard & Poor's and Moody's, which are currently BBB and Baa2, respectively.

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As of March 31, 2015, the effective interest rate on the revolving credit facility was 1.28% and the effective interest rate on the term loan was 1.47%.

7. 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. The Company is authorized to issue up to 30.0 shares of preferred stock, par value $0.10 per share. There were no preferred shares outstanding as of March 31, 2015.
The changes in common shares issued and held in treasury are summarized below:

	Issued	Held in Treasury	Outstanding
Common shares at December 31, 2014	107.1	(22.5)	84.6
Common stock issued in conjunction with the Acquisition	15.3	—	15.3
Common stock issued under employee stock plans	0.6	—	0.6
Common shares at March 31, 2015	123.0	(22.5)	100.5

Share Repurchase Program

As of March 31, 2015 and December 31, 2014, the Company had outstanding authorization from the Board of Directors to purchase up to $789.5 of Company common stock based on settled trades as of these respective dates. The repurchase authorization has no expiration date. Following the announcement of the Acquisition, the Company suspended its share repurchases. The Company does not anticipate resuming its share repurchase activity until it reaches its targeted ratio of total debt to consolidated EBITDA of 2.5 to 1.0.

Accumulated Other Comprehensive Earnings

The components of accumulated other comprehensive earnings are as follows:

	Foreign Currency Translation Adjustments	Net Benefit Plan Adjustments	Unrealized Gains and Losses on Available for Sale Securities	Accumulated Other Comprehensive Earnings
Balance at December 31, 2014	$68.0	$(78.6)	$0.1	$(10.5)
Other comprehensive earnings before reclassifications	(168.5)	1.2	(0.1)	(167.4)
Amounts reclassified from accumulated other comprehensive earnings to the Condensed Consolidated Statement of Operations (a)	—	(0.3)	—	(0.3)
Tax effect of adjustments	47.4	(0.3)	—	47.1
Balance at March 31, 2015	$(53.1)	$(78.0)	$—	$(131.1)

(a) The amortization of prior service cost is included in the computation of net periodic benefit cost. See Note 10 (Pension and Post-retirement Plans) below for additional information regarding the Company's net periodic benefit cost.

8. INCOME TAXES

The Company does not recognize a tax benefit unless the Company concludes that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that the Company believes is greater than 50% likely to be realized.

The gross unrecognized income tax benefits were $28.6 and $16.7 at March 31, 2015 and December 31, 2014, respectively. Substantially all of the increase relates to matters assumed associated with the Acquisition. It is anticipated that the amount of the unrecognized income tax benefits will change within the next twelve months; however, these changes are not expected to have a significant impact on the results of operations, cash flows or the financial position of the Company.

As of March 31, 2015 and December 31, 2014, $28.6 and $16.7, respectively, are the approximate amounts of gross unrecognized income tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. Substantially all of the increase relates to matters assumed associated with the Acquisition.

The Company recognizes interest and penalties related to unrecognized income tax benefits in income tax expense. Accrued interest and penalties related to uncertain tax positions totaled $9.6 and $8.2 as of March 31, 2015 and December 31, 2014, respectively. The transfer of Covance's beginning balances accounted for substantially all of the increase.

The valuation allowance provided as a reserve against certain deferred tax assets is $16.8 and $17.1 as of March 31, 2015 and December 31, 2014, respectively.

The Company has substantially concluded all U.S. federal income tax matters for years through 2011. Substantially all material state and local, and foreign income tax matters have been concluded through 2007 and 2001, respectively. The Company has various state and international income tax examinations ongoing throughout the year. Management believes adequate provisions have been recorded related to all open tax years.

9. COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in various claims and legal actions, including arbitrations, class actions, and other litigation (including those described in more detail below), arising in the ordinary course of business. Some of these actions involve claims that are substantial in amount. These matters include, but are not limited to, intellectual property disputes, professional liability, employee-related matters, and inquiries, including subpoenas and other civil investigative demands, from governmental agencies and Medicare or Medicaid payers and managed care payers reviewing billing practices or requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. The Company receives civil investigative demands or other inquiries from various governmental bodies in the ordinary course of its business. Such inquiries can relate to the Company or other health care providers. The Company works cooperatively to respond to appropriate requests for information. The Company is also named from time to time in suits brought under the qui tam provisions of the False Claims Act and comparable state laws. These suits typically allege that the Company has made false statements and/or certifications in connection with claims for payment from federal or state health care programs. The suits 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.

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 and drug development support services. The health care diagnostics and drug development industries are, however, subject to extensive regulation, and the courts have not interpreted many of the applicable statutes and regulations. There can be no assurance, therefore, that the applicable statutes and regulations will 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, the loss of various licenses, certificates and authorizations, and/or exclusion from participation in government programs.

Many of the current claims and legal actions against the Company are in preliminary stages, and many of these cases seek an indeterminate amount of damages. The Company records an aggregate legal reserve, which is determined using actuarial calculations based on historical loss rates and assessment of trends experienced in settlements and defense costs. In accordance with FASB Accounting Standards Codification Topic 450, “Contingencies”, the Company establishes reserves for judicial, regulatory, and arbitration matters outside the aggregate legal reserve if and when those matters present loss contingencies that are both probable and estimable and would exceed the aggregate legal reserve. When loss contingencies are not both probable and estimable, the Company does not establish separate

reserves.

The Company is unable to estimate a range of reasonably probable loss for the proceedings described in more detail below in which damages either have not been specified or, in the Company's judgment, are unsupported and/or exaggerated and (i) the proceedings are in early stages; (ii) there is uncertainty as to the outcome of pending appeals or motions; (iii) there are significant factual issues to be resolved; and/or (iv) there are novel legal issues to be presented. For these proceedings, however, the Company does not believe, based on currently available information, that the outcomes will have a material adverse effect on the Company's financial condition, the outcomes could be material to the Company's operating results for any particular period, depending, in part, upon the operating results for such period.

As reported, the Company reached a settlement in the previously disclosed lawsuit, California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al. (“Hunter Labs Settlement Agreement”), to avoid the uncertainty and costs associated with prolonged litigation. Pursuant to the executed settlement agreement, the Company recorded a litigation settlement expense of $34.5 in the second quarter of 2011 (net of a previously recorded reserve of $15.0) and paid the settlement amount of $49.5 in the third quarter of 2011. The Company also agreed to certain reporting obligations regarding its pricing for a limited time period and, at the option of the Company in lieu of such reporting obligations, to provide Medi-Cal with a discount from Medi-Cal's otherwise applicable maximum reimbursement rate from November 1, 2011, through October 31, 2012. In June of 2012, the California legislature enacted Assembly Bill No. 1494, Section 9 of which directs the Department of Health Care Services ("DHCS") to establish new reimbursement rates for Medi-Cal clinical laboratory services that will be based on payments made to California clinical laboratories for similar services by other third-party payers. With stakeholder input, DHCS established data elements and a format for laboratories to report payment data from comparable third-party payers. Laboratories reported payment data to DHCS in the summer of 2013. On March 28, 2014, Assembly Bill No. 1124 extended the implementation deadline of new regulations until June 30, 2016. Assembly Bill No. 1494 provides that until the new rates are set through this process, Medi-Cal payments for clinical laboratory services will be reduced (in addition to a 10.0% payment reduction imposed by Assembly Bill No. 97 in 2011) by “up to 10 percent” for tests with dates of service on or after July 1, 2012, with a cap on payments set at 80.0% of the lowest maximum allowance established under the federal Medicare program. Under the terms of the Hunter Labs Settlement Agreement, the enactment of this California legislation terminates the Company's reporting obligations (or obligation to provide a discount in lieu of reporting) under that agreement. In December 2014, DHCS announced at a stakeholder meeting the results of its analysis of payment data reported by laboratories in 2013 and its proposed rate methodology, on which it solicited stakeholder comments. The Company objected to the proposal by DHCS to exclude from the new rate calculations data on payments from comparable third-party payers exceeding 80.0% of Medicare reimbursement amounts and its proposal to impose the 10.0% payment reduction enacted in Assembly Bill No. 97 after calculation of the new rates. In January of 2015, after receiving stakeholder comments, DHCS instructed laboratories to submit 2014 payment data by March 27, 2015, which DHCS will use (except for data on payment amounts exceeding 80.0% of Medicare reimbursement) to establish new rates effective July 1, 2015, to which DHCS intends to apply the 10.0% payment reduction referenced in Assembly Bill No. 97. While the Company continues to dispute this methodology, taken together, these changes are not expected to have a material impact on the Company's consolidated revenues or results of operations.

