UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1994

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

NATIONAL HEALTH LABORATORIES HOLDINGS INC.
(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.)

4225 Executive Square, Suite 805, La Jolla, California	92037
(Address of principal executive offices)	(Zip Code)

619-657-9382
(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

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

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant, by reference to the price at which the stock was sold as of a specified date within 60 days prior to the date of filing: $904,251,320 at February 21, 1995.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 84,766,109 shares at February 21, 1995, of which 20,176,729 shares are held by an indirect wholly owned subsidiary of Mafco Holdings Inc.

PART I

Item 1. DESCRIPTION OF BUSINESS

National Health Laboratories Holdings Inc. ("NHL Holdings" and together with its subsidiaries, the "Company") was incorporated in Delaware in 1994 in connection with a corporate reorganization approved by the stockholders of National Health Laboratories Incorporated ("NHLI") on June 7, 1994. As a result of the reorganization, NHL Holdings now owns, through NHL Intermediate Holdings Corp. I, a Delaware corporation and a wholly owned subsidiary of NHL Holdings ("Intermediate Holdings I"), and NHL Intermediate Holdings Corp. II, a Delaware corporation and a wholly owned subsidiary of Intermediate Holdings I ("Intermediate Holdings II"), all of the outstanding common stock of the NHLI. The Company's principal executive offices are located at 4225 Executive Square, Suite 805, La Jolla, California 92037, and its telephone number is (619) 657-9382.

Until the initial public offering of approximately 5% of the Company's common stock in July 1988, the Company was an indirect wholly owned subsidiary of Revlon Holdings Inc. ("Revlon"), then known as Revlon, Inc., which, in turn, is an indirect wholly owned subsidiary of Mafco Holdings Inc. ("Mafco"), a corporation that is 100% owned by Ronald O. Perelman. Following the completion of successive secondary public offerings of the Company's common stock, a self tender offer by the Company and the purchase by the Company of outstanding shares of its common stock, Mafco's indirect ownership has been reduced to approximately 24%.

On June 23, 1994, the Company acquired Allied Clinical Laboratories, Inc. ("Allied"), then the sixth largest independent clinical laboratory testing company in the United States (in terms of net revenues), as a wholly owned subsidiary for approximately $191.5 million in cash plus the assumption of $24.0 million of Allied indebtedness and the recognition of approximately $5.0 million of Allied net liabilities (the "Allied Acquisition").

The Company is one of the leading clinical laboratory companies in the United States. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in the diagnosis, monitoring and treatment of disease and other clinical states. Office-based physicians constitute approximately 90% of the

Company's clients. The remainder is comprised primarily of clinics, nursing homes, hospitals and other clinical laboratories.

Since its founding in 1971, the Company has grown into a network of 23 major laboratories, including a national reference laboratory which performs esoteric testing and tests for the presence of drugs of abuse, and approximately 950 service sites consisting of sales ports, patient service centers and STAT laboratories, serving customers in 45 states.

Recent Developments

The Company has entered into an Agreement and Plan of Merger dated as of December 13, 1994 (the "Merger Agreement") with HLR Holdings Inc. ("HLR"), Roche Biomedical Laboratories, Inc. ("RBL"), and (for the purposes set forth therein) Hoffmann-La Roche Inc. ("Roche") providing for, among other things, the merger of RBL with and into the Company with the Company as the surviving corporation (the "Merger"), and pursuant to which, subject to certain exceptions, each outstanding share of common stock, par value $0.01 per share, of the Company, will be converted into (i) 0.72 of a share of common stock of the Company and (ii) the right to receive $5.60 in cash, without interest.

In addition, all shares of common stock, no par value, of RBL issued and outstanding immediately prior to the effective time of the Merger (other than treasury shares, which will be canceled) will be converted into, and become, that number of newly issued shares of Company common stock as would, in the aggregate and after giving effect to the Merger and the Company common stock owned by HLR, RBL and their subsidiaries immediately after the effective time of the Merger, equal 49.9% of the total number of shares of Company common stock outstanding immediately after the effective time of the Merger (after giving effect to the issuance of Company common stock in respect of the Company employee stock options in connection with the Merger).

In connection with the Merger, the Company currently intends to declare a dividend, payable to holders of record of shares of Company common stock as of the third business day prior to the date of the special meeting of the stockholders to consider and vote on the approval and adoption of the Merger, which dividend will consist of 0.16308 of a warrant per outstanding share of Company common stock, each such warrant (a "Warrant") representing the right to purchase one newly issued share of Company common stock for $22.00 (subject to adjustments) on the fifth anniversary of the issuance of the Warrant. In addition,

the Merger Agreement provides for the issuance to and purchase by Roche, for a purchase price of $51,048,900, of 8,325,000 Warrants to purchase shares of Company common stock (the "Roche Warrants"), which Warrants will have the terms described in the preceding sentence.

The aggregate cash consideration of approximately $474,700,000 to be paid to stockholders of the Company in the Merger will be financed from three sources: a cash contribution by the Company of approximately $288,000,000 out of proceeds of borrowings by the Company in an equal amount, a cash contribution to be made by HLR in the amount of approximately $135,651,100 and the proceeds from the issuance of the Roche Warrants.

The Company has obtained a commitment for a credit facility, which will include a term loan facility of not more than $800,000,000 and a revolving credit facility of not more than $400,000,000, to refinance the Company's existing indebtedness and to finance the Company's portion of the total cash consideration to be paid to stockholders of the Company in the Merger. The specific terms and conditions of the credit facility are currently under negotiation.

Restructuring costs of approximately $84,000,000 are expected to be recorded by the Company at the close of the Merger. These costs will reflect the write-off of deferred financing costs related to the repayment of the Company's existing revolving credit facility and term loan facility entered into in connection with the Allied Acquisition financing and the creation of reserves for severance and benefit costs, costs for office facilities expected to be closed, vacant space costs, systems conversion costs and other restructuring expenses of the Company associated with the Merger.

The Clinical Laboratory Industry

Clinical laboratory tests are used by physicians, hospitals and other health care providers to diagnose, monitor and treat diseases and other clinical states through the examination of substances in blood or tissue samples and other specimens. Clinical laboratory tests are primarily performed by hospitals in-house, by physicians in their offices or in physician-owned laboratories and by independent laboratory companies like the Company. The Company views the clinical laboratory industry as highly fragmented and intensively competitive with many local and regional competitors, including numerous physician-owned and hospital-owned laboratories as well as several large independent laboratory companies.

In recent years, certain independent laboratories have engaged in acquisitions of other laboratories and taken advantage of opportunities for cost efficiencies afforded by larger scale, automated testing operations. The Company believes that acquisition activity will continue in the clinical laboratory business due to legislative initiatives and increasing demand for quality service and efficiency at lower prices. See "--Competition".

Laboratory Testing Operations and Services

The Company has 23 major laboratories, and approximately 950 service sites consisting of sales ports, patient service centers and STAT laboratories. A "sales port" is a central office which collects specimens in a region for shipment to one of the Company's laboratories for testing. Test results can be printed at a sales port and conveniently delivered to the client. A sales port also is used as a base for sales staff. A "patient service center" generally is a facility maintained by the Company to serve the physicians in a medical professional building. The patient service center collects the specimens as requested by the physician. The specimens are sent, principally through the Company's in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company's major laboratories for testing. Some of the Company's patient service centers also function as "STAT labs", which are laboratories that have the ability to perform certain routine tests quickly and report results to the physician immediately.

The Company processes approximately 152,000 patient specimens on an average day. Patient specimens are delivered to the Company accompanied by a test request form. These forms, which are completed by the client, indicate the tests to be performed and provide the necessary billing information.

Each specimen and related request form is checked for completeness and then given a unique identification number. The unique identification number assigned to each patient helps to assure that the results are attributed to the correct patient. The test request forms are sent to a data entry terminal where a file is established for each patient and the necessary testing and billing information is entered. Once this information is entered into the computer system, the tests are performed and the results are entered primarily through computer interface or manually, depending upon the tests and the type of equipment involved. Most of the Company's computer testing equipment is directly linked with the Company's computer system. Most routine testing is completed by early the next morning, and test results are printed and prepared for distribution by service representatives that day. Some clients have local printer capability and have reports printed out directly in their

offices. Clients who request that they be called with a result are so notified in the morning. It is Company policy to notify the client immediately if at any time in the course of the testing process a life-threatening result is found.

The following discussion describes the different types of tests performed by the Company:

Routine Clinical Testing. The vast majority of the number of tests performed by the Company are considered by the Company to be routine. The Company performs all such routine tests in its own laboratories. A routine test generally is a higher volume, simpler test capable of being performed and reported within 24 hours. The Company performs many routine clinical tests with sophisticated and computerized laboratory testing equipment. These tests provide information used by physicians in determining the existence or absence of disease or abnormalities. The Company performs this core group of routine tests in each of its 23 major regional laboratories for a total of approximately 104 million routine tests annually.

Esoteric Clinical Testing. Esoteric tests are specialized laboratory tests performed in cases where information is needed to confirm a diagnosis or when the physician requires additional information to develop a plan of therapy for a complicated medical case. Esoteric tests are generally more complex tests, requiring more sophisticated technology and more expensive equipment and materials, as well as a higher degree of technical skill to perform. The number of esoteric tests continually increases as new medical discoveries are made. The Company operates a state-of-the-art national reference laboratory ("National Reference Laboratory") in Nashville, Tennessee. This laboratory provides a central location for esoteric testing for all of the Company's major laboratories. The Company performs approximately 90% of all types of tests considered by the Company to be esoteric at this facility, representing approximately 2,300,000 tests annually. With the operation of this facility, the Company reduces both the types and numbers of esoteric tests that are referred to outside laboratories to be performed.

Cytology. Cytology, which involves both routine and esoteric anatomical testing, is the examination of cells under a microscope to detect abnormalities in composition, form or structure which are associated with disease. Cytology is divided into two testing services, Gynecologic and Non-Gynecologic. The Gynecologic (Papanicolaou ("Pap") Smear) is the most common cytologic test, accounting for approximately 99% of all of the Company's testing in this area. The additional cytology tests, Non-Gynecologic, are performed on specimens from other body sites

(i.e., Sputums, Breast, Urine and Fine Needle Aspirations ("FNA's")). The Company performs approximately 4.0 million Gynecologic and Non-Gynecologic tests annually.

Anatomical Testing. Routine and esoteric anatomical tests require the examination of a small piece of tissue which either is cut from the body surgically or taken in a biopsy. These tissue specimens are examined by a pathologist both visually and microscopically to detect abnormalities in composition, form or structure which are associated with disease. The Company performs approximately 810,000 anatomical tests annually.

Contract Management Services

The Company provides management services in a variety of health care settings. The Company generally provides the laboratory manager and other laboratory personnel, as well as, equipment and testing supplies to manage a laboratory that is owned by a hospital, physician or other health care provider. In addition, the Company maintains a data processing system to organize and report test results and to provide billing and other pertinent information related to the tests performed in the managed laboratory. Under the typical laboratory management agreement, the laboratory manager, who is employed by the Company, reports to the hospital or clinic administration. Thus, the provider maintains control of the laboratory. A pathologist designated by the provider serves as medical director for the laboratory.

An important advantage the Company offers to its clients is the flexibility of the Company's information systems used in management contract services. In addition to the ability to be customized for a particular user's needs, the Company's information systems also interface with several hospital and clinic systems, giving the user more efficient and effective information flow.

The Company's existing management service contracts expire between 1995 and 1998. However, each contract contains a clause that permits termination prior to the contract expiration date. The termination terms vary but they generally fall into one of the following categories: (i) termination without cause by either the Company or the contracted provider after written notice (generally 60 to 90 days prior to termination); (ii) termination by the contracted provider only if there are uncorrected deficiencies in the Company's performance under the contract after notice by the contracted provider; or (iii) termination by the contracted provider if there is a loss of accreditation held by any Company laboratory that services the

contracted provider, which accreditation is not reinstated within 30 days of the loss, or upon 30 days' notice if there is a decline in the quality of services provided under such contract which remains uncorrected after a 15 day period. While the Company believes that it will maintain and renew its existing contracts, there can be no assurance of such maintenance or renewal.

As part of its marketing efforts, and as a way to focus on a contract management client's particular needs, the Company has developed several different pricing formulas for its management services agreements. In certain cases, profitability may depend on the Company's ability to accurately predict test volumes, patient encounters or the number of admissions in the case of an inpatient facility.

Quality Assurance

The Company considers the quality of its tests to be of critical importance to its growth and retention of accounts. It has established a comprehensive quality assurance program for all of its laboratories designed to help assure accurate and timely test results. All regional laboratories are certified by the Health Care Financing Administration ("HCFA") of the Department of Health and Human Services ("HHS") for participation in the Medicare program and licensed under the Clinical Laboratory Improvement Act of 1967, as amended by the Clinical Laboratory Improvement Amendments of 1988 (as amended, "CLIA") and must participate in basic quality assurance programs. In addition to the compulsory external inspections and proficiency programs demanded by CLIA, the Company has adopted a substantial number of additional quality assurance programs. See "-- Governmental and Industry Regulation".

Each regional laboratory is equipped with sophisticated testing equipment which is monitored daily in accordance with the Company's preventive maintenance program. In addition, each regional laboratory is supervised by a medical director who is a physician, assisted by a technical director who meets certain regulatory requirements, and is staffed with medical professionals. The primary role of such professionals is to ensure the accuracy of the Company's tests.

The Company employs inspectors with doctorate and masters degrees in the biological sciences who visit and inspect each of the laboratories on an unannounced basis. Inspections are based on CLIA guidelines and Company policies and, for the most part, occur on a semi-annual basis. The Company attempts to have such inspections conducted in the same manner as the biennial

inspections conducted by Federal and state government officials. Any major deficiencies which appear are corrected immediately, and other deficiencies are corrected promptly, and typically within one month.

As part of its commitment to quality, the Company established a state-of-the-art Technology Center at its headquarters in La Jolla, California. The center houses the Company's Quality Assurance Group and enhances its ability to monitor the testing results of the individual laboratories. A computerized data-capture network has been established allowing virtual on-line examination of test results and monitoring of the laboratories.

The Company also participates in a number of proficiency testing programs which, generally, entail submitting pretested samples to a laboratory to verify the laboratory test results against the known proficiency test value. These proficiency programs are conducted both by the Company on its own and in conjunction with groups such as the College of American Pathologists ("CAP") and state and Federal government regulatory agencies.

The CAP is an independent non-governmental organization (which has recently been accredited by HCFA to inspect clinical laboratories to determine CLIA standards) of board certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. The CAP accreditation program involves both on-site inspections of the laboratory and participation in the CAP's proficiency testing program for all categories in which the laboratory is accredited by the CAP. A laboratory's receipt of accreditation by the CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. See "--Governmental and Industry Regulation".

Sales, Marketing and Client Service

The Company places a great deal of emphasis on sales, marketing and client service since they are and have been key ingredients in the Company's growth.

In 1994, the Company's net new growth (new accounts minus lost accounts) returned to previous historical levels and was 20% higher than the rate experienced in 1993. The traditional physician office sales force continued to have excellent success in a market which has always been the Company's strongest. Managed care revenues grew considerably from a fee-for-service as well as a capitated rate perspective.

The Company believes that the shift toward managed care experienced in 1994 will continue for the foreseeable future. To address this, the Company expanded its dedicated managed care sales force from 20 to 25 while maintaining its traditional sales force at approximately 300. At the end of the year, managed care revenues were approximately 8% to 9% of total revenues covering over forty million lives. During 1994, the Company signed over 200 new contracts with various managed care organizations including U.S. Health Care, Health Plus, Humana, MetLife and Prudential.

The Company believes that given the increasing complexity of the clinical laboratory marketplace, training of its sales force is of paramount importance. With this goal in mind, during 1994 the Company enhanced its comprehensive sales training program. This project involved a complete revision of the sales training material. Two comprehensive manuals, covering basic sales skills and specialized laboratory sales, were produced and distributed to the Company's sales representatives. A national sales management training seminar was held for associate and sales managers. This seminar provided training classes on management skills, responsibilities, and in-depth technical sales sessions. In addition, a new 90 day evaluation follow-up program was created to determine if a satisfactory level of training was achieved.

The volume of hospital reference and testing for drugs of abuse also increased in 1994. Monthly accession volume at National Reference Laboratory was up over 100% for testing of drugs of abuse and 30% for reference laboratory testing. New accounts sold in 1994 for these two market segments are expected to have annualized revenues of approximately $6 million.

The Company has always stressed the importance of customer service and its contribution to growth. Through its Client Service Coordinators, the Company continuously monitors and assesses service levels, maintains client relationships and attempts to identify and respond to client needs. During 1994, the Company continued to expand the client service force; at year-end, there were approximately 230 Client Service Coordinators.

Potential New Markets

Health care reform, the shift toward managed care and increased competition by hospitals all had an impact on the clinical laboratory testing industry in 1994. The Company expects these trends to continue and plans to respond by shifting additional sales staff to support the managed care market

segment.

The Company believes that specialty sales of testing and related services for use in renal dialysis, nursing homes, clinical trials, detection of drugs of abuse and hospital reference testing will also continue to offer opportunities for additional revenue growth in 1995.

The Company views hospitals in general as a major competitive force in the marketplace today. To that end, a hospital business venture group has been formed whose primary goal is to identify potential hospital joint venture arrangements. These arrangements are likely to include management agreements, hospital laboratory operations ventures and hospital laboratory purchases. The Company views this market as having exceptional future potential for 1995 and beyond.

The Allied Acquisition has provided the Company with increased geographic coverage in Utah, Nevada, Idaho, Alabama and Northern California. This increased coverage provides for increased physician office penetration and managed care opportunities in these states.

Information Systems

The Company believes that the health care provider's need for data will continue to place high demands on its information systems staff. During 1994, staffing levels were increased to help meet this demand. Information systems resources were also expanded during 1994 to accommodate the Allied Acquisition. Support for and enhancements to the managed care data system including Health Plan Employer Data and Information Set ("HEDIS") reporting capability also required heavy involvement from the Company's information systems staff. Additionally, the Company continued to test and refine its next generation comprehensive billing system. Live installation of this new system is currently scheduled for mid-year 1995.

Customers

To date, the Company has focused its marketing efforts primarily on office-based physicians, whose orders account for approximately 90% of its net sales. The remaining 10% of net sales is derived from hospital reference testing, nursing homes, clinics, referrals from other clinical laboratories and other clients. The largest client of the Company accounts for less than 1% of net sales. The Company believes that the loss of any one client would not have a material adverse effect on its financial condition. Payment for the Company's services is made

by the patients directly, physicians who in turn bill their patients, or third party payors, including public and private parties such as Medicare, Medicaid and Blue Shield.

Employees

At December 31, 1994, the Company employed approximately 14,000 people. These include approximately 10,500 full-time employees and approximately 3,500 part-time employees, which represents the equivalent of approximately 11,800 persons full-time. Of the approximately 11,800 full-time equivalent employees, approximately 325 are sales personnel, approximately 10,200 are laboratory and distribution personnel and approximately 1,275 are administrative and data processing personnel. The Company has no collective bargaining agreements with any unions and believes that its overall relations with its employees are excellent.

Governmental and Industry Regulation

The clinical laboratory industry is subject to significant governmental regulation at the Federal, state and local levels.

The Company's major laboratories are certified under the Federal Medicare program (which principally serves patients 65 and older), state Medicaid programs (which principally serve indigent patients) and CLIA. Where applicable, licensure is maintained under the laws of state or local governments that have clinical laboratory regulation programs. In addition, in facilities where radioimmunoassay testing is performed, the facilities are licensed by the Federal Nuclear Regulatory Commission and, where applicable, by state nuclear regulatory agencies. All of the Company's 23 major laboratories are accredited by the CAP. In addition, the Company's STAT laboratories are also certified or licensed, as necessary, under Federal, state or local programs.

CLIA extends federal oversight to virtually all clinical laboratories by requiring that laboratories be certified by the government. Many clinical laboratories must also meet governmental quality and personnel standards, undergo proficiency testing and be subject to biennial inspection. Rather than focusing on location, size or type of laboratory, this extended oversight is based on the complexity of the tests performed by the laboratory.

In 1992, HHS published regulations implementing CLIA. The quality standards and enforcement procedure regulations became effective in 1992, although certain personnel, quality control

and proficiency testing requirements are currently being phased in by HHS. The quality standards regulations divide all tests into three categories (waivered, moderate complexity and high complexity) and establish varying requirements depending upon the complexity of the testing performed. A laboratory that performs high complexity tests must meet more stringent requirements than a laboratory that performs only moderate complexity tests, while those that perform only one or more of eight routine "waivered" tests may apply for a waiver from most requirements of CLIA. All major and many smaller facilities of the Company are certified by CLIA to perform high complexity testing. The remaining smaller testing sites of the Company are certified by CLIA to perform moderate complexity testing or have obtained a waiver from most requirements of CLIA. Generally, the HHS regulations require, for laboratories that perform high complexity or moderate complexity tests, the implementation of systems that ensure the accurate performance and reporting of test results, establishment of quality control systems, proficiency testing by approved agencies and biennial inspections.

The sanction for failure to comply with these regulations may be suspension, revocation or limitation of a laboratory's CLIA certificate necessary to conduct business, significant fines and criminal penalties. The loss of a license, imposition of a fine or future changes in such Federal, state and local laws and regulations (or in the interpretation of current laws and regulations) could have a material adverse effect on the Company.

The Company is also subject to state regulation. CLIA provides that a state may adopt more stringent regulations than Federal law. For example, state law may require that laboratory personnel meet certain qualifications, specify certain quality controls, maintain certain records and undergo proficiency testing. For example, certain of the Company's laboratories are subject to the State of New York's clinical laboratory regulations, which contain provisions that are more stringent than Federal law.

