LABORATORY CORP OF AMERICA HOLDINGS
Form 10-Q
October 30, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
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	13-3757370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

358 South Main Street,	
Burlington, North Carolina	27215
(Address of principal executive offices)	(Zip Code)

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

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
	Emerging growth company [ ]

If emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

The number of shares outstanding of the issuer's common stock is 100.9 million shares, net of treasury stock as of October 26, 2018.

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PART I. FINANCIAL INFORMATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 892.6	$ 316.6
Accounts receivable	1,536.1	1,531.0
Unbilled services	320.1	316.5
Supplies inventories	233.0	227.2
Prepaid expenses and other	292.5	308.8
Current assets held for sale	—	33.7
Total current assets	3,274.3	2,733.8
Property, plant and equipment, net	1,734.3	1,706.6
Goodwill, net	7,362.7	7,400.9
Intangible assets, net	3,990.9	4,166.1
Joint venture partnerships and equity method investments	57.9	58.4
Deferred income tax assets	1.9	1.9
Other assets, net	239.4	217.5
Long-term assets held for sale	—	387.8
Total assets	$ 16,661.4	$ 16,673.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 497.5	$ 573.9
Accrued expenses and other	901.5	793.3
Unearned revenue	289.4	380.8
Short-term borrowings and current portion of long-term debt	417.8	417.5
Current liabilities held for sale	—	20.2
Total current liabilities	2,106.2	2,185.7
Long-term debt, less current portion	6,044.6	6,344.6
Deferred income taxes and other tax liabilities	899.1	875.5
Other liabilities	343.0	376.0
Long-term liabilities held for sale	—	66.3
Total liabilities	9,392.9	9,848.1
Commitments and contingent liabilities		
Noncontrolling interest	20.4	20.8
Shareholders' equity:		
Common stock, 101.4 and 101.9 shares outstanding at September 30, 2018 and December 31, 2017, respectively	11.9	12.0
Additional paid-in capital	1,828.4	1,989.8
Retained earnings	6,921.9	6,196.1

Less common stock held in treasury	(1,106.3)	(1,060.1)
Accumulated other comprehensive loss	(407.8)	(333.7)
Total shareholders' equity	7,248.1	6,804.1
Total liabilities and shareholders' equity	$ 16,661.4	$ 16,673.0

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 OPERATIONS
(in millions, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$2,831.3	$2,621.4	$8,545.9	$7,563.3
Cost of revenues	2,041.4	1,837.2	6,141.9	5,288.6
Gross profit	789.9	784.2	2,404.0	2,274.7
Selling, general and administrative expenses	381.8	381.3	1,174.0	1,081.9
Amortization of intangibles and other assets	54.7	54.6	175.5	153.6
Restructuring and other special charges	10.0	21.6	36.5	64.6
Operating income	343.4	326.7	1,018.0	974.6
Other income (expenses):				
Interest expense	(59.4)	(59.9)	(186.0)	(167.3)
Equity method income, net	3.0	3.2	8.5	10.0
Investment income	2.8	0.7	4.2	1.4
Other, net	209.8	(3.9)	209.1	(7.4)
Earnings before income taxes	499.6	266.8	1,053.8	811.3
Provision for income taxes	180.6	92.5	328.1	268.6
Net earnings	319.0	174.3	725.7	542.7
Less: Net (earnings) loss attributable to the noncontrolling interest	(0.2)	(2.8)	0.1	(3.4)
Net earnings attributable to Laboratory Corporation of America Holdings	$318.8	$171.5	$725.8	$539.3
Basic earnings per common share	$3.14	$1.68	$7.13	$5.27
Diluted earnings per common share	$3.10	$1.65	$7.04	$5.19

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings	$319.0	$174.3	$725.7	$542.7
Foreign currency translation adjustments	0.3	63.0	(82.2)	278.7
Net benefit plan adjustments	2.9	2.3	9.1	3.4
Other comprehensive earnings (loss) before tax	3.2	65.3	(73.1)	282.1
Provision for income tax related to items of other comprehensive earnings	(4.0)	(20.2)	(1.0)	(41.0)
Other comprehensive earnings (loss), net of tax	(0.8)	45.1	(74.1)	241.1
Comprehensive earnings	318.2	219.4	651.6	783.8
Less: Net (earnings) loss attributable to the noncontrolling interest	(0.2)	(2.8)	0.1	(3.4)
Comprehensive earnings attributable to Laboratory Corporation of America Holdings	$318.0	$216.6	$651.7	$780.4

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 Loss	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	$ 12.1	$2,131.7	$4,969.0	$(1,012.7)	$ (581.9)	$ 5,518.2
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	539.3	—	—	539.3
Other comprehensive earnings, net of tax	—	—	—	—	241.1	241.1
Issuance of common stock under employee stock plans	0.1	65.1	—	—	—	65.2
Net share settlement tax payments from issuance of stock to employees	—	—	—	(46.5)	—	(46.5)
Conversion of zero-coupon convertible debt	—	13.6	—	—	—	13.6
Stock compensation	—	85.8	—	—	—	85.8
Purchase of common stock	(0.2)	(297.9)	—	—	—	(298.1)
BALANCE AT SEPTEMBER 30, 2017	$ 12.0	$1,998.3	$5,508.3	$(1,059.2)	$ (340.8)	$ 6,118.6
BALANCE AT DECEMBER 31, 2017	$ 12.0	$1,989.8	$6,196.1	$(1,060.1)	$ (333.7)	$ 6,804.1
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	725.8	—	—	725.8
Other comprehensive earnings, net of tax	—	—	—	—	(74.1)	(74.1)
Issuance of common stock under employee stock plans	—	67.4	—	—	—	67.4
Net share settlement tax payments from issuance of stock to employees	—	—	—	(46.2)	—	(46.2)
Conversion of zero-coupon convertible debt	—	0.3	—	—	—	0.3
Stock compensation	—	70.8	—	—	—	70.8
Purchase of common stock	(0.1)	(299.9)	—	—	—	(300.0)
BALANCE AT SEPTEMBER 30, 2018	$ 11.9	$1,828.4	$6,921.9	$(1,106.3)	$ (407.8)	$ 7,248.1

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)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$725.7	$542.7
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	414.4	388.2
Stock compensation	70.8	85.8
(Gain) loss on sale of assets	(1.9)	2.3
Gain on sale of business	(209.4)	—
Accreted interest on zero-coupon subordinated notes	0.1	0.3
Cumulative earnings less (more) than distributions from equity method investments	0.3	(0.4)
Asset impairment	5.3	23.5
Deferred income taxes	12.1	(0.1)
Change in assets and liabilities (net of effects of acquisitions):		
Increase in accounts receivable	(8.5)	(100.5)
Increase in unbilled services	(5.5)	(24.8)
Increase in inventories	(8.8)	(6.4)
(Increase) decrease in prepaid expenses and other	(40.1)	33.4
(Decrease) increase in accounts payable	(79.9)	109.1
Decrease in unearned revenue	(94.4)	(1.1)
Increase (decrease) in accrued expenses and other	38.8	(118.9)
Net cash provided by operating activities	819.0	933.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(257.6)	(216.8)
Proceeds from sale of assets	50.1	1.2
Net proceeds from sale of held for sale assets	654.5	—
Acquisition of licensing technology	—	(2.3)
Investments in equity affiliates	(14.3)	(33.2)
Acquisition of businesses, net of cash acquired	(79.1)	(1,799.3)
Net cash provided by (used for) investing activities	353.6	(2,050.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior note offerings	—	1,200.0
Proceeds from term loan	—	750.0
Payments on term loan	(295.0)	(50.0)
Proceeds from revolving credit facilities	449.2	1,323.7
Payments on revolving credit facilities	(449.2)	(1,323.7)
Payments on senior notes	—	(500.0)
Payments on zero-coupon subordinated notes	(0.3)	(25.1)
Payment of debt issuance costs	—	(13.6)
Noncontrolling interest distributions	(6.1)	(0.8)
Deferred payments on acquisitions	—	(1.6)

Payments on long-term lease obligations	(6.8)	(6.0)
Net share settlement tax payments from issuance of stock to employees	(46.2)	(46.5)
Net proceeds from issuance of stock to employees	67.4	65.2
Purchase of common stock	(300.0)	(298.1)
Net cash (used for) provided by financing activities	(587.0)	1,073.5
Effect of exchange rate changes on cash and cash equivalents	(9.6)	19.3
Net increase (decrease) in cash and cash equivalents	576.0	(24.5)
Cash and cash equivalents at beginning of period	316.6	433.6
Cash and cash equivalents included in assets held for sale	—	0.2
Cash and cash equivalents at end of period	$892.6	$409.3

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

Laboratory Corporation of America® Holdings together with its subsidiaries (the Company) is a leading global life sciences company that is deeply integrated in guiding patient care, providing comprehensive clinical laboratory and end-to-end drug development services. The Company's mission is to improve health and improve lives by delivering world-class diagnostic solutions, bringing innovative medicines to patients faster and using technology to provide better care. The Company serves a broad range of customers, including managed care organizations (MCOs), biopharmaceutical companies, governmental agencies, physicians and other healthcare providers (e.g., physician assistants and nurse practitioners, generally referred to herein as physicians), hospitals and health systems, employers, patients and consumers, contract research organizations, food and nutritional companies and independent clinical laboratories. The Company believes that it generated more revenue from laboratory testing than any other company in the world in 2017. During the third quarter of 2018, the Company divested its forensic testing services business in the United Kingdom (U.K.) and its Food Solutions business.