As previously reported, the Company responded to an October 2007 subpoena from the United States Department of Health & Human Services Office of Inspector General's regional office in New York. On August 17, 2011, the Southern District of New York unsealed a False Claims Act lawsuit, United States of America ex rel. NPT Associates v. Laboratory Corporation of America Holdings, which alleges that the Company offered UnitedHealthcare kickbacks in the form of discounts in return for Medicare business. The Plaintiff's third amended complaint further alleges that the Company's billing practices violated the false claims acts of fourteen states and the District of Columbia. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. Neither the United States government nor any state government has intervened in the lawsuit. The Company's Motion to Dismiss was granted in October 2014. The Company intends to vigorously defend the lawsuit should it proceed further.

In addition, the Company has received various other subpoenas since 2007 related to Medicaid billing. In October 2009, the Company received a subpoena from the State of Michigan Department of Attorney General seeking documents related to its billing to Michigan Medicaid. In June 2010, the Company received a subpoena from the State of Florida Office of the Attorney General requesting documents related to its billing to Florida Medicaid. In October 2013, the Company received a civil investigative demand from the State of Texas Office of the Attorney General

requesting documents related to its billing to Texas Medicaid. The Company is cooperating with these requests.
On November 4, 2013, the State of Florida through the Office of the Attorney General filed an Intervention Complaint in a False Claims Act lawsuit, State of Florida ex rel. Hunter Laboratories, LLC and Chris Riedel v. Quest Diagnostics Incorporated, et al. in the Circuit Court for the Second Judicial Circuit for Leon County. The complaint, originally filed by a competitor laboratory, alleges that the Company overcharged Florida's Medicaid program. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. On January 3, 2014, the Company filed a Petition for the Administrative Determination of the Invalidity of an Existing Rule against the Agency for Health Care Administration ("AHCA"). The Petition sought the invalidity of Rule 59G-5.110(2) of the Florida Administrative Code, which was relied upon by the Attorney General in its Intervention Complaint. On March 28, 2014, an Administrative Law Judge for the State of Florida Division of Administrative Hearings issued an order finding that Rule 59G-5.110(2) of the Florida Administrative Code was invalid. In the interim, the Attorney General filed a First Amended Intervention Complaint on January 30, 2014, which seeks actual and treble damages and civil penalties for alleged false claims, as well as recovery of costs, attorney's fees, and legal

expenses, for allegedly overcharging Florida's Medicaid program. The Company's Motion to Dismiss was denied in February 2015. The Company will vigorously defend the lawsuit.

On May 2, 2013, the Company was served with a False Claims Act lawsuit, State of Georgia ex rel. Hunter Laboratories, LLC and Chris Riedel v. Quest Diagnostics Incorporated, et al., filed in the State Court of Fulton County, Georgia. The lawsuit, filed by a competitor laboratory, alleges that the Company overcharged Georgia's Medicaid program. The case was removed to the United States District Court for the Northern District of Georgia. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. The government filed a notice declining to intervene in the case. On March 14, 2014, the Company's Motion to Dismiss was granted. The Plaintiffs' motion seeking leave to replead their complaint was granted and the Company's Motion to Dismiss the First Amended Complaint is pending. The Company will vigorously defend the lawsuit.

In October 2011, a putative stockholder of the Company made a letter demand through his counsel for inspection of documents related to policies and procedures concerning the Company's Board of Directors' oversight and monitoring of the Company's billing and claim submission process. The letter sought documents prepared for or by the Board regarding allegations from the California ex rel. Hunter Laboratories, LLC et al. v. Quest Diagnostics Incorporated, et al., lawsuit and documents reviewed and relied upon by the Board in connection with the settlement of that lawsuit. The Company responded to the request pursuant to Delaware law.

On November 18, 2011, the Company received a letter from United States Senators Baucus and Grassley requesting information regarding the Company's relationships with its largest managed care customers. The letter requested information about the Company's contracts and financial data regarding its managed care customers. Company representatives met with Senate Finance Committee staff after receiving the request and subsequently produced documents in response. The Company continues to cooperate with the request for information.

On February 27, 2012, the Company was served with a False Claims Act lawsuit, United States ex rel. Margaret Brown v. Laboratory Corporation of America Holdings and Tri-State Clinical Laboratory Services, LLC, filed in the United States District Court for the Southern District of Ohio, Western Division. The Company owned 50% of Tri-State Clinical Laboratory Services, LLC, which was dissolved in June of 2011 pursuant to a voluntary petition under Chapter 7 of Title 11 of the United States Code. The lawsuit alleges that the defendants submitted false claims for payment for laboratory testing services performed as a result of financial relationships that violated the federal Stark and Anti-Kickback laws. The lawsuit seeks actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs, attorney's fees, and legal expenses. The United States government has not intervened in the lawsuit. The parties have reached a settlement in principle, but the Company will vigorously defend the lawsuit if the settlement is not finalized.

On June 7, 2012, the Company was served with a putative class action lawsuit, Yvonne Jansky v. Laboratory Corporation of America, et al., filed in the Superior Court of the State of California, County of San Francisco. The complaint alleges that the Defendants committed unlawful and unfair business practices, and violated various other state laws by changing screening codes to diagnostic codes on laboratory test orders, thereby resulting in customers being responsible for co-payments and other debts. The lawsuit seeks injunctive relief, actual and punitive damages, as well as recovery of attorney's fees, and legal expenses. The Company will vigorously defend the lawsuit.

On August 24, 2012, the Company was served with a putative class action lawsuit, Sandusky Wellness Center, LLC, et al. v. MEDTOX Scientific, Inc., et al., filed in the United States District Court for the District of Minnesota. The lawsuit alleges that on or about February 21, 2012, the defendants violated the federal Telephone Consumer Protection Act ("TCPA") by sending unsolicited facsimiles to Plaintiff and more than 39 other recipients without the recipients' prior express permission or invitation. The lawsuit seeks the greater of actual damages or the sum of $0.0005 for each violation, subject to trebling under the TCPA, and injunctive relief. In September 2014, Plaintiff's Motion for class certification was denied. In January of 2015, the Company’s Motion for Summary Judgment on the

remaining individual claim was granted. Plaintiff has filed a notice of appeal. The Company will vigorously defend the lawsuit.

The Company was a defendant in two separate putative class action lawsuits, Christine Bohlander v. Laboratory Corporation of America, et al., and Jemuel Andres, et al. v. Laboratory Corporation of America Holdings, et al., related to overtime pay. After the filing of the two lawsuits on July 8, 2013, the Bohlander lawsuit was consolidated into the Andres lawsuit, and the consolidated lawsuit is now pending in the Superior Court of California for the County of Los Angeles. In the consolidated lawsuit, the Plaintiffs allege on behalf of similarly situated phlebotomists and couriers that the Company failed to pay overtime, failed to provide meal and rest breaks, and committed other violations of the California Labor Code. The complaint seeks monetary damages, civil penalties, costs, injunctive relief, and attorney's fees. The parties have reached a tentative class settlement, which is subject to Court approval. The Court held a hearing on the merits of the settlement terms on February 26, 2015 and requested further briefing on the settlement terms. Another hearing is scheduled for May 14, 2015. The Company will vigorously defend the lawsuit.

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The Company is also a defendant in two additional putative class action lawsuits alleging similar claims to the Bohlander/Andres consolidated lawsuit. The lawsuit Rachel Rabanes v. California Laboratory Sciences, LLC, et al., was filed in April 2014 in the Superior Court of California for the County of Los Angeles, and the lawsuit Rita Varsam v. Laboratory Corporation of America DBA LabCorp, was filed in June 2014 in the Superior Court of California for the County of San Diego. In these lawsuits, the Plaintiffs allege on behalf of similarly situated employees that the Company failed to pay overtime, failed to provide meal and rest breaks, and committed other violations of the California Labor Code. The complaints seek monetary damages, civil penalties, costs, injunctive relief, and attorney's fees. The Company will vigorously defend these lawsuits.

