

**ANALYSIS OF PROPOSED AGREEMENT CONTAINING CONSENT ORDERS  
TO AID PUBLIC COMMENT**

***In the Matter of Laboratory Corporation of America Holdings and Orchid Cellmark Inc.,  
File No. 111-0155***

**I. Introduction**

The Federal Trade Commission (“Commission”) has accepted, subject to final approval, an Agreement Containing Consent Orders (“Consent Agreement”) with Laboratory Corporation of America Holdings (“LabCorp”), which is designed to remedy the anticompetitive effects of its proposed acquisition of Orchid Cellmark Inc. (“Orchid”). Under the terms of the Consent Agreement, LabCorp is required to divest Orchid’s U.S. government paternity testing services business to DNA Diagnostics Center (“DDC”). The Consent Agreement also requires LabCorp to facilitate the assignment of Orchid’s current government contracts to provide paternity testing services. The assets involved include all of the necessary relevant equipment, books and records, and other information necessary for DDC to bid competitively for future government paternity testing services business. With this Consent Agreement, the competition that would otherwise be eliminated through the proposed acquisition of Orchid by LabCorp will be fully preserved.

The proposed Consent Agreement has been placed on the public record for thirty days for receipt of comments by interested persons. Comments received during this period will become part of the public record. After thirty days, the Commission will again review the proposed Consent Agreement and the comments received, and will decide whether it should withdraw from the proposed Consent Agreement, modify it, or make final the accompanying Decision and Order (“Order”).

Pursuant to an Agreement and Plan of Merger dated April 5, 2011, LabCorp intends to acquire Orchid in a cash tender offer valued at approximately \$85.4 million. Both parties provide paternity testing services to government agencies, and are by far the largest providers of those services in the United States. The Commission’s complaint alleges that the proposed acquisition, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, in U.S. markets for the provision of paternity testing services to state and local government agencies. The proposed Consent Agreement remedies the alleged violations by replacing the lost competition in the relevant market that would result from the acquisition.

**II. The Products and Structure of the Markets**

DNA paternity testing services for government agencies is a relevant product market in which to analyze the competitive effects of the proposed acquisition. No other types of paternity testing services, like blood testing, meet government agencies’ requirements. LabCorp and Orchid are the two principal competitors in the United States for government paternity testing services contracts – they are the only two firms that consistently bid for these contracts, they

account for the overwhelming majority of awarded contracts, and they have been the winner and runner-up in most of these bids. As a result, LabCorp and Orchid accounted for the overwhelming majority of the business in this roughly \$27 million market.

### **III. Entry**

The anticompetitive impact of LabCorp's acquisition of Orchid is not likely to be averted by entry or expansion from other DNA testing labs. Most other DNA testing laboratories do not have the scale or the experience needed to compete effectively for government contracts.

### **IV. Effects of the Acquisition**

The proposed acquisition likely would result in significant anticompetitive harm in the highly-concentrated relevant market for government paternity testing services. LabCorp and Orchid are the only significant competitors in this highly-concentrated market. Over the past five years, LabCorp and Orchid consistently participated in the vast majority of state and local government bids conducted in the United States, almost always as head-to-head competitors. They bid more often, and typically at lower prices, than any other labs. The acquisition will eliminate this significant head-to-head competition and is likely to result in higher prices for government paternity testing services contracts.

### **V. The Consent Agreement**

The proposed Consent Agreement remedies the competitive concerns raised by the transaction by requiring the parties to divest Orchid's U.S. government paternity testing business to DDC. LabCorp also must divest testing equipment along with contract and service information necessary to enable DDC to replicate Orchid's market position. LabCorp also must facilitate the assignment of all existing government paternity testing services contracts to DDC. This divestiture preserves competition that would otherwise be eliminated as a result of the acquisition.

The proposed Consent Agreement also contains several provisions designed to ensure that the divestiture is successful. LabCorp must provide lab testing services to DDC until the assets are fully transferred and Orchid's government contracts are assigned to DDC. In addition, DDC will have access to the personnel and information that are at Orchid's Dayton facility. Finally, LabCorp cannot use or retain any confidential business information except as necessary to maintain the assets for DDC's use during the transition period. To prevent improper sharing of information, a manager of the business being transferred who reports directly to Commission staff will be put in place.

DDC is a respected provider of paternity testing services for both private and government customers. DDC operates a testing laboratory located in Fairfield, Ohio that, with the divested assets and business, will enable DDC to effectively replace Orchid as the primary competitor to LabCorp. DDC has the resources and experience necessary to acquire the divested assets and assume responsibility for Orchid's existing government contracts.

If the Commission determines that either DDC is not an acceptable acquirer of the assets to be divested, or that the manner of the divestitures is not acceptable, LabCorp must unwind the divestiture and divest the assets within six months of the date the Order becomes final to another Commission-approved acquirer. If LabCorp fails to divest the assets within the six months, the Commission may appoint a trustee to divest the relevant assets.

The purpose of this analysis is to facilitate public comment on the proposed Consent Agreement, and it is not intended to constitute an official interpretation of the proposed Consent Agreement or to modify its terms in any way.