The Company reports its business in two segments, LabCorp Diagnostics (LCD) and Covance Drug Development (CDD). For further financial information about these segments, see Note 15 (Business Segment Information). During the three months ended September 30, 2018, LCD and CDD contributed approximately 62% and 38%, respectively, of net revenues to the Company, and for the nine months ended September 30, 2018, contributed approximately 62% and 38%, respectively.

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries for which it exercises control. Long-term investments in affiliated companies in which the Company 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 20.0% and no representation on the investee's board of directors) are accounted for at fair value or at cost minus impairment for those investments that do not have readily determinable fair values. 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 operating 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.

The condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States (U.S.) Securities and Exchange Commission (SEC) and do not contain certain information included in the Company's 2017 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.

Recently Adopted Guidance

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (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

(IFRS) and U.S. Generally Accepted Accounting Principles (GAAP). 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.

The standard was effective for the Company beginning January 1, 2018. The Company elected to adopt the standard using the full retrospective approach, which resulted in a recasting of revenue and the related financial statement items for 2016 and 2017. During transition to the new standard, the Company also elected several practical expedients, as provided by the standard. Contracts that began and ended within the same annual reporting period were not restated. Contracts that were completed by December 31, 2017, that had variable consideration were estimated using the transaction price at the date the contract was completed. The amount

of the transaction price allocated to the remaining performance obligations will not be disclosed for prior reporting periods. Contracts that were modified prior to the earliest reporting period will be reflected in the earliest reporting period with an aggregate adjustment for prior modifications.

As a result of the new standard, the Company has changed its accounting policies for revenue recognition. The significant changes under the new standard, and the quantitative impact of these changes, are detailed below.

LCD

The primary impact of the new standard to the LCD segment was classifying bad debt expense of $82.5 and $238.7 for the three and nine months ended September 30, 2017, respectively, as a reduction in revenue rather than as a selling, general and administrative expense.

CDD

The primary impacts of the new standard to the CDD segment were as follows:

Investigator fees: Prior to the new standard, reimbursements of investigator fees by clients were netted against the amounts paid to investigators in net revenues, on the basis that CDD was acting as the agent in arranging the investigator services. Under the new standard, revenue for investigator services and other reimbursable activities is recognized gross of fees paid to the investigators and other vendors, on the basis that a clinical study is considered a single, combined performance obligation for which CDD acts as a principal. Where CDD assumes the obligations by contract in studies involving patients, CDD is the principal because CDD may contract directly with third party clinical trial sites and investigators for investigator services and other reimbursable activities, which are combined with other CDD services in the management of a clinical study. Where CDD has assumed certain clinical trial sponsor obligations by contract in studies involving patients, CDD has primary responsibility for fulfilling its obligations associated with the full management of a clinical study, has inventory risk since it may be obligated to compensate investigators and other vendors for reimbursable activities regardless of payment by the customer, and has discretion within the framework agreed upon with the customer in setting the price of the study, including the budget for all pass-through costs, including investigator grants.

The financial impact of this change on revenue for the three and nine months ended September 30, 2017, was an increase of $71.0 and $197.4, respectively. Revenue and expenses from reimbursable out-of-pocket costs were previously recognized gross as separate line items from Net revenues and Net cost of revenue in the Consolidated Statement of Operations. Under the new standard, reimbursable out-of-pocket costs continue to be recognized gross, but are no longer presented separately (i.e., expenses are included in Cost of revenues and reimbursements are included in Revenues). In the statement of financial position, unbilled investigator fees and reimbursable out of pocket costs were reclassified from “Prepaid expenses and other” to “Unbilled services” and billed investigator grants and reimbursable out-of-pocket costs were reclassified from “Prepaid expenses and other” to “Accounts receivable, net.”

Measure of progress: Prior to the new standard, service fee revenue in clinical studies was recognized on a proportional-performance basis, generally using output measures that are specific to the service provided (e.g., number of investigators enrolled, number of sites initiated, number of trial subjects enrolled and number of monitoring visits completed), while reimbursable out-of-pocket revenue was recognized when the associated expense was incurred. Changes in contract value from changes in scope were reflected once the customer agreed to the changes in scope and renegotiated pricing terms. Under the new standard, revenue in a clinical study (inclusive of budgeted reimbursable pass-through costs) is recognized using an input-based measure of progress based on costs incurred (including pass-through costs such as investigator services and reimbursable out-of-pocket expenses). If a customer’s approval of a work scope change creates an enforceable right to payment, the related revenue will be estimated and included in the measure of progress before a formal change order is executed, which results in recognition of revenue as services are provided. The financial impact of this change on revenue for the three and nine months ended September 30, 2017, was a decrease of $15.6 and $33.8, respectively.

Sales commissions: Prior to the new standard, sales commissions were recorded as an expense each quarter when incurred. Under the new standard, CDD amortizes sales commissions according to the expected service period to which the commissions relate on the basis that they are recoverable through the margin inherent in the contracts and recognizes the unamortized commissions as current and long-term assets.

CDD applied the portfolio practical expedient in the new standard to determine the amortization period for assets recognized from sales commissions. Under the portfolio approach, CDD determined the weighted average contract term for groups of contracts with similar characteristics, and then amortized the capitalized sales commissions for that group over that term. CDD believes that any difference between the amortization patterns under the specific identification approach and the portfolio approach are not

significant to CDD’s consolidated financial statements. The financial impact of this change on selling, general, and administrative expenses for the three and nine months ended September 30, 2017, was a decrease of $2.0 and $0.8, respectively.

The total quantitative impact of the new standard on retained earnings as of January 1, 2017, was an increase of $13.2.

New Accounting Pronouncements

In February 2016, the FASB issued a new accounting standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for based on guidance similar to current guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company will adopt the standard using a modified retrospective transition approach and will not restate its comparative periods. The Company will implement a new module into the current leasing software solution which will facilitate compliance with the new standard. Given the size of the Company's lease portfolio, the adoption of this standard is expected to have a material impact on the Company's gross balance sheet with the recording of the right-to-use asset and a corresponding lease liability.

In June 2016, the FASB issued a new accounting standard intended to provide financial statement users with more decision-useful information about expected credit losses and other commitments to extend credit held by the reporting entity. The standard replaces the incurred loss impairment methodology in current GAAP with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective on January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

In August 2016, the FASB issued a new accounting standard that makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted this standard on a retrospective basis effective January 1, 2018. As a result, the Company reclassified accreted interest paid upon conversion of its zero-coupon subordinated notes from a financing activity to an operating activity.

In January 2017, the FASB issued a new accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material impact on the consolidated financial statements as of September 30, 2018.

In July 2017, the FASB issued a new accounting standard intended to reduce the complexity associated with the issuer's accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, a down round feature would no longer cause a free-standing equity-linked financial instrument (or embedded conversion option) to be accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. This update is effective on January 1, 2019, with early adoption permitted and the option to use the retrospective or modified retrospective adoption method. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

In August 2017, the FASB issued a new accounting standard intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting and increase transparency as to the scope and results of hedging programs. As a result, more hedging strategies are eligible for hedge accounting. The Company early adopted this standard effective January 1, 2018, and as allowed by the standard, elected to change the

methodology for assessing hedge effectiveness of net investment hedges from a method based on changes in forward exchange rates to a method based on changes in spot exchange rates. The spot methodology under this standard allows the interest accrual components of hedge instruments to be reported directly in earnings while the changes in the fair value of hedge instruments attributable to changes in the spot rate are reported in the cumulative translation adjustment section of other comprehensive income.

In August 2018, the FASB issued a new accounting standard to remove, modify, and add to the disclosure requirements on fair value measurements. The standard is effective on January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the 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)

In August 2018, the FASB issued a new accounting standard to remove, modify, and add to the disclosure requirements on defined benefit pension and other postretirement plans. The standard is effective on January 1, 2021, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

In August 2018, the FASB issued a new accounting standard to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective on January 1, 2020, with early adoption permitted. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

Reclassifications and Revisions

The Company adopted Accounting Standard Update 2016-09 Compensation - Stock Compensation (Topic 718) during 2016 and incorrectly classified payments made to tax authorities for withheld shares from an employee's equity award as cash flows from operating activities versus cash flows from financing activities. As a result, the Company has revised the consolidated statement of cash flows for these tax payments of $45.1 for the six months ended June 30, 2018 and $46.5 for the nine months ended September 30, 2017, from operating activities to financing activities. The Company concluded that these errors were not material individually or in the aggregate to any of the periods impacted.