On December 17, 2010, the Company was served with a lawsuit, Oliver Wuth, et al. v. Laboratory Corporation of America, et al., filed in the State Superior Court of King County, Washington. The lawsuit alleges that the Company was negligent in the handling of a prenatal genetic test order that allegedly resulted in the parents being given incorrect information. The matter was tried to a jury beginning on October 21, 2013. On December 10, 2013, the jury returned a verdict in in Plaintiffs' favor in the amount of $50.0, with 50.0% of liability apportioned to the Company and 50.0% of liability apportioned to co-Defendant Valley Medical Center. The Company filed post-judgment motions for a new trial, which were denied, and is vigorously pursuing an appeal of the judgment on multiple grounds. The Company carries self-insurance reserves and excess liability insurance sufficient to cover the potential liability in this case.

On July 3, 2012, the Company was served with a lawsuit, John Wisekal, as Personal Representative of the Estate of Darien Wisekal v. Laboratory Corporation of America Holdings and Glenda C. Mixon, filed in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida. The lawsuit alleges that the Company misread a Pap test. The case was removed to the United States District Court for the Southern District of Florida. The matter was tried to a jury beginning on April 1, 2014. On April 17, 2014, the jury returned a verdict in Plaintiff's favor in the amount of $20.8, with non-economic damages reduced by 25% to account for the Plaintiff's negligence, for a final verdict of $15.8. The Company filed post-trial motions. On July 28, 2014, the Court granted the Company's motion for remittitur and reduced the jury's non-economic damages award to $5.0, reduced by 25.0% for the Plaintiff's negligence. Accordingly, the total judgment is $4.4. In December 2014, the Court granted Plaintiff's Motion to Certify the remittitur order for interlocutory appeal and stayed the case pending the Eleventh Circuit Court of Appeal's review of the Plaintiff's challenge to the reduction in judgment.

On July 9, 2014, the Company was served with a putative class action lawsuit, Christopher W. Legg, et al. v. Laboratory Corporation of America, filed in the United States District Court for the Southern District of Florida. The complaint alleges that the Company willfully violated the Fair and Accurate Credit Transactions Act by allegedly providing credit card expiration date information on an electronically printed credit card receipt. The lawsuit seeks damages of not less than $0.0001 but not more than $0.01 per violation, and punitive damages, injunctive relief, and attorney's fees. The Company will vigorously defend the lawsuit.

Prior to the consummation of the Company's acquisition of LipoScience, Inc., purported stockholders of LipoScience filed four putative class action lawsuits against LipoScience, members of the LipoScience board of directors, the Company and Bear Acquisition Corp., a wholly owned subsidiary of the Company, in the Delaware Court of Chancery and, with respect to one of the lawsuits, in the Superior Court of Wake County, North Carolina. The lawsuits alleged breach of fiduciary duty and/or other violations of state law arising out of the proposed acquisition. Each suit sought, among other things, injunctive relief enjoining the merger. On October 23, 2014, the case in North Carolina was voluntarily dismissed without prejudice by the Plaintiff. On October 29, 2014, the Delaware Court of Chancery consolidated the four actions under the caption In re LipoScience, Inc. Stockholder Litigation, Consolidated C.A. No. 10252-VCP (the "Consolidated Action"). On November 7, 2014, the Consolidated Action plaintiffs entered into a memorandum of understanding with the defendants regarding a settlement of the Consolidated Action. In connection with the settlement, the parties agreed that LipoScience would make certain additional disclosures to its

stockholders. Subject to the completion of certain confirmatory discovery by counsel, entry by the parties into a stipulation of settlement and customary conditions, including court approval, the settlement will resolve all of the claims that were or could have been brought, including all claims relating to the merger.

On November 19, 2014, the Company entered into a definitive merger agreement to acquire Covance for approximately $6,200.0 in cash and Company common stock. The transaction closed on February 19, 2015. Prior to the closing of the transaction, purported stockholders of Covance filed two putative class action lawsuits. One of the lawsuits, captioned Berk v. Covance Inc., et al., C.A. No. 10440-VCL, was filed in the Delaware Court of Chancery on December 9, 2014. The other lawsuit, captioned Ojeda v. Herring et al., No. MER-C-92-14, was filed in the Superior Court of New Jersey, Chancery Division, Mercer County, New Jersey, on November 12, 2014. Both suits named as defendants Covance, members of the Covance board of directors, the Company and Neon Merger Sub, Inc., a wholly owned subsidiary of the Company that was merged out of existence in connection with the Acquisition. The lawsuits alleged breach of fiduciary duty and/or other violations of state law arising out of the proposed acquisition. Each suit sought, among other things, injunctive relief enjoining the merger. On January 21, 2015, the case in New Jersey was voluntarily dismissed without prejudice by the Plaintiff. On February 9, 2015, the Plaintiffs in the Delaware case entered into a

memorandum of understanding with the Defendants regarding a settlement. In connection with the settlement, the parties agreed that Covance would make additional disclosures to its stockholders. Subject to the entry by the parties into a stipulation of settlement and customary conditions, including court approval, the settlement will resolve all the claims that were or could have been brought, including all claims relating to the merger.

In December 2014, the Company received a Civil Investigative Demand issued pursuant to the federal False Claims Act from the U.S. Attorney's Office for South Carolina, which requests information regarding remuneration and services provided by the Company to physicians who also received draw and processing/handling fees from competitor laboratories Health Diagnostic Laboratory, Inc. and Singulex, Inc. The Company is cooperating with the request.

In March 2015, the Company received a subpoena from the Attorney General of the State of New York, which requests information regarding the Company's relationship with Direct Laboratories LLC. The Company is cooperating with the request.

The Company holds an investment in a joint venture partnership located in Alberta, Canada. The Canadian partnership has a license to conduct diagnostic testing services in the province of Alberta. Substantially all of its revenue is received as reimbursement from the Alberta government's health care programs. In December 2013, Alberta Health Services ("AHS"), the Alberta government's health care program, issued a request for proposals for laboratory services that includes the scope of services performed by the Canadian partnership. In October 2014, AHS informed the Canadian partnership that it had not been selected as the preferred proponent. In November 2014, the Canadian partnership submitted a vendor bid appeal upon the belief that there were significant flaws and failures in the conduct of the request for proposal process, which drove to a biased conclusion. AHS established a Vendor Bid Appeal Panel to hear the appeal, and the hearing was conducted February 23-25, 2015. The decision remains pending before the Vendor Bid Appeal Panel. The Vendor Bid Appeal Panel is not required to respond by a particular date, but the Canadian partnership anticipates a decision on the bid appeal before the end of May 2015. If the appeal is unsuccessful, the Canadian partnership could then pursue a lawsuit to have the case heard in court. The Company believes that the Canadian partnership has a strong fact pattern and legal grounds to be ultimately successful in its challenge to the AHS decision, and it is the Company's belief and best estimate, based on the facts and legal grounds presented to date, that the Canadian partnership should be successful in its challenge to the validity of the RFP process. The Canadian partnership's existing contract with AHS remains in place through March 2016. If the AHS contract award remains with the preferred proponent, then the Canadian partnership's revenues, and accordingly the Company's revenues, would decrease substantially and the carrying value of the Company's investment could potentially be impaired.

Under the Company's present insurance programs, coverage is obtained for catastrophic exposure 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. As of March 31, 2015, the Company had provided letters of credit aggregating approximately $42.5, primarily in connection with certain insurance programs. The Company's availability under its Revolving Credit Facility is reduced by the amount of these letters of credit.

10. PENSION AND POSTRETIREMENT PLANS

The Company's defined contribution retirement plan (the "401K Plan") covers substantially all pre-Acquisition employees. All employees eligible for the 401K Plan receive a minimum 3% non-elective contribution concurrent with each payroll period. The 401K Plan also permits discretionary contributions by the Company of up to 1% and up

to 3% of pay for eligible employees based on years of service with the Company. The cost of this plan was $12.9 and $13.4 for the three months ended March 31, 2015 and 2014, respectively. As a result of the Acquisition, the Company also incurred expense of $4.7 for the Covance 401K Plan during the three months ended March 31, 2015.

The Company also maintains a frozen defined benefit retirement plan (the “Company Plan”), that as of December 31, 2009, covered substantially all employees. The benefits to be paid under the Company Plan are based on years of credited service through December 31, 2009 and ongoing interest credits. Effective January 1, 2010, the Company Plan was closed to new participants. The Company’s policy is to fund the Company Plan with at least the minimum amount required by applicable regulations.