The Company is subject to licensing and regulation under Federal, state and local laws relating to the handling and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. All of the Company's laboratories are operated in accordance with applicable Federal and state laws and regulations relating to biohazardous disposal of all laboratory specimens, and the Company utilizes outside vendors for disposal of such specimens. Although the Company believes that it is currently in compliance in all material respects with such Federal, state and local laws, failure to comply could subject

the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions.

In addition to its comprehensive regulation of safety in the workplace, the Federal Occupational Safety and Health Administration ("OSHA") has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. In addition, in January 1990, OSHA established safety requirements for the use of chemicals as reagents and for other purposes.

Drug testing for public sector employees is regulated by the Substance Abuse and Mental Health Services Administration ("SAMSHA") (formerly the National Institute on Drug Abuse), which has established detailed performance and quality standards that laboratories must meet in order to be approved to perform drug testing on employees of the Federal government, Federal government contractors and certain other entities. To the extent that the Company performs such testing, it must be certified as meeting SAMSHA standards. The Company's Herndon, Virginia; Nashville, Tennessee; Redmond, Washington; Reno, Nevada; and Winston Salem, North Carolina laboratories are SAMSHA certified.

The use of controlled substances in testing for drugs of abuse is regulated by the Federal Drug Enforcement Administration.

Regulations of the Department of Transportation, the Public Health Service and the Postal Service apply to the transportation of clinical laboratory specimens.

In 1994, 1993 and 1992, approximately 35%, 41% and 42%, respectively, of the Company's revenues were derived from tests performed for beneficiaries of Medicare and Medicaid programs. Furthermore, the conduct of the Company's other business depends substantially on continued participation in these programs because clients often want a single laboratory to perform all of their testing services. In 1984, Congress established a Medicare fee schedule for clinical laboratory services performed for patients covered under Part B of the Medicare program. Subsequently, Congress imposed a national ceiling on the amount that can be paid under the fee schedule. Laboratories must accept the scheduled amount as payment in full for tests that are subject to reimbursement under the fee schedule methodology and

performed on behalf of Medicare beneficiaries and must bill the program directly. In addition, state Medicaid programs are prohibited from paying more than the Medicare fee schedule amount for clinical laboratory services furnished to Medicaid recipients. Since the 1984 establishment of Medicare fee schedules, Congress has periodically reduced the ceilings on Medicare reimbursement to clinical laboratories from previously authorized levels. In 1993, pursuant to provisions in the Omnibus Budget and Reconciliation Act of 1993 ("OBRA '93"), Congress reduced, effective January 1, 1994, the Medicare national limitations from 88% of the 1984 national median to 76% of the 1984 national median, which reductions are being implemented on a phased-in basis from 1994 through 1996 (to 84% in 1994, 80% in 1995 and 76% in 1996). OBRA '93 also eliminated the provision for annual fee schedule increases based upon the consumer price index for 1994 and 1995. Because a significant portion of the Company's costs are relatively fixed, these Medicare reimbursement reductions have a direct adverse effect on the Company's net earnings and cash flows. Additional future changes in Federal, state or local regulations (or in the interpretation of current regulations) affecting governmental reimbursement for clinical laboratory testing or the methods for choosing laboratories eligible to perform tests could have a material adverse effect on the Company.

On January 1, 1993, numerous changes in the Physicians' Current Procedural Terminology ("CPT") were published. The CPT is a coding system that is published by the American Medical Association. It lists descriptive terms and identifying codes for reporting medical and medically related services. The Medicare and Medicaid programs require suppliers, including laboratories, to use the CPT codes when they bill the programs for services performed. HCFA implemented these CPT changes for Medicare and Medicaid on August 1, 1993. The CPT changes have altered the way the Company bills Medicare and Medicaid for some of its services, thereby reducing the reimbursement the Company receives from those programs for some of its services. For example, certain codes for calculations, such as LDL cholesterol, were deleted and are no longer a payable service under Medicare and Medicaid.

In November 1994, HCFA proposed changes in the policies used to administer Medicare payments to clinical laboratories for the most frequently performed automated blood chemistry profiles. Among other things, the proposed changes would establish a consistent standard nationwide for the content of the automated chemistry profiles. Another change incorporated in the HCFA proposal would require laboratories performing certain automated blood chemistry profiles to obtain and provide documentation of the medical necessity of tests included in the profiles for each

Medicare beneficiary. If such a requirement were to be established, all laboratories would incur significant additional costs associated with compliance. In addition, if implemented, such changes would increase the losses associated with unreimbursed testing caused by the inability to obtain sufficient information from physicians to allow the laboratory to file valid claims with Medicare. The HCFA proposals may be modified or replaced with other proposals and no prediction can be made regarding what proposals, if any, will ultimately be adopted.

In November 1990, the Company became aware of a grand jury inquiry relating to its pricing practices being conducted by the United States Attorney for the San Diego area (the Southern District of California) with the assistance of the Office of Inspector General (the "OIG") of HHS. On December 18, 1992, the Company announced that it had entered into agreements that concluded the investigation (the "Government Settlement"). The settlement revolved around the government's contention that the Company improperly included its tests for HDL cholesterol and serum ferritin (a measure of iron in the blood) in its basic Health Survey Profile, without clearly offering an alternative profile that did not include these medical tests. The government also contended that, in certain instances, physicians were told that these additional tests would be included in the Health Survey Profile at no extra charge. As a result, the government contended, the Company's marketing activities denied physicians the ability to exercise their judgment as to the medical necessity of these tests.

Pursuant to the Government Settlement, the Company pleaded guilty to the charge of presenting two false claims to the Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS") and paid a $1 million fine. In connection with pending and threatened civil claims, the Company also agreed to pay $100 million to the Federal government, of which $89 million has been paid and $11 million will be paid in quarterly installments through September 30, 1995. Concurrently, the Company settled related Medicaid claims with states that account for over 99.5% of its Medicaid business and has paid $10.4 million to the settling states.

As a result of these settlements, the Company took a one-time pre-tax charge of $136.0 million in the fourth quarter of 1992, which reduced net earnings for the quarter and year ended December 31, 1992 by $80.3 million. Earnings per share for the fourth quarter and year were each reduced by $0.85. The charge covered all estimated costs related to the investigation and the settlement agreements. The Company will continue to receive reimbursements from all government third party reimbursement programs, including Medicare, Medicaid and CHAMPUS, under the settlement agreements. (The Company made changes to requisition

forms, pricing and compendia of tests following the settlement. See "--Managements' Discussion and Analysis of Financial Condition and Results of Operations").

In September 1993, the Company was served with a subpoena issued by the OIG, which required the Company to provide documents to the OIG concerning its regulatory compliance procedures. The Company has provided documents to the OIG in response to the subpoena and continues to be in contact with the OIG through its outside attorneys.

In August 1993, Allied received a subpoena from the OIG requesting a broad range of documents and certain information relating to its pricing and billing practices. According to published reports, other independent clinical laboratories also received subpoenas as part of what appears to be a nationwide audit and investigation.

The OIG subpoena received by Allied called for the production of documents regarding 14 blood chemistry tests which were being or had been performed by certain independent clinical laboratories in conjunction with automated chemistry profiles and which were being or had been filed separately to Medicare or Medicaid. An automated chemistry profile is a grouping of up to 23 tests that can be performed together on a single specimen and that Medicare and Medicaid pay for under the Medicare fee schedule.

Based on published reports, the Company believes that the OIG's investigation is primarily focused on two alleged practices. The first alleged practice consists of offering the automated chemistry profile as part of a "standard" blood chemistry profile that also includes one or more of the 14 tests referenced in the OIG subpoena in a manner which is misleading to the ordering physician or which fails to provide the physician with the choice of ordering only the automated chemistry profile. Representatives of the OIG have publicly stated that this practice may lead to the ordering of "unnecessary" tests. The second alleged practice involves the failure to disclose to physicians that the prices charged by those laboratories to Medicare and Medicaid for many of these tests referenced in the OIG subpoena were greater than the prices the laboratories charged to the physicians for those same tests when the tests were performed in conjunction with an automated chemistry profile. Representatives of the OIG have publicly stated that undisclosed pricing differences may cause physicians to believe incorrectly that they are ordering tests at little or no cost to the Medicare and Medicaid programs, possibly causing tests to be ordered which are not medically necessary. Allied's laboratories

have included some of the 14 tests in its "standard" blood chemistry profile and also in "custom" profiles created for individual physicians at their request. Tests performed for Medicare and Medicaid patients are, in accordance with applicable laws, billed directly to the Medicare and Medicaid programs.

In April 1994, Allied received a subpoena from the OIG requesting documents and certain information regarding the Medicare billing practices of its Cincinnati, Ohio clinical laboratory with respect to certain cancer screening tests. In connection with Allied's assembling of documents responding to this subpoena, representatives of the Company and Allied became aware that the nature of the possible problems associated with the billing practices of that laboratory may have been both different and greater than previously perceived by Allied and the Company. As a result, Allied and the Company agreed to reduce the acquisition price for the Allied Acquisition from $23.00 per share to $21.50 per share, or an aggregate of $12.6 million. The Company and Allied are continuing to investigate these possible problems and have communicated with the OIG and the United States Department of Justice regarding its subpoena and a related qui tam action commenced in a Cincinnati, Ohio Federal court, and they are cooperating fully with the governmental investigation of Allied's Cincinnati laboratory. The Company has established reserves which it believes are adequate to cover any liability associated with these matters.

Potential sanctions in connection with the OIG investigation for violations of the laws related to the Medicare and Medicaid programs may include significant fines, recovery of the amounts paid to the clinical laboratory for the tests involved and, in the case of a criminal conviction, mandatory exclusion from the Medicare and Medicaid programs for a period of at least five years. If the OIG asserts a claim against Allied and is successful in pursuing such a claim, the Company's business and financial condition could be adversely affected. Although neither the Government Settlement nor, based on published reports, any settlement agreements with OIG entered into by other major clinical laboratory companies, provided for exclusion from participation in the Medicare and Medicaid programs, there can be no assurance that Allied will be able to negotiate settlement agreements with similar terms if the government asserts (or threatens to assert) a claim. In addition, a criminal conviction or the successful prosecution of a civil fraud or false claims action could result in the exclusion of the defendant from the Medicare and Medicaid programs. Any such exclusion would likely have a material adverse effect on the Company's non-Medicare and non-Medicaid testing business. No claim has been asserted by the

OIG against Allied, however, no prediction can be made as to the outcome of the investigation or the impact of such outcome on the Company's financial condition or results of operations.

The Medicare and Medicaid anti-kickback laws prohibit intentionally paying anything of value to influence the referral of Medicare and Medicaid business. HHS has published safe harbor regulations which specify certain business activities that do not violate the Medicare/Medicaid anti-kickback laws. Failure to fall within a safe harbor does not constitute a violation of the anti-kickback laws; rather, the arrangement would remain subject to scrutiny by HHS.

In March 1992, HCFA published proposed regulations to implement the Medicare statute's prohibition (with certain exceptions) on referrals by physicians who have an investment interest in or a compensation arrangement with laboratories. The prohibition on referrals also applies where an immediate family member of a physician has an investment interest or compensation arrangement with a laboratory. The proposed regulations would define remuneration that gives rise to a compensation arrangement as including discounts granted by a laboratory to a physician who sends testing business to the laboratory and who pays the laboratory for such services. If that definition of remuneration were to have become effective, it could have had an impact on the way the Company prices its services to physicians. However, in August 1993, the referenced Medicare statute was amended by OBRA '93. One of these amendments makes it clear that day-to-day transactions between laboratories and their customers, including, but not limited to, discounts granted by laboratories to their customers, are not affected by the compensation arrangement provisions of the Medicare statute. Thus, the Company expects the definition of remuneration in HCFA's proposed regulations will be changed to reflect this amendment to the Medicare statute. Currently, these proposed regulations have not been finalized.

In October 1994, the OIG issued a Special Fraud Alert, which set forth a number of practices allegedly engaged in by clinical laboratories and health care providers that the OIG believes violate the anti-kickback laws. These practices include providing employees to collect patient samples at physician offices if the employees perform additional services for physicians that are typically the responsibility of the physicians' staff; selling laboratory services to renal dialysis centers at prices that are below fair market value in return for referrals of Medicare tests which are billed to Medicare at higher rates; providing free testing to a physician's HMO patients in situations where the referring physician benefits

from such lower utilization; providing free pick-up and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; providing facsimile machines or computers to physicians which are not exclusively used in connection with the laboratory services performed; and providing free testing for health care providers, their families and their employees (professional courtesy testing). The OIG stressed in the Fraud Alert that when one purpose of the arrangements is to induce referral of program-reimbursed laboratory testing, both the clinical laboratory and the health care provider or physician may be liable under the anti-kickback laws and may be subject to criminal prosecution and exclusion from participation in the Medicare and Medicaid programs.

According to the 1995 work plan of the OIG, its recently established Office of Civil Fraud and Administrative Adjudication ("OCFAA") will be responsible for protecting the government-funded health care programs and deterring fraudulent conduct by health care providers through the negotiations and imposition of civil monetary penalties, assessments and program exclusions. The OCFAA works very closely with the Department of Justice, the Office of General Counsel and the OIG investigative and audit offices in combatting fraud and abuse. In addition, the OIG has stated in its 1995 work plan that it will determine the extent to which laboratories supply physicians' offices with phlebotomists (blood-drawing technicians), offer management services or medical waste pick-up to physicians, provide training to physicians or engage in other financial arrangements as well as the extent to which such arrangements might be unlawful.

The health care industry is undergoing significant change as third party payers, such as Medicare and Medicaid and insurers, increase their efforts to control the cost, utilization and delivery of health care services. In an effort to address this problem of increasing health care costs, legislation has been proposed or enacted at both the Federal and state levels to regulate health care delivery in general and clinical laboratories in particular. Some of the proposals include managed competition, global budgeting and price controls. Although the Clinton Administration's health care reform proposal was not enacted by the 103rd Congress, such proposal or other proposals may be considered in the future. In particular, the Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third party payers may occur as well. The Company cannot predict the effect health care reform, if enacted, would have on its business, and there can be no assurance that such reforms, if enacted, would not have a material adverse effect on the Company's business and

operations.

In addition to general health care reform, the Federal government has been examining the rapid growth of Federal expenditures for clinical laboratory services. Several Federal agencies are responsible for investigating allegations of fraudulent and abusive conduct by health care providers, including the Federal Bureau of Investigation and the OIG. In its published work plan for 1992-1993, the OIG indicated its intention to target certain laboratory practices for investigation and prosecution. Pursuant to one such project described in such work plan, entitled "Laboratory Unbundle," laboratories that offer packages of tests to physicians and "unbundle" them into several "tests to get higher reimbursement when billing Medicare and Medicaid" will be identified and "suitable cases will be presented for prosecution." Under another project described in such work plan, laboratories "that link price discounts to the volume of physician referrals, "unbundle" tests in order to bill Medicare at a higher total rate, and conduct unnecessary tests . . . will be identified to coordinate investigations throughout the country."

Compliance Program

Because of evolving interpretations of regulations and the national debate over health care, compliance with all Medicare, Medicaid and other government-established rules and regulations has become a significant factor throughout the clinical laboratory industry. The Company began the implementation of a new compliance program in late 1992 and early 1993. The objective of the program is to develop aggressive and reliable compliance safeguards. Emphasis is placed on developing training programs for personnel to attempt to assure the strict implementation of all rules and regulations. Further, in-depth reviews of procedures, personnel and facilities are conducted to assure regulatory compliance throughout the Company. Such sharpened focus on regulatory standards and procedures will continue to be priority for the Company in the future.

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

statutes and regulations include significant fines and the loss of various licenses, certificates and authorizations.

Competition

The clinical laboratory testing business is highly fragmented and intensively competitive. The Company believes that there are many clinical laboratory companies which provide a broad range of laboratory testing services in the same markets serviced by the Company. Among the Company's national competitors are MetPath Inc. (a subsidiary of Corning, Inc. ("Corning")), RBL (see "Recent Developments") and SmithKline Beecham Clinical Laboratories, Inc. According to HCFA, there are over 151,000 federally regulated clinical laboratories, of which approximately 5,700 are independent laboratories and the remainder were hospital-based laboratories and physician-owned laboratories.

In recent years, certain independent laboratories have engaged in acquisitions of other laboratories and taken advantage of opportunities for cost efficiencies afforded by larger scale, automated testing operations. In June 1994, the Company acquired Allied. Also in 1994, Corning, Inc. acquired Nichols Institute in exchange for Corning common stock. In 1993, Corning acquired the stock of Damon Corporation. In December 1994, the Company entered into the Merger Agreement providing for, among other things, the merger of RBL with and into the Company. The Company believes that acquisition activity will continue in the clinical laboratory business. Several factors are contributing to this activity, including legislative initiatives such as restrictions on physician referrals and ownership of laboratories, increasing demand for higher quality services and more stringent service requirements, the growth of managed health care entities which require low-cost testing services and, generally, the demands by health care providers and payers for faster reporting of test results and lower prices.

The Company competes primarily on the basis of the quality of its testing, reporting and information services, its reputation in the medical community, the pricing of its services and its ability to employ qualified laboratory personnel. The Company believes that its ability to compete also depends on its ability to make investments in equipment and management information systems and offer testing services on a broad regional geographic basis.

Item 2. PROPERTIES

The principal properties of the Company are its leased corporate headquarters located in La Jolla, California, Allied's corporate offices located in Nashville, Tennessee and the following major laboratory facilities:

Location	Approximate Area (in square feet)	Nature of Occupancy
Birmingham, Alabama	20,854	Lease expires 1997; one 4 year renewal option
Phoenix, Arizona	43,024	Lease expires 2001; one 5 year renewal option
San Diego, California	40,167	Lease expires 2000
Denver, Colorado	19,982	Lease expires 2001; two 5 year renewal options
Hollywood, Florida	46,500	Lease expires 1997; three 5 year renewal options
St. Petersburg, Florida	26,667	Lease expires 1995; two 5 year renewal options
Tampa, Florida	26,600	Lease expires 2002; one 5 year renewal option
Chicago, Illinois	40,065	Lease expires 2003; two 5 year renewal options
Louisville, Kentucky	60,000	Lease expires 2002; three 5 year renewal options
Detroit, Michigan	32,000	Lease expires 2004; two 5 year renewal options
Reno, Nevada		
(888 Willow Street)	12,000	Owned
(704 Mill Street)	12,000	Lease expires 1998; one 2 year renewal option; and
(704 Mill Street)	1,645	Lease expires 2003; one 2 year renewal option
Cranford, New Jersey	80,900	Lease expires 2009
Uniondale, New York	108,000	Lease expires 2007; two 5 year renewal options
Cincinnati, Ohio	30,000	Lease expires 2002; one 10 year renewal option
Winston-Salem, North Carolina	73,500	Lease expires 2004; one 5 year renewal option
Chattanooga, Tennessee		
(863 McCallie Avenue)	18,300	Owned
(1501 Riverside Drive)	30,000	Lease expires 2012

Location	Approximate Area (in square feet)	Nature of Occupancy
Nashville, Tennessee		
NRL I	52,165	Lease expires 2000; two 5 year renewal options
NRL II	25,640	Lease expires 2000; two 5 year renewal options
Dallas, Texas	53,694	Lease expires 2004; one 5 year renewal option
Houston, Texas	32,368	Lease expires 1997
San Antonio, Texas	44,000	Lease expires 2004; two 5 year renewal options
Salt Lake City, Utah	20,000	Lease expires 2002; two 5 year renewal options
Herndon, Virginia	64,172	Lease expires 2004; one 5 year renewal option
Seattle, Washington	34,900	Lease expires 2000; two 5 year renewal options

Construction of a new laboratory to consolidate the Company's Tampa and St. Petersburg, Florida facilities began in the fourth quarter of 1994 and is expected to be completed in the third quarter of 1995.

All of the major laboratory facilities have been built or improved for the single purpose of providing clinical laboratory testing services. The Company believes that these facilities are suitable and adequate and have sufficient production capacity for its currently foreseeable level of operations. The Company believes that if it were to lose the lease on any of the facilities it presently leases, it could find alternate space at competitive market rates and readily relocate its operations to such new locations without material disruption to its operations.

Item 3. LEGAL PROCEEDINGS

The Company is involved in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

In 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation. As previously disclosed, the litigation consisted of two consolidated class action suits filed in December 1992 and November 1993 and a consolidated shareholder derivative action brought in Federal and state courts in San Diego, California. The settlement involved no admission of wrongdoing. In connection with the settlement, the Company took a pre-tax special charge of $15.0 million and a $6.0 million charge for expenses related to the settled litigation. Insurance payments and payments from other defendants aggregate $55.0 million plus expenses.

During 1994, the Company learned of the existence of a federal qui tam action regarding Allied's Medicare billing practices at its Cincinnati, Ohio facility. As previously disclosed, Allied also received a subpoena from the OIG in 1994 regarding these practices. The Company has been cooperating fully with the governmental investigation of Allied's Cincinnati facility. The Company has established reserves which it believes are adequate to cover any liability associated with these matters.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On April 24, 1991, the common stock commenced trading on the New York Stock Exchange ("NYSE") under the symbol "NH". Prior to such time, the common stock was quoted on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") under the symbol "NHLI".

The following table sets forth for the calendar periods indicated the high and low sales prices for the common stock reported on the NYSE Composite Tape, and the cash dividends declared per share of common stock.

	High	Low	Dividends Declared Per Share
1993			
First Quarter	$18 1/4	$12 7/8	$0.08
Second Quarter	19 1/2	16 1/8	0.08
Third Quarter	18 1/2	14 1/2	0.08
Fourth Quarter	16 3/8	12	0.08
1994			
First Quarter	15 1/4	12 7/8	0.08
Second Quarter	13 3/4	10 5/8	--
Third Quarter	13 3/8	10 7/8	--
Fourth Quarter	15 3/4	11 3/8	--
1995			
First Quarter (through February 21, 1995)	14 1/2	12 5/8	--

On February 9, 1995, there were approximately 574 holders of record of the common stock.