Adoption of the standards related to revenue recognition, pension accounting and cash receipts and payments as well as the revision for payments made to tax authorities for withheld shares from equity awards impacted previously reported results as follows:

	Condensed Consolidated Statement of Operations For the Three Months Ended September 30, 2017			
	As Previously Reported	ASC 606 Revenue Adjustments	Pension Adjustments	As Adjusted
Total revenues	$2,655.2	$ (33.8)	$ —	$2,621.4
Total cost of revenue	1,772.4	64.6	0.2	1,837.2
Gross profit	882.8	(98.4)	(0.2)	784.2
Selling, general and administrative expenses	465.3	(84.5)	0.5	381.3
Other operating and non-operating expenses, net	136.4	0.4	(0.7)	136.1
Provision for income taxes	97.7	(5.2)	—	92.5
Net earnings	183.4	(9.1)	—	174.3
Less: Net earnings attributable to noncontrolling interest	(2.8)	—	—	(2.8)
Net earnings attributable to Laboratory Corporation of America Holdings	$180.6	$ (9.1)	$ —	$171.5
Basic earnings per share	$1.77			$1.68
Diluted earnings per share	$1.74			$1.65

	Condensed Consolidated Statement of Operations For the Nine Months Ended September 30, 2017			
	As previously	ASC 606 Revenue	Pension Adjustments	As Adjusted

	reported	Adjustments		
Total revenues	$7,645.1	$ (81.8)	$ —	$7,563.3
Total cost of revenue	5,096.9	191.3	0.4	5,288.6
Gross profit	2,548.2	(273.1)	(0.4)	2,274.7
Selling, general and administrative expenses	1,320.0	(239.4)	1.3	1,081.9
Other operating and non-operating expenses, net	382.3	0.9	(1.7)	381.5
Provision for income taxes	281.1	(12.5)	—	268.6
Net earnings	564.8	(22.1)	—	542.7
Less: Net earnings attributable to noncontrolling interest	(3.4)	—	—	(3.4)
Net earnings attributable to Laboratory Corporation of America Holdings	$561.4	$ (22.1)	$ —	$539.3
Basic earnings per share	$5.48			$5.27
Diluted earnings per share	$5.40			$5.19

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	Condensed Consolidated Statement of Cash Flows For the Nine Months Ended September 30, 2017				
	As Previously Reported	Tax Payments for Equity Awards Revision	ASC 606 Revenue Adjustments	Zero-Coupon Notes Adjustments	As Adjusted
Net cash provided by operating activities	$895.3	$ 46.5	$ —	$ (8.7)	$933.1
Net cash used for investing activities	(2,050.4)	—	—	—	(2,050.4)
Net cash provided by financing activities	1,111.3	(46.5)	—	8.7	1,073.5
Effect of exchange rate changes on cash and cash equivalents	19.4	—	(0.1)	—	19.3
Net decrease in cash and cash equivalents	$(24.4)				$(24.5)

The below adjustments have been made to the December 31, 2017, balance sheet and are all the result of the implementation of ASC 606. The adjustments include a cumulative catch-up adjustment, reclassification of unbilled services, and the capitalization of contract acquisition costs.

	Condensed Consolidated Balance Sheets December 31, 2017		
	As Previously Reported	ASC 606 Revenue Adjustments	As Adjusted
Current assets	$2,682.6	$ 51.2	$2,733.8
Long-term assets	13,885.4	53.8	13,939.2
Total assets	$16,568.0	$ 105.0	$16,673.0
Current liabilities	$2,046.1	$ 139.6	$2,185.7
Long-term liabilities	7,671.1	(8.7)	7,662.4
Noncontrolling interest	20.8	—	20.8
Shareholders' equity	6,830.0	(25.9)	6,804.1
Total liabilities and shareholders' equity	$16,568.0	$ 105.0	$16,673.0

2. REVENUE

Description of Revenue

The Company's revenue by segment payers/customer groups for the three and nine months ended September 30, 2018, and 2017 is as follows:

	For the Three Months Ended September 30, 2018						
	U.S.	Canada	U.K.	Switzerland	Other Europe	Other	Total
Payer/Customer							
LCD							
Clients	17%	1 %	—%	— %	— %	—%	18 %
Patients	8 %	— %	—%	— %	— %	—%	8 %
Medicare and Medicaid	9 %	— %	—%	— %	— %	—%	9 %
Third-party	25%	2 %	—%	— %	— %	—%	27 %
Total LCD revenues by payer	59%	3 %	—%	— %	— %	—%	62 %

CDD							
Biopharmaceutical and medical device companies	24%	—%	3%	4%	2%	5%	38%
Total revenues	83%	3%	3%	4%	2%	5%	100%

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	For the Three Months Ended September 30, 2017						
	U.S.	Canada	U.K.	Switzerland	Other Europe	Other	Total
Payer/Customer							
LCD							
Clients	19%	1 %	—%	— %	— %	—%	20 %
Patients	9 %	— %	—%	— %	— %	—%	9 %
Medicare and Medicaid	10%	— %	—%	— %	— %	—%	10 %
Third-party	27%	2 %	—%	— %	— %	—%	29 %
Total LCD revenues by payer	65%	3 %	—%	— %	— %	—%	68 %
CDD							
Biopharmaceutical and medical device companies	15%	— %	3 %	4 %	3 %	7 %	32 %
Total revenues	80%	3 %	3 %	4 %	3 %	7 %	100%

	For the Nine Months Ended September 30, 2018						
	U.S.	Canada	U.K.	Switzerland	Other Europe	Other	Total
Payer/Customer							
LCD							
Clients	17%	1 %	—%	— %	— %	—%	18 %
Patients	9 %	— %	—%	— %	— %	—%	9 %
Medicare and Medicaid	9 %	— %	—%	— %	— %	—%	9 %
Third-party	24%	2 %	—%	— %	— %	—%	26 %
Total LCD revenues by payer	59%	3 %	—%	— %	— %	—%	62 %
CDD							
Biopharmaceutical and medical device companies	20%	— %	3 %	5 %	3 %	7 %	38 %
Total revenues	79%	3 %	3 %	5 %	3 %	7 %	100%

	For the Nine Months Ended September 30, 2017						
	U.S.	Canada	U.K.	Switzerland	Other Europe	Other	Total
Payer/Customer							
LCD							
Clients	19%	1 %	—%	— %	— %	—%	20 %
Patients	9 %	— %	—%	— %	— %	—%	9 %
Medicare and Medicaid	10%	— %	—%	— %	— %	—%	10 %
Third-party	26%	2 %	—%	— %	— %	—%	28 %
Total LCD revenues by payer	64%	3 %	—%	— %	— %	—%	67 %
CDD							
	15%	— %	3 %	5 %	3 %	7 %	33 %

Biopharmaceutical and medical device companies							
Total revenues	79%	3 %	3 %	5 %	3 %	7 %	100%

The following is a description of the current revenue recognition policies of the Company:

LCD

LCD is an independent clinical laboratory business. It offers a comprehensive menu of frequently requested and specialty diagnostic tests through an integrated network of primary and specialty laboratories across the U.S. In addition to diagnostic testing, along with occupational and wellness testing for employers and forensic DNA analysis, LCD has also offered a range of other testing services, including food solutions services.

Within the LCD segment, with the exception of food solutions services, a revenue transaction is initiated when LCD receives a requisition order to perform a diagnostic test. The information provided on the requisition form is used to determine the party

that will be billed for the testing performed and the expected reimbursement. LCD recognizes revenue and satisfies its performance obligation for services rendered when the testing process is complete and the associated results are reported. Sales are distributed among four payer portfolios - clients, patients, Medicare and Medicaid, and third-party. LCD considers negotiated discounts and anticipated adjustments, including historical collection experience for the payer portfolio, when sales are recorded.

The following are descriptions of the LCD payer portfolios:

Clients

Client payers represent the portion of LCD’s revenue related to physicians, hospitals, health systems, accountable care organizations (ACOs), employers and other entities where payment is received exclusively from the entity ordering the testing service. Generally, client sales are recorded on a fee-for-service basis at LCD’s client list price, less any negotiated discount. A portion of client billing is for laboratory management services, collection kits and other non-testing services or products. In these cases, revenue is recognized when services are rendered or delivered.

This portfolio also includes LCD's nutritional chemistry services. LCD offers a broad range of services to the food and nutraceutical and animal feed industries. Revenue is recognized using an output-based measure of progress based on the volume of activities in each period.

Patients

This portfolio includes revenue from uninsured patients and member cost-share for insured patients (e.g., coinsurance, deductibles and non-covered services). Uninsured patients are billed based upon LCD’s patient fee schedules, net of any discounts negotiated with physicians on behalf of their patients. LCD bills insured patients as directed by their health plan and after consideration of the fees and terms associated with an established health plan contract.

Medicare and Medicaid

This portfolio relates to fee-for-service revenue from traditional Medicare and Medicaid programs. Net revenue from these programs is based on the fee schedule established by the related government authority. In addition to contractual discounts, other adjustments including anticipated payer denials are considered when determining net revenue. Any remaining adjustments to revenue are recorded at the time of final collection and settlement. These adjustments are not material to LCD’s results of operations in any period presented.

Third-Party

Third-party includes revenue related to MCOs. The majority of LCD's third-party revenue is reimbursed on a fee-for-service basis. These payers are billed at LCD's established list price and revenue is recorded net of contractual discounts. The majority of LCD’s MCO sales are recorded based upon contractually negotiated fee schedules with sales for non-contracted MCOs recorded based on historical reimbursement experience.

