

LABORATORY CORP OF AMERICA HOLDINGS
Form 10-K
February 26, 2015
Index

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from _____ to _____

Commission file number - 1-11353

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

27215
(Zip Code)

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

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

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

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

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

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

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

Edgar Filing: LABORATORY CORP OF AMERICA HOLDINGS - Form 10-K

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

Index

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

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

Large accelerated filer [X]

Accelerated Filer []

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

Smaller reporting company []

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

Index

PART I

Item 1. BUSINESS

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

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

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

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

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

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

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

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

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

Index

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

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

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

Acquisition of Covance

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

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

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

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

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

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

Index

The Clinical Laboratory Testing Industry and Competition

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

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

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

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

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

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

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

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

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

Index

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

Effect of Market Changes on the Clinical Laboratory Business

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

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

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

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

Index

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

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

Company Mission and Strategy

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

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

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

Physician, patient and payer portals

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

Integrated results viewing and enhanced reports

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

Clinical decision support tools at the point of ordering and resulting

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

Online appointment scheduling

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

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

As part of an ongoing commitment to efficiency, the Company is undergoing a comprehensive, enterprise-wide business process improvement initiative, referred to as Project LaunchPad. The Company is reengineering its systems and processes to leverage technolog