The Company, in connection with the Allied Acquisition, has discontinued its dividend payments for the foreseeable future in order to increase its flexibility with respect to both its acquisition strategy and stock repurchase plan. In addition, Intermediate Holdings II's revolving credit facility (the "Revolving Credit Facility") and term loan facility (the "Term Facility" and, together with the Revolving Credit Facility, the "Bank Facility") entered into in June 1994 contains, among other provisions, a covenant prohibiting the declaration or payment of cash dividends to stockholders if, after giving effect to such action, a default (as defined by the terms of the Bank Facility) shall occur and be continuing.

Item 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Earnings Data" and "Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 1994 are derived from consolidated financial statements of the Company, which financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants. This data should be read in conjunction with the accompanying notes, the Company's consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations", all included elsewhere herein.

	Year Ended December 31,				
	1994	1993	1992	1991	1990
	(Dollars in millions, except per share amounts)				
Statement of Earnings Data:					
Net sales	$ 872.5	$ 760.5	$ 721.4	$ 603.9	$ 501.9
Gross profit	275.5	316.0	326.3	271.4	222.6
Operating income (a)	109.9	185.5	64.1	165.8	133.1
Net earnings (a) (b)	30.1	112.7	40.6	103.9	82.6
Earnings per common share (a) (b) (c)	$ 0.36	$ 1.26	$ 0.43	$ 1.05	$ 0.83
Dividends per common share subsequent to initial public offering (d)	$ 0.08	$ 0.32	$ 0.31	$ 0.27	$ 1.58
Weighted average common shares outstanding (in thousands) (c)	84,754	89,439	94,468	99,096	99,048

	December 31,				
	1994	1993	1992	1991	1990
Balance Sheet Data:					
Cash and cash equivalents .	$ 26.8	$ 12.3	$ 33.4	$ 51.3	$ 45.8
Intangible assets, net (e) .	551.9	281.5	188.3	193.1	192.7
Total assets (e)	1,012.7	585.5	477.4	411.3	374.2
Long-term obligations (a)(c)(f)(g).	583.0	314.6	114.2	2.9	0.9
Due to affiliates (d) . . .	--	0.1	0.9	--	66.4
Total stockholders' equity (c) (d)	166.0	140.8	212.5	330.8	256.7

(a) In the fourth quarter of 1992, the Company took a one-time charge against operating income of $136.0 million related to the Government Settlement. At December 31, 1993, the long-term portion representing payments for settlement and related expenses due in 1995 was $11.5 million.

(b) In 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation. In connection with the settlement, the Company took a pre-tax special charge of $15.0 million and a $6.0 million charge for expenses related to the settled litigation. Insurance payments and payments from other defendants amounted to $55.0 million plus expenses. As previously disclosed, the litigation consisted of two consolidated class action suits filed in December 1992 and November 1993 and a consolidated shareholder derivative action brought in Federal and state courts in San Diego, California. The settlement involved no admission of wrongdoing.

(c) On January 16, 1992, the Company purchased 4,808,000 shares of its outstanding common stock from its stockholders pursuant to a tender offer (the "Tender Offer"). The Company borrowed $100.0 million under a revolving credit facility in existence at that time and used $25.8 million of cash on hand to finance the Tender Offer. During 1993 and 1992, the Company made open market purchases of 9,485,800 and 310,000 of its outstanding shares of common stock, respectively, for an aggregate amount of $154.2 million and $6.1 million, respectively. Such purchases were financed with cash on hand and borrowings under revolving credit facilities in existence at such time. At December 31, 1993 and 1992, $278.0 million and $75.0 million, respectively, was outstanding on the revolving credit facilities in existence on those dates. In connection with the corporate reorganization on June 7, 1994, all of the 14,603,800 treasury shares held by NHLI were cancelled. As a result, the $286.1 million value assigned to such treasury shares was eliminated with corresponding decreases in the par value, additional paid-in capital, and retained earnings of $0.2 million, $72.3 million and $213.6 million, respectively.

(d) In July 1990, the Company paid a special dividend of $150.6 million ($1.52 per share). Due to affiliates at December 31, 1990 principally represents borrowings from Revlon in the original principal amount of $77.0 million incurred in connection with the special dividend paid in 1990, net of an $11.0 million principal payment made in 1990. All remaining amounts due to affiliates were paid at a discount in December 1991.

(e) On June 23, 1994, the Company acquired Allied as a wholly owned

subsidiary for approximately $191.5 million in cash plus the assumption of $24.0 million of Allied indebtedness and the recognition of approximately $5.0 million of Allied net liabilities. The purchase was financed with borrowings under the Bank Facility. The excess of cost over the fair value of net tangible assets acquired was $220.5 million and is included under the caption "Intangible assets, net." During 1994, the Company also acquired 11 small clinical laboratory companies for an aggregate amount of $46.4 million in cash plus the recognition of $32.9 million of liabilities. The cash portion of these acquisitions was financed with cash on hand and borrowings under the revolving credit facilities in existence at the time of the acquisitions and the Bank Facility. The excess of cost over the fair value of net tangible assets acquired was $72.1 million and is included under the caption "Intangible assets, net." During 1993, the Company acquired thirty-four clinical laboratory companies for an aggregate amount of $78.2 million in cash plus the recognition of $28.7 million of liabilities, comprised primarily of future contractual and contingent payments. The cash portion of such purchases was financed with cash on hand and borrowings under revolving credit facilities in existence at the time of the acquisitions. The excess of cost over the fair value of net tangible assets acquired was $100.1 million and is included under the caption "Intangible assets, net".

(f) In the fourth quarter of 1992, the Company relocated its Long Island-based laboratory to a newly constructed facility. The transaction is treated as a capital lease for financial reporting purposes; as such, the associated long-term lease obligation totalled $9.8 million, $9.7 million and $9.6 million at December 31, 1994, 1993 and 1992, respectively.

(g) Long-term debt includes the expected value of long-term future contractual and contingent amounts to be paid to the principals of acquired clinical laboratory companies. Such payments are primarily based on a percentage of future revenues derived from the acquired customer lists or specified amounts to be paid over a period of time. At December 1994, 1993, 1992, 1991 and 1990, such amounts were $19.2 million, $15.4 million, $1.6 million, $2.9 million and $0.9 million, respectively.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company derives approximately 35% of its net sales from tests performed for beneficiaries of Medicare and Medicaid programs. Several changes have been made which adversely affect the reimbursement the Company receives from such programs. On January 1, 1993, numerous changes in the CPT were published which became effective on August 1, 1993. These changes adversely affect the reimbursement the Company receives on some of its services that are billed to the Medicare and Medicaid programs. For example, certain codes for calculations, such as LDL cholesterol, were deleted and are no longer a payable service under Medicare and Medicaid. Had such changes been implemented as of January 1, 1993, the Company estimates that 1993 net sales would have been reduced by approximately $7 million.

During 1993, provisions were included in OBRA '93 which reduced Medicare reimbursement schedules by lowering payments under the fee schedule methodology from 88% to 84% of the 1984 national median, effective January 1, 1994 and from 84% to 80% of the national median, effective January 1, 1995. The Company estimates that the change effective January 1, 1995 would have decreased 1994 net sales by approximately $11 million had it been implemented as of January 1, 1994. A further reduction in payments to 76% of the 1984 national median will become effective on January 1, 1996. OBRA '93 also eliminated, for 1994 and 1995, the provision for annual fee schedule increases based upon the consumer price index.

In the latter part of 1993, the Company held discussions with HCFA concerning the reimbursement policy for serum ferritin and HDL cholesterol tests. HCFA expressed concerns that the incidence of orders of these tests by physicians remained too high despite changes in the Company's requisition forms, pricing and compendia of tests instituted after the Government Settlement. As a result of a HCFA directive to Medicare carriers, the Company began to receive denials of claims submitted in September 1993 for serum ferritin and HDL cholesterol tests ordered by physicians and performed in conjunction with automated chemistry panels. Such denials and related suspended billings reduced the Company's 1993 net sales by approximately $18.6 million.

The Company has undertaken actions with regard to HCFA's concerns. The Company has removed the serum ferritin and HDL cholesterol tests from all standard chemistry profiles offered on its test requisition forms. These tests may be ordered separately or as part of a custom designed profile where specific authorization is provided by the requesting physician. The

Company estimates that the effect of these changes reduced net sales in 1994 by approximately $60 million.

The health care industry is undergoing significant change as third party payers, such as Medicare and Medicaid and insurers, increase their efforts to control the cost, utilization and delivery of health care services. In an effort to address this problem of increasing health care costs, legislation has been proposed or enacted at both the Federal and state levels to regulate health care delivery in general and clinical laboratories in particular. Some of the proposals include managed competition, global budgeting and price controls. Although the Clinton Administration's health care reform proposal was not enacted by the 103rd Congress, such proposal or other proposals may be considered in the future. In particular, the Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third party payers may occur as well. The Company cannot predict the effect health care reform, if enacted, would have on its business, and there can be no assurance that such reforms, if enacted, would not have a material adverse effect on the Company's business and operations.

Year Ended December 31, 1994 compared with Year Ended December 31, 1993

Net sales increased by $112.0 million to $872.5 million in 1994, an increase of 14.7% over 1993. The inclusion of Allied since June 23, 1994 increased net sales by approximately $96.8 million or 12.7%. Revenues generated by new accounts and numerous acquisitions of small clinical laboratory companies increased net sales by approximately 9.6% and 11.4%, respectively. In addition, a price increase, effective April 1, 1994, increased net sales for 1994 by approximately 1.8%. A reduction in Medicare's fee schedules from 88% to 84% of the 1984 national median effective on January 1, 1994, plus changes in reimbursement policies of various third party payors, reduced net sales by approximately 3.1%. Other factors, in order of decreasing magnitude, comprised the remaining reduction in net sales as follows: declines in the level of HDL cholesterol and serum ferritin testing, lower utilization of laboratory testing, price erosion in the industry as whole and severe weather in the first quarter of 1994. The Company believes that the decline in utilization was due to fewer patient visits to physicians' offices since the number of tests ordered per patient remained relatively constant. Revenues derived from tests performed for beneficiaries of Medicare and Medicaid programs were approximately 35% and 41% of net sales in 1994 and 1993, respectively.

Cost of sales, which primarily includes laboratory and distribution costs, increased to $597.0 million in 1994 from $444.5 million in 1993. Of the $152.5 million increase, approximately $66.6 million was due to the inclusion of the cost of sales of Allied since June 23, 1994, approximately $62.3 million was a result of higher testing volume, and approximately $7.0 million was due to an increase in phlebotomy staffing to improve client service and meet competitive demand. Rental of premises increased approximately $2.7 million due to the expansion and/or relocation of existing facilities to accommodate increased volume and the full year impact of expanding the number of patient service centers by 50% during 1993. The remaining increase resulted primarily from higher compensation and insurance expenses. As a percentage of net sales, cost of sales increased to 68.4% in 1994 from 58.4% in 1993. The increase in the cost of sales percentage primarily resulted from a reduction in net sales due to a reduction in Medicare fee schedules, pricing pressures and utilization declines, each of which provide little corresponding reduction in costs.

Selling, general and administrative expenses increased to $149.3 million in 1994 from $121.4 million in 1993, an increase of $27.9 million. Approximately $21.7 million of the increase was due to the inclusion of the selling, general and administrative expenses of Allied since June 23, 1994. Approximately $3.9 million of the increase was a result of a non-recurring charge in the fourth quarter of 1994 for lease costs and the write-off of leasehold improvements related to the relocation of certain of the Company's regional laboratories. The remaining increase was primarily due to expansion of data processing and billing departments due to increased volume and to improve client service. As a percentage of net sales, selling, general and administrative expenses increased to 17.1% in 1994 compared with 16.0% in 1993. The increase in the selling, general and administrative percentage primarily resulted from a reduction in net sales, as discussed above, that provided little corresponding reduction in costs.

Management expects net sales to continue to grow through strategic acquisitions and the addition of new accounts, although there can be no assurance that the Company will experience such growth. Reductions in Medicare fee schedules, pursuant to OBRA '93, to 80% of the 1984 national median, effective January 1, 1995, followed by an additional reduction to 76% of such median on January 1, 1996, are expected to negatively impact net sales, cost of sales as a percentage of net sales and selling, general and administrative expenses as a percentage of net sales in the future. Management does not expect future increases in cost of sales as a percentage of net sales and selling, general and

administrative expenses as a percentage of net sales of the magnitude experienced in the year ended December 31, 1994. Management cannot predict if price erosion or utilization declines will continue or their ultimate effect on net sales or results of operations. It is the objective of management to partially offset the increase in cost of sales as a percentage of net sales and selling, general, and administrative expenses as a percentage of net sales through comprehensive cost reduction programs at each of the Company's regional laboratories, although there can be no assurance of the success of such programs.

The increase in amortization of intangibles and other assets to $16.3 million in 1994 from $9.1 million in 1993 primarily resulted from the acquisition of Allied and several small clinical laboratory companies during 1994 and 1993.

In the third quarter of 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation. As previously disclosed, the litigation consisted of two consolidated class action suits and a consolidated shareholder derivative action brought in Federal and state courts in San Diego, California. The settlement involved no admission of wrongdoing. In connection with the settlement, the Company took a pre-tax special charge of $15.0 million and a $6.0 million charge for expenses related to the settled litigation. Insurance payments and payments from other defendants aggregate $55.0 million plus expenses.

Other gains and expenses in 1993 include expense reimbursement and termination fees of $21.6 million received in connection with the Company's attempt to purchase Damon Corporation, less related expenses and the write-off of certain bank financing costs aggregating $6.3 million, resulting in a one-time pre-tax gain of $15.3 million.

Net interest expense was $33.5 million in 1994 compared to $9.7 million in 1993. The increase resulted primarily from increased borrowings used to finance the Allied Acquisition in June 1994, the acquisition of numerous small laboratory companies during both 1994 and 1993 and repurchases of the Company's common stock in 1993. Higher average interest rates also contributed to the increase in net interest expense.

The provision for income taxes as a percentage of earnings before income taxes increased to 45.7% in 1994 from 41.0% in 1993, primarily due to a higher effective tax rate for both Federal and state income taxes.

Year Ended December 31, 1993 compared with Year Ended December 31, 1992

Net sales increased by $39.1 million to $760.5 million in 1993, an increase of 5.4% over 1992. Revenues generated by new accounts increased net sales by approximately 12.0%. The acquisition of thirty-four small clinical laboratory companies increased the growth in net sales by approximately 3.5%. In addition, net sales for 1993 increased approximately 2.7% because of the Company's annual price increases (effective in January of 1993). Changes in Medicare's reimbursement policy for LDL tests, coupled with changes in various state Medicaid fee schedules and reimbursement methodologies partially offset the increase in net sales by approximately 1.0%. Medicare's denial of claims for HDL cholesterol and serum ferritin tests, which began in September 1993 and continued through December 20, 1993 when the Company introduced new test forms and procedures, and related suspended billings also offset the increase in net sales by approximately 2.6%. Additionally, a decline in the utilization of laboratory services, and, to a lesser extent, severe weather in the first three months of the year further offset the increase in net sales by approximately 7.3%. Improved accuracy in estimating the difference between amounts billed and amounts received for services provided under third party payor programs, primarily due to the wider use of specific fee schedules for individual third party carriers, resulted in an increase in the growth in net sales of 1.6%. The aggregate impact of various other factors, including discounts granted to meet competitive pressure and movement between payor mix categories, reduced the growth in net sales by approximately 3.5%. Revenues derived from tests performed for beneficiaries of Medicare and Medicaid programs were approximately 41% and 42% of net sales in 1993 and 1992, respectively.

The Company actively pursued acquisitions of small clinical laboratory companies during 1993. The laboratory industry is consolidating rapidly as smaller, less efficient organizations are experiencing decreasing profitability in the current health care environment. The purchase of thirty-four small laboratories, primarily in the second half of 1993, increased net sales for the year by approximately $25 million. Had all such acquisitions occurred as of the beginning of 1993, the aggregate contribution to net sales is estimated to have been approximately $81 million.

Cost of sales primarily includes laboratory and distribution costs, a substantial portion of which varies directly with sales. Cost of sales increased to $444.5 million in 1993 from $395.1 million in 1992. As a percentage of net sales, cost of sales increased to 58.4% in 1993 from 54.8% in 1992. Labor costs

increased approximately 2.7% of net sales, primarily as a result of an increase in phlebotomy staffing to improve client service and meet competitive demands. Rental of premises also grew approximately 0.3% of net sales due to expanding the number of patient service centers by 50% during 1993. Higher capital spending led to increased depreciation expenses of approximately 0.3% of net sales. Also, several expense categories increased slightly, aggregating approximately 0.3% of net sales. The Company continued to focus on cost savings as part of an ongoing program to improve its cost structure. Internal operating reviews were completed in 15 of the Company's 16 laboratories which were in operation during 1993.

Selling, general and administrative expenses increased to $121.4 million in 1993 from $117.9 million in 1992, an increase of $3.5 million. As a percentage of net sales, selling, general and administrative expenses decreased slightly to 16.0% in 1993 compared with 16.3% in 1992. This was primarily due to a reduction in the provision for doubtful accounts, reflecting improvements in the collection of delinquent accounts, and also a result of reduced spending for the relocation of Company employees and for legal services. These changes more than offset an increase in labor costs related to staffing added during 1993 to improve billing customer service and expand the Company's information systems group.

The increase in amortization of intangibles and other assets to $9.1 million in 1993 from $8.3 million in 1992 primarily resulted from the acquisition of several small clinical laboratory companies during 1993.

Other gains and expenses include expense reimbursement and termination fees of $21.6 million received in connection with the Company's attempt to purchase Damon Corporation, less related expenses and the write-off of certain bank financing costs aggregating $6.3 million, resulting in a one-time pre-tax gain of $15.3 million.

Investment income decreased to $1.2 million in 1993 from $2.2 million in 1992 and interest expense increased to $10.9 million in 1993 from $4.2 million in 1992. During 1993, cash in excess of operating requirements and increased borrowings were used to finance acquisitions of numerous small clinical laboratory companies and to finance purchases by the Company of its common stock.

The provision for income taxes as a percentage of earnings before income taxes increased to 41.0% in 1993 from 34.6% in 1992, primarily due to the increase in the U.S. corporate tax

rates and as a result of a higher effective rate for state income taxes.

Liquidity and Capital Resources

The Company has entered into the Merger Agreement with HLR, RBL, and (for the purposes set forth in the Merger Agreement) Roche providing for, among other things, the merger of RBL with and into the Company with the Company as the surviving corporation, and pursuant to which, subject to certain exceptions, each outstanding share of common stock, par value $0.01 per share, of the Company, will be converted into (i) 0.72 of a share of common stock of the Company and (ii) the right to receive $5.60 in cash, without interest.

In addition, all shares of common stock, no par value, of RBL issued and outstanding immediately prior to the effective time of the Merger (other than treasury shares, which will be canceled) will be converted into, and become, that number of newly issued shares of Company common stock as would, in the aggregate and after giving effect to the Merger and the Company common stock owned by HLR, RBL and their subsidiaries immediately after the effective time of the Merger, equal 49.9% of the total number of shares of Company common stock outstanding immediately after the effective time of the Merger (after giving effect to the issuance of Company common stock in respect of the Company employee stock options in connection with the Merger).

In connection with the Merger, the Company currently intends to declare a dividend, payable to holders of record of shares of Company common stock as of the third business day prior to the date of the special meeting of the stockholders to consider and vote on the approval and adoption of the Merger, which dividend will consist of 0.16308 of a warrant per outstanding share of Company common stock, each such warrant representing the right to purchase one newly issued share of Company common stock for $22.00 (subject to adjustments) on the fifth anniversary of the issuance of the Warrant. In addition, the Merger Agreement provides for the issuance to and purchase by Roche, for a purchase price of $51.0 million, of 8,325,000 Roche Warrants to purchase shares of Company common stock, which warrants will have the terms described in the preceding sentence.

The aggregate cash consideration of approximately $474.7 million to be paid to stockholders of the Company in the Merger will be financed from three sources: a cash contribution by the Company of approximately $288.0 million out of proceeds of borrowings by the Company in an equal amount, a cash contribution

to be made by HLR in the amount of approximately $135.7 million and the proceeds from the issuance of the Roche Warrants.

The Company has obtained a commitment for a credit facility, which will include a term loan facility of not more than $800.0 million and a revolving credit facility of not more than $400.0 million, to refinance the Company's existing indebtedness and to finance the Company's portion of the total cash consideration to be paid to stockholders of the Company in the Merger. The specific terms and conditions of the credit facility are currently under negotiation.

Restructuring costs of approximately $84.0 million are expected to be recorded by the Company at the close of the Merger. These costs will reflect the write-off of deferred financing costs related to the repayment of the Company's existing revolving credit facility and term loan facility entered into in connection with the Allied Acquisition financing and the creation of reserves for severance and benefit costs, costs for office facilities expected to be closed, vacant space costs, systems conversion costs and other restructuring expenses of the Company associated with the Merger.

The Company has generated cash flow in excess of its operating requirements in each of the three past fiscal years. Cash from operations was $14.7 million, $57.2 million and $102.4 million for the years ended December 31, 1994, 1993 and 1992, respectively. Cash used for capital expenditures was $48.9 million, $33.6 million and $34.9 million for the years ended December 31, 1994, 1993, and 1992, respectively. The Company expects capital expenditures to be approximately $45.0 to $55.0 million in 1995 to accommodate expected growth, further automate laboratory processes, improve efficiency and further integrate the Company and Allied.

On May 3, 1994, the Company entered into a definitive agreement to acquire Allied. Pursuant to the agreement, on May 9, 1994, a subsidiary of the Company commenced a cash tender offer for all shares of Allied common stock for $23 per share. The agreement provided that any shares not tendered and purchased in the offer were to be exchanged for $23 per share in cash in a second-step merger. On June 7, 1994, the Company entered into an agreement whereby the price payable in such cash tender offer and such second-step merger was reduced to $21.50 per share, or an aggregate of approximately $12.6 million. A subsidiary of the Company acquired Allied as a wholly owned subsidiary on June 23, 1994, for approximately $191.5 million in cash plus the assumption of $24.0 million in Allied indebtedness and the recognition of approximately $5.0 million of Allied net liabilities.