In addition to contractual discounts, other adjustments including anticipated payer denials are considered when determining revenue. Any remaining adjustments to revenue are recorded at the time of final collection and settlement. These adjustments are not material to LCD’s results of operations in any period presented.

Third-party reimbursement is also received through capitation agreements with MCOs and independent physician associations (IPAs). Under capitated agreements, revenue is recognized based on a negotiated per-member, per-month payment for an agreed upon menu of tests, or based upon the proportionate share earned by LCD from a capitation pool. When the agreed upon reimbursement is based solely on an established rate per member, revenue is not impacted by the volume of testing performed. Under a capitation pool arrangement, the aggregate value of an established rate per member is distributed based on the volume and complexity of the procedures performed by laboratories participating in the agreement. LCD recognizes revenue monthly, based upon the established capitation rate or anticipated distribution from a capitated pool.

CDD

CDD is a contract research organization (CRO) business that provides end-to-end drug development services from early-stage research to clinical trial management and beyond. CDD provides these services predominantly to

biopharmaceutical and medical device companies across the world. Because the CDD client base generally consumes these drug development services across the entire portfolio of CDD pre-clinical and clinical services offerings, there is little variability in the customer base of any particular CDD service offering. The nature of CDD's obligations include agreements to manage a full clinical trial, provide services for a specific phase of a trial, or provide research products to the customer. Generally, the amount of the transaction price estimated at the beginning of the contract is equal to the amount expected to be billed to the customer. Other payments may also factor into the calculation of transaction price, such as volume-based rebates that are retroactively applied to prior transactions in the period.

Historically, a majority of CDD's net revenues have been earned under contracts that range in duration from a few months to a few years, but can extend in duration up to five years or longer. Occasionally, CDD also has entered into minimum volume arrangements with certain customers. Under these types of arrangements, if the annual minimum dollar value of a service commitment is not reached, the customer is required to pay CDD for the shortfall. Annual minimum commitment shortfalls are not recognized until the end of the period when the amount has been determined and agreed to by the customer.

CDD recognizes revenue either as services are performed or as products are delivered, depending on the nature of the work contracted. If performance is completed at a specific point in time, the Company evaluates the nature of the agreement to determine when the good or service is transferred into the customer's control.

Service contracts generally take the form of fee-for-service or fixed-price arrangements subject to pricing adjustments based on changes in scope. In cases where performance spans multiple accounting periods, revenue is recognized as services are performed, measured on a proportional-performance basis, using either input or output methods that are specific to the service provided. In an output method, revenue is determined by dividing the actual units of output achieved by the total units of output 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. When using an input method, revenue is recognized by dividing the actual units of input incurred by the total units of input budgeted in the contract, and multiplying that percentage by the total contract value. In each situation, the Company believes that the methods used most accurately depict the progress of the Company towards completing its obligations. Billing schedules and payment terms are generally negotiated on a contract-by-contract basis. In some cases, CDD bills the customer for the total contract value in progress-based installments as certain non-contingent billing milestones are reached over the contract duration. These milestones include, but are not limited to, contract signing, initial dosing, investigator site initiation, patient enrollment and/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 generally 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 customer would be the same at the end of the project.

Proportional performance contracts typically contain a single service (e.g., management of a clinical study) and, therefore, no allocation of the contract price is required. Fee-for-service contracts are typically priced based on transaction volume. Since the volume of activities in a fee-for-service contract is unspecified, the contract price is entirely variable and is allocated to the time period in which it is earned. For contracts that include multiple distinct goods and services, CDD allocates the contract price to the goods and services based on a customer price list, if available. If a price list is not available, CDD will estimate the transaction price using either market prices or an "expected cost plus margin" approach.

CDD attempts to negotiate terms that provide for billing and payment of services prior or within close proximity to the provision of services, but this is not always possible. During an ongoing project, cash payments are not necessarily representative of aggregate revenue earned at any particular point in time because 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 contract liabilities on the balance sheet. As the contracted services are subsequently performed and the associated revenue is recognized the contract liability balance is reduced by the amount of revenue recognized during the period.

In other cases, services may be provided and revenue recognized before the customer is invoiced. In these cases revenue recognized will exceed amounts billed, and the difference, representing a contract asset, is recorded for the amount that is currently not billable to the customer pursuant to contractual terms. Once the customer is invoiced the contract asset is reduced for the amount billed and a corresponding account receivable is recorded. All contract assets are billable to customers within one year from the respective balance sheet date.

Most contracts are terminable with or without cause by the customer, 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.

The full range of drug development services provided by CDD are as follows:

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Preclinical services include the sale of research models, fee-for-service activities such as bioanalytical testing services, and proportional performance activities such as toxicology studies. Revenue for sale of research models is recognized at a point in time, typically upon shipment, when control transfers to the customer. Revenue for bioanalytical testing services is recognized upon communication of results to the customer. Revenue for proportional performance activities, including toxicology studies, is recognized using an input-based measure of progress as expenses are incurred for the research models, labor hours, and other costs attributable to the study.

Through its central laboratory, CDD produces and supplies specimen collection kits that are utilized in clinical studies, and provides transportation, project management, data management, and laboratory testing services on an as-needed basis throughout the duration of its customers' clinical studies. Revenue for central laboratory services is recognized using an output-based measure of progress based on volume of activities in each period. CDD also provides long-term specimen storage services, for which revenue is recognized using an input-based measure of progress based on costs incurred.

CDD provides clinical development and commercialization services, including clinical pharmacology services, full management of Phase II through IV clinical studies, and market access solutions. Revenue for clinical pharmacology services, which includes first-in-human trials, is recognized using an output-based measure of progress based on bed nights. Revenue for full service clinical studies is recognized using an input-based measure of progress based on costs incurred (including pass-through costs such as investigator grants and reimbursable out-of-pocket expenses). Revenue for market access solutions is recognized using various methods. Revenue for fee-for-service arrangements, such as reimbursement consulting hotlines and patient assistance programs, is recognized using an output method based on transaction volume which corresponds to the amount charged to the customer. For consulting services billed based on time and materials; revenue is recognized using the right to invoice practical expedient.

Contract costs

The Company incurs sales commissions in the process of obtaining contracts with customers, which are recoverable through the service fees in the contract. Sales commissions that are payable upon contract award are recognized as assets and amortized over the expected contract term, along with related payroll tax expense. The amortization of commission expense is based on the weighted average contract duration for all commissionable awards in the respective business in which the commission expense is paid, which approximates the period over which goods and services are transferred to the customer. The amortization period of sales commissions ranges from approximately 12 months to 57 months, depending on the business. For businesses that enter into primarily short-term contracts, the Company applies the practical expedient which allows costs to obtain a contract to be expensed when incurred if the amortization period of the assets that would otherwise have been recognized is one year or less. Amortization of assets from sales commissions is included in selling, general, and administrative expense.

The Company incurs costs to fulfill contracts with customers, which are recoverable through the service fees in the contract. Contract fulfillment costs include software implementation costs and setup costs for certain market access solutions. These costs are recognized as assets and amortized over the expected term of the contract to which the implementation relates, which is the period over which services are expected to be provided to the customer. This period typically ranges from 24-60 months. Amortization of deferred contract fulfillment costs is included in cost of goods sold.

	September 30, 2018	December 31, 2017
Sales commission assets	$ 22.8	$ 24.0
Deferred contract fulfillment costs	12.5	1.7
Total	$ 35.3	$ 25.7

Amortization related to sales commission assets and associated payroll taxes for the three-month periods ended September 30, 2018, and 2017, was $4.2 and $3.5, respectively, and for the nine-month periods ended September 30,

2018, and 2017, was $12.8 and $10.6, respectively. Amortization related to deferred contract fulfillment costs for the three-month periods ended September 30, 2018, and 2017, was $0.8 and $0.1, respectively, and for the nine-month periods ended September 30, 2018, and 2017, was $3.3 and $0.3, respectively. Impairment expense related to contract costs was immaterial to the Company's consolidated statement of operations. The Company applies the practical expedient to not recognize the effect of financing in its contracts with customers, when the difference in timing of payment and performance is one year or less.

Contract Assets and Liabilities

The following table provides information about receivables, contract assets (unbilled services), and contract liabilities (unearned revenue) from contracts with customers. While CDD attempts to negotiate terms that provide for billing and payment of services prior or in close proximity to the provision of services, this is not always possible and there are fluctuations in the level of unbilled services and unearned revenue from period to period.

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	September 30, 2018	December 31, 2017
Receivables, which are included in Accounts Receivable, net	$ 665.7	$ 694.4
Unbilled services	322.6	318.2
Unearned revenue	286.2	377.4

Revenue recognized during the period, that was included in the unearned revenue balance at the beginning of the period for the nine-month period ended September 30, 2018, was $144.8. Bad debt expense on receivables for the nine-month period ended September 30, 2018, was immaterial to the Company’s consolidated statement of operations.

Performance Obligations Under Long-Term Contracts

Long-term contracts at the Company consist primarily of fully managed clinical studies within the CDD segment. The amount of existing performance obligations under such long-term contracts unsatisfied as of September 30, 2018, was $4,199.6. The Company expects to recognize approximately 39% of the remaining performance obligations as revenue over the next 12 months, and the balance thereafter.