The Company maintains a second unfunded, non-contributory, non-qualified defined benefit retirement plan (the “PEP”), that as of December 31, 2009, covered substantially all of its senior management group. The PEP supplements the Company Plan and was closed to new participants effective January 1, 2010.

The effect on operations for the Company Plan and the PEP is summarized as follows:

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	Three Months Ended March 31,	
	2015	2014
Service cost for administrative expenses	$1.0	$0.9
Interest cost on benefit obligation	3.8	3.9
Expected return on plan assets	(4.6)	(4.4)
Net amortization and deferral	2.7	1.8
Defined benefit plan costs	$2.9	$2.2

During the three months ended March 31, 2015, the Company contributed $2.2 to the Company Plan.

The Company has 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:

	Three Months Ended March 31,	
	2015	2014
Service cost for benefits earned	$0.1	$0.1
Interest cost on benefit obligation	0.3	0.4
Net amortization and deferral	(2.4)	(1.9)
Post-retirement medical plan benefits	$(2.0)	$(1.4)

In addition to the PEP, the as a result of the Acquisition, the Company also has a a frozen non-qualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is not funded, is intended to provide retirement benefits for certain executive officers of the Company. Benefit amounts are based upon years of service and compensation of the participating employees. The pension benefit obligation as of the Acquisition date was $32.8. The components of the net periodic pension cost for the three months ended March 31, 2015 are as follows:

Service cost	$0.4
Interest cost	0.9
Net amortization and deferral	—
Net periodic pension cost	$1.3

Also as a result of the Acquisition, the Company sponsors a post-employment retiree health and welfare plan for the benefit of eligible employees at certain U.S. subsidiaries who retire after satisfying service and age requirements. This plan is funded on a pay-as-you-go basis and the cost of providing these benefit is shared with the retirees. The net periodic post-retirement benefit cost for the three months ended March 31, 2015 was $0.2 and the pension benefit obligation as of the Acquisition date was $6.3.

As a result of the Acquisition, the Company sponsors two defined benefit pension plans for the benefit of its employees at two United Kingdom subsidiaries and one defined benefit pension plan for the benefit of its employees at a German subsidiary, all of which are legacy plans of previously acquired companies. Benefit amounts for all three plans are based upon years of service and compensation. The German plan is unfunded while the United Kingdom pension plans are funded. The Company's funding policy has been to contribute annually a fixed percentage of the eligible employee's salary at least equal to the local statutory funding requirements.

	United Kingdom Plans Three Months Ended March 31, 2015	German Plan Three Months Ended March 31, 2015
Service cost for administrative expenses	$0.3	$0.1
Interest cost on benefit obligation	0.9	—
Expected return on plan assets	(1.3)	—
Net amortization and deferral	0.2	0.1

Defined benefit plan costs	$0.1		$0.2	
Assumptions used to determine defined benefit plan cost				
Discount rate	3.6	%	2.2	%
Expected return on assets	5.4	%	N/A	
Salary increases	3.5	%	2.0	%

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11. FAIR VALUE MEASUREMENTS

The Company's population of financial assets and liabilities subject to fair value measurements as of March 31, 2015 and December 31, 2014 is as follows:

	Fair Value as of March 31, 2015	Fair Value Measurements as of March 31, 2015 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Noncontrolling interest put	$16.2	$—	$16.2	$—
Interest rate swap	34.0	—	34.0	—
Cash surrender value of life insurance policies	44.7	—	44.7	—
Deferred compensation liability	43.1	—	43.1	—

	Fair Value as of December 31, 2014	Fair Value Measurements as of December 31, 2014 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Noncontrolling interest put	$17.7	$—	$17.7	$—
Interest rate swap	18.5	—	18.5	—
Cash surrender value of life insurance policies	41.9	—	41.9	—
Deferred compensation liability	43.4	—	43.4	—

The Company has a noncontrolling interest put related to its Ontario subsidiary that has been classified as mezzanine equity in the Company's condensed consolidated balance sheet. The noncontrolling interest put is valued at its contractually determined value, which approximates fair value.

The Company offers certain employees the opportunity to participate in a deferred compensation plan ("DCP"). A participant's deferrals are allocated by the participant to one or more of 16 measurement funds, which are indexed to externally managed funds. From time to time, to offset the cost of the growth in the participant's investment accounts, the Company purchases life insurance policies, with the Company named as beneficiary of the policies. Changes in the cash surrender value of these policies are based upon earnings and changes in the value of the underlying investments, which are typically invested in a manner similar to the participants' allocations. Changes in the fair value of the DCP obligation are derived using quoted prices in active markets based on the market price per unit multiplied by the number of units. The cash surrender value and the DCP obligations are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the hypothetical investments.

The carrying amounts of cash and cash equivalents, accounts receivable, income taxes receivable, and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The fair market value of the zero-coupon subordinated notes, based on market pricing, was approximately $181.1 and $155.6 as of March 31, 2015 and December 31, 2014, respectively. The fair market value of all of the senior notes, based on market pricing, was approximately $6,586.8 and $2,949.8 as of March 31, 2015 and December 31, 2014, respectively. The Company's note and debt instruments are classified as Level 2 instruments, as the fair market values of these instruments are determined using other observable inputs.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 includes, from time to time, the use of derivative financial instruments such as interest rate swap agreements (see Interest Rate Swap section below). Although the

Company’s zero-coupon subordinated notes contain features that are considered to be embedded derivative instruments (see Embedded Derivatives Related to the Zero-Coupon Subordinated Notes section below), 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.

Interest Rate Swap

During the third quarter of 2013, the Company entered into two fixed-to-variable interest rate swap agreements for its 4.625% senior notes due 2020 with an aggregate notional amount of $600.0 and variable interest rates based on one-month LIBOR plus

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2.298% to hedge against changes in the fair value of a portion of the Company's long term debt. These derivative financial instruments are accounted for as fair value hedges of the senior notes due 2020. These interest rate swaps are included in other long term assets and added to the value of the senior notes, with an aggregate fair value of $34.0 and $18.5 at March 31, 2015 and December 31, 2014, respectively. As the specific terms and notional amounts of the derivative financial instruments match those of the fixed-rate debt being hedged, the derivative instruments are assumed to be perfectly effective hedges and accordingly, there is no impact to the Company's consolidated statements of operations.

Embedded Derivatives Related to the Zero-Coupon Subordinated Notes

The Company’s zero-coupon subordinated notes contain the following two features that are considered to be embedded derivative instruments under authoritative guidance in connection with 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.

The Company believes these embedded derivatives had no fair value at March 31, 2015 and December 31, 2014. These embedded derivatives also had no impact on the condensed consolidated statements of operations for the three months ended March 31, 2015 and 2014, respectively.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended March 31,	
	2015	2014
Supplemental schedule of cash flow information:		
Cash paid during period for:		
Interest	$14.9	$18.8
Income taxes, net of refunds	23.1	8.6
Disclosure of non-cash financing and investing activities:		
Surrender of restricted stock awards and performance awards	$7.8	$4.6
Non-cash stock consideration for the Acquisition	1,762.5	—
Conversion of zero-coupon convertible debt	—	2.8
Assets acquired under capital leases	16.7	3.1
Increase (decrease) accrued property, plant and equipment	(1.4)	4.7

14. BUSINESS SEGMENT INFORMATION

The following table is a summary of segment information for the three months ended March 31, 2015 and 2014. The “management approach” has been used to present the following segment information. This approach is based upon the way the management of the Company organizes segments within an enterprise for making operating decisions and assessing performance. Financial information is reported on the basis that it is used internally by the chief operating decision maker (“CODM”) for evaluating segment performance and deciding how to allocate resources to segments. The Company’s chief executive officer has been identified as the CODM.

Prior to the first quarter of 2015, the CODM managed the operating results of the Company as two segments: clinical laboratory diagnostics and other. In connection with the Acquisition, the Company changed its operating segments to

align with how the CODM evaluates financial information used to allocate resources and assess performance of the Company post Acquisition. As a result, the segment information presented in these financial statements has been conformed to present segments on this revised basis for all prior periods. Under the new organizational structure, the CODM manages the Company under two segments: LCD and CDD. LCD includes all of the legacy LabCorp business and the nutritional chemistry and food safety business, which were previously part of Covance but excludes LabCorp's legacy clinical trials testing business, which is now part of CDD. CDD includes all of Covance's legacy business and LabCorp's legacy clinical trials testing business, but excludes the nutritional chemistry and food safety business, which are now part of LCD.