During 1994, the Company acquired 11 small clinical laboratory companies in various locations of the United States for an aggregate amount of $46.4 million in cash plus the recognition of $32.9 million of liabilities. These laboratories, on an annual basis, are expected to generate approximately $49 million in net sales. During 1993, the Company acquired thirty-four clinical laboratory companies for an aggregate amount of $78.2 million in cash plus the recognition of $0.7 million of liabilities.

On June 21, 1994, Intermediate Holdings II, a subsidiary of the Company, entered into the Credit Agreement dated as of such date (the "Credit Agreement") with the banks named therein (the "Banks"), Citicorp USA, Inc., as administrative agent (the "Bank Agent"), and certain co-agents named therein, which made available to Intermediate Holdings II the Term Facility of $400.0 million and the Revolving Credit Facility of $350.0 million. The Bank Facility provided funds for the Allied Acquisition, for the refinancing of certain existing debt of Allied and NHLI, to pay related fees and expenses and for general corporate purposes of Intermediate Holdings II and its subsidiaries, in each case subject to the terms and conditions set forth therein.

The Credit Agreement provides that the Banks and the Bank Agent will receive from Intermediate Holdings II customary facility and administrative agent fees, respectively. Intermediate Holdings II will pay a commitment fee on the average daily unused portion of the Bank Facility of 0.5% per annum, subject to a reduction to 0.375% per annum if certain financial tests are met. Availability of funds under the Bank Facility is conditioned on certain customary conditions, and the Credit Agreement contains customary representations, warranties and events of default. The Credit Agreement also requires the Company to maintain certain financial ratios and tests, including minimum debt service coverage ratios and net worth tests.

The Revolving Credit Facility matures in June 1999, with semi-annual reductions of availability of $50.0 million, commencing in December 1997. The Term Facility matures in December 2000, with repayments in each quarter prior to maturity based on a specified amortization schedule. The Bank Facility bears interest, at the option of Intermediate Holdings II, at (i) Citibank, N.A.'s Base Rate (as defined in the Credit Agreement), plus a margin of up to 0.75% per annum, based upon variations in certain financial tests or (ii) the Eurodollar rate for one, two, three or six month interest periods (as selected by Intermediate Holdings II), plus a margin varying between 1.25% and 2.00% per annum based upon the Company's financial performance. At December 31, 1994 the effective rate was 8.157%.

Aggregate maturities on long-term debt are $39.0 million, $48.7 million, $58.5 million, $68.2 million and $77.9 million for the years 1995 through 1999, respectively.

The Bank Facility is guaranteed by Intermediate Holdings I and certain subsidiaries of Intermediate Holdings II and is secured by pledges of stock and other assets of Intermediate Holdings II and its subsidiaries.

On June 21, 1994, $400.0 million available under the Term Facility was borrowed by Intermediate Holdings II and loaned to NHLI and was used by NHLI to repay in full its existing revolving credit facilities and for working capital and general corporate purposes. On June 23, 1994, Intermediate Holdings II borrowed $185.0 million of the amount available under the Revolving Credit Facility to consummate the Allied Acquisition.

In connection with the Allied Acquisition, the Company announced that it terminated its 10 million share repurchase program, under which 7,795,800 common shares had been repurchased, and established a new $50.0 million stock repurchase program through which the Company will acquire additional shares of the Company's common stock from time to time in the open market. As of December 31, 1994, there were no repurchases under the new stock repurchase program.

During 1993, the Company purchased 9,485,800 of its outstanding common stock for an aggregate amount of $154.2 million. The purchase was financed by borrowings under the revolving credit facilities in existence at such time and cash on hand. In connection with the corporate reorganization on June 7, 1994, all of the 14,603,800 treasury shares held by NHLI were cancelled. As a result, the $286.1 million value assigned to such treasury shares was eliminated with corresponding decreases in the par value, additional paid-in capital and retained earnings of $0.2 million, $72.3 million and $213.6 million, respectively. The Company announced, also in connection with the Allied Acquisition, that it is discontinuing its dividend payments for the foreseeable future in order to increase its flexibility with respect to both its acquisition strategy and stock repurchase plan.

Pursuant to the settlement of previously disclosed shareholder class and derivative litigation, a total of $6.0 million was paid for such settlement and other expenses during 1994. The remaining amount due as part of the settlement was paid on February 15, 1995.

Pursuant to the Government Settlement, a total of $23.8

million was paid for the Government Settlement and other expenses during 1994, including aggregate cash payments of $16.0 million made to the Federal government. The remaining amount due the Federal government, $11.0 million, will be paid in quarterly installments through September 1995, which installments are expected to be paid with cash generated from operations. During 1993, the Company paid $55.8 million for settlement and related expenses, including $38.0 million to the Federal government.

During 1991, the Company guaranteed a $9.0 million, 5 year loan to a third party for construction of a new laboratory to replace one of the Company's existing facilities. Following its completion in November 1992, the building was leased to the Company by this third party. Under the terms of this guarantee, as modified, the Company is required to maintain 105% of the outstanding loan balance, including any overdue interest, as collateral in a custody account established and maintained at the lending institution. As of December 31, 1994 and 1993, the Company had placed $9.5 million of investments in the custody account.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the Index on Page F-1 of the Financial Report included herein.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth as of February 15, 1995 the executive officers and directors of the Company:

Name	Position
Ronald O. Perelman	Chairman of the Board and Director
James R. Maher	President, Chief Executive Officer and Director
David C. Flaugh	Senior Executive Vice President, Chief Operating Officer and Acting Chief Financial Officer and Treasurer
Timothy J. Brodnik	Executive Vice President
Larry L. Leonard	Executive Vice President
John F. Markus	Executive Vice President and Corporate Compliance Officer
James G. Richmond	Executive Vice President and General Counsel
W. David Slaunwhite, Ph.D.	Executive Vice President
Bernard E. Statland, M.D., Ph.D.	Executive Vice President and Chief Executive Officer of National Reference Laboratory
Robert E. Whalen	Executive Vice President
Saul J. Farber, M.D.	Director
Howard Gittis	Director
Ann Dibble Jordan	Director
David J. Mahoney	Director
Paul A. Marks, M.D.	Director
Linda Gosden Robinson	Director
Samuel O. Thier, M.D.	Director

Ronald O. Perelman (52) has been Chairman of the Board and Director of the Company since 1988. Mr. Perelman has been Chairman of the Board and Chief Executive Officer of MacAndrews & Forbes Holdings Inc. ("M&F Holdings") and Mafco Holdings Inc. ("Mafco" and together with M&F Holdings, "MacAndrews & Forbes") for more than the past five years. Mr. Perelman also is Chairman of the Board of Andrews Group Incorporated ("Andrews Group"), Consolidated Cigar Corporation ("Consolidated Cigar"), New World Communications Group Incorporated ("New World Communications"),

Mafco Worldwide Corporation ("Mafco Worldwide"), Marvel Entertainment Group, Inc. ("Marvel") and Revlon Consumer Products Corporation ("Revlon Products"). Mr. Perelman is a Director of the following corporations which file reports pursuant to the Securities Exchange Act of 1934: Andrews Group, The Coleman Company, Inc. ("Coleman"), Coleman Holdings Inc., Coleman Worldwide Corporation, Consolidated Cigar, First Nationwide Holdings Inc. ("FNH"), Mafco Worldwide, Marvel, Marvel Holdings Inc. ("Marvel Holdings"), Marvel (Parent) Holdings Inc. ("Marvel Parent"), Marvel III Holdings Inc. ("Marvel III"), New World Communications, New World Television Incorporated ("NWTV"), NWCG Holdings Corporation ("NWCG Holdings"), Revlon Products and Revlon Worldwide Corporation. Mr. Perelman is also a Director of First Nationwide Bank, a Federal Savings Bank.

James R. Maher (45) has been President, Chief Executive Officer and a Director of the Company since December 1992. Mr. Maher was Vice Chairman of The First Boston Corporation from 1990 to 1992 and Managing Director of The First Boston Corporation from 1982 to 1992. Mr. Maher also is a Director of First Brands Corporation.

David C. Flaugh (47) has been Chief Operating Officer and Senior Executive Vice President of the Company since 1993. He has been Acting Chief Financial Officer and Treasurer of the Company since July 1994. Mr. Flaugh was Vice President-Managing Director, Chief Financial Officer and Treasurer of the Company from 1991 to 1993. From 1988 to 1991, Mr. Flaugh was Vice President-Finance. From 1984 to 1988, Mr. Flaugh was Vice President and Controller.

Timothy J. Brodnik (47) joined the Company in 1971. He was appointed Executive Vice President of the Company in 1993 and was Senior Vice President from 1991 to 1993 and Vice President-Division Manager commencing 1979. Mr. Brodnik oversees the Company's sales operations and major regional laboratories in Florida and North Carolina.

Larry L. Leonard (53), who holds a Ph.D. degree in microbiology, joined the Company in 1978. He was appointed Executive Vice President of the Company in 1993 and was Senior Vice President from 1991 to 1993 and Vice President-Division Manager commencing 1979. Dr. Leonard oversees major regional laboratories in Arizona, Texas and Colorado.

John F. Markus (43) joined the Company in 1990. He was appointed Executive Vice President and Director of Compliance in 1993 and was Vice President-Managing Director from 1990 to 1993. Previously, Mr. Markus was an attorney in the law firm of Akin,

Gump, Strauss, Hauer and Feld in Washington D.C. for more than five years and was a partner in such firm since 1989.

James G. Richmond (50) joined the Company in 1992 as Executive Vice President and General Counsel. Previously, Mr. Richmond was Managing Partner of the law firm of Coffield, Ungaretti & Harris in Chicago from 1991 to 1992. Prior thereto, he was Special Counsel to the Deputy Attorney General of the United States from 1990 to 1991 and from 1985 to 1991 was United States Attorney for the Northern District of Indiana.

W. David Slaunwhite, Ph.D. (49) joined the Company in 1981. He was appointed Executive Vice President in 1993, was Vice President-Managing Director from 1991 to 1993 and Vice President-Division Manager from 1989 to 1991. Prior to that he held positions of increasing importance with the Company.

Bernard E. Statland, M.D., Ph.D. (53) joined the Company in 1990. He was appointed Executive Vice President in 1993 and was Vice President-Managing Director from 1990 to 1993. In addition, Dr. Statland is Chief Executive Officer of the National Reference Laboratory. Dr. Statland was named a Scientific Advisor on the Company's Board of Consultants in 1989. Prior to joining the Company, he was Director of Pathology and Laboratory Medicine at Methodist Hospital of Indiana for four years and previously held a similar position at Boston University Hospital.

Robert E. Whalen (52) joined the Company in 1976. He was named Executive Vice President of the Company in 1993 and was Senior Vice President from 1991 to 1993 and Vice President-Administration commencing 1985. From 1979 to 1985, he was Vice President-Division Manager of the Company. Mr. Whalen oversees human resources, information systems, client service and major regional laboratories in California, Washington, Nevada and Utah.

Saul J. Farber, M.D. (77) has been a Director of the Company since 1988. He has been Chairman of the Department of Medicine of the New York University School of Medicine since 1966, Frederick H. King Professor of Medicine since 1978 and Dean of the School of Medicine since 1987.

Howard Gittis (60) has been a Director of the Company since 1988. He has been Vice Chairman and a Director of MacAndrews & Forbes and various affiliates since 1985. Mr. Gittis also is a Director of Andrews Group, Consolidated Cigar, Mafco Worldwide, Revlon Products, Revlon Worldwide, New World Communications, NWTV, First Nationwide Holdings and NWCG Holdings, Jones Apparel Group, Inc. and Loral Corporation. Mr. Gittis is also a Director of First Nationwide Bank, a Federal Savings Bank.

Ann Dibble Jordan (60) has been a Director of the Company since 1990. She is a consultant and was previously Field Work Assistant Professor, School of Social Service Administration, University of Chicago from 1970 to 1987. Ms. Jordan also is a Director of Johnson & Johnson Corporation, Capital Cities--ABC, Inc., The Traveler's Companies, Salant Corp., The Hechinger Company and Automatic Data Processing, Inc.

David J. Mahoney (71) has been a Director of the Company since 1988. He has been President of David Mahoney Ventures since 1983 and was Chairman of Norton Simon, Inc. for more than five years prior to 1983. Mr. Mahoney also is a Director of The Dreyfus Corporation and Bionaire Inc.

Paul A. Marks, M.D. (68) has been a Director of the Company since 1991. He has been President and Chief Executive Officer of Memorial Sloan-Kettering Cancer Center since 1980. He has been a Professor of Medicine at Cornell University Medical College since 1982 and a Professor at Cornell University Graduate School of Medical Sciences since 1983. He is a member of the National Academy of Sciences and American Academy of Arts and Sciences. Dr. Marks also is a Director of Pfizer, Inc., several Dreyfus Mutual Funds, Life Technologies, Inc. and Tularik, Inc.

Linda Gosden Robinson (42) has been a Director of the Company since 1990. She has been President and Chief Executive Officer of Robinson Lake Sawyer Miller since 1986 and was Senior Vice President, Corporate Affairs, of Warner Cable Communications, Inc. from 1983 to 1986. Ms. Robinson also is a Director of Bozell, Jacobs, Kenyon & Eckhardt, Inc. She is a Trustee of New York University Medical Center.

Samuel O. Thier, M.D. (57) has been a Director of the Company since 1992. Dr. Thier became President and Chief Executive Officer of Massachusetts General Hospital in 1994. He was President of Brandeis University from 1991 to 1994 and was President of the Institute of Medicine of the National Academy of Sciences from 1985 to 1991. From 1966 to 1985 Dr. Thier served on the faculties of the medical schools at Harvard University, University of Pennsylvania and Yale University. At Yale University, Dr. Thier was Chairman of the Department of Internal Medicine from 1975 through 1985. Dr. Thier is a Director of Merck & Co., Inc. and Shawmut National Corp.

Board of Directors and its Committees

The Board of Directors has an Executive Committee, an Audit Committee, an Employee Benefits Committee, an Ethics and Quality Assurance Committee and a Nominating Committee.

The Executive Committee consists of Messrs. Perelman, Gittis and Maher. The Executive Committee may exercise all the powers and authority of the Board, except as otherwise provided under the corporation law of Delaware. The Audit Committee, consisting of Dr. Farber, Ms. Jordan and Dr. Marks, makes recommendations to the Board regarding the engagement of the Company's independent auditors, reviews the plan, scope and results of the audit, reviews with the auditors and management the Company's policies and procedures with respect to internal accounting and financial controls and reviews changes in accounting policy and the scope of the non-audit services which may be performed by the Company's independent auditors. The Ethics and Quality Assurance Committee consists of Mr. Gittis, Dr. Farber and Ms. Jordan. The Ethics and Quality Assurance Committee is responsible for ensuring that the Company adopts and implements procedures that require the Company's employees to act in accordance with high ethical standards and deliver high quality services. The Ethics and Quality Assurance Committee was formed in February 1994. The Employee Benefits Committee, consisting of Dr. Farber, Messrs. Gittis and Mahoney, Ms. Robinson and Dr. Thier, makes recommendations to the Board regarding compensation, benefits and incentive arrangements for officers and other key managerial employees of the Company. The Employee Benefits Committee may consider and recommend awards of options to purchase shares of common stock pursuant to the Company's 1988 Stock Option Plan and the 1994 Stock Option Plan. The Nominating Committee, consisting of Mr. Perelman, Ms. Jordan, Ms. Robinson and Dr. Thier, makes recommendations to the Board regarding the qualifications for directors and procedures for identifying possible nominees. The Nominating Committee also reviews the performance of current directors and evaluates the appropriate size and composition of the Board.

During 1994, the Board of Directors held eleven meetings and the Executive Committee acted fourteen times by unanimous written consent of all members thereof, each in accordance with the Company's by-laws and the corporation law of Delaware. The Employee Benefits Committee held two meetings, the Audit Committee held three meetings and the Ethics and Quality Assurance Committee held one meeting in 1994. The Nominating Committee did not meet in 1994. During 1994, no director attended fewer than 75% of the meetings of the board and the committees of which he or she is a member other than Mr. Mahoney

and Dr. Thier.

Item 11. EXECUTIVE COMPENSATION

The compensation paid by the Company to its Chief Executive Officer and each of the Company's four most highly compensated executive officers for services during the year ended December 31, 1994 was as follows:

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Position	Year	Salary ($)(a)	Bonus ($)(b)	Options SARs (#)	All Other Compensation ($)(c)
James R. Maher, President	1994	$1,000,001	$ 450,000	350,000	$20,066
and Chief Executive	1993	1,000,000	500,000	-	29,136
Officer	1992	34,616	1,662,500	300,000	-
David C. Flaugh, Senior	1994	499,991	375,000	200,000	14,154
Executive Vice President	1993	507,683	400,000	125,000	13,865
Chief Operating Officer	1992	267,117	265,000	-	9,287
and Acting Chief Financial					
Officer and Treasurer					
Timothy J. Brodnik,	1994	325,000	246,250	150,000	8,853
Executive Vice President	1993	325,000	262,500	50,000	11,334
	1992	238,046	243,800	-	10,007
W. David Slaunwhite, Ph.D.,	1994	325,000	266,250	75,000	8,850
Executive Vice President	1993	324,615	282,500	50,000	11,397
	1992	267,117	265,000	-	94,644
Bernard E. Statland, M.D.,	1994	457,500	236,250	25,000	14,759
Ph.D., Executive Vice	1993	457,500	252,500	50,000	17,219
President	1992	386,243	365,000	-	15,482

(a) Includes salary paid or accrued for each indicated year.
(b) Includes bonus accrued or paid for each indicated year and other payments made pursuant to employment agreements. The 1992 amount for Mr. Maher represents the value, on the date of grant, of 100,000 shares of the Company's common stock granted in 1992.
(c) Reflects the following: (i) relocation expenses in 1993 for Mr. Maher of

$14,001 and in 1992 for Dr. Slaunwhite of $84,365; (ii) life insurance premiums of $15,566 in 1994 and $8,060 in 1993 for Mr. Maher, $9,654 in 1994, $6,790 in 1993 and $3,414 in 1992 for Mr. Flaugh, $4,353 in 1994, $4,259 in 1993 and $3,141 in 1992 for Mr. Brodnik, $4,350 in 1994, $4,322 in 1993 and $3,413 in 1992 for Dr. Slaunwhite and $10,259 in 1994, $10,144 in 1993 and $8,616 in 1992 for Dr. Statland; (iii) 401(a) and (k) contributions in 1994 of $4,500 and in 1993 of $7,075 for each of such individuals named in the table and in 1992 of $5,873 for Mr. Flaugh and $6,866 for each of Mr. Brodnik, Dr. Slaunwhite and Dr. Statland.

Stock Option Transactions in 1994

During 1994, the following grants were made under the 1988 Stock Option Plan and the 1994 Stock Option Plan for the executive officers named in the Summary Compensation Table:

Option/SAR Grants in 1994

	Individual Grants				Grant Date Value
Name	Number of Securities Underlying Options/SARs Granted(a)	Percentage of Total Options/ SARs Granted to Employees in 1994	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value $(b)
James R. Maher	350,000	17%	$11.75- $13.875	2/10/04- 7/12/04	$2,663,000
David C. Flaugh	200,000	10	$11.75- $13.875	2/10/04- 7/12/04	1,535,000
Timothy J. Brodnik	150,000	7	$11.75- $13.875	2/10/04- 7/12/04	1,151,000
W. David Slaunwhite, Ph.D.	75,000	4	$13.875	2/10/04	611,000
Bernard E. Statland, M.D., Ph.D.	25,000	1	$13.875	2/10/04	204,000

(a) No tandem SARs were granted in 1994.

(b) Valuation based upon the Black-Scholes option pricing model assuming a volatility of .351 (based on the weekly closing stock prices from January 1, 1993 to January 7, 1994; a risk free interest rate of 6.0% (the asking yield on the 10-year U.S. Treasury Strip maturing February 2004); and a dividend yield of 0.0%. The valuation assumptions have made no adjustments for non-transferability.

For each grant of non-qualified options made in 1994, the exercise price was equivalent to the fair market price per share on the date of grant. One third of the option's shares of common stock vested on the date of grant and one third vests on each of the first and second anniversaries of such date, subject to their earlier expiration or termination.

The following chart shows, for 1994, the number of stock options exercised and the 1994 year-end value of the options held by the executive officers named in the Summary Compensation Table:

Aggregated Option/SAR Exercises in 1994
and Year-End 1994 Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at Year-End Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at Year-End ($)(a) Exercisable/ Unexercisable
James R. Maher	0	$0	416,667 233,333	$100,000 200,000
David C. Flaugh	0	0	166,500 175,000	50,000 100,000
Timothy J. Brodnik	0	0	94,833 116,667	37,500 75,000
W. David Slaunwhite, Ph.D.	0	0	74,833 66,667	0 0
Bernard E. Statland, M.D., Ph.D.	0	0	58,167 33,333	0 0

(a) Calculated using actual December 31, 1994 closing price per common share on the NYSE Composite Tape of $13.25

Retirement Benefits and Savings Plan

The following table sets forth the estimated annual retirement benefits payable at age 65 to persons retiring with the indicated average direct compensation and years of credited service, on a straight life annuity basis after Social Security offset, under the Company's Employees' Retirement Plan, as supplemented by the Company's Pension Equalization Plan.