The Company applied the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The Company also did not disclose information about remaining performance obligations when the variable consideration was related to a wholly unsatisfied performance obligation within a series of obligations.

Within CDD, revenue of $10.9 and $20.5 was recognized during the three and nine months ended September 30, 2018, respectively, from performance obligations that were satisfied in previous periods. This revenue comes from adjustments related to changes in scope and estimates in full service clinical studies.

3. BUSINESS ACQUISITIONS AND DISPOSITIONS

On September 1, 2017, the Company completed the acquisition of Chiltern International Group Limited (Chiltern), a specialty CRO, pursuant to a definitive agreement to acquire all of the share capital of Chiltern, in an all-cash transaction valued at approximately $1,224.5. The Company funded the acquisition through a combination of bank financing and the issuance of bonds. Chiltern is part of the Company's CDD segment.

The final valuation of acquired assets and assumed liabilities as of September 1, 2017, include the following:

Consideration Transferred	
Cash consideration	$1,224.5

Net Assets Acquired	
Cash and cash equivalents	$30.7
Accounts receivable	103.6
Unbilled services	32.6
Prepaid expenses and other	57.9
Property, plant and equipment	12.1
Goodwill	735.9
Customer relationships	602.0
Trade names and trademarks	10.6
Technology	26.0
Total assets acquired	1,612.3
Accounts payable	45.1
Accrued expenses and other	19.6
Unearned revenue	124.2
Deferred income taxes	196.5

Other liabilities	2.4
Total liabilities acquired	387.8
Net assets acquired	$1,224.5

The amortization periods for intangible assets acquired are 21 years for customer relationships, 7 years for trade names and trademarks, and 9 years for technology.

Unaudited Pro Forma Information

The Company completed the Chiltern acquisition on September 1, 2017. Had the Chiltern acquisition been completed as of January 1, 2016, the Company's pro forma results would have been as follows:

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	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Net revenues	$ 2,747.3	$ 8,086.6
Operating income	313.2	975.0
Net income	158.1	521.2
Earnings per share:		
Basic	$ 1.55	$ 5.09
Diluted	$ 1.52	$ 5.02

The unaudited pro forma results reflect certain adjustments related to past operating performance and acquisition accounting adjustments, such as increased amortization expense and decreased depreciation 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 do not include any anticipated synergies which may be achievable subsequent to the Chiltern acquisition. To produce the unaudited pro forma financial information, the Company adjusted Chiltern’s assets and liabilities to their estimated fair value based on a valuation as of September 1, 2017. 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 of Chiltern occurred on the date indicated or that may result in the future.

During the nine months ended September 30, 2018, the Company also acquired various businesses and related assets for approximately $79.1 in cash (net of cash acquired). The purchase consideration for all acquisitions year to date has been allocated to the estimated fair market value of the net assets acquired, including approximately $48.5 in identifiable intangible assets and a residual amount of goodwill of approximately $49.5. These acquisitions were made primarily to extend the Company's geographic reach in important market areas and/or enhance the Company's scientific differentiation.

On April 30, 2018, the Company entered into a definitive agreement to sell the Food Solutions business, a global provider of innovative product design and product integrity services for end-user segments that span the global food supply chain, for an all-cash purchase price of $670.0. The Company believes that the opportunities for creating lasting value from its laboratory diagnostic business, the CRO business, and the enterprise-wide combination of the two. In addition, the Company concluded that, given the competitive dynamics of the food testing market, Food Solutions would be unlikely to achieve sufficient scale to be a top global business. The sale of Food Solutions allows the Company to focus on its primary growth opportunities and at the same time better positions Food Solutions to serve the global food supply industry. The transaction closed on August 1, 2018, and a net gain of $258.3 was recorded in Other, net in the consolidated statement of operations. Total assets and total liabilities held for sale for the Food Solutions business as of December 31, 2017, include the following:

	December 31, 2017
Assets:	
Cash and cash equivalents	$ 0.1
Accounts receivable	24.4
Unbilled services	7.6
Supplies inventories	0.4
Prepaid expenses and other	1.2
Property, plant and equipment, net	42.3

Goodwill, net	170.5
Intangible assets, net	174.7
Other assets, net	0.3
Total assets held for sale	$ 421.5
Liabilities:	
Accounts payable	$ 2.4
Accrued expenses and other	15.2
Unearned revenue	2.6
Deferred income taxes and other tax liabilities	64.1
Other liabilities	2.2
Total liabilities held for sale	$ 86.5
Net assets held for sale	$ 335.0

The Company also divested its forensic testing services business in the U.K. on August 7, 2018, resulting in a loss of $48.9 recorded in Other, net in the consolidated statement of operations.

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Operating income for the divested businesses was $2.4 and $6.1, for the three and nine months ended September 30, 2018, (which includes divested operations through their respective disposal dates in early August) and $2.2 and $10.3, for the three and nine months ended September 30, 2017.

4. 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:

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2018			2017			2018			2017		
	Earnings	Shares	Per Share Amount	Earnings	Shares	Per Share Amount	Earnings	Shares	Per Share Amount	Earnings	Shares	Per Share Amount
Basic earnings per share:												
Net earnings	$318.8	101.6	$ 3.14	$171.5	102.2	$ 1.68	$725.8	101.8	$ 7.13	$539.3	102.4	$ 5.27
Dilutive effect of employee stock options and awards	—	1.0		—	1.4		—	1.2		—	1.4	
Effect of convertible debt	—	0.1		—	0.1		—	0.1		—	0.1	
Diluted earnings per share:												
Net earnings including impact of dilutive adjustments	$318.8	102.7	$ 3.10	$171.5	103.7	$ 1.65	$725.8	$103.1	$ 7.04	$539.3	$103.9	$ 5.19

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	0.1	0.1	0.1	0.1

5. RESTRUCTURING AND OTHER SPECIAL CHARGES

During the nine months ended September 30, 2018, the Company recorded net restructuring and other special charges of $36.5: $13.2 within LCD and $23.3 within CDD. The charges were comprised of $30.0 related to severance and other personnel costs and $8.8 in costs associated with facility closures and general integration initiatives. The charges were offset by the reversal of previously established reserves of $1.2 and $1.1 in unused facility reserves and unused severance reserves, respectively. The Company also recorded $5.3 in impairment to land held for sale which is

included in amortization expense.

The Company incurred integration and other costs of $43.1 primarily relating to the Chiltern acquisition and the sale of the Food Solutions business. On July 16, 2018, the Company reported that it had detected suspicious activity on its information technology network and was taking steps to respond to and contain the activity. The activity was subsequently determined to be a new variant of ransomware affecting certain LCD information technology systems. As a direct result of the ransomware attack experienced during July, the Company incurred $12.6 in consulting fees and employee overtime during the recovery period following the attack. The Company also recorded $4.3 in consulting expenses relating to the Chiltern integration and management integration costs along with a special one-time bonus of $31.1 to its non-bonus eligible employees in recognition of the benefits the Company is receiving from the passage of the Tax Cuts and Jobs Act of 2017 (TCJA). In addition, the Company incurred $7.3 of non-capitalized costs associated with the implementation of a major system as part of its LaunchPad business process improvement initiative.

During the nine months ended September 30, 2017, the Company recorded net restructuring and other special charges of $64.6: $14.0 within LCD and $50.6 within CDD. The charges were comprised of $27.2 related to severance and other personnel costs along with $18.0 in costs associated with facility closures and general integration initiatives. The Company reversed previously established reserves of $1.4 in unused severance reserves and $0.1 in unused facility reserves. Also included in the net restructuring and other special charges is an impairment loss of $20.9 related to the termination of a software development project within the

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CDD segment and the forgiveness of certain indebtedness for LCD customers in areas heavily impacted by hurricanes during the third quarter.

The Company incurred legal and other costs of $29.8 relating to the recently completed acquisitions. The Company also recorded $8.0 in consulting expenses relating to fees incurred as part of its integration and compensation analysis, along with $0.9 in short-term equity retention arrangements relating to the Covance Inc. acquisition. In addition, the Company incurred $8.2 of non-capitalized costs associated with the implementation of a major system as part of LaunchPad (all recorded in selling, general and administrative expenses).