Segment asset information is not presented because it is not used by the CODM at the segment level. Operating earnings (loss) of each segment represents net revenues less directly identifiable expenses to arrive at operating income for the segment. General

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management and administrative corporate expenses are included in general corporate expenses below. The accounting policies of the segments are the same as those as set forth in Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and Note 1 (Basis of Financial Statement Presentation) above to the interim condensed consolidated financial statements.
The table below represents information about the Company’s reporting segments for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Total revenues:		
LCD - net revenue	$1,472.0	$1,392.9
CDD - net revenue	300.3	37.8
CDD - reimbursable out-of-pocket expenses	20.9	—
Total revenues	1,793.2	1,430.7
Operating earnings (loss):		
LCD	222.8	232.3
CDD	(54.4)	4.5
Unallocated corporate expenses	(38.2)	(33.5)
Total operating income	130.2	203.3
Other income (expense), net	(99.9)	(15.6)
Earnings before income taxes	30.3	187.7
Provision for income taxes	29.3	74.2
Net earnings	1.0	113.5
Less income attributable to noncontrolling interests	(0.3)	(0.4)
Net income attributable to Laboratory Corporation of America Holdings	$0.7	$113.1

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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", "approxima "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 other future reforms in the health care system (or in the interpretation of current regulations), new insurance or payment systems, including state, regional or private insurance cooperatives (Health Insurance Exchanges), new public insurance programs or a single-payer system, affecting governmental and third-party coverage or reimbursement for clinical laboratory testing;
2. significant monetary damages, fines, penalties, assessments, refunds, repayments, and/or exclusion from the Medicare and Medicaid programs, among other adverse consequences, resulting from interpretations of, or future changes in, laws and regulations, including laws and regulations of Medicare, Medicaid, the False Claims Act, interpretations of such laws and regulations by federal or state government agencies or investigations, audits, regulatory examinations, information requests and other inquiries by state or federal government agencies;
3. significant fines, penalties, costs and/or damage to the Company's reputation arising from the failure to comply with U.S. and international privacy and security laws and regulations, including HIPAA, HITECH, state laws and regulations, and laws and regulations of the European Union and other countries;
4. loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or interpretations of, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988;
5. penalties or loss of license arising from the failure to comply with the Federal Occupational Safety and Health Administration requirements and the Needlestick Safety and Prevention Act, or similar laws and regulations of federal, state or local agencies;
6. changes in testing guidelines or recommendations by government agencies, medical specialty societies and other authoritative bodies affecting the utilization of laboratory tests;
7. changes in government regulations or policies, including regulations and policies of the Food and Drug Administration, affecting the approval, availability of, and the selling and marketing of diagnostic tests or changes in testing guidelines or recommendations by government agencies, medical specialty societies or other authoritative bodies affecting the utilization of laboratory tests;
8. changes in government regulations pertaining to the pharmaceutical and biotechnology industries, changes in reimbursement of pharmaceutical products or reduced spending on research and development by pharmaceutical and biotechnology customers;
9. liabilities that result from the inability to comply with corporate governance requirements;
10. increased competition, including price competition, competitive bidding and/or changes or reductions to fee schedules and competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry;
11. changes in payer mix, including an increase in capitated reimbursement mechanisms or the impact of a shift to consumer-driven health plans and adverse changes in payer reimbursement or payer coverage policies related to

specific testing procedures or categories of testing;

12. 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;

13. failure to obtain and retain new customers or a reduction in tests ordered, specimens submitted or services requested by existing customers;

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14. difficulty in maintaining relationships with customers or retaining key employees as a result of uncertainty surrounding the integration of Covance and the resulting negative effects on the business of the Company;
15. customers choosing to insource services that are or could be purchased from the Company;
16. failure to identify, successfully close and to effectively integrate and/or manage newly acquired businesses, including Covance, and the cost, time and effort required to integrate newly-acquired businesses, including Covance, which may be greater than anticipated;
17. inability to achieve the expected benefits and synergies of newly-acquired businesses, including Covance, and impact on the Company's cash position, levels of indebtedness and stock price as a result of the Covance acquisition;
18. the inability of the Company to meet expectations regarding accounting and tax treatments related to the Acquisition;
19. termination, delay or reduction in scope of Covance Drug Development's contracts;
20. liability arising from errors or omissions in the performance of Covance Drug Development's contract research services;
21. damage to the Company's reputation, loss of business, harm from acts of animal rights extremists or potential liability arising from Covance Drug Development's animal research products;
22. adverse results in litigation matters;
23. inability to attract and retain experienced and qualified personnel;
24. failure to develop or acquire licenses for new or improved technologies, or potential use of new technologies by customers to perform their own tests;
25. substantial costs arising from the inability to commercialize newly licensed tests or technologies or to obtain appropriate coverage or reimbursement for such tests;
26. 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;
27. scope, validity and enforceability of patents and other proprietary rights held by third parties that may impact the Company's ability to develop, perform, or market the Company's products or services or operate its business;
28. business interruption or other impact on the business due to adverse weather (including hurricanes), fires and/or other natural disasters, terrorism or other criminal acts, and/or widespread outbreak of influenza or other pandemic illness;
29. discontinuation or recalls of existing testing products;
30. loss of business or increased costs due to damage to the Company's reputation and significant litigation exposure arising from failure in the Company's information technology systems, including a negative effect on the performance of services or billing processes, failure to maintain the security of business information or systems or to protect against cyber security attacks, inability to meet required financial reporting deadlines, or the failure to meet future regulatory or customer information technology, data security and connectivity requirements;
31. business interruption, increased costs, and other adverse effects on the Company's operations due to the unionization of employees, union strikes, work stoppages, or general labor unrest;
32. failure to maintain the Company's days sales outstanding and/or bad debt expense levels including negative impact on the Company's reimbursement, cash collections, days sales outstanding and profitability arising from the failure of the Company, third party payers or physicians to comply with the ICD-10-CM Code Set by the compliance date of October 1, 2015;
33. impact on the Company's revenue, cash collections and the availability of credit for general liquidity or other financing needs arising from a significant deterioration in the economy or financial markets or in the Company's credit ratings by Standard & Poor's and/or Moody's;
34. changes in reimbursement by foreign governments and foreign currency fluctuations; and
35. expenses and risks associated with international operations, including but not limited to compliance with the Foreign Corrupt Practices Act, the U.K. Bribery Act, as well as laws and regulations that differ from those of the U.S., and economic, political, legal and other operational risks associated with foreign markets.

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GENERAL (dollars in millions, except per share data)

Total revenue for the three months ended March 31, 2015 increased 25.3% as compared to the prior year. The Acquisition accounted for 19.0% of the year over year net revenue growth. The remainder of the increase was due to strong organic volume growth in the clinical laboratory business and tuck-in acquisitions, partially offset by price, mix and currency.

Prior to the first quarter of 2015, the chief operating decision maker ("CODM") managed the operating results of the Company as two segments: clinical laboratory diagnostics and other. In connection with the Acquisition, the Company changed its operating segments to align with how the CODM evaluates financial information used to allocate resources and assess performance of the Company post Acquisition. As a result, the segment information presented in these financial statements has been conformed to present segments on this revised basis for all prior periods. Under the new organizational structure, the CODM manages the Company under two reportable segments: LabCorp Diagnostics ("LCD") and Covance Drug Development ("CDD"). LCD includes all of the Company's legacy LabCorp business, and the Company's nutritional chemistry and food safety business, which were previously part of Covance, but excludes LabCorp’s legacy clinical trials testing business, which is now part of CDD. CDD includes all of Covance’s legacy business, and LabCorp’s legacy clinical trials testing business, but excludes the nutritional chemistry and food safety business, which are now part of LCD.

RESULTS OF OPERATIONS (amounts in millions)

Three months ended March 31, 2015 compared with three months ended March 31, 2014

Net Revenue

	Three Months Ended March 31,			
	2015	2014	Change	
Net revenue				
LCD	$1,472.0	$1,392.9	5.7	%
CDD	300.3	37.8	694.4	%
Total	$1,772.3	$1,430.7	23.9	%

The increase in net revenue for the three months ended March 31, 2015 as compared with the corresponding period in 2014 was due to the Acquisition along with strong organic volume growth in LCD, partially offset by price, mix and currency.