Pension Plan Table

Five year average Compensation(1)	10 Years(2)	15 Years(2)	20 Years(2)	25 Years(2)	30 Years(2)
$ 50,000	$ 6,898	$10,346	$ 13,795	$ 17,244	$ 20,693
100,000	16,242	24,364	32,485	40,606	48,727
150,000	25,602	38,404	51,204	64,006	76,807
200,000	34,962	52,444	69,924	87,406	104,887
250,000	44,322	66,484	88,644	110,806	132,967
300,000	53,682	80,524	107,364	134,206	161,047

(1) Highest consecutive five year average base compensation during final ten years. Compensation considered for this five year average is reflected in the Summary Compensation Table under the heading "salary." Under the Equalization Plan, a maximum of $300,000 final average compensation is considered for benefit calculation. No bonuses are considered.

(2) Under the plans, the normal form of benefit for an unmarried participant is a life annuity with a guaranteed minimum payment of ten years. Payments in other optional forms, including the 50% joint and survivor normal form for married participants, are actuarially equivalent to the normal form for an unmarried participant. The above table is determined with regard to a life only form of payment; thus, payment using a ten year guarantee would produce a lower annual benefit.

The Retirement Plan, which is intended to qualify under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"), is a defined benefit pension plan designed to provide an employee having 30 years of credited service with an annuity equal to 52% of final average compensation less 50% of estimated individual Social Security benefits. Credited service is defined generally as all periods of employment with National Health Laboratories Incorporated, a participating subsidiary or with Revlon prior to 1992, after attainment of age 21 and completion of one year of service. Final average compensation is defined as average annual base salary during the five consecutive calendar years in which base salary was highest out of the last ten years prior to normal retirement age or earlier termination. The

Employment Retirement Income Security Act of 1974, as amended, places certain maximum limitations upon the annual benefit payable under all qualified plans of an employer to any one individual. Such limitation for defined benefit pension plans was $118,800 for 1994 (except to the extent a larger benefit had accrued as of December 31, 1982) and $120,000 for 1995, and will be subject to cost of living adjustments for future years. In addition, the Tax Reform Act of 1986 limits the amount of compensation that can be considered in determining the level of benefits under qualified plans. The applicable limit is adjusted annually; for 1994 the limit was $150,000. For 1995 the limit will remain at $150,000. The Company believes that, with respect to certain employees, annual retirement benefits computed in accordance with the Retirement Plan's benefit formula may be greater than such qualified plan limitation. The Company's non-qualified, unfunded, Equalization Plan is designed to provide for the payment of the difference, if any, between the amount of such maximum limitation and the annual benefit that would be payable under the Retirement Plan but for such limitation.

As of December 31,1994, credited years of service under the retirement plans for the following individuals are for Mr. Maher-1 year, Mr. Flaugh-22 years, Dr. Slaunwhite 12 years, Dr. Statland 3 years and Mr. Brodnik 21 years.

Compensation of Directors

Directors who are not currently receiving compensation as officers or employees of the Company or any of its affiliates are paid an annual $25,000 retainer fee, payable in monthly installments, and a fee of $1,000 for each meeting of the Board of Directors or any committee thereof they attend.

Compensation Plans and Arrangements

The Company has an employment agreement with Mr. Maher which provides for his employment as Chief Executive Officer of the Company through December 31, 1995 at an annual salary of $1,000,000 and an annual bonus of $500,000 and an additional discretionary bonus as may be awarded at the discretion of the Board of Directors. If the employment agreement is terminated by Mr. Maher for certain specified reasons, including, but not limited to, (i) the assignment of duties materially inconsistent with Mr. Maher's status as Chief Executive Officer of the Company or resulting in an adverse alteration in the nature of his responsibilities, (ii) a reduction by the Company in the annual salary or annual bonus or a failure by the Company to pay any such amount when due, (iii) the relocation of the Company's principal executive offices to a location more than 50 miles from

La Jolla, California or the Company's failure to permit Mr. Maher to maintain his principal places of employment at both the Company's principal executive offices in La Jolla, California and in New York, New York or (iv) the occurrence of a change in control of the Company which, for such purpose, is deemed to occur if Mr. Perelman ceases beneficially to own 5% or more of the combined voting power of the Company's outstanding securities, then the Company will be required to pay Mr. Maher, within five days following the date of such termination, in a lump sum in cash, the sum of (i) any amounts due to Mr. Maher as annual salary and annual bonus, but unpaid, and (ii) $3,000,000. In connection with the Merger, the Company will pay Mr. Maher a special bonus of $1,000,000, subject to certain conditions, in recognition for his efforts on behalf of the Company with respect to the Merger. The special bonus is in addition to any other payments Mr. Maher may become entitled to under his employment agreement with the Company in connection with the Merger.

The Company has an amended employment agreement with Mr. Flaugh which provides for his employment as Senior Executive Vice President and Chief Operating Officer of the Company through December 31, 1996 at an annual salary of $500,000 with an annual bonus of 50% of the annual salary then in effect and an additional discretionary bonus as may be awarded at the discretion of the Board of Directors. Pursuant to his employment agreement, Mr. Flaugh received a $150,000 lump sum payment in December 1994. The employment agreement also provides that the duties assigned to Mr. Flaugh will be performed primarily at the offices of the Company in San Diego County, California. If the employment agreement is terminated by Mr. Flaugh for certain specified reasons including (i) the assignment of duties materially inconsistent with Mr. Flaugh's status as Senior Executive Vice President, (ii) a reduction by the Company in the annual salary or annual bonus or a failure by the Company to pay any such amount when due or (iii) a material breach of any of the terms of the employment agreement by the Company, then the Company will be required to pay, in monthly installments, (i) the annual salary Mr. Flaugh would have otherwise received during the remainder of the employment period and (ii) for a period of one year following the date of the expiration of the employment term, in consideration of the performance of specified noncompetition obligations, an amount equal to one-half the annual salary at the rate in effect on the date of expiration of the employment term.

The Company has an amended employment agreement with Mr. Brodnik which provides for him to be employed as an Executive Vice President through December 31, 1996 at an annual salary of $325,000 with an annual bonus equal to 50% of the annual salary then in effect and an additional discretionary bonus as may be

awarded at the discretion of the Board of Directors. Pursuant to his employment agreement, Mr. Brodnik received a $100,000 lump sum payment in December 1994. The employment agreement also provides that the duties assigned to Mr. Brodnik will be performed primarily at the offices of the Company in Fairfax County, Virginia. If the employment agreement is terminated by Mr. Brodnik for certain specified reasons, including, (i) the assignment of duties materially inconsistent with the status of the office of Executive Vice President of the Company or resulting in an adverse alteration in the nature of the responsibilities associated therewith, (ii) a reduction by the Company in the annual salary or annual bonus or a failure by the Company to pay any such amount when due or (iii) a material breach of any of the terms of the employment agreement by the Company, then the Company will be required to pay, in monthly installments, (i) the annual salary and annual bonus Mr. Brodnik would have otherwise received during the remainder of his employment period and (ii) for a period of one year following the date of expiration of his employment term, in consideration of the performance of specified noncompetition obligations, an amount equal to one-half the annual salary at the rate in effect on the date of expiration of his employment term.

The Company has an amended employment agreement with Dr. Slaunwhite which provides for him to be employed as an Executive Vice President through December 31, 1996 at an annual salary of $325,000 with an annual bonus equal to 50% of the annual salary then in effect and an additional discretionary bonus as may be awarded at the discretion of the Board of Directors. Pursuant to his employment agreement, Dr. Slaunwhite received a lump sum payment of $120,000 in December 1994. If the employment agreement is terminated by Dr. Slaunwhite for certain specified reasons, including, (i) the assignment of duties materially inconsistent with the status of the office of Executive Vice President of the Company or resulting in an adverse alteration in the nature of the responsibilities associated therewith, (ii) a reduction by the Company in the annual salary or annual bonus or a failure by the Company to pay any such amount when due or (iii) a material breach of any of the terms of the employment agreement by the Company, then the Company will be required to pay, in monthly installments, (i) the annual salary and annual bonus Dr. Slaunwhite would have otherwise received during the remainder of his employment period and (ii) for a period of one year following the date of expiration of his employment term, in consideration of the performance of specified noncompetition obligations, an amount equal to one-half the annual salary at the rate in effect on the date of expiration of his employment term.

The Company has an amended employment agreement with Dr.

Statland which provides for his employment as Executive Vice President of the Company and Chief Executive Officer of National Reference Laboratory through December 31, 1995 at an annual salary of $325,000 with an annual bonus of equal to 50% of the annual salary then in effect and an additional discretionary bonus as may be awarded at the discretion of the Board of Directors. Pursuant to his employment agreement, Dr. Statland received a $90,000 lump sum payment in December 1994. If the employment agreement is terminated by Dr. Statland following a material breach of any of the terms of the employment agreement by the Company, then the Company will be required to pay, in monthly installments, (i) the annual salary Dr. Statland would have otherwise received during the remainder of the employment period and (ii) for a period of one year following the date of the expiration of the employment term, in consideration of the performance of specified noncompetition obligations, an amount equal to one-half the annual salary at the rate in effect on the date of expiration of the employment term.

Employee Benefits Committee Interlocks and Insider Participation

The members of the Employee Benefits Committee are Saul J. Farber, M.D., Howard Gittis, David J. Mahoney, Linda Gosden Robinson and Samuel O. Thier, M.D. No member of the Employee Benefits Committee is an officer or employee of the Company.

Certain Director Relationships. Robinson Lake Sawyer Miller, the corporate communications firm of which Ms. Robinson is President and Chief Executive Officer performs corporate communications services for MacAndrews & Forbes and its affiliates, including the Company. The amount of compensation paid to Robinson, Lake for services to the Company in 1994 was $233,670. On September 17, 1993, the Company purchased 66% of the common stock of a newly-formed corporation, Health Partners, Inc. ("Health Partners"). Robinson purchased 2% of the common stock of Health Partners. In 1994, the Company sold its interest in Health Partners for an amount equal to the original cost. Ms. Robinson is the wife of the principal of J.D. Robinson Inc. which performs consulting services for MacAndrews & Forbes and receives $250,000 per annum from MacAndrews & Forbes for such services to MacAndrews & Forbes. The principal of J.D. Robinson Inc. also serves as a Director of a subsidiary of MacAndrews & Forbes.

Ms. Jordan is the wife of a director of a subsidiary of MacAndrews & Forbes who is a partner in a law firm that has on a regular basis in the past provided services and that continues to provide services to MacAndrews & Forbes and its affiliates, including the Company. No services were performed by such firm in 1994 for the Company.

Dr. Farber was on the Company's Scientific Advisory board through June 30, 1994 and was paid $7,500 for such services.

Employee Benefits Committee Report on Executive Compensation

The Employee Benefits Committee of the Board of Directors (the "Committee") is comprised of Saul J. Farber, M.D., Howard Gittis, David J. Mahoney, Linda Gosden Robinson and Samuel O. Thier, M.D. The Committee's duties include determination of the Company's compensation and benefit policies and practices for executive officers and key managerial employees. The Committee also considers and awards options to purchase shares of the Company's common stock pursuant to the Company's 1994 Stock Option Plan. In accordance with rules established by the Commission, the Company is required to provide certain data and information in regard to the compensation provided to the Company's Chief Executive Officer and the four other most highly compensated executive officers. The Committee has prepared the following report for inclusion in this Annual Report.

Compensation Policies. The Company's current compensation arrangements for senior executives are significantly affected by the Company's long history as a private company until the 1988 initial public offering, after which an Employee Benefits Committee was established. The overall compensation program for officers historically emphasized a strong base salary position in relation to competitive practice and a competitive annual bonus opportunity dependent upon the operating income performance of the corporation. In contrast to the Company's highly competitive cash compensation policy, the Company did not offer long-term incentive opportunities as an executive compensation element until 1989 when the first stock option awards were made. The Committee understands that the combination of strongly competitive cash compensation and modest use of long-term incentives is typical of private companies with professional management leadership; and this historical approach continued to influence the Company's programs as a public company from 1989 into 1992. Late in 1992, with the appointment of James R. Maher as President and Chief Executive Officer, the Company's compensation philosophy changed to make a greater portion of executive compensation dependent on the Company's long-term stock performance.

Beginning in late 1992 and in 1993 and 1994, the Company's compensation philosophy reflected a greater emphasis on grants of stock options. In 1994, the Committee granted options in varying amounts to 159 senior and mid-level managers. The option awards

at all levels of management were part of the Committee's desire to make a growing and more significant portion of senior executive compensation directly dependent on the Company's long-term share price appreciation. The number of options granted in 1994 to each of the four senior executives named in the cash compensation table was determined considering the Company's relatively low historical option grants, the Committee's desire to make a greater proportion of the senior executives' compensation equity-based, an analysis of the potential value of the options over the term of the option and a review of option grants at the peer companies listed in the stock performance graph.

In 1992, after consultations with Mr. Maher, the Committee decided to raise the senior executive base salary levels and to restructure the annual bonus opportunity as the combination of a cash year-end retention bonus equal to 50% of base salary and a performance bonus opportunity. The general effect of these salary and bonus actions was to set the overall cash compensation opportunity for senior executives at or below 1992 levels, while strengthening the retentive elements of the compensation package. When these arrangements were established it was anticipated that the performance bonus would be based on achieving operating income growth and the contribution of each senior executive as evaluated by the Chief Executive Officer and approved by the Committee.

The Committee believes that each of the four most highly compensated senior executives of the Company have demonstrated superior performance in 1994 during a period of general uncertainty in the medical services marketplace. Notwithstanding such performance, however, given industry conditions and the effects of the changes in the industry on the Company's results, the Committee believed, as it did at the end of 1993, that it would not be appropriate to award any discretionary bonus nor to increase any compensation levels for senior executives at this time. Each of such executives also agreed in 1994 to a reduction in the year-end retention bonus in an amount equal to five percent of their base salary.

Compensation of Chief Executive Officer. The compensation arrangement with the Company's President and Chief Executive Officer was entered into in December 1992. At that time, the Committee considered the salary and incentive pay levels at public companies whose financial characteristics and market capitalization were similar to those of the Company and whose workforce skills requirements and customer bases were similar. The Committee also considered the Company's circumstances and special leadership challenges in the aftermath of the settlement

with the Federal government. In the Committee's judgment, these circumstances required stable new direction at the chief executive officer level to help ensure sustained quality of the Company's services and continued employee commitment to the Company's objectives.

Based on these considerations and the Company's strategic direction for executive compensation, it was determined to provide a cash compensation arrangement for the Chief Executive consisting of an annual salary of $1 million, a year-end retention bonus of $500,000 for each year of the contract term and an annual discretionary performance bonus opportunity. The Committee also determined that it was important to structure the Chief Executive Officer's total compensation package to reflect the policy of creating strong financial incentives for executive officers to achieve a high level of long-term shareholder return. Accordingly, the Chief Executive Officer was awarded 100,000 shares of the Company's common stock and granted options to purchase 300,000 shares at the then fair market value of the shares, which options vest during the term of the three-year contract. The Committee views the common stock and stock option awards as the primary means by which the Chief Executive Officer would be rewarded for the Company's business success and believes it is important for the Chief Executive Officer to maintain and increase his equity interest in the Company. Accordingly in 1994, Mr. Maher was granted options to purchase an additional 350,000 shares. The annual discretionary bonus opportunity was adopted as a special recognition vehicle appropriate for years in which the Company achieves superior performance as measured against industry results for growth in operating income and revenues. The Committee decided that with respect to 1994, Mr. Maher, like the other senior executives, would receive no discretionary cash bonus in excess of his year-end retention bonus. Mr. Maher, like the other senior executives, also agreed in 1994 to a reduction in the year-end retention bonus in an amount equal to five percent of his base salary.

Limit on Deductibility of Compensation. The Omnibus Budget Reconciliation Act of 1993 ("OBRA") limits the tax deductibility of compensation paid to the chief executive officer and each of the four highest paid employees of public companies to $1 million for fiscal years beginning on or after January 1, 1994. Certain types of compensation, however, including qualifying performance-based compensation and compensation arrangements entered into prior to February 17, 1993 are excluded from the limitation. The Company's general policy is to preserve the tax deductibility of compensation paid to its executive officers. OBRA recognizes stock option plans as performance-based if such plans meet certain requirements. The Company's 1994 Option Plan is

structured to meet the requirements of OBRA. In future years, the Compensation Committee will consider taking such steps as it deems necessary to qualify compensation so as not to be subject to the limit on deductibility.

THE EMPLOYEE BENEFITS COMMITTEE

Saul J. Farber, M.D.
Howard Gittis
David J. Mahoney
Linda Gosden Robinson
Samuel O. Thier, M.D.

Common Stock Performance

The Commission requires a five-year comparison of stock performance for the Company with stock performance of appropriate similar companies. The Company's common stock is traded on the NYSE. Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's common stock and the cumulative total return on the S&P Composite-500 Stock Index and a peer group of companies. The peer group of companies includes sixteen companies selected by the Company. One of these is a medical service laboratory like the Company - Unilab Corporation. (Other direct competitors of the Company are subsidiaries of much larger diversified corporations which were not believed appropriate to be peer companies.) The remaining fifteen companies are all publicly traded medical service and medical supply companies with sales ranging from approximately $500 million to $2.5 billion - Continental Medical Systems, Inc., Universal Health Services, Inc., Charter Medical Corporation, Allergan, Inc., C. R. Bard, Inc., Pall Corporation, Thermo Electron Corporation, United States Surgical Corporation, Bausch & Lomb Incorporated, Millipore Corporation, Amsco International, Inc., Beckman Instruments, Inc., FHP International Corporation and Fisher Scientific International, Inc. (Nichols Institute which had been included in the Company's peer group in the 1994 Proxy Statement is no longer a public company and is therefore not included in the peer group. Also, Columbia Hospital Corporation, which had been included in the Company's peer group in the 1994 Proxy Statement, merged with Hospital Corporation of America in 1994 and is no longer within the sales range as defined above.)

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN(1)

	12/31/89	12/31/90	12/31/91	12/31/92	12/31/93	12/31/94
National Health Laboratories Holdings Inc.	100	99	266	166	135	126
Peer Group	100	115	209	191	155	158
S & P 500	100	97	126	135	149	150

(1) Reflects the return on $100 invested on December 31, 1989, including the reinvestment of dividends

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL HOLDERS

The following table sets forth as of February 15, 1994, the total number of shares of common stock beneficially owned, and the percent so owned, by each director of the Company who is a beneficial owner of any shares of common stock, by each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, by the officers named in the summary compensation table and by all directors and officers as a group. The number of shares owned are those "beneficially owned," as determined under the rules of the Commission, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and any shares of common stock which the person has the right to acquire within 60 days through the exercise of any option, warrant or right, through conversion of any security, or pursuant to the automatic termination of power of attorney or revocation of trust, discretionary account or similar arrangement.

	Amount and Nature of Beneficial Ownership	Percent of Class
Ronald O. Perelman 35 East 62nd Street New York, NY 10021	20,176,729(1)	24%
GEICO Corporation GEICO Plaza Washington, D.C. 20076	6,404,000	7
The Equitable Companies Incorporated 787 Seventh Avenue New York, NY 10019	5,812,300(2)	7
ESL Partners, L.P. LBP Associates, L.P. 115 East Putnam Avenue Greenwich, CT 06830	4,653,400	5
Heine Securities Corporation 51 John F. Kennedy Parkway Short Hills, NJ 07078	4,356,500	5
Howard Gittis 35 East 62nd Street New York, NY 10021	46,000(3)	*

	Amount and Nature of Beneficial Ownership	Percent of Class
James R. Maher 4225 Executive Square La Jolla, CA 92037	606,667(4)	*
Paul A. Marks, M.D. 1275 York Avenue New York, NY 10021	3,000	*
David C. Flaugh	245,070(4)	*
Timothy J. Brodnik	136,500(4)	*
William D. Slaunwhite, Ph.D.	116,500(4)	*
Bernard E. Statland, M.D., Ph.D.	83,167(4)	*
Saul J. Farber, M.D.	0	0
Ann Dibble Jordan	0	0
David J. Mahoney	0	0
Linda Gosden Robinson	0	0
Samuel O. Thier, M.D.	0	0
All directors and executive officers as a group (17 persons)	21,881,466(4)	26%

* Less than 1%

(1) All such shares of common stock are owned by Mr. Perelman through MacAndrews & Forbes. All of such shares owned are pledged to secure obligations.
(2) As reported in the Schedule 13G filed with the Commission on February 10, 1995, on behalf of The Equitable Companies Incorporated, 5,077,600 of these shares are held by Alliance Capital Management L.P., a subsidiary of The Equitable Companies, for investment purposes on behalf of client discretionary investment advisory accounts, 697,500 of these shares are held by The Equitable Life Assurance Society of the United States, a subsidiary of The Equitable Companies, solely for investment purposes, and the remaining 37,200 of these shares are held by Donaldson, Lufkin & Jenrette Securities Corporation, a subsidiary of the Equitable Companies, solely for investment purposes.
(3) Includes 3,000 shares owned by Mr. Gittis' spouse as to which he disclaims beneficial ownership.
(4) Beneficial ownership by officers of the Company includes shares of common stock which such officers have right to acquire upon the exercise of options which either are vested or which may vest within 60 days. The number of shares of common stock included in the table as

beneficially owned which are subject to such options is as follows: Mr. Maher - 466,667; Mr. Flaugh - 241,500; Mr. Brodnik - 136,500; Dr. Slaunwhite - 116,500; Dr. Statland - 83,167; all directors and executive officers as a group - 1,512,167.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company was included in the consolidated federal income tax returns, and in certain state income tax returns, of Mafco, M&F Holdings, Revlon Group Incorporated and Revlon Holdings Inc., formerly known as Revlon Inc. As a result of the reduction of MacAndrews & Forbes' ownership interest in the Company on May 7, 1991, the Company is no longer a member of the Mafco consolidated tax group. For periods subsequent to May 7, 1991, the Company files its own separate Federal, state and local income tax returns. Nevertheless, the Company will remain obligated to pay to M&F Holdings (or other members of the consolidated group of which M&F Holdings is a member) any income taxes the Company would have had to pay (in excess of those which it has already paid) if it had filed separate income tax returns for taxable periods beginning on or after January 1, 1985 (but computed without regard to (i) the effect of timing differences (i.e., the liability or benefit that otherwise could be deferred will be, instead, includible in the determination of current taxable income) and (ii) any gain recognized on the sale of any asset not in the ordinary course of business). In addition, despite the reduction of MacAndrews & Forbes' indirect ownership of the Company, the Company will continue to be subject under existing federal regulations to several liability for the consolidated federal income taxes for any consolidated return year in which it was a member of any consolidated group of which Mafco, M&F Holdings, Revlon Group or Revlon was the common parent. However, Mafco, M&F Holdings, Revlon Group and Revlon have agreed to indemnify the Company for any federal income tax liability (or any similar state or local income tax liability) of Mafco, M&F Holdings, Revlon Group, Revlon or any of their subsidiaries (other than that which is attributable to the Company or any of its subsidiaries) that the Company could be required to pay.