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

	LCD Severance and Other Employee Costs	LCD Lease and Other Facility Costs	CDD Severance and Other Employee Costs	CDD Lease and Other Facility Costs	Total
Balance as of December 31, 2017	$1.7	$10.1	$8.3	$34.6	$54.7
Restructuring charges	10.7	3.0	19.3	5.8	38.8
Reduction of prior restructuring accruals	—	(0.5)	(1.2)	(0.6)	(2.3)
Cash payments and other adjustments	(11.1)	(5.3)	(16.3)	(10.4)	(43.1)
Balance as of September 30, 2018	$1.3	$7.3	$10.1	$29.4	$48.1
Current					$22.6
Non-current					25.5
					$48.1

6. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2018, and for the year ended December 31, 2017, are as follows:

	LCD		CDD		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Balance as of January 1	$3,673.9	$ 3,644.8	$3,727.0	$ 2,779.6	$7,400.9	$ 6,424.4
Goodwill acquired during the period	3.9	198.5	45.6	811.3	49.5	1,009.8
Reclassification of goodwill as held for sale	—	(170.5)	—	—	—	(170.5)
Dispositions	(24.1)	—	—	—	(24.1)	—
Adjustments to goodwill	(4.2)	1.1	(59.4)	136.1	(63.6)	137.2
Balance at end of period	$3,649.5	$ 3,673.9	$3,713.2	$ 3,727.0	$7,362.7	$ 7,400.9

The components of identifiable intangible assets are as follows:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$4,115.7	$ (1,106.5)	$3,009.2	$4,118.1	$ (992.8)	$3,125.3
Patents, licenses and technology	454.6	(207.8)	246.8	457.9	(188.6)	269.3
Non-compete agreements	75.8	(53.0)	22.8	75.8	(48.3)	27.5
Trade names	405.0	(183.3)	221.7	407.9	(167.9)	240.0
Land use right	10.8	(3.7)	7.1	10.8	(2.5)	8.3

Canadian licenses	483.3	—	483.3	495.7	—	495.7
	$5,545.2	$ (1,554.3)	$3,990.9	$5,566.2	$ (1,400.1)	$4,166.1

Amortization of intangible assets for the three-month periods ended September 30, 2018, and 2017, was $54.7 and $54.6, respectively, and $175.5 and $153.6 for the nine-month periods ended September 30, 2018, and 2017. Amortization expense for the net carrying amount of intangible assets is estimated to be $51.3 for the remainder of fiscal 2018, $222.5 in fiscal 2019, $214.4 in fiscal 2020, $208.1 in fiscal 2021, $202.5 in fiscal 2022 and $2,522.8 thereafter.

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7. DEBT

Short-term borrowings and the current portion of long-term debt at September 30, 2018, and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
Zero-coupon convertible subordinated notes	$ 8.6	$ 8.8
2.50% senior notes due 2018	400.0	400.0
Debt issuance costs	(0.6)	(1.4)
Current portion of capital leases	8.0	8.3
Current portion of note payable	1.8	1.8
Total short-term borrowings and current portion of long-term debt	$ 417.8	$ 417.5

Long-term debt at September 30, 2018, and December 31, 2017, consisted of the following:

	September 30, 2018	December 31, 2017
2.625% senior notes due 2020	$ 500.0	$ 500.0
4.625% senior notes due 2020	599.5	604.1
3.20% senior notes due 2022	500.0	500.0
3.75% senior notes due 2022	500.0	500.0
4.00% senior notes due 2023	300.0	300.0
3.25% senior notes due 2024	600.0	600.0
3.60% senior notes due 2025	1,000.0	1,000.0
3.60% senior notes due 2027	600.0	600.0
4.70% senior notes due 2045	900.0	900.0
2014 Term loan	—	72.0
2017 Term loan	527.0	750.0
Debt issuance costs	(42.0)	(48.2)
Capital leases	52.6	57.8
Note payable	7.5	8.9
Total long-term debt	$ 6,044.6	$ 6,344.6

Senior Notes

On August 22, 2017, the Company issued new senior notes representing $1,200.0 in debt securities and consisting of a $600.0 aggregate principal amount of 3.25% senior notes due 2024 and a $600.0 aggregate principal amount of 3.60% senior notes due 2027. Interest on these notes is payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2018. Net proceeds from the offering of these notes were $1,190.1 after deducting underwriting discounts and other expenses of the offering. Net proceeds were used to pay off the 2.20% senior notes due August 23, 2017, as well as a portion of the cash consideration and the fees and expenses in connection with the Chiltern acquisition.

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 or other long-term liabilities, as applicable, and added to or subtracted from the value of the senior notes, with an aggregate fair value of $0.5 (liability) at September 30, 2018, and $4.1 (asset) at December 31, 2017.

During the first quarter of 2018, the Company entered into six USD to Swiss Franc cross-currency swap agreements with an aggregate notional value of $600.0 and which are accounted for as a hedge against its net investment in a Swiss subsidiary. Of the notional value, $300.0 matures in 2022 and $300.0 matures in 2025. The cross currency swaps maturing in 2022 and 2025 are included in other long-term assets with an aggregate fair value of $6.6 and $1.5, respectively, as of September 30, 2018. Changes in the fair value of the cross-currency swaps are charged or credited through accumulated other comprehensive income in the Consolidated Balance Sheet until the hedged item is recognized in earnings.

Zero-Coupon Subordinated Notes

On September 11, 2018, the Company announced that for the period from September 11, 2018, to March 8, 2019, the zero-coupon subordinated notes will accrue contingent cash interest at a rate of no less than 0.125% of the average market price of a

zero-coupon subordinated note for the five trading days ended September 7, 2018, in addition to the continued accrual of the original issue discount.

During the nine months ended September 30, 2018, the Company settled notices to convert $0.3 aggregate principal amount of its zero-coupon subordinated notes with a conversion value of $0.7. The total cash used for these settlements was $0.3 and the Company also issued 0.0 shares of common stock. As a result of these conversions, the Company also reversed deferred tax liabilities of $0.2.

On October 1, 2018, 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 October 1, 2018, 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 Monday, December 31, 2018. If notices of conversion are received, the Company plans to settle the cash portion of the conversion obligation with cash on hand and/or borrowings under the revolving credit facility.

Credit Facilities

On September 15, 2017, the Company entered into a new $750.0 term loan in addition to its existing $1,000.0 term loan entered into in December 2014. The 2017 term loan facility will mature on September 15, 2022. The 2014 term loan balance at September 30, 2018, was $0.0 and at December 31, 2017, was $72.0. The 2017 term loan balance at September 30, 2018, was $527.0 and at December 31, 2017, was $750.0.

The 2014 term loan credit facility accrued 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%. The 2017 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 0.875% to 1.50%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.0% to 0.50%. The Company paid off the 2014 term loan during the second quarter of 2018.

As of September 30, 2018, the effective interest rate on the 2017 term loan was 3.37%.

The Company entered into a senior revolving credit facility on December 21, 2011, which was amended and restated on December 19, 2014, further amended on July 13, 2016, and further amended and restated on September 15, 2017. 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 $350.0, subject to the agreement of one or more new or existing lenders to provide such additional amounts and certain other customary conditions. The revolving credit facility also provides for a subfacility of up to $100.0 for swing line borrowings and a subfacility of up to $150.0 for issuances of letters of credit. The 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. The outstanding balance on the Company's revolving credit facility was $0.0 at September 30, 2018, and December 31, 2017.

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 0.775% to 1.25%, or a base rate determined according to a prime rate or federal funds rate plus a margin ranging from 0.00% to 0.25%. Fees are payable on outstanding letters of credit under the 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 revolving credit facility, at a per annum rate ranging from 0.10% to 0.25%. The interest margin applicable to the credit facilities, and the facility fee and letter of credit fees payable under the revolving credit facility, are based on the Company’s senior credit ratings as determined by Standard & Poor’s and Moody’s.

Under the term loan facilities 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 certain leverage ratios. The Company was in compliance with all covenants in the term loan facilities and the revolving credit facility at September 30, 2018. As of September 30, 2018, the ratio of total debt to consolidated proforma trailing 12 month EBITDA was 3.1 to 1.0.

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8. 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 September 30, 2018, and December 31, 2017.

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

	Issued	Held in Treasury	Outstanding
Common shares at December 31, 2017	125.1	(23.2)	101.9
Common stock issued under employee stock plans	1.5	—	1.5
Surrender of restricted stock and performance share awards	—	(0.3)	(0.3)
Retirement of common stock	(1.7)	—	(1.7)
Common shares at September 30, 2018	124.9	(23.5)	101.4

Share Repurchase Program

At the end of 2017, the Company had outstanding authorization from the board of directors to purchase up to $401.4 of Company common stock. During the nine months ended September 30, 2018, the Company purchased 1.7 shares of its common stock at a total cost of $300.0. On April 24, 2018, the board authorized an increase in the Company's share repurchase program to a total of $1,000.0. As of September 30, 2018, the Company had outstanding authorization from the board of directors to purchase up to $843.5 of Company common stock. The repurchase authorization has no expiration.

Accumulated Other Comprehensive Earnings

The components of accumulated other comprehensive earnings are as follows:

	Foreign Currency Translation Adjustments	Net Benefit Plan Adjustments	Accumulated Other Comprehensive Earnings (Loss)
Balance at December 31, 2017	$ (240.7)	$ (93.0)	$ (333.7)
Other comprehensive earnings (loss) before reclassifications	(82.2)	9.1	(73.1)
Tax effect of adjustments	2.5	(3.5)	(1.0)
Balance at September 30, 2018	$ (320.4)	$ (87.4)	$ (407.8)

9. 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 $18.8 and $19.5 at September 30, 2018, and December 31, 2017, respectively. It is anticipated that the amount of the unrecognized income tax benefits will change within the next 12 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 September 30, 2018, and December 31, 2017, $18.8 and $19.5, 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.

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 $8.6 and $7.9 as of September 30, 2018, and December 31, 2017, respectively.