LCD revenue for the first quarter was $1,472.0, an increase of 5.7% over revenue of $1,392.9 in the first quarter of 2014. The increase in revenue was the result of volume, measured by requisitions, and tuck-in acquisitions, partially offset by price, mix and currency. The increase in net revenue was driven by growth in volume, measured by requisition, of 6.2% (organic volume growth of 5.0%). The increase in net revenue was unfavorably impacted by (0.7%) of currency and a decline in revenue per requisition of (0.5%). In addition, acquisitions added 1.8% to net revenue.

CDD net revenue for the first quarter was $300.3, an increase of 694.4% over revenue of $37.8 in the first quarter of 2014. The increase in revenue is due to the inclusion of Covance revenue from close of the acquisition on February 19, 2015 through March 31, 2015.

Reimbursable Out-of-Pocket Expenses

CDD pays on behalf of its customers certain out-of-pocket costs for which the Company is reimbursed at cost, without mark-up or profit. Out-of-pocket costs paid by CDD are reflected in operating expenses, while the reimbursements received are reflected in revenues in the consolidated statements of operations. CDD excludes from revenue and expense in the consolidated statements of operations fees paid to investigators and the associated reimbursement since CDD acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments.

Net Cost of Revenues

	Three Months Ended March 31,			
	2015	2014	Change	
Net cost of revenues	$1,176.3	$913.9	28.7	%
Cost of revenues as a % of net revenue	66.4 %	63.9 %		

Net cost of revenues (primarily laboratory and distribution costs) increased 28.7% during the three months ended March 31, 2015 as compared with the corresponding period in 2014 period primarily due to the Acquisition. Also, during the first quarter

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of 2015, the Company recorded $32.8 of compensation expense in cost of sales for the acceleration of Covance equity award payouts triggered by the February 19th acquisition, contributing 185 basis points to the increase in cost of revenues, as a percentage of net revenue.

Selling, General and Administrative Expenses

	Three Months Ended March 31,			
	2015	2014	Change	
Selling, general and administrative expenses	$415.1	$284.9	45.7	%
Selling, general and administrative expenses as a % of net revenue	23.4 %	19.9 %		

Selling, general and administrative expenses as a percentage of total revenues increased to 23.4% during the three months ended March 31, 2015 as compared to 19.9% during the corresponding period in 2014. The increase in selling, general and administrative expenses as a percentage of net revenues is primarily due to $80.6 of transaction costs for the Acquisition as well as consulting fees and expenses related to the Company's business process improvement initiative ("Project LaunchPad") of $6.0, which added 488 basis points to selling, general and administrative expenses as a percentage of net revenues. Bad debt expense for LCD was 4.4% of net revenues for that segment during the three months ended March 31, 2015 as compared to 4.55% during the corresponding period in 2014.

Amortization of Intangibles and Other Assets

	Three Months Ended March 31,			
	2015	2014	Change	
LCD	$21.0	$20.2	4.0	%
CDD	10.4	0.8	1,200.0	%
Total amortization of intangibles and other assets	$31.4	$21.0	49.5	%

The increase in amortization of intangibles and other assets primarily reflects the impact of the Acquisition.

Restructuring and Other Special Charges

	Three Months Ended March 31,			
	2015	2014	Change	
Restructuring and other special charges	$19.3	$7.6	153.9	%

During the first three months of 2015, the Company recorded net restructuring and other special charges of $19.3, substantively all within LCD. The charges were comprised of $3.2 related to severance and other personnel costs along with $16.1 in costs associated with facility closures and impairment of information technology assets.

In addition, during the first three months of 2015, the Company recorded $6.0 in consulting expenses (recorded in selling, general and administrative expenses) relating to fees incurred as part of its Project LaunchPad business process improvement initiative. The Company also recorded $166.0 of deal costs related to the Acquisition, of which $80.6 is included in selling, general and administrative expenses, $32.8 is included in cost of goods sold, and $52.6 is included in interest expense.

During the first three months of 2014, the Company recorded net restructuring and other special charges of $7.6, all within LCD. The charges were comprised of $2.8 related to severance and other personnel costs along with $4.9 in costs associated with facility closures and general integration initiatives. These charges were offset by the reversal of previously established reserves of $0.1 in unused severance.

In 2014, the Company announced Project LaunchPad, which aims to re-engineer the Company's systems and processes, leverages technological advancements and creates a sustainable, more efficient business model. The Company expects this initiative to drive savings in excess of $150.0 over the next three years, with associated one-time costs of approximately $30.0. The Company believes that any restructuring costs which may be incurred in future periods will be more than offset by subsequent savings realized from these potential actions and that any related restructuring charges will not have a material impact on the Company's operations or liquidity.

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Interest Expense

	Three Months Ended March 31,			
	2015	2014	Change	
Interest expense	$(104.3)	(25.7)	305.8	%

The increase in interest expense for the three months ended March 31, 2015 as compared with corresponding period in 2014 is primarily due to the issuance of $3,900.0 in debt and other financing costs in connection with the Acquisition. Another component of the increase is a $37.4 make-whole payment that was required in connection with the prepayment of the $250.0 Covance senior notes. In addition, the Company recorded $15.2 in interest expense relating to the deferred financing costs associated with the Company's previous credit agreement and the bridge financing facilities used to complete the Acquisition. The bridge facility was repaid in March 2015.

Equity Method Income

	Three Months Ended March 31,			
	2015	2014	Change	
Equity method income	$2.7	$3.0	(10.0)	%

Equity method income represents the Company's ownership share in joint venture partnerships along with equity investments in other companies in the health care industry. All of these partnerships reside within LCD. The decrease in income is due to the decline in the profitability of one of the joint venture partnerships for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 due to a challenging business climate in its geographic market.

Other, net

	Three Months Ended March 31,			
	2015	2014	Change	
Other, net	$1.1	$6.9	(84.1)	%

The decrease in other, net for the three ended March 31, 2015, is due to a gain on the sale of an investment the Company made in the area of diagnostic technology during the first quarter of 2014.

Income Tax Expense

	Three Months Ended March 31,			
	2015	2014	Change	
Income tax expense	$29.3	$74.2	(60.5)	%
Income tax expense as a % of earnings before tax	96.4 %	39.5 %		

The Company's tax rate for the quarter was negatively impacted by non-deductible deal costs of approximately $19.6 associated with the Acquisition and one-time tax charges of $12.8 to realign the Company's legal entity structure to facilitate the Acquisition. The rate was favorably impacted by foreign earnings taxed at lower rates than the U.S. statutory tax rate. The Company considers substantially all of the foreign earnings to be permanently reinvested overseas.

LIQUIDITY AND CAPITAL RESOURCES (dollars and shares in millions)

The Company's strong cash-generating capability and financial condition typically have provided ready access to capital markets. The Company's principal source of liquidity is operating cash flow, supplemented by proceeds from debt offerings. The Company's senior unsecured revolving credit facility is further discussed in Note 6 (Debt) to the Company's Unaudited Condensed Consolidated Financial Statements.
In summary the Company's cash flows were as follows:

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	Three Months Ended March 31,	
	2015	2014
Net cash (used for) provided by operating activities	$(86.9)	$142.3
Net cash used for investing activities	(3,651.3)	(108.1)
Net cash provided by (used in) financing activities	3,629.7	(98.0)
Effect of exchange rate on changes in cash and cash equivalents	(25.1)	(1.3)
Net change in cash and cash equivalents	$(133.6)	$(65.1)

Cash and cash equivalents

Cash and cash equivalents at March 31, 2015 and 2014 totaled $446.4 and $338.9, respectively. Cash and cash equivalents consist of highly liquid instruments, such as commercial paper, time deposits, and other money market investments, which have original maturities of three months or less.