In connection with the settlement of the litigation described under Item 3. Legal Proceedings, an affiliate of MacAndrews & Forbes agreed to contribute to the settlement by reimbursing the Company $15 million, with $5 million reimbursable to the Company upon demand and the remainder reimbursable no later than the earlier of the consummation of the Merger and six months from the date of payment by the Company. Under such agreement, the Company also will receive interest at the Company's cost of funds from the date of payment until the reimbursement.

The Company and National Health Care Group, Inc. ("NHCG")

are parties to a Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which the Company is obligated, upon the request of NHCG, to file registration statements ("demand registration statements") from time to time with the Commission covering the sale of any shares of common stock owned by NHCG. Such demand registration statements may also cover the resale from time to time of any shares of common stock that NHCG may purchase in the open market at a time when it is deemed to be an affiliate (as such term is defined under Rule 144 under the Securities Act of 1933, as amended), and certain securities issued in connection with a combination of shares, recapitalization, reclassification, merger or consolidation, or other pro rata distribution. NHCG also has the right to include such common stock and other securities in any registration statement filed by the Company for the underwritten public offering of shares of common stock (whether or not for the Company's account), subject to certain reductions in the amount of such common stock and securities if the managing underwriters of such offering determine that the inclusion thereof would materially interfere with the offering. The Company has agreed not to effect any public or private sale, distribution or purchase of any of its securities which are the same as or similar to the securities covered by any demand registration statement during the 15-day period prior to, and during the 45-day period beginning on, the closing date of each underwritten offering under such registration statement and NHCG has agreed to a similar restriction with respect to underwritten offerings by the Company. NHCG's rights under the Registration Rights Agreement are transferable.

The Company has agreed (for certain stated purposes), pursuant to the Sharing and Call Option Agreement dated as of December 13, 1994, among NHCG, Mafco, the Company, HLR and RBL to use its best efforts to cause the registration statement filed in connection with the Merger (the "Registration Statement") to include a resale prospectus that would permit NHCG (or any pledge of the Merger Shares (as defined below) under a bona fide pledge arrangement with NHCG) to sell shares of common stock received by NHCG in the Merger (the "Merger Shares") without restriction and, after the filing of the Registration Statement, will use its best efforts to prepare and file with the Commission such amendments and post-effective amendments to the Registration Statement as may be necessary to keep such Registration Statement continuously effective for a period ending on the third anniversary of the date of the Sharing and Call Option Agreement and during such period will use its best efforts to cause the resale prospectus to be supplemented by any required prospectus supplement. The Company has agreed to pay all of the Registration Expenses arising from exercise of the registration rights set forth in the Sharing and Call Option Agreement.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of documents filed as part of this Report:

(1) Consolidated Financial Statements and Independent Auditors' Report included herein:

See Index on page F-1

(2) Financial Statement Schedules:

See Index on page F-1

All other schedules are omitted as they are inapplicable or the required information is furnished in the Consolidated Financial Statements or notes thereto.

(3) Index to and List of Exhibits

(a) Exhibits:*

Exhibits 10.2 through 10.4 and 10.6 through 10.46 are management contracts or compensatory plans or arrangements.

2.1 - Agreement and Plan of Merger among the Company, NHL Sub Acquisition Corp. and NHLI (incorporated herein by reference to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission (the "Commission") on March 14, 1994, File No. 33-52655 (the "1994 S-4")).

2.2 - Agreement and Plan of Merger dated as of May 3, 1994 of NHLI and N Acquisition Corp. (incorporated by reference to Exhibit (c)(1) of Schedule 14D-1 and Schedule 13D ("Schedule 14D-1 and Schedule 13D") filed with the Commission on May 9, 1994).

2.3 - Agreement dated as of June 7, 1994, among N Acquisition Corp., the Company and NHLI (incorporated herein by reference to Exhibit (c)(7) of amendment No. 2 to Schedule 14D-1 and Schedule 13D of NHLI and N Acquisition Corp filed with the Commission on June 8, 1994).

2.4* - Agreement and Plan of Merger dated as of December 13, 1994 among the Company, HLR Holdings Inc., Roche Biomedical Laboratories, Inc. and (for the purposes stated therein) Hoffman-La Roche Inc. (schedules omitted - the Company agrees to furnish a copy of any schedule to the Commission upon request).

2.5* - Stock Purchase Agreement dated December 30, 1994 between Reference Pathology Holding Company, Inc. and Allied Clinical Laboratories, Inc. ("Allied").

3.1 - Certificate of Incorporation of the Company (incorporated herein by reference to the Company's 1994 S-4).

3.2 - By-laws of the Company (incorporated herein by reference to the Company's 1994 S-4).

10.1 - Laboratory Agreement dated February 4, 1983 between the Company and Humana of Texas, Inc. d/b/a/ Medical City Dallas Hospital (incorporated herein by reference to the Company's Registration Statement on Form S-1 filed with the Commission on May 5, 1988, File No. 33-21708).

10.2 - National Health Laboratories Incorporated Employees' Savings and Investment Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 filed with the Commission on February 13, 1992, File No. 1-10740** (the "1991 10-K")).

10.3 - National Health Laboratories Incorporated Employees' Retirement Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 filed with the Commission on March 26, 1993, File No. 1-10740 (the "1992 10-K")).

10.4 - National Health Laboratories Incorporated Pension Equalization Plan (incorporated herein by reference to the 1992 10-K).

10.5 - Settlement Agreement dated December 18, 1992 between the Company and the United States of America (incorporated herein by reference to the 1992 10-K).

10.6 - Employment Agreement dated December 21, 1992 between the Company and James R. Maher (incorporated herein by reference to the 1992 10-K).

10.7 - Employment Agreement dated May 1, 1991 between the Company and Robert Whalen (incorporated herein by reference to the 1991 10-K).

10.8 - Amendment to Employment Agreement dated June 6, 1991 between the Company and Robert Whalen (incorporated herein by reference to the 1991 10-K).

10.9 - Amendment to Employment Agreement dated January 1, 1993 between the Company and Robert Whalen (incorporated herein by reference to the 1992 10-K).

10.10 - Amendment to Employment Agreement dated January 1, 1994 between the Company and Robert Whalen (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 filed with the Commission on March 25, 1994, File No. 1-10790 (the "1993 10-K")).

10.11 - Amendment to Employment Agreement dated March 1, 1994 between the Company and Robert Whalen (incorporated herein by reference to the 1993 10-K).

10.12 - Employment Agreement dated May 1, 1991 between the Company and Larry L. Leonard (incorporated herein by reference to the 1991 10-K).

10.13 - Amendment to Employment Agreement dated June 6, 1991 between the Company and Larry L. Leonard (incorporated herein by reference to the 1991 10-K).

10.14 - Amendment to Employment Agreement dated January 1, 1993 between the Company and Larry L. Leonard (incorporated herein by reference to the 1992 10-K).

10.15 - Amendment to Employment Agreement dated January 1, 1994 between the Company and Larry L. Leonard (incorporated herein by reference to the 1993 10-K).

10.16 - Amendment to Employment Agreement dated March 1, 1994 between the Company and Larry L. Leonard (incorporated herein by reference to the 1993 10-K).

10.17 - Employment Agreement dated May 1, 1991 between the Company and Timothy Brodnik (incorporated herein by reference to the 1991 10-K).

10.18 - Amendment to Employment Agreement dated June 6, 1991 between the Company and Timothy Brodnik (incorporated herein by reference to the 1991 10-K).

10.19 - Amendment to Employment Agreement dated January 1, 1993 between the Company and Timothy Brodnik (incorporated herein by reference to the 1992 10-K).

10.20 - Amendment to Employment Agreement dated January 1, 1994 between the Company and Timothy Brodnik (incorporated herein by reference to the 1993 10-K).

10.21 - Amendment to Employment Agreement dated March 1, 1994 between the Company and Timothy Brodnik (incorporated herein by reference to the 1993 10-K).

10.22 - Employment Agreement dated December 31, 1990 between the Company and Bernard E. Statland (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 filed with the Commission on March 14, 1991, File No. 1-10740** (the "1990 10-K")).

10.23 - Amendment to Employment Agreement dated April 1, 1991 between the Company and Bernard E. Statland (incorporated herein by reference to the 1991 10-K).

10.24 - Amendment to Employment Agreement dated June 6, 1991 between the Company and Bernard E. Statland (incorporated herein by reference to the 1991 10-K).

10.25 - Amendment to Employment Agreement dated January 1, 1993 between the Company and Bernard E. Statland (incorporated herein by reference to the 1992 10-K).

10.26 - Employment Agreement dated January 1, 1991 between the Company and David C. Flaugh (incorporated herein by reference to the 1990 10-K).

10.27 - Amendment to Employment Agreement dated April 1, 1991 between the Company and David C. Flaugh (incorporated herein by reference to the 1991 10-K).

10.28 - Amendment to Employment Agreement dated June 6, 1991 between the Company and David C. Flaugh (incorporated herein by reference to the 1991 10-K).

10.29 - Amendment to Employment Agreement dated January 1, 1993 between the Company and David C. Flaugh (incorporated herein by reference to the 1992 10-K).

10.30* - Amendment to Employment Agreement dated April 1, 1994 between the Company and David C.

Flaugh.

10.31 - Employment Agreement dated January 1, 1991 between the Company and W. David Slaunwhite (incorporated herein by reference to the 1990 - 10-K).

10.32 - Amendment to Employment Agreement dated April 1, 1991 between the Company and David Slaunwhite (incorporated herein by reference to the 1991 10-K).

10.33 - Amendment to Employment Agreement dated June 6, 1991 between the Company and David Slaunwhite (incorporated herein by reference to the 1991 10-K).

10.34 - Amendment to Employment Agreement dated January 1, 1993 between the Company and W. David Slaunwhite (incorporated herein by reference to the 1992 10-K).

10.35 - Amendment to Employment Agreement dated January 1, 1994 between the Company and W. David Slaunwhite (incorporated herein by reference to the 1993 10-K).

10.36 - Amendment to Employment Agreement dated March 1, 1994 between the Company and W. David Slaunwhite (incorporated herein by reference to the 1993 10-K).

10.37 - Employment Agreement dated January 1, 1991 between the Company and John Markus (incorporated herein by reference to the 1990 10-K).

10.38 - Amendment to Employment Agreement dated April 1, 1991 between the Company and John Markus (incorporated herein by reference to the 1991 10-K).

10.39 - Amendment to Employment Agreement dated June 6, 1991 between the Company and John Markus (incorporated herein by reference to the 1991 10-K).

10.40 - Amendment to Employment Agreement dated January 1, 1993 between the Company and John F. Markus (incorporated herein by reference to the 1992 10-K).

10.41 - Amendment to Employment Agreement dated January 1, 1994 between the Company and John F. Markus (incorporated herein by reference to the 1993 10-K).

10.42 - Amendment to Employment Agreement dated March 1, 1994 between the Company and John F. Markus (incorporated herein by reference to the 1993 10-K).

10.43 - Employment Agreement dated October 1, 1992 between the Company and James G. Richmond (incorporated herein by reference to the 1992 10-K).

10.44* - Employment Agreement dated as of June 23, 1994 between the Company and Haywood D. Cochrane, Jr.

10.45 - National Health Laboratories 1988 Stock Option Plan, as amended (incorporated herein by reference to the 1990 S-1).

10.46 - National Health Laboratories 1994 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Commission on August 12, 1994, File No. 33-55065).

10.47 - Tax Allocation Agreement dated as of June 26, 1990 between MacAndrews & Forbes Holdings Inc., Revlon Group Incorporated, New Revlon Holdings Inc. and the subsidiaries of Revlon set forth on Schedule A thereto (incorporated herein by reference to the Company's Registration Statement on Form S-1 (No. 33-35782) filed with the Commission on July 9, 1990 (the "1990 S-1")).

10.48 - Revolving Credit Agreement dated as of August 27, 1993 among National Health Laboratories Incorporated, Citicorp USA, Inc., as agent and arranger, and the group of lenders specified therein (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993 filed with the Commission on November 15, 1993, File No. 1-10740).

10.49 - Credit Agreement dated as of June 21, 1994, among NHL Intermediate Holdings Corp. II, the banks named therein, Citicorp USA, Inc., as administrative agent, and the co-agents named therein (incorporated herein by reference to the Company's Current Report on Form 8-K dated June 23, 1994 filed with the Commission on July 7, 1994, File No. 1-11353).

10.50 - Loan Agreement dated August 1, 1991 among the Company, Frequency Property Corp. and Swiss Bank Corporation, New York Branch (incorporated herein by reference to the 1991 10-K).

10.51* - Sharing and Call Option Agreement dated as of December 13, 1994 among HLR Holdings Inc., Roche Biomedical Laboratories, Inc., Mafco Holdings Inc., National Health Care Group, Inc.

and(for thepurposes stated therein)the Company.

21.1* - List of Subsidiaries of the Company.

23.1* - Consent of KPMG Peat Marwick LLP.

24.1* - Power of Attorney of Ronald O. Perelman.
24.2* - Power of Attorney of James R. Maher.
24.3* - Power of Attorney of Saul J. Farber, M.D.
24.4* - Power of Attorney of Howard Gittis.
24.5* - Power of Attorney of Ann Dibble Jordan.
24.6* - Power of Attorney of David J. Mahoney.
24.7* - Power of Attorney of Paul A. Marks, M.D.
24.8* - Power of Attorney of Linda Gosden Robinson.
24.9* - Power of Attorney of Samuel O. Thier, M.D.
24.10* - Power of Attorney of David C. Flaugh.

27 - Financial Data Schedule (electronically filed version only)

28.1 - Form of Collateral Agency Agreement (Bank Obligations) (incorporated herein by reference to Amendment No. 1 to the 1990 S-1 filed with the Commission on July 27, 1990, File No. 33-35785).

(b) Reports on Form 8-K

The Company filed a current report on Form 8-K with the Commission on December 19, 1994 reporting the entering into of the Agreement and Plan of Merger dated as of December 13, 1994 among the Company, HLR, RBL and (for the purposes stated therein) Roche.

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* Filed herewith.
** Previously filed under File No. 0-17031 which has been corrected to File No. 1-10740.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL HEALTH LABORATORIES HOLDINGS INC.
Registrant

By:/s/ JAMES R. MAHER

James R. Maher
President and Chief Executive Officer

By:/s/ DAVID C. FLAUGH

David C. Flaugh
Senior Executive Vice President,
Chief Operating Officer and Acting
Chief
Financial Officer
(Principal Accounting Officer)

Dated: March 3, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on March 3, 1995 in the capacities indicated.

Signature	Title
/s/ RONALD O. PERELMAN* (Ronald O. Perelman)	Director
/s/ JAMES R. MAHER* (James R. Maher)	Director
/s/ SAUL J. FARBER, M.D.* (Saul J. Farber, M.D.)	Director
/s/ HOWARD GITTIS* (Howard Gittis)	Director
/s/ ANN DIBBLE JORDAN* (Ann Dibble Jordan)	Director
/s/ DAVID J. MAHONEY* (David J. Mahoney)	Director
/s/ PAUL A. MARKS, M.D.* (Paul A. Marks, M.D.)	Director
/s/ LINDA GOSDEN ROBINSON* (Linda Gosden Robinson)	Director
/s/ SAMUEL O. THIER, M.D.* (Samuel O. Thier, M.D.)	Director

* David C. Flaugh, by his signing his name hereto, does hereby sign this report on behalf of the directors of the Registrant after whose typed names asterisks appear, pursuant to powers of attorney duly executed by such directors and filed with the Securities and Exchange Commission.

By:/s/ DAVID C. FLAUGH

David C. Flaugh
Attorney-in-fact

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
National Health Laboratories Holdings Inc.:

We have audited the consolidated financial statements of National Health Laboratories Holdings Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Health Laboratories Holdings Inc. and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

San Diego, California
February 13, 1995

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions, except per share data)

	December 31, 1994	December 31, 1993
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26.8	$ 12.3
Accounts receivable, net	205.4	119.0
Inventories	20.1	14.9
Prepaid expenses and other	8.3	6.8
Deferred income taxes	29.4	21.6
Income taxes receivable	3.0	8.7
Total current assets	293.0	183.3
Property, plant and equipment, net	140.1	100.1
Intangible assets, net	551.9	281.5
Other assets, net	27.7	20.6
	$1,012.7	$ 585.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 44.3	$ 36.9
Dividends payable	--	6.8
Accrued expenses and other	92.8	55.6
Current portion of long-term debt	39.0	--
Current portion of accrued settlement expenses	26.7	21.6
Total current liabilities	202.8	120.9
Revolving credit facility	213.0	278.0
Long-term debt, less current portion	341.0	--
Capital lease obligation	9.8	9.7
Accrued settlement expenses, less current portion	--	11.5
Deferred income taxes	20.6	3.1
Other liabilities	59.5	21.5
Stockholders' equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value; 220,000,000 shares authorized; 84,761,817 and 99,354,492 shares issued at December 31, 1994 and 1993, respectively	0.8	1.0
Additional paid-in capital	153.5	226.3
Retained earnings	11.7	202.0
Minimum pension liability adjustment	--	(2.4)
Treasury stock, at cost; 14,603,800 shares of common stock at December 31, 1993	--	(286.1)
Total stockholders' equity	166.0	140.8
	$1,012.7	$ 585.5

See notes to consolidated financial statements.

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in Millions, except per share data)

	Years Ended December 31, 1994	1993	1992
Net Sales	$ 872.5	$ 760.5	$ 721.4
Cost of sales	597.0	444.5	395.1
Gross profit	275.5	316.0	326.3
Selling, general and administrative expenses	149.3	121.4	117.9
Amortization of intangibles and other assets	16.3	9.1	8.3
Settlement and related expenses	--	--	136.0
Operating income	109.9	185.5	64.1
Other income (expenses):			
Litigation settlement and related expenses	(21.0)	--	--
Other gains and expenses, net	--	15.3	--
Investment income	1.0	1.2	2.2
Interest expense	(34.5)	(10.9)	(4.2)
Earnings before income taxes	55.4	191.1	62.1
Provision for income taxes	25.3	78.4	21.5
Net earnings	$ 30.1	$ 112.7	$ 40.6
Earnings per common share	$ 0.36	$ 1.26	$ 0.43
Dividends per common share	$ 0.08	$ 0.32	$ 0.31

See notes to consolidated financial statements.

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in Millions, except per share data)

	Common Stock $0.01 Par Value	Additional Paid-in Capital	Retained Earnings	Minimum Pension Liability Adjustment	Treasury Stock
Balance, January 1, 1992	$1.0	$223.7	$106.1	$ --	$ --
Net earnings	--	--	40.6	--	--
Dividends to stockholders	--	--	(29.2)	--	--
Exercise of stock options	--	0.5	--	--	--
Acquisition of treasury stock	--	--	--	--	(131.9)
Other	--	1.7	--	--	--
Balance, December 31, 1992	1.0	225.9	117.5	--	(131.9)
Net earnings	--	--	112.7	--	--
Dividends to stockholders	--	--	(28.2)	--	--
Exercise of stock option s	--	0.4	--	--	--
Acquisition of treasury stock	--	--	--	--	(154.2)
Adjustment for minimum pension liability	--	--	--	(2.4)	--
Other	--	--	--	--	--
Balance, December 31, 1993	1.0	226.3	202.0	(2.4)	(286.1)
Net earnings	--	--	30.1	--	--
Dividends to stockholders	--	--	(6.8)	--	--
Exercise of stock options	--	0.1	--	--	--
Retirement of treasury stock	(0.2)	(72.3)	(213.6)	--	286.1
Adjustment for minimum pension liability	--	--	--	2.4	--
Other	--	(0.6)	--	--	--
Balance, December 31, 1994	$0.8	$ 153.5	$ 11.7	$ --	$ --

See notes to consolidated financial statements.