The Company has substantially concluded all U.S. federal income tax matters for years through 2014. Substantially all material state and local, and foreign income tax matters have been concluded through 2013 and 2014, respectively. During the quarter, the IRS concluded its examination of Covance's 2013 federal income tax return. The IRS has not initiated a new examination of any of the Company's federal income tax returns. The Canada Revenue Agency is currently examining the Company's Canadian subsidiaries' 2013, 2014, and 2015 tax returns. The Company has various state and foreign income tax examinations ongoing throughout the year. The Company believes adequate provisions have been recorded related to all open tax years.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which provides companies with additional guidance on how to account for the TCJA in its financial statements, allowing companies to use a measurement period. At September 30, 2018, the Company had not completed the accounting for the tax effects of enactment of the TCJA; however, a reasonable estimate on the re-measurement of the Company's existing deferred tax balances, the deferred tax revaluation for unremitted foreign earnings, and the one-time repatriation tax has been made. For these items, in accordance with SAB 118, a provisional net benefit of $519.0 was recognized in the fourth quarter of 2017. During the nine months ended September 30, 2018, the Company continued its review and recorded net additional provisional expense of $28.1 in the quarter, for a year to date total of $44.1.

The TCJA includes provisions relating to global intangible low-taxed income (GILTI). Relevant to the current consolidated financial statements is the Company's selection of an accounting policy with respect to the new GILTI tax rules, and whether to account for GILTI as a periodic charge in the period it arises or to record deferred taxes associated with the basis in the Company's foreign subsidiaries. Due to the intricacy of this topic, the Company is still in the process of investigating the implications of accounting for the GILTI tax and intends to make an accounting policy decision once additional guidance is available for assessment. During the nine months ended September 30, 2018, the Company recorded its estimated GILTI tax as a periodic charge.

10. 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; commercial and contract disputes; professional liability; employee-related matters; and inquiries, including subpoenas and other civil investigative demands, from governmental agencies, Medicare or Medicaid payers and MCOs 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 parties, including physicians and other healthcare providers (e.g., physician assistants and nurse practitioners, generally referred to herein as physicians). The Company works cooperatively to respond to appropriate requests for information.

The Company also is 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 U.S. federal or state healthcare 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 healthcare field today.

The Company believes that it is in compliance in all material respects with all statutes, regulations and other requirements applicable to its commercial laboratory operations and drug development support services. The healthcare diagnostics and drug development industries are, however, subject to extensive regulation, and the courts have not interpreted many of the applicable statutes and regulations. Therefore, the applicable statutes and regulations could 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 civil and criminal penalties, fines, the loss of various licenses, certificates and authorizations, additional liabilities from third-party claims, 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 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, though 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 previously reported, the Company responded to an October 2007 subpoena from the U.S. Department of Health & Human Services Office of Inspector General's regional office in New York. On August 17, 2011, the U.S. District Court for 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 14 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 U.S. government nor any state government has intervened in the lawsuit. The Company's Motion to Dismiss was granted in October 2014 and Plaintiff was granted the right to replead. On January 11, 2016, Plaintiff filed a motion requesting leave to file an amended complaint under seal and to vacate the briefing schedule for the Company's Motion to Dismiss, while the government reviews the amended complaint. The Court granted the motion and vacated the briefing dates. Plaintiff then filed the Amended Complaint under seal. The Company will vigorously defend the lawsuit.

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. The Company cooperated with this request. 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 cooperated with this request. On October 5, 2018, the Company received a second 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 this request.

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 State of Georgia filed a Notice of Declination on August 13, 2012, before the Company was served with the Complaint. The case was removed to the U.S. 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. On March 14, 2014, the Company's Motion to Dismiss was granted. The Plaintiffs repled their complaint, and the Company filed a Motion to Dismiss the First Amended Complaint. In May 2015, the Court dismissed the Plaintiffs' anti-kickback claim and remanded the remaining state law claims to the State Court of Fulton County. In July 2015, the Company filed a Motion to Dismiss these remaining claims. The Plaintiffs filed an opposition to the Company's Motion to Dismiss in August 2015. Also, the State of Georgia filed a brief as amicus curiae. The parties have reached a settlement in principle.

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 U.S. District Court for the District of Minnesota. The lawsuit alleges that on or about February 21, 2012, the defendants violated the U.S. Telephone Consumer Protection Act (TCPA) by sending unsolicited facsimiles to Plaintiff and more than 39 other recipients without the recipients' prior express invitation or permission. 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 of 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 filed a notice of appeal. On May 3, 2016, the U.S. Court of Appeals for the Eighth Circuit issued its decision and order reversing the District Court's denial of class certification. The Eighth Circuit remanded the matter for further proceedings. On December 7, 2016, the District Court granted the Plaintiff’s renewed Motion for Class Certification. The parties have reached a settlement in principle, which will require Court approval.

On August 31, 2015, the Company was served with a putative class action lawsuit, Patty Davis v. Laboratory Corporation of America, et al., filed in the Circuit Court of the Thirteenth Judicial Circuit for Hillsborough County, Florida. The Complaint alleges that the Company violated the Florida Consumer Collection Practices Act by billing patients who were collecting benefits under the Workers' Compensation Statutes. The lawsuit seeks injunctive relief and actual and statutory damages, as well as recovery of attorney's fees and legal expenses. In April 2017, the Circuit Court granted the Company’s Motion for Judgment on the Pleadings. The Plaintiff has appealed the Circuit Court’s ruling to the Florida Second District Court of Appeal. The Company will vigorously defend the lawsuit.

In December 2014, the Company received a Civil Investigative Demand issued pursuant to the U.S. False Claims Act from the U.S. Attorney's Office for South Carolina, which requested information regarding alleged remuneration and services provided by the Company to physicians who also received draw and processing/handling fees from competitor laboratories Health Diagnostic Laboratory, Inc. (HDL) and Singulex, Inc. (Singulex). The Company cooperated with the request. On April 4, 2018, the U.S. District Court for the District of South Carolina, Beaufort Division, unsealed a False Claims Act lawsuit, United States of America ex rel. Scarlett Lutz, et al. v. Laboratory Corporation of America Holdings, which alleges that the Company's financial relationships

with referring physicians violate federal and state anti-kickback statutes. The Plaintiffs' Fourth Amended Complaint further alleges that the Company conspired with HDL and Singulex in violation of the Federal False Claims Act and the California and Illinois insurance fraud prevention acts by facilitating HDL's and Singulex's offers of illegal inducements to physicians and the referral of patients to HDL and Singulex for laboratory testing. 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 U.S. government nor any state government has intervened in the lawsuit. The Company will vigorously defend the lawsuit.

Prior to the Company's acquisition of Sequenom, Inc. (Sequenom) between August 15, 2016, and August 24, 2016, six putative class-action lawsuits were filed on behalf of purported Sequenom stockholders (captioned Malkoff v. Sequenom, Inc., et al., No. 16-cv-02054- JAH-BLM, Gupta v. Sequenom, Inc., et al., No. 16-cv-02084-JAH-KSC, Fruchter v. Sequenom, Inc., et al., No. 16-cv-02101- WQH-KSC, Asiatrade Development Ltd. v. Sequenom, Inc., et al., No. 16-cv-02113-AJB-JMA, Nunes v. Sequenom, Inc., et al., No. 16-cv-02128-AJB-MDD, and Cusumano v. Sequenom, Inc., et al., No. 16-cv-02134-LAB-JMA) in the U.S. District Court for the Southern District of California challenging the acquisition transaction. The complaints asserted claims against Sequenom and members of its Board of Directors (the Individual Defendants). The Nunes action also named the Company and Savoy Acquisition Corp. (Savoy), a wholly owned subsidiary of the Company, as defendants. The complaints alleged that the defendants violated Sections 14(e), 14(d)(4) and 20 of the Securities Exchange Act of 1934 by failing to disclose certain allegedly material information. In addition, the complaints in the Malkoff action, Asiatrade action, and the Cusumano action alleged that the Individual Defendants breached their fiduciary duties to Sequenom shareholders. The actions sought, among other things, injunctive relief enjoining the merger. On August 30, 2016, the parties entered into a Memorandum of Understanding (MOU) in each of the above-referenced actions. On September 6, 2016, the Court entered an order consolidating for all pre-trial purposes the six individual actions described above under the caption In re Sequenom, Inc. Shareholder Litig., Lead Case No. 16-cv-02054-JAH-BLM, and designating the complaint from the Malkoff action as the operative complaint for the consolidated action. On November 11, 2016, two competing motions were filed by two separate stockholders (James Reilly and Shikha Gupta) seeking appointment as lead plaintiff under the terms of the Private Securities Litigation Reform Act of 1995. On June 7, 2017, the Court entered an order declaring Mr. Reilly as the lead plaintiff and approving Mr. Reilly's selection of lead counsel. The parties agree that the MOU has been terminated. The Plaintiffs filed a Consolidated Amended Class Action Complaint on July 24, 2017, and the Defendants filed a Motion to Dismiss, which remains pending. The Company will vigorously defend the lawsuit.

On August 3, 2016, the Company was served with a putative class action lawsuit, Daniel L. Bloomquist v. Covance Inc., et al., filed in the Superior Court of California, County of San Diego. The Complaint alleges that Covance Inc. violated the California Labor Code and California Business & Professions Code by failing to provide overtime wages, failing to provide meal and rest periods, failing to pay for all hours worked, failing to pay for all wages owed upon termination, and failing to provide accurate itemized wage statements to Clinical Research Associates and Senior Clinical Research Associates employed by Covance in California. The lawsuit seeks monetary damages, civil penalties, injunctive relief, and recovery of attorney's fees and costs. On October 13, 2016, the case was removed to the U.S. District Court for the Southern District of California. On May 3, 2017, the U.S. District Court for the Southern District of California remanded the case back to the Superior Court. The Company will vigorously defend the lawsuit.