Operating Activities

During the three months ended March 31, 2015 and 2014, the Company's operations used $86.9 of cash as compared to being a source of $142.3 in 2014. The $229.2 decrease in cash provided from operations in 2015 as compared with the corresponding 2014 period is primarily due to lower net earnings in conjunction with the closing of the Acquisition. The Company’s earnings were impacted by restructuring and special items of $191.3 in the first quarter of 2015, $153.5 of which represents cash payments in connection with the Acquisition, compared to $7.6 during the same period in 2014. Excluding the cash payments made in conjunction with the Acquisition, CDD used over $100.0 in operating cash due to seasonal use of working capital.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2015 was $3,651.3 as compared to $108.1 for the three months ended March 31, 2014. The $3,543.2 increase in cash used in investing activities was primarily due to cash paid for the Acquisition. Capital expenditures were $33.8 and $56.5 for the three months ended March 31, 2015 and 2014, respectively. The Company expects capital expenditures of approximately $325.0 to $350.0 in 2015. The Company intends to continue to pursue acquisitions to fund growth and make important investments in its business, including in information technology, to improve efficiency and enable the execution of the Company's strategic vision. Such expenditures are expected to be funded by cash flow from operations, as well as borrowings under the Company's Revolving Credit Facility or any successor facility, as needed.

During the first three months of 2014, the Company received cash proceeds of $15.0 and recorded a net gain of $11.0 on the sale of an investment. The investment was one of several strategic investments the Company has made in the area of diagnostics.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2015 was $3,629.7 compared to $98.0 net cash used in financing activities for the three months ended March 31, 2014. The $3,727.7 increase in the cash provided by financing activities for three months ended March 31, 2015, as compared to the prior year, was primarily a result of $4,360.0 of financing proceeds for the Acquisition offset by repayments and debt issue costs of $762.1. The remainder of the period over period increase is primarily due to the suspension of share repurchases following the announcement of the Acquisition in the fourth quarter of 2014, compared to $107.7 of share repurchases in the first quarter of 2014.

On November 2, 2014, in connection with entering into the Merger Agreement with Covance, the Company entered into a bridge facility commitment letter. Under the bridge facility commitment letter, the lenders agreed to provide a $4,250.0 senior unsecured bridge term loan credit facility consisting of a $3,850.0 364-day unsecured debt bridge tranche and a $400.0 60-day unsecured cash bridge tranche for the purpose of financing all or a portion of the cash consideration and the fees and expenses in connection with the transactions contemplated by the Merger Agreement. The bridge facility was permitted to be drawn only in a single drawing on the closing date of the Acquisition.

On December 19, 2014, the Company entered into a five-year term loan credit facility in the principal amount of $1,000.0 for the purpose of financing a portion of the cash consideration and the fees and expenses in connection with

the transactions contemplated by the Merger Agreement. Pursuant to the bridge facility commitment letter, upon the Company's entry into the term loan credit facility, the $4,250.0 bridge facility was reduced to a $3,250.0 commitment, comprised of a $2,850.0 364-day unsecured debt bridge tranche and a $400.0 60-day cash bridge tranche. The $1,000.0 of term loan commitments made under the term loan credit facility reduced the debt bridge tranche under the bridge facility dollar for dollar.

The term loan credit facility was advanced in full on February 19, 2015, the date of the Company's completion of the Acquisition.

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The term loan credit facility will mature five years after the closing date of the Acquisition and may be prepaid without penalty. The term loan balance at March 31, 2015 was $925.0.

On December 19, 2014, the Company also entered into an amendment and restatement of its existing senior revolving credit facility, which was originally entered into on December 21, 2011. The senior revolving credit facility, consists of a five-year revolving facility in the principal amount of up to $1,000.0, with the option of increasing the facility by up to an additional $250.0, subject to the agreement of one or more new or existing lenders to provide such additional amounts and certain other customary conditions. The new revolving credit facility also provides for a subfacility of up to $100.0 for swing line borrowings and a subfacility of up to $125.0 for issuances of letters of credit. The new revolving credit facility is permitted to be used for general corporate purposes, including working capital, capital expenditures, funding of share repurchases and certain other payments, and acquisitions and other investments.

On January 30, 2015, the Company issued the Acquisition Notes, which represent $2,900.0 in debt securities. Net proceeds from the offering of the Acquisition Notes were $2,870.2 after deducting underwriting discounts and other estimated expenses of the offering. Net proceeds were used to pay a portion of the cash consideration and the fees and expenses in connection with the Acquisition. Pursuant to the bridge facility commitment letter, upon the Company's issuance of the Acquisition Notes, the remaining $2,850.0 364-day unsecured debt bridge tranche under the senior unsecured bridge term loan credit facility was terminated.

On February 13, 2015, the Company entered into a 60-day cash bridge term loan credit facility in the principal amount of $400.0 for the purpose of financing a portion of the cash consideration and the fees and expenses in connection with the transactions contemplated by the Merger Agreement. The 60-day cash bridge term loan credit facility was entered on the terms set forth in the bridge facility commitment letter for the $400.0 60-day cash bridge tranche. The 60-day cash bridge term loan credit facility was advanced in full on February 19, 2015, the date of the Company's completion of the Acquisition. The 60-day cash bridge term loan credit facility was repaid in March 2015.

Under the term loan credit facility and the new revolving credit facility, the Company is subject to negative covenants limiting subsidiary indebtedness and certain other covenants typical for investment grade-rated borrowers and the Company is required to maintain a leverage ratio that varies. Prior to the acquisition closing date, the leverage ratio was required to have been no greater than 3.75 to 1.00, calculated by excluding the $2,900.0 Acquisition Notes. From and after the acquisition closing date, the leverage ratio must be no greater than 4.75 to 1.00 with respect to the last day of each of the first four fiscal quarters ending on or after the closing date, 4.25 to 1.00 with respect to the last day of each of the fifth through eighth fiscal quarters ending after the closing date, and 3.75 to 1.00 with respect to the last day of each fiscal quarter ending thereafter. The Company was in compliance with all covenants in the Credit Agreement at March 31, 2015. As of March 31, 2015, the ratio of total debt to consolidated EBITDA was 4.2 to 1.0.

The term loan credit facility accrues interest at a per annum rate equal to, at the Company's election, either a LIBOR rate plus a margin ranging from 1.125% to 2.00%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.125% to 1.00%. Advances under the new revolving credit facility will accrue interest at a per annum rate equal to, at the Company's election, either a LIBOR rate plus a margin ranging from 1.00 to 1.60%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.00% to 0.60%. Fees are payable on outstanding letters of credit under the new revolving credit facility at a per annum rate equal to the applicable margin for LIBOR loans, and the Company is required to pay a facility fee on the aggregate commitments under the new revolving credit facility, at a per annum rate ranging from 0.125% to 0.40%. The interest margin applicable to the credit facilities, and the facility fee and letter of credit fees payable under the new revolving credit facility, are based on the Company's senior credit ratings as determined by Standard & Poor's and Moody's, which are currently BBB and Baa2, respectively.

There was $60.0 and $0.0 outstanding on the Company's Revolving Credit Facility at March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015, the effective interest rate on the Revolving Credit Facility was 1.28% and the effective interest rate on the term loan was 1.47%.

As of March 31, 2015, the Company provided letters of credit aggregating $42.5, primarily in connection with certain insurance programs. Letters of credit provided by the Company are issued under the Company's Revolving Credit Facility and are renewed annually, around mid-year.

As of March 31, 2015, the Company had outstanding authorization from the Board of Directors to purchase up to $789.5 of Company common stock based on settled trades as of that date. Following the announcement of the Acquisition in the fourth quarter of 2014, the Company suspended its share repurchases. The Company does not anticipate resuming its share repurchase activity until it reaches its targeted leverage ratio of total debt to consolidated EBITDA of 2.5 to 1.0.

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The Company had a $38.2 and $24.9 reserve for unrecognized income tax benefits, including interest and penalties as of March 31, 2015 and December 31, 2014, respectively. The acquisition of Covance accounted for substantially all of the increase. Substantially all of these tax reserves are classified in other long-term liabilities in the Company's Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014.

Zero-coupon Subordinated Notes

On March 11, 2015, the Company announced that for the period from March 12, 2015 to September 11, 2015, 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 March 6, 2015, in addition to the continued accrual of the original issue discount.