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)

	Years Ended December 31, 1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 30.1	$ 112.7	$ 40.6
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:			
Depreciation and amortization	44.4	32.2	26.9
Provision for doubtful accounts, net	(1.4)	0.2	4.5
Litigation settlement and related expenses	21.0	--	--
Other gains and expenses, net	--	(15.3)	--
Settlement and related expenses	--	--	136.0
Change in assets and liabilities, net of effects of acquisitions:			
Increase in accounts receivable	(54.0)	(35.8)	(22.5)
Increase in inventories	(0.9)	(0.9)	(1.8)
Decrease (increase) in prepaid expenses and other	5.1	(2.5)	(0.4)
Decrease (increase) in deferred income taxes, net	11.0	19.1	(39.8)
Decrease (increase) in income taxes receivable	5.5	6.5	(15.2)
Decrease (increase) in accounts payable, accrued expenses and other	(13.1)	1.5	15.7
Payments for settlement and related expenses	(29.8)	(55.8)	(47.1)
Other, net	(3.2)	(4.7)	5.5
Net cash provided by operating activities	14.7	57.2	102.4
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(48.9)	(33.6)	(34.9)
Proceeds from sale of subsidiary	10.1	--	--
Acquisitions of businesses	(254.8)	(78.2)	(2.3)
Restricted investments	--	0.8	0.9
Other gains and expenses, net	--	15.3	--
Net cash used for investing activities	(293.6)	(95.7)	(36.3)

(continued)

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
(Dollars in Millions)

	Years Ended December 31, 1994	1993	1992
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facilities	$ 308.0	$ 342.0	$ 100.0
Payments on revolving credit facilities	(373.0)	(139.0)	(25.0)
Proceeds from long-term debt	400.0	--	--
Payments on long-term debt	(20.0)	--	--
Deferred payments on acquisitions	(7.6)	(1.9)	(1.6)
Purchase of treasury stock	--	(154.2)	(131.9)
Dividends paid on common stock	(13.6)	(29.0)	(28.6)
Proceeds from exercise of stock options	0.1	0.4	0.5
Other	(0.5)	(0.9)	2.6
Net cash provided by (used for) financing activities	293.4	17.4	(84.0)
Net increase (decrease) in cash and cash equivalents	14.5	(21.1)	(17.9)
Cash and cash equivalents at beginning of year	12.3	33.4	51.3
Cash and cash equivalents at end of year	$ 26.8	$ 12.3	$ 33.4
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$ 34.2	$ 8.4	$ 3.6
Income taxes	14.8	59.6	82.0
Disclosure of non-cash financing and investing activities:			
Dividends declared and unpaid on common stock	$ --	$ 6.8	$ 7.6
Fixed assets acquired under capital leases	--	--	9.6
In connection with business acquisitions, liabilities were assumed as follows:			
Fair value of assets acquired	$ 399.4	$ 106.9	$ 3.0
Cash paid	(254.8)	(78.2)	(2.3)
Liabilities assumed	$ 144.6	$ 28.7	$ 0.7

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include the accounts of National Health Laboratories Holdings Inc. and its subsidiaries ("Company") after elimination of all material intercompany accounts and transactions. On June 7, 1994, the stockholders of National Health Laboratories Incorporated ("NHLI") approved a proposed corporate reorganization of NHLI, as a result of which National Health Laboratories Holdings Inc. ("NHL Holdings"), a Delaware corporation, now owns, through NHL Intermediate Holdings Corp. I, a Delaware corporation and a wholly owned subsidiary of NHL Holdings ("Intermediate Holdings I"), and NHL Intermediate Holdings Corp. II, a Delaware corporation and a wholly owned subsidiary of Intermediate Holdings I ("Intermediate Holdings II"), all of the outstanding common stock of the NHLI.

Until May 7, 1991, the Company was a direct majority owned subsidiary of National Health Care Group, Inc. ("NHCG") which is a wholly owned subsidiary of Revlon Holdings Inc. ("Revlon"), then known as Revlon, Inc., and MacAndrews & Forbes Holdings Inc. ("MacAndrews & Forbes"). MacAndrews & Forbes is wholly owned by Mafco Holdings Inc. ("Mafco").

As a result of an initial public offering in July 1988 and subsequent secondary public offerings in August 1990, May 1991 and February 1992, the Company's self tender offer in January 1992 and the purchase by the Company of outstanding shares of its common stock, Mafco's indirect ownership has been reduced to approximately 24%.

Cash Equivalents:

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

Inventories:

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

(Dollars in Millions)

Property, Plant and Equipment:

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

	Years
Buildings and building improvements	40
Machinery and equipment	3-10
Furniture and fixtures	8

Leasehold improvements and assets held under capital leases are amortized over the shorter of their estimated lives or the period of the related leases. Expenditures for repairs and maintenance charged against earnings in 1994, 1993 and 1992 were $16.5, $10.8 and $10.7, respectively.

Intangibles:

Intangibles, consisting of goodwill, net of amortization of $417.0 and $231.2 at December 31, 1994 and 1993, respectively, and other intangibles (i.e., customer lists and non-compete agreements), net of amortization, of $134.9 and $50.3 at December 31, 1994 and 1993, respectively, are being amortized on a straight-line basis over a period of 40 years and 3-25 years, respectively. Total accumulated amortization for goodwill, rights to names and other intangibles aggregated $60.8 and $46.4 at December 31, 1994 and 1993, respectively. The Company assesses the recoverability of intangible assets by determining whether the amortization of the intangibles' balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of intangible asset impairment, if any, is measured based on projected undiscounted future operating cash flows.

Fair Value of Financial Instruments:

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments", requires that fair values be disclosed for most of the Company's financial

instruments. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, the revolving credit and long-term debt are considered to be representative of their respective fair values.

Concentration of Credit Risk:

Concentrations of credit risk with respect to accounts receivable are limited due to the diversity of the Company's clients as well as their dispersion across many different geographic regions.

Revenue Recognition:

Sales are recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payor programs including the Medicare and Medicaid programs. Billings for services under third-party payor programs are included in sales net of allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement. In 1994, 1993 and 1992, approximately 35%, 41% and 42%, respectively, of the Company's revenues were derived from tests performed for beneficiaries of Medicare and Medicaid programs.

Income Taxes:

Effective January 1, 1992, the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"). Statement 109 requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings per Common Share:

For the years ended December 31, 1994, 1993 and 1992, earnings per common share is calculated based on the weighted average number of shares outstanding during each year (84,754,183, 89,438,764 and 94,468,022 shares, respectively).

Reclassifications:

Certain amounts in the prior years' financial statements have been reclassified to conform with the 1994 presentation.

2. ACQUISITIONS

On May 3, 1994, the Company entered into a definitive agreement to acquire Allied Clinical Laboratories, Inc. ("Allied"). Pursuant to the agreement, on May 9, 1994, a subsidiary of the Company commenced a cash tender offer for all shares of Allied common stock for $23 per share. The agreement provided that any shares not tendered and purchased in the offer were to be exchanged for $23 per share in cash in a second-step merger. In connection with the Company's acquisition of Allied, the Company and Allied became aware that the nature of the possible problems associated with billing practices of Allied's Cincinnati, Ohio clinical laboratory, concerning which Allied had received a subpoena on April 5, 1994 from the Office of Inspector General of the Department of Health and Human Services (the "OIG") requiring Allied to produce certain documents and information regarding the Medicare billing practices of such laboratory with respect to certain cancer screening tests, may have been both different and greater than previously perceived by the Company and Allied. As a result, on June 7, 1994, the Company entered into an agreement whereby the price payable in such cash tender offer and such second-step merger was reduced from $23 per share to $21.50 per share, or an aggregate of approximately $12.6. The Company and Allied are continuing to investigate these possible problems and have communicated with the OIG and the United States Department of Justice regarding its subpoena and a related qui tam action commenced in a Cincinnati, Ohio Federal court, and they are cooperating fully with the governmental investigation of Allied's Cincinnati laboratory. The Company has established reserves which it believes are adequate to cover any liability associated with these matters.

(Dollars in Millions, except per share data)

A subsidiary of the Company acquired Allied as a wholly owned subsidiary on June 23, 1994, for approximately $191.5 in cash, $185.0 of which was borrowed under a revolving credit facility, plus the assumption of $24.0 of Allied indebtedness and the recognition of approximately $5.0 of Allied net liabilities (the "Allied Acquisition"). The Allied Acquisition was accounted for using the purchase method of accounting; as such, Allied's assets and liabilities were recorded at their fair values on the date of acquisition. The purchase price exceeded the fair value of acquired net tangible assets by approximately $220.5, which consists of goodwill of $167.7 and other intangible assets of $52.8. These items are being amortized over periods between 3 and 40 years on a straight-line basis. Allied's results of operations have been included in the Company's results of operations beginning June 23, 1994.

The following table provides unaudited pro forma operating results of the Company giving effect to the Allied Acquisition as if it had been completed at the beginning of the periods presented. The pro forma information has been prepared for comparative purposes only and does not purport to be indicative of future operating results.

	Years Ended	
	December 31, 1994	December 31, 1993
Net sales	$ 962.8	$ 923.5
Net earnings	26.1	104.0
Earnings per common share	$ 0.31	$ 1.16

During 1994, the Company also acquired 11 small clinical laboratory companies for an aggregate purchase price of $79.3. During 1993 and 1992, the Company acquired thirty-four and five laboratories, respectively, for an aggregate purchase price of $106.9 and $3.0, respectively. The acquisitions were accounted for as purchase transactions. The excess of cost over the fair value of net tangible assets acquired during 1994, 1993 and 1992 was $72.1, $100.1, and $3.0, respectively, which is included under the caption "Intangible assets, net" in the accompanying consolidated balance sheets. The consolidated statements of earnings reflect the results of operations of these purchased businesses from their dates of acquisition.

(Dollars in Millions, except per share data)

3. ACCOUNTS RECEIVABLE, NET

	December 31, 1994	December 31, 1993
Gross accounts receivable	$ 270.7	$ 170.0
Less contractual allowances and allowance for doubtful accounts	(65.3)	(51.0)
	$ 205.4	$ 119.0

4. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 1994	December 31, 1993
Land	$ 1.3	$ 0.4
Buildings and building improvements	1.8	1.9
Machinery and equipment	154.2	117.9
Leasehold improvements	44.2	27.2
Furniture and fixtures	22.0	14.5
Buildings under capital leases	9.6	9.6
	233.1	171.5
Less accumulated depreciation and amortization	(93.0)	(71.4)
	$ 140.1	$ 100.1

5. ACCRUED EXPENSES AND OTHER

	December 31, 1994	December 31, 1993
Employee compensation and benefits	$ 38.8	$ 27.9
Taxes other than federal taxes on income	7.3	7.5
Deferred acquisition related payments	15.9	11.4
Acquisition related reserves	21.8	1.9
Other	9.0	6.9
	$ 92.8	$ 55.6

(Dollars in Millions, except per share data)

6. OTHER LIABILITIES

	December 31, 1994	December 31, 1993
Deferred acquisition related payments	$ 19.2	$ 15.4
Acquisition related reserves	31.9	--
Other	8.4	6.1
	$ 59.5	$ 21.5

7. LITIGATION SETTLEMENT

In the third quarter of 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation (the "Litigation Settlement"). The litigation consisted of two consolidated class action suits and a consolidated shareholder derivative action brought in federal and state courts in San Diego, California. The settlement involved no admission of wrongdoing. In connection with the settlement, the Company took a pre-tax special charge of $15.0 and a $6.0 charge for expenses related to the settled litigation. Insurance payments and payments from other defendants aggregate $55.0 plus expenses.

8. GOVERNMENT SETTLEMENT

In November 1990, the Company became aware of a grand jury inquiry relating to its pricing practices being conducted by the United States Attorney for the San Diego area (the Southern District of California) with the assistance of the Office of Inspector General of the Department of Health and Human Services. On December 18, 1992, the Company announced that it had entered into agreements that concluded the investigation (the "Government Settlement"). As a result of this settlement, the Company took a one-time pre-tax charge of $136.0 in the fourth quarter of 1992. The charge covered all estimated costs related to the investigation and the settlement agreements. At December 31, 1994 and 1993, the remaining liability for the Government Settlement and related expenses totalled $11.7 and $33.1, respectively, and is reflected in the accompanying consolidated balance sheets under the captions "Accrued Settlement Expenses".

9. LONG-TERM DEBT

On June 21, 1994, Intermediate Holdings II entered into a credit agreement dated as of such date (the "Credit Agreement"), with the banks named therein (the "Banks"), Citicorp USA, Inc., as administrative agent (the "Bank Agent"), and certain co-agents named therein, which made available to Intermediate Holdings II a term loan facility of $400.0 (the "Term Facility") and a revolving credit facility of $350.0 (the "Revolving Credit Facility" and, together with the Term Facility, the "Bank Facility"). The Bank Facility provided funds for the Allied Acquisition, for the refinancing of certain existing debt of Allied and NHLI, to pay related fees and expenses and for general corporate purposes of Intermediate Holdings II and its subsidiaries, in each case subject to the terms and conditions set forth therein.

The Credit Agreement provides that the Banks and the Bank Agent will receive from Intermediate Holdings II customary facility and administrative agent fees, respectively. Intermediate Holdings II will pay a commitment fee on the average daily unused portion of the Bank Facility of 0.5% per annum, subject to a reduction to 0.375% per annum if certain financial tests are met. Availability of funds under the Bank Facility is conditioned on certain customary conditions, and the Credit Agreement contains customary representations, warranties and events of default. The Credit Agreement also requires the Company to maintain certain financial ratios and tests, including minimum debt service coverage ratios and net worth tests.

The Revolving Credit Facility matures in June 1999, with semi-annual reductions of availability of $50.0, commencing in December 1997. The Term Facility matures in December 2000, with repayments in each quarter prior to maturity based on a specified amortization schedule. The Bank Facility bears interest, at the option of Intermediate Holdings II, at (i) Citibank, N.A.'s Base Rate (as defined in the Credit Agreement), plus a margin of up to 0.75% per annum, based upon the Company's financial performance or (ii) the Eurodollar rate for one, two, three or six month interest periods (as selected by Intermediate Holdings II), plus a margin varying between 1.25% and 2.00% per annum based upon the Company's financial performance. At December 31, 1994, the effective interest rate was 8.157%.

The Bank Facility is guaranteed by Intermediate Holdings I and certain subsidiaries of Intermediate Holdings II and is secured by pledges of stock and other assets of Intermediate Holdings II and its subsidiaries.

Aggregate maturities on long-term debt are $39.0, $48.7, $58.5, $68.2 and $77.9 for the years 1995 through 1999, respectively.

10. STOCKHOLDERS' EQUITY

In connection with the corporate reorganization on June 7, 1994 discussed above, all of the 14,603,800 treasury shares held by NHLI were cancelled. As a result, the $286.1 cost of such treasury shares was eliminated with corresponding decreases in the par value, additional paid-in capital and retained earnings accounts of $0.2, $72.3 and $213.6, respectively.

In connection with the Allied Acquisition, the Company announced that it terminated its 10 million share repurchase program under which 7,795,800 common shares had been repurchased and established a new $50.0 stock repurchase plan through which the Company will acquire additional shares of the Company's common stock from time to time in the open market. As of December 31, 1994, there were no stock repurchases under the new stock repurchase program.

11. INCOME TAXES

As discussed in Note 1, the Company adopted Statement 109 effective January 1, 1992. The cumulative effect of the change in the method of accounting for income taxes was not material and is therefore not presented separately in the accompanying consolidated statements of earnings.

(Dollars in Millions)

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

	Years Ended December 31, 1994	1993	1992
Current:			
Federal	$16.2	$48.9	$52.3
State and local	3.0	10.4	9.0
	19.2	59.3	61.3
Deferred:			
Federal	4.9	14.9	(32.3)
State and local	1.2	4.2	(7.5)
	6.1	19.1	(39.8)
	$25.3	$78.4	$21.5

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

	Years Ended December 31, 1994	1993	1992
Statutory federal rate	35.0%	35.0%	34.0%
State and local income taxes, net of federal income tax benefit	4.9	4.9	1.5
Other	5.8	1.1	(0.9)
Effective rate	45.7%	41.0%	34.6%

The significant components of deferred income tax expense are as follows:

	Years Ended December 31, 1994	1993	1992
Settlement and related expenses	$ 2.5	$ 22.2	$(34.8)
Reserve for doubtful accounts	0.9	0.4	(2.1)
Other	2.7	(3.5)	(2.9)
	$ 6.1	$ 19.1	$(39.8)

(Dollars in Millions)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1994 and 1993 are as follows:

	December 31, 1994	1993
Deferred tax assets:		
Settlement and related expenses, principally due to accrual for financial reporting purposes	$10.7	$13.2
Accounts receivable, principally due to allowance for doubtful accounts	8.4	5.5
Self insurance reserves, principally due to accrual for financial reporting purposes	2.4	0.9
Compensated absences, principally due to accrual for financial reporting purposes	2.8	2.0
Acquisition related reserves, principally due to accrual for financial reporting purposes	8.0	--
Other	4.4	6.6
Total gross deferred tax assets	36.7	28.2
Deferred tax liabilities:		
Intangible assets, principally due to differences in amortization	(22.1)	(3.7)
Property, plant and equipment, principally due to differences in depreciation	(0.8)	(4.3)
Other	(5.0)	(1.7)
Total gross deferred tax liabilities	(27.9)	(9.7)
Net deferred tax asset	$ 8.8	$18.5

A valuation allowance was deemed unnecessary at December 31, 1994 and 1993. Based on the Company's history of taxable income and its projection of future earnings, it believes that it is more likely than not that sufficient taxable income will be generated in the foreseeable future to realize the deferred tax asset.

12. STOCK OPTIONS

In 1988, the Company adopted the 1988 Stock Option Plan, reserving 2,000,000 shares of common stock for issuance pursuant to options and stock appreciation rights that may be granted under the plan. The Stock Option Plan was amended in 1990 to limit the number of options to be issued under the Stock Option Plan to

(Dollars in Millions, except per share data)

550,000 in the aggregate (including all options previously granted). In 1991, the number of shares authorized for issuance under the Stock Option Plan was increased to an aggregate of 2,550,000.

In 1994, the Company adopted the 1994 Stock Option Plan, reserving 3,000,000 shares of common stock for issuance pursuant to options and stock appreciation rights that may be granted under the plan.

The following table summarizes grants of non-qualified options made by the Company to officers and key employees for both plans. For each grant, the exercise price was equivalent to the fair market price per share on the date of grant. Also, for each grant, one-third of the shares of common stock subject to such options vested on the date of grant and one-third vests on each of the first and second anniversaries of such date, subject to their earlier expiration or termination.

Date of Grant	Options Granted	Exercise Price per Share	Date of Expiration
February 1989	240,000	$ 7.750	February 8, 1999
July 1990	100,000	13.500	July 9, 2000
October 1991	500,000	20.250	October 8, 2001
October 1992	25,000	20.000	October 2, 2002
December 1992	300,000	16.625	December 21, 2002
January 1993	775,000	16.625	January 18, 2003
July 1993	43,500	17.875	July 6, 2003
February 1994	1,097,500	13.875	February 10, 2004
June 1994	147,000	7.690	June 23, 2004
July 1994	797,500	11.750	July 12, 2004

(Dollars in Millions)

Changes during 1992, 1993 and 1994 in options outstanding under the plans were as follows:

	Number of Options	Exercise Price per Option
Outstanding at January 1, 1992	636,900	$ 7.750 - $20.250
Granted	325,000	$16.625 - $20.000
Exercised	(30,662)	$ 7.750 - $20.250
Canceled or expired	(67,167)	$13.500 - $20.250
Outstanding at December 31, 1992	864,071	$ 7.750 - $20.250
Granted	818,500	$16.625 - $17.875
Exercised	(33,400)	$ 7.750
Canceled or expired	(84,835)	$16.625 - $20.250
Outstanding at December 31, 1993	1,564,336	$ 7.750 - $20.250
Granted	2,042,000	$ 7.690 - $13.875
Exercised	(11,125)	$ 7.690 - $ 7.750
Canceled or expired	(70,001)	$13.875 - $20.250
Outstanding at December 31, 1994	3,525,210	$ 7.690 - $20.250
Exercisable at December 31, 1994	2,014,025	$ 7.690 - $20.250

13. COMMITMENTS AND CONTINGENCIES

The Company is involved in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

For all insurance coverages prior to May 7, 1991, the Company paid Revlon a predetermined amount each year, based upon the Company's historical loss experience and other relevant factors, in respect of the Company's share of the self-insured risks and risks insured by outside insurance carriers, in each case applicable to Revlon and its subsidiaries. Regardless of the Company's and Revlon's actual loss experience, the Company will not be required to pay Revlon amounts in excess of the Company's predetermined share of such liability for losses incurred before May 7, 1991.

Under the Company's present insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company is responsible for the uninsured portion of losses occurring on or after May 7, 1991 related primarily to general, product and vehicle liability and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 1994 and 1993, the Company had provided letters of credit aggregating approximately $4.9 and $3.7, respectively, in connection with certain insurance programs.

During 1991, the Company guaranteed a $9.0, 5 year loan to a third party for construction of a new laboratory to replace one of the Company's existing facilities. Following its completion in November of 1992, the building was leased to the Company by this third party. Such transaction is treated as a capital lease for financial reporting purposes. The associated lease term continues for a period of 15 years, expiring in 2007. Under the terms of this guarantee, as modified, the Company is required to maintain 105% of the outstanding loan balance including any overdue interest as collateral in a custody account established and maintained at the lending institution. As of December 31, 1994 and 1993, the Company had placed $9.5 of investments in the custody account. Such investments are included under the caption "Other assets, net" in the accompanying consolidated balance sheets.

The Company does not anticipate incurring any loss as a result of this loan guarantee due to protection provided by the terms of the lease. Accordingly, the Company, if required to repay the loan upon default of the borrower (and ultimate lessor), is entitled to a rent abatement equivalent to the amount of repayment made by the Company on the borrower's behalf, plus interest thereon at a rate equal to 2% over the prime rate.

The Company has a contract for the purchase of telephone services through 1999. The total purchase commitment is $30.0 with minimum purchases of $6.0 per year.

(Dollars in Millions)

The Company leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with noncancelable terms of one year or more from December 31, 1994 are as follows:

	Operating	Capital
1995	$ 19.5	$ 1.2
1996	16.4	1.3
1997	14.1	1.4
1998	12.1	1.5
1999	11.0	1.6
Thereafter	40.4	16.9
Total minimum lease payments	113.5	23.9
Less amount representing interest	--	14.1
Total minimum operating lease payments and present value of minimum capital lease payments	$113.5	$ 9.8

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $34.6, $29.9 and $27.0 for the years ended December 31, 1994, 1993 and 1992, respectively.

14. RETIREMENT PLANS

The Company maintains a defined contribution pension plan for all eligible employees. Eligible employees are defined as individuals who are age 21 or older and have been employed by the Company for at least six consecutive months and completed 1,000 hours of service. Company contributions to the plan are based on a percentage of employee contributions. The cost of this plan was $3.6, $3.0, and $2.5 in 1994, 1993, and 1992, respectively.