On February 7, 2017, Sequenom received a subpoena from the SEC relating to an SEC investigation into the trading activity of Sequenom shares in connection with the Company's July 2016 announcement regarding the Sequenom merger. On March 7, 2017, the Company received a similar subpoena. The Company is cooperating with these requests.

On March 10, 2017, the Company was served with a putative class action lawsuit, Victoria Bouffard, et al. v. Laboratory Corporation of America Holdings, filed in the U.S. District Court for the Middle District of North Carolina. The complaint alleges that the Company's patient list prices unlawfully exceed the rates negotiated for the same services with private and public health insurers in violation of various state consumer protection laws. The lawsuit also alleges breach of implied contract or quasi-contract, unjust enrichment, and fraud. The lawsuit seeks statutory, exemplary, and punitive damages, injunctive relief, and recovery of attorney's fees and costs. In May 2017, the Company filed a Motion to Dismiss Plaintiffs' Complaint and Strike Class Allegations; the Motion to Dismiss was granted in March 2018 without prejudice. On October 10, 2017, a second putative class action lawsuit, Sheryl Anderson, et al. v. Laboratory Corporation of America Holdings, was filed in the U.S. District Court for the Middle District of North Carolina. The complaint contained similar allegations and sought similar relief to the Bouffard complaint, and added additional counts regarding state consumer protection laws. On August 10, 2018, the Plaintiffs filed an Amended Complaint, which consolidated the Bouffard and Anderson actions. On September 10, 2018, the Company filed a Motion to Dismiss Plaintiffs' Amended Complaint and Strike Class Allegations, which remains pending. The Company will vigorously defend the lawsuits.

On August 1, 2017, the Company was served with a putative class action lawsuit, Maria T. Gonzalez, et al. v. Examination Management Services, Inc. and Laboratory Corporation of America Holdings, filed in the U.S. District Court for the Southern District of California. The complaint alleges that the Company misclassified phlebotomists as independent contractors through an

arrangement with the co-Defendant temporary staffing agency. The complaint further alleges that the Company violated the California Labor Code and California Business and Professions Code by failing to pay minimum wage, failing to pay for all hours worked, failing to pay for all wages owed upon termination, and failing to provide accurate itemized wage statements. The lawsuit seeks monetary damages, civil penalties, injunctive relief, and recovery of attorney's fees and costs. The parties have reached a tentative settlement subject to Court approval. A hearing on the settlement is scheduled for November 8, 2018.

On September 7, 2017, the Company was served with a putative class action lawsuit, John Sealock, et al. v. Covance Market Access Services, Inc., filed in the U.S. District Court for the Southern District of New York. The complaint alleges that Covance Market Access Services, Inc. violated the Fair Labor Standards Act and New York labor laws by failing to provide overtime wages, failing to pay for all hours worked, and failing to provide accurate wage statements. The lawsuit seeks monetary damages, civil penalties, injunctive relief, and recovery of attorney's fees and costs. In November 2017, the Company filed a Motion to Strike Class Allegations, which was denied. In December 2017, the Plaintiff filed a Motion for Conditional Certification of a Collective Action, which was granted in May 2018. The Company will vigorously defend the lawsuit.

On November 6, 2017, Covance was served with two False Claims Act lawsuits, Health Choice Alliance, LLC on behalf of the United States of America, et al. v. Eli Lilly and Company, Inc. et al., and Health Choice Advocates, LLC, on behalf of the United States of America v. Gilead Sciences, Inc., et al., both filed in the U.S. District Court for the Eastern District of Texas. The complaints allege that under the Federal False Claims Act and various state analogues Covance and the co-defendants unlawfully provided in-kind remuneration to medical providers in the form of reimbursement support services in order to induce providers to prescribe certain drugs. Neither the U.S. government nor any state government intervened in the lawsuits. The lawsuits seek actual and treble damages and civil penalties for each alleged false claim, as well as recovery of costs. The Company’s Motion to Dismiss was filed in both cases in February 2018. On July 23, 2018, Plaintiffs in the Gilead case filed a Motion for Voluntary Dismissal Without Prejudice which the Court granted on July 27, 2018. On August 10, 2018, the Court in the Lilly case entered an Order granting in part and denying in part without prejudice the Defendants’ Motions to Dismiss. On September 12, 2018, Plaintiffs in the Lilly case filed a Second Amended Complaint, which included additional allegations related to the same conduct alleged in the previous complaint. The Company will vigorously defend the lawsuits.

On March 6, 2018, the Company was served with a lawsuit arising under the California Labor Code Private Attorney General Act (LCPAGA), Agnes Austria and Josephine Hoelscher v. Laboratory Corporation of America Holdings, et al., filed in the Superior Court of California, County of San Diego. Plaintiffs allege that they were improperly classified as exempt employees and, therefore, allege that they were not properly paid overtime compensation, meal and rest break premiums, did not receive compliant wage statements, and were not properly paid wages upon termination of employment. Plaintiffs assert these actions violate various Labor Code provisions and constitute an unfair competition practice under California law. The parties reached a settlement that was approved by the Court, by Order dated September 14, 2018.

On April 2, 2018, the Company was served with a putative class action lawsuit, Craig Cunningham, et al. v. Laboratory Corporation of America Holdings d/b/a LabCorp, filed in the U.S. District Court for the Middle District of North Carolina. The lawsuit alleges that the Company violated the TCPA by contacting Plaintiff at least twice on his cell phone without his prior consent using a prerecorded or artificial voice. The lawsuit seeks actual damages for each violation, subject to trebling under the TCPA, and injunctive relief. The parties have reached a settlement in principle.

On July 16, 2018, the Company reported that it had detected suspicious activity on its information technology network and was taking steps to respond to and contain the activity. The activity was subsequently determined to be a new variant of ransomware affecting certain LCD information technology systems. In response, the Company took certain systems offline which temporarily affected test processing and customer access to test results, and also affected certain other information technology systems involved in conducting Company-wide operations. To date, the Company has

not been the subject of any legal proceedings involving this incident, but it is possible that the Company could be the subject of claims from persons alleging they suffered damages from the incident, or actions by governmental authorities. The Company cooperated with law enforcement and regulatory authorities with respect to the incident.
On September 10, 2018, the Company was served with a LCPAGA lawsuit, Terri Wilson v. Laboratory Corporation of America Holdings, which was filed in the U.S. District Court for the Northern District of California. Plaintiff alleges claims for failure to pay meal and rest break premiums, failure to provide compliant wage statements, failure to compensate employees for all hours worked, and failure to pay wages upon termination of employment. Plaintiff asserts these actions violate various Labor Code provisions and constitute an unfair competition practice under California law. The lawsuit seeks monetary damages, civil penalties, injunctive relief, and recovery of attorney's fees and costs. The Company will vigorously defend the lawsuit.
On September 21, 2018, the Company was served with a putative class action lawsuit, Alma Haro v. Laboratory Corporation of America et al., which was filed in the Superior Court of California, County of Los Angeles. Plaintiff alleges that employees

were not properly paid overtime compensation, minimum wages, meal and rest break premiums, did not receive compliant wage statements, and were not properly paid wages upon termination of employment. Plaintiff asserts these actions violate various Labor Code provisions and constitute an unfair competition practice under California law. The lawsuit seeks monetary damages, civil penalties, and recovery of attorney's fees and costs. The Company will vigorously defend the lawsuit.

On December 11, 2017, the American Clinical Laboratory Association (ACLA) filed a lawsuit captioned ACLA v. Azar in the U.S. District Court for the District of Columbia to challenge the methodology used by the Department of Health and Human Services in implementing certain aspects of the PAMA legislation. On September 21, 2018, the court entered a Memorandum Opinion dismissing the lawsuit for lack of subject matter jurisdiction. On October 19, 2018, ACLA filed a notice of appeal with respect to that order.

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 September 30, 2018, the Company had provided letters of credit aggregating approximately $72.2, 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.

11. PENSION AND POST-RETIREMENT PLANS

The Company’s defined contribution retirement plan (401K Plan) covers substantially all legacy LabCorp 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 $17.3 and $14.9 for the three months ended September 30, 2018, and 2017, respectively, and was $49.1 and $43.6 during the nine months ended September 30, 2018, and 2017, respectively. As a result of the Covance acquisition, the Company also incurred expense of $16.3 and $14.0 for the Covance 401K plan during the three months ended September 30, 2018, and 2017, respectively, and $51.6 and $42.6 during the nine months ended September 30, 2018, and 2017, respectively. All of the Covance U.S. employees, excluding legacy Chiltern employees, are eligible to participate in the Covance 401K plan, which features a maximum 4.5% Company match, based upon a percentage of the employee’s contributions. Chiltern employees are eligible to participate in the Chiltern 401K plan, which features a maximum 3.0% Company match, based upon a percentage of the employee's contributions.

The Company also maintains a frozen defined benefit retirement plan (Company Plan), which as of December 31, 2009, covered substantially