On April 1, 2015, the Company announced that its zero-coupon subordinated notes may be converted into cash and common stock at the conversion rate of 13.4108 per $1,000.0 principal amount at maturity of the notes, subject to the terms of the zero-coupon subordinated notes and the Indenture, dated as of October 24, 2006 between the Company and The Bank of New York Mellon, as trustee and conversion agent. In order to exercise the option to convert all or a portion of the zero-coupon subordinated notes, holders are required to validly surrender their zero-coupon subordinated notes at any time during the calendar quarter beginning October 1, 2014, through the close of business on the last business day of the calendar quarter, which is 5:00 p.m., New York City time, on Tuesday, June 30, 2015. If notices of conversion are received, the Company plans to settle the cash portion of the conversion obligation (i.e., the accreted principal amount of the securities to be converted) with cash on hand and/or borrowings under the Revolving Credit Facility. The remaining amount, if any, will be settled with shares of common stock.

As a result of the Acquisition, the Company assumed privately placed of senior notes in an aggregate principal amount of $250.0 issued pursuant to a Note Purchase Agreement dated October 2, 2013. On March 5, 2015, the Company caused Covance to prepay all of the outstanding Senior Notes at 100 percent of the principal amount plus accrued interest, and a total make-whole amount of $37.4 which is included in interest expense. The Note Purchase Agreement terminated effective March 5, 2015 in connection with the prepayment of the Senior Notes.

Credit Ratings

The Company’s debt ratings of Baa2 from Moody’s and BBB from Standard and Poor’s contribute to its ability to access capital markets.

New Accounting Pronouncements

In April 2014, the FASB issued a new accounting standard on discontinued operations that significantly changes criteria for discontinued operations and disclosures for disposals. Under this new standard, to be a discontinued operation, a component or group of components must represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Expanded disclosures for discontinued operations include more details about earnings and balance sheet accounts, total operating and investing cash flows, and cash flows resulting from continuing involvement. The guidance is to be applied prospectively to all new disposals of components and new classifications as held for sale beginning in 2015, with early adoption allowed in 2014. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued the converged standard on revenue recognition with the objective of providing a single, comprehensive model for all contracts with customers to improve comparability in the financial statements of companies reporting using International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles. The standard contains principles that an entity must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity must recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. An entity can apply the revenue standard retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. As originally issued, the new revenue recognition standard would

be effective for the Company beginning January 1, 2017. However, in April, 2015, the FASB voted to propose a one-year deferral of the effective date of the standard. If the proposal is adopted, the standard will be effective for the Company beginning January 1, 2018, with early adoption permitted for annual periods beginning after December 16, 2016. The Company is currently evaluating the expected impact of the standard.

In August 2014, the FASB issued a new accounting standard that explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related financial statement footnote disclosures in certain circumstances. Under this standard, in connection with each annual and interim period, management must assess whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). Management shall consider relevant conditions and events that are known and reasonably knowable at such issuance date. Substantial doubt about an entity's ability to continue as a going concern exists if it is probable that the entity will

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be unable to meet its obligations as they become due within one year after issuance date. Disclosures will be required if conditions or events give rise to substantial doubt. This standard is effective for the Company for the annual period ending after December 15, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In April 2015, the FASB issued an update which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This standard is effective for the Company beginning January 1, 2016. The new guidance will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures 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 includes, from time to time, 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.

During the third quarter of 2013, the Company entered into two fixed-to-variable interest rate swap agreements for the 4.625% senior notes due 2020 with an aggregate notional amount of $600.0 and variable interest rates based on one-month LIBOR plus 2.298% to hedge against changes in the fair value of a portion of the Company's long term debt.

The Company's zero-coupon subordinated notes contain the following two features that are considered to be embedded derivative instruments under authoritative guidance in connection with 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.

Borrowings under the Company's Revolving Credit Facility are subject to variable interest rates, unless fixed through interest rate swaps or other agreements.

The Company has operations throughout the United States and other countries including Belgium, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Switzerland, the United Kingdom and the United Arab Emirates, and, accordingly, the earnings and cash flows generated from these operations are subject to foreign currency exchange risk.

ITEM 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules13-a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on the foregoing, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2015.

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9 (Commitments and Contingencies) to the Company's unaudited condensed consolidated financial statements, above, which is incorporated by reference.

Item 1A. Risk Factors

The risk factor set forth below revises and supplements the corresponding risk factor set forth in Part I - Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. With the exception of the following, there have been no material changes in the risk factors that appear in Part 1 - Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Failure to comply with privacy and security laws and regulations could result in fines, penalties and damage to the Company's reputation with customers and have a material adverse effect upon the Company's business.

The federal HIPAA privacy and security regulations, including the expanded requirements under HITECH, establish comprehensive federal standards with respect to the use and disclosure of protected health information by health plans, health care providers, and health care clearinghouses, in addition to setting standards to protect the confidentiality, integrity and security of protected health information. The regulations establish a complex regulatory framework on a variety of subjects, including:

- the circumstances under which the use and disclosure of protected health information are permitted or required without a specific authorization by the patient, including but not limited to treatment purposes, activities to obtain payments for the Company's services, and its health care operations activities;
- a patient's right to access, amend and receive an accounting of certain disclosures of protected health information;
- the content of notices of privacy practices for protected health information;
- administrative, technical and physical safeguards required of entities that use or receive protected health information; and
- the protection of computing systems maintaining PHI.

The Company has implemented policies and procedures related to compliance with the HIPAA privacy and security regulations, as required by law. The privacy and security regulations establish a "floor" and do not supersede state laws that are more stringent. Therefore, the Company is required to comply with both federal privacy and security regulations and varying state privacy and security laws and regulations. The federal privacy regulations restrict the Company's ability to use or disclose patient identifiable laboratory data, without patient authorization, for purposes other than payment, treatment or health care operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. HIPAA, as amended by HITECH, provides for significant fines and other penalties for wrongful use or disclosure of protected health information in violation of privacy and security regulations, including potential civil and criminal fines and penalties. In addition, other federal and state laws that protect the privacy and security of patient information may be subject to enforcement and interpretations by various governmental authorities and courts resulting in complex compliance issues. For instance, the Company could incur damages under state laws pursuant to an action brought by a private party for the wrongful use or disclosure or confidential health information or other private personal information.

In addition, laws and regulations of the European Union, as well as other countries, protect the use and disclosure of personal information. Compliance with these laws and regulations may result in increased costs and failure to comply may result in significant fines, penalties and damage to the Company's reputation with customers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (Dollars in millions)

The Board of Directors has authorized the repurchase of specified amounts of the Company's common stock since 2007. As of March 31, 2015, the Company had outstanding authorization from the Board of Directors to purchase up to $789.5 of Company common stock based on settled trades as of that date. The repurchase authorization has no expiration date. Following the announcement of the Acquisition, the Company suspended its share repurchases. The Company does not anticipate resuming its share repurchase activity until it reaches its targeted ratio of total debt to consolidated EBITDA of 2.5 to 1.0.

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Item 6. Exhibits

(a)	Exhibits
12.1*	Ratio of earnings to fixed charges
31.1*	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32*	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
10.1	Seventh Supplemental Indenture, dated as of January 30, 2015, between the Company and U.S. Bank National Association, as trustee, including the form of the 2020 Notes (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 30, 2015).
10.2	Eighth Supplemental Indenture, dated as of January 30, 2015, between the Company and U.S. Bank National Association, as trustee, including the form of the 2022 Notes (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 30, 2015).
10.3	Ninth Supplemental Indenture, dated as of January 30, 2015, between the Company and U.S. Bank National Association, as trustee, including the form of the 2025 Notes (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 30, 2015).
10.4	Tenth Supplemental Indenture, dated as of January 30, 2015, between the Company and U.S. Bank National Association, as trustee, including the form of the 2045 Notes (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 30, 2015).
10.5	Bridge Term Loan Credit Agreement, dated as of February 13, 2015, among the Company, Bank of America, N.A., as Administrative Agent, Wells Fargo Bank, National Association, as Syndication Agent, Credit Suisse AG, Cayman Islands Branch, as Documentation Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, and Credit Suisse Securities (USA) LLC as Joint Lead Arrangers and Joint Book Managers, and as the lenders named therein (incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed on February 26, 2015).
10.6*	Amendment No. 1 to Term Loan Credit Agreement with Bank of America, N.A. dated March 5, 2015.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LABORATORY CORPORATION OF AMERICA HOLDINGS
Registrant

By: /s/ DAVID P. KING
David P. King
Chairman of the Board, President
and Chief Executive Officer

By: /s/ GLENN A. EISENBERG
Glenn A. Eisenberg
Executive Vice President,
Chief Financial Officer and Treasurer

May 4, 2015

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