In addition, substantially all employees of NHLI are covered by a defined benefit retirement plan (the "Plan"). The benefits to be paid under the Plan are based on years of credited service and average final compensation. Employees of Allied become eligible under the Plan effective January 1, 1995.

Effective December 31, 1994, the Company adopted certain amendments to the Plan which resulted in a decrease of approximately $9.5 million in the projected benefit obligation.

(Dollars in Millions)

Under the requirements of Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions", the Company recorded an additional minimum pension liability representing the excess accumulated benefit obligation over plan assets at December 31, 1993. A corresponding amount was recognized as an intangible asset to the extent of unrecognized prior service cost, with the balance recorded as a separate reduction of stockholders' equity. The Company recorded an additional liability of $3.0, an intangible asset of $0.6, and a reduction of stockholders' equity of $2.4. Such amounts were eliminated as a result of the amendments to the Plan effective December 31, 1994.

The components of net periodic pension cost are summarized as follows:

	Years ended December 31, 1994	Years ended December 31, 1993
Service cost	$ 5.5	$ 3.7
Interest cost	3.5	2.6
Actual return on plan assets	0.1	(1.3)
Net amortization and deferral	(1.4)	0.4
Net periodic pension cost	$ 7.7	$ 5.4

(Dollars in Millions, except per share data)

The status of the Plan is as follows:

	December 31, 1994	December 31, 1993
Actuarial present value of benefit obligations:		
Vested benefits	$26.6	$25.0
Non-vested benefits	3.5	4.0
Accumulated benefit obligation	30.1	29.0
Effect of projected future salary increases	1.9	13.9
Projected benefit obligation	32.0	42.9
Fair value of plan assets	31.6	24.2
Unfunded projected benefit obligation	(0.4)	(18.7)
Unrecognized prior service cost	(9.7)	0.5
Unrecognized net loss	8.4	16.3
Additional minimum liability	--	(3.0)
Accrued pension cost	$(1.7)	$(4.9)

Assumptions used in the accounting for the Plan were:

	1994	1993
Weighted average discount rate	8.5%	7.0%
Weighted average rate of increase in future compensation levels	4.0%	5.5%
Weighted average expected long-term rate of return	9.0%	9.0%

(Dollars in Millions, except per share data)

15. SALE OF SUBSIDIARY

On December 30, 1994, the Company completed the sale of Reference Pathology Laboratory, Inc. and subsidiary ("RPL"), a wholly owned subsidiary of Allied, for cash of approximately $10.1 and a note receivable of $0.5. No gain or loss was recognized on the sale. The net cash proceeds from the sale were used to repay a portion of long-term debt. In connection with the agreement of sale, the Company will refer certain tests to RPL in an amount not less than $2.3 per year for five years based on agreed upon fees.

16. DIVIDENDS

On December 15, 1993, the Company declared a quarterly dividend in the aggregate amount of approximately $6.8 ($0.08 per share), which was paid on January 25, 1994 to holders of record of common stock at the close of business on January 4, 1994. Such dividend was paid entirely with cash on hand.

17. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year Ended December 31, 1994				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net sales	$185.0	$203.9	$248.7	$234.9	$872.5
Gross profit	52.7	67.4	81.0	74.4	275.5
Net earnings	8.1	14.1	0.2	7.7	30.1
Earnings per common share	0.10	0.16	--	0.10	0.36

	Year Ended December 31, 1993				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net sales	$199.8	$197.0	$194.8	$168.9	$760.5
Gross profit	90.7	89.2	85.2	50.9	316.0
Net earnings	33.6	33.2	38.2	7.7	112.7
Earnings per common share	0.36	0.37	0.43	0.10	1.26

In the third quarter of 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation. In connection with the settlement, the Company took a pre-tax special charge of $15.0 and a $6.0 charge for expenses related to the settled litigation.

In the fourth quarter of 1994, the Company took a non-recurring charge of approximately $3.9 for lease costs and the write-off of leasehold improvements related to the relocation of certain of the Company's regional laboratories.

Expense reimbursement and termination fees received in connection with the Company's attempt to purchase Damon Corporation, less related expenses and the write-off of certain bank financing costs, resulted in a one-time pre-tax gain of $15.3 in the third quarter of 1993.

Medicare's denial of claims for ferritin and HDL tests, which began in September 1993 and continued through December 20, 1993 when the Company introduced new test forms and procedures, and related suspended billings reduced net sales and gross profit by $18.6 in the fourth quarter of 1993.

18. MERGER AGREEMENT

The Company has entered into an Agreement and Plan of Merger dated as of December 13, 1994 (the"Merger Agreement") with HLR Holdings Inc. ("HLR"), Roche Biomedical Laboratories, Inc. ("RBL"), and (for the purposes set forth therein) Hoffmann-La Roche Inc. ("Roche") providing for, among other things, the merger of RBL with and into the Company with the Company as the surviving corporation (the "Merger"), and pursuant to which, subject to certain exceptions, each outstanding share of common stock, par value $0.01 per share, of the Company, will be converted into (i) 0.72 of a share of common stock of the Company and (ii) the right to receive $5.60 in cash, without interest.

In addition, all shares of common stock, no par value, of RBL issued and outstanding immediately prior to the effective time of the Merger (other than treasury shares, which will be canceled) will be converted into, and become, that number of newly issued shares of Company common stock as would, in the aggregate and after giving effect to the Merger and the Company common stock owned by HLR, RBL and their subsidiaries immediately after the effective time of the Merger, equal 49.9% of the total number of shares of

Company common stock outstanding immediately after the effective time of the Merger (after giving effect to the issuance of Company common stock in respect of the Company employee stock options in connections with the Merger).

In connection with the Merger, the Company currently intends to declare a dividend, payable to holders of record of shares of Company common stock as of the third business day prior to the date of the special meeting of the stockholders to consider and vote on the Merger, which dividend will consist of 0.16308 of a warrant per outstanding share of Company common stock, each such warrant (a "Warrant") representing the right to purchase one newly issued share of Company common stock for $22.00 (subject to adjustments) on the fifth anniversary of the issuance of the Warrant. In addition, the Merger Agreement provides for the issuance to and purchase by Roche, for a purchase price of approximately $51,048,900, of 8,325,000 Warrants to purchase shares of Company common stock (the "Roche Warrants"), which Warrants will have the terms described in the preceding sentence.

The aggregate cash consideration of approximately $474.7 to be paid to stockholders of the Company in the Merger will be financed from three sources: a cash contribution by the Company of approximately $288.0 out of proceeds of borrowings by the Company in an equal amount, a cash contribution to be made by HLR in the amount of approximately $135.7 and the proceeds from the issuance of the Roche Warrants.

The Company has obtained a commitment for a credit facility, which will include a term loan facility of not more than $800.0 and a revolving credit facility of not more than $400.0, to refinance the Company's existing indebtedness and to finance the Company's portion of the total cash consideration to the paid to stockholders of the Company in the Merger. The specific terms and conditions of the credit facility are currently under negotiation.

Restructuring costs of approximately $84.0 million are expected to be recorded by the Company at the close of the Merger. These costs will reflect the write-off of deferred financing costs related to the repayment of the Company's existing revolving credit facility and term loan facility entered into in connection with the Allied Acquisition financing and the creation of reserves for severance and benefit costs, costs for office facilities expected to be closed, vacant space costs, systems conversion costs and other restructuring expenses of the Company associated with the Merger.

Schedule VIII

NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Years Ended December 31, 1994, 1993 and 1992
(Dollars in Millions)

	Balance at beginning of year	Acquisitions	Charged to costs and expenses	Other (Deductions) Additions	Balance at end of year
Year ended December 31, 1994:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 51.0	$ 18.5	$110.0	$(95.7)	$ 65.3
Year ended December 31, 1993					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 72.9	-	$ 55.1	$(77.0)	$ 51.0
Year ended December 31, 1992:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 63.0	-	$ 75.2	$(65.3)	$ 72.9

APPENDIX A

NARRATIVE DESCRIPTION OF STOCK PERFORMANCE GRAPH

A narrative description of the graphic presentation of the stock performance graph required by Item 402(1) of Regulation S-K is included in Part III, Item 11 "EXECUTIVE COMPENSATION" of this Form 10-K.

EXHIBIT 2.4

CONFORMED COPY

AGREEMENT AND PLAN OF MERGER

dated as of

December 13, 1994

among

National Health Laboratories Holdings Inc.,

HLR Holdings Inc.

and

Roche Biomedical Laboratories, Inc.

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MISCELLANEOUS

This Table of Contents is not a part of this Agreement.

TABLE OF DEFINED TERMS

This Table of Defined Terms is not part of the Agreement.

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated as of December 13, 1994 among National Health Laboratories Holdings Inc., a Delaware corporation ("NHL" and for purposes of this Agreement references to NHL shall be deemed to include, as appropriate in the context, National Health Laboratories Inc., a Delaware corporation which is NHL's predecessor in interest), HLR Holdings Inc., a Delaware corporation ("HLR"), and Roche Biomedical Laboratories, Inc. a New Jersey corporation and a direct wholly-owned subsidiary of HLR ("RBL") and for the purposes of Sections 1.4(b) and 11.9, Hoffmann-La Roche Inc., a New Jersey corporation ("Roche").

WHEREAS, the respective Boards of Directors of HLR, RBL and NHL have approved the merger of RBL with and into NHL (the "Merger") upon the terms and subject to the conditions of this Agreement and in accordance with the General Corporation Law of the State of Delaware ("Delaware Law"); and

WHEREAS, the Board of Directors of NHL has determined that the Merger is fair to, and in the best interests of, the holders of NHL common stock, par value $0.01 per share ("NHL Common Stock"), and has approved this Agreement, the Sharing and Call Option Agreement dated the date hereof among HLR, National Health Care Group, Inc. ("NHCG"), a Delaware corporation, which is a significant stockholder of NHL, and Mafco Holdings Inc., the ultimate parent company of NHCG (the "Sharing and Call Option Agreement") and the HLR Stockholder Agreement to be entered into immediately prior to the Merger by HLR and NHL which agreement shall be substantially in the form of Exhibit A hereto (the "HLR Stockholder Agreement") and the transactions contemplated hereby and thereby, and recommended approval and adoption of this Agreement and such transactions by the stockholders of NHL; and

WHEREAS, the Board of Directors of RBL has determined that the Merger is fair to, and in the best interests of, RBL and HLR, and has approved this Agreement, and the transactions contemplated hereby and the Board of Directors of HLR has approved and adopted this Agreement and has approved the HLR Stockholder Agreement and the Sharing and Call Option Agreement and the transactions contemplated hereby and thereby; and

WHEREAS, the parties intend that the Merger qualify as a reorganization within the meaning of Section 368(a)(i) of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, in connection with the Merger, a portion of each share of NHL Common Stock will be converted into the right to receive $5.60 in cash in a transaction constituting a redemption within the meaning of Section 317(b) of the Code; and

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE 1
THE MERGER

SECTION 1.1. The Merger. (a) Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with Delaware Law, RBL shall be merged with and into NHL at the Effective Time (as defined in Section 1.1(b)), whereupon the separate existence of RBL shall cease, and NHL shall be the surviving corporation (the "Surviving Corporation").

(b) As soon as practicable after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger, NHL and RBL will file a certificate of merger, in the form required by and executed in accordance with Delaware Law, with the Secretary of State of the State of Delaware and make all other filings or recordings required by Delaware Law in connection with the Merger. The Merger shall become effective at such time as the certificate of merger is duly filed with the Secretary of State of the State of Delaware, which shall be as soon as practicable following the NHL Stockholder Meeting (as defined in Section 5.2 hereof) (the "Effective Time").

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of the restrictions, disabilities and duties of NHL and RBL, all as provided under Delaware Law.

SECTION 1.2. Conversion of Shares. At the Effective Time:

(a) each share of NHL Common Stock (each an "NHL Share") issued and outstanding prior to the Effective Time (other than any NHL Shares held by RBL, HLR or any Subsidiary) (as defined in Section 3.1) shall, subject to Section 1.2(d) be converted into (x) 0.72 of an NHL Share and (y) the right to receive $5.60 in cash without interest thereon (the "Cash Consideration" and, together with the NHL Shares to be issued pursuant to (x) above, the "Conversion Consideration"; such conversion is referred to herein as the "NHL Share Conversion");

(b) all RBL common shares, no par value (each a "Share" and collectively the "Shares"), outstanding immediately prior to the Effective Time shall (except as provided in Section 1.2(c)) be converted into and become, in the aggregate, the HLR Number (as defined below) of NHL Shares, newly issued as contemplated by this Agreement (the "HLR-NHL Shares"), each such HLR-NHL Share having the same rights, powers and privileges as an NHL Share outstanding immediately prior to the Effective Time. The "HLR Number" shall be that number of NHL Shares as would, in the aggregate and after giving effect to the Merger (including issuance of the HLR-NHL Shares and the NHL Share Conversion) and the number of NHL Shares held by HLR or any Affiliate immediately prior to the Merger, equal 49.9% of the total number of NHL Shares which would be outstanding immediately after the Effective Time (after giving effect to the issuance under such Section 1.5 of NHL Shares in respect of Employee Stock Options (as defined in Section 1.5(a)). If between the date of this Agreement and the Effective Time, the outstanding shares of NHL Common Stock shall have been changed into a different number of shares or a different class, by reason of any stock dividend, subdivision, reclassification, recapitalization, split, combination or exchange of shares, the HLR Number shall be correspondingly adjusted to reflect such stock dividend, subdivision, classification, recapitalization, split, combination or exchange of shares (any such adjustment being referred to herein as an "Anti-dilution Adjustment"); and

(c) each Share held by RBL, HLR or any Subsidiary thereof as treasury stock immediately prior to the Effective Time shall be canceled and no payment or issuance of a HLR-NHL Share shall be made with respect thereto;

(d) no certificates or scrip representing less than one share of NHL Common Stock shall be issued upon the surrender for exchange of Certificates pursuant to Section 1.2. In lieu of any such fractional share, each holder of a Certificate who would otherwise have been entitled to a fraction of a share of NHL Common Stock upon surrender of Certificates for exchange pursuant to Section 1.2 shall be paid upon such surrender cash (without interest) in an amount equal to such holder's proportionate interest in the net proceeds from the sale or sales in the open market by the Exchange Agent, (as defined in Section 1.3) on behalf of all such holders, of the aggregate fractional NHL Common Stock issued pursuant to this Section 1.2(d). As soon as practicable following the Effective Time, the Exchange Agent shall determine the excess of (i) the number of full shares of NHL Common Stock delivered to the Exchange Agent by NHL over (ii) the sum of the number of full shares of NHL Common Stock to be distributed to each holder of Certificates (such excess being herein called the "Excess Shares"), and the Exchange Agent, as agent for the former holders of Certificates, shall sell the Excess Shares at the prevailing prices on the New York Stock Exchange, Inc. ("NYSE"). The sales of the Excess Shares by the Exchange Agent shall be executed on the NYSE through one or more member firms of the NYSE and shall be executed in round lots to the extent practicable. NHL shall pay all commissions, transfer taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of Excess Shares. Until the net proceeds of such sale have been distributed to the holders of Certificates, the Exchange Agent will hold such proceeds in trust for such former holders of Certificates (the "Fractional Shares Fund"). As soon as practicable after the determination of the amount of cash to be paid to holders of certificates in lieu of any fractional interests, the Exchange Agent shall make available in accordance with this Agreement such amounts to such holders of Certificates;

(e) notwithstanding anything in this Agreement, any issued and outstanding NHL Shares held by a person who objects to the Merger (a "Dissenting Stockholder") and complies with all the provisions of Delaware Law concerning the right of holders NHL Shares to dissent from the Merger and require appraisal of their NHL Shares ("Dissenting Shares") shall not be converted as described in Section 1.2(a) but shall become the right to receive such consideration as may be determined to be due to such Dissenting Stockholder pursuant to Delaware Law. If, after the Effective Time, such Dissenting Stockholder withdraws his demand for appraisal or fails to perfect or otherwise loses his right to appraisal, in any case pursuant to Delaware Law, his NHL Shares shall be deemed to be converted as of the Effective Time into the Conversion Consideration. NHL shall give HLR (i) prompt notice of any demands for appraisal of NHL Shares received by NHL and (ii) the opportunity to participate in and direct all negotiations and proceedings with respect to any such demands. NHL shall not, without the prior written consent of HLR, make any payment with respect to, or settle, offer to settle or otherwise negotiate, any such demands.

SECTION 1.3. Surrender and Payment. (a) Prior to the Effective Time, HLR and NHL shall appoint a mutually acceptable bank or trust company as agent (the "Exchange Agent") for the purpose of exchanging certificates in connection with the NHL Share Conversion in accordance with the terms of this Agreement. At or prior to the Effective Time, HLR shall deposit in trust with the Exchange Agent $135,651,100 (the "HLR Cash Consideration"). At or prior to the Effective Time, Roche shall provide to NHL $51,048,900 (the "Roche Warrant Consideration") in respect of Roche's purchase of 8,325,000 Warrants (as defined in Section 1.4(a)) pursuant to Section 1.4(b) (the "Roche Warrants"). At or prior to the Effective Time, NHL shall, subject to Section 7.2, deposit in trust with the Exchange Agent (x) $288,000,000 (the "NHL Cash Consideration") and (y) the Roche Warrant Consideration received from Roche. The HLR Cash Consideration, the NHL Cash Consideration and the Roche Warrant Consideration are referred to collectively as (the "Cash Consideration Fund"). The Exchange Agent shall, pursuant to irrevocable instructions, deliver the Cash Consideration contemplated to be issued as part of the NHL Share Conversion out of the Cash Consideration Fund. The Cash Consideration Fund shall not be used for any other purpose.

(b) As soon as reasonably practicable after the Effective Time, the Surviving Corporation shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of NHL Shares (the "Certificates") (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as NHL may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing the NHL Shares and Cash Consideration into which such Certificates shall have been converted pursuant to the NHL Share Conversion. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by NHL, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of NHL Shares and the Cash Consideration which such holder has the right to receive pursuant to the provisions of this Article 1 (and cash, if any, in lieu of fractional shares pursuant to Section 1.2(d)). In the event of a transfer of ownership of NHL Shares which is not registered in the transfer records of NHL, a certificate representing the proper number of shares of NHL Shares may be issued and the Cash Consideration may be paid (and cash, if any, in lieu of fractional shares) to a Person other than the Person in whose name the Certificate so surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other taxes required by reason of the issuance of NHL Shares and payment of Cash Consideration (and cash, if any, in lieu of fractional shares) to a Person other than the registered holder of such Certificate or establish to the satisfaction of HLR that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 1.3, each Certificate shall be deemed at any time after the Effective Time to represent only the number of NHL Shares and the right to receive Cash Consideration (and cash, if any, in lieu of fractional shares) to which such holder is entitled pursuant to the NHL Share Conversion, and the holder of such Certificate shall cease to have any rights with respect to the number of NHL Shares represented by such Certificate immediately prior to the Effective Time in excess of the number of NHL Shares to which such holder is entitled pursuant to the NHL Share Conversion except as otherwise provided herein or by law. No interest will be paid or will accrue on any Conversion Consideration (or cash, if any, payable in lieu of fractional shares).

(c) From and after the Effective Time, there shall be no further registration of transfers of Certificates.

(d) The Cash Consideration Fund and the Fractional Shares Fund shall be invested by the Exchange Agent as directed by HLR in consultation with the Surviving Corporation (so long as such directions do not impair the rights of the holders of NHL Shares) in direct obligations of the United States of America, obligations for which the full faith and credit of the United States of America is pledged to provide for the payment of principal and interest, commercial paper rated of the highest quality by Moody's Investors Services, Inc. or Standard & Poor's Corporation or certificates of deposit issued by a commercial bank having combined capital, surplus and undivided profits aggregating at least $500,000,000 (provided that no such investment made prior to the thirtieth day after the Effective Time shall mature more than seven days after such investment is made), and any net earnings with respect thereto shall be paid to the Surviving Corporation as and when requested by the Surviving Corporation.

(e) Any portion of the Cash Consideration Fund and the Fractional Shares Fund which remains undistributed six months after the Effective Time shall be delivered to the Surviving Corporation upon demand, and any holders of such NHL Shares who have not theretofore complied with this Article 1 shall thereafter look only to the Surviving Corporation for the Cash Consideration (and cash, if any, payable in lieu of fractional shares) to which they are entitled.

(f) Neither HLR nor the Surviving Corporation shall be liable to any holder of NHL Shares for any such Cash

Consideration (or cash, if any, payable in lieu of fractional shares) or any certificates for any NHL Shares delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) The Surviving Corporation shall be entitled to deduct and withhold from the Cash Consideration (and cash, if any, payable in lieu of fractional shares) otherwise payable pursuant to this Agreement to any holder of NHL Shares such amounts as the Surviving Corporation is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of such NHL Shares in respect of which such deduction and withholding was made by the Surviving Corporation.

SECTION 1.4. Warrants. (a) NHL currently intends to declare a dividend payable to holders of NHL Common Stock of record as of the third Business Day prior to the date of the NHL Stockholder Meeting, which dividend shall consist of .16308 of a warrant for each NHL Share outstanding on such date, each such Warrant (a "Warrant" and together with the Roche Warrants, the "Warrants") representing the right to purchase one newly issued share of NHL Common Stock and which shall be in the form and have substantially the terms and conditions set forth in the Warrant Agreement to be entered into between NHL and a warrant agent, which Warrant Agreement shall be satisfactory to NHL and to Roche (the "Warrant Agreement"). The Warrant Agreement will contain customary terms and conditions and will provide, among other things, for the issuance of the Warrants to be dividended to holders of record of NHL Common Stock on the third Business Day preceding the date of the NHL Stockholder Meeting, for the issuance of the Roche Warrants, that each Warrant may be exercised on the fifth anniversary (the "Expiration Date") of issuance to purchase one share of Common Stock at a purchase price of $22.00 per share (subject to adjustments), and that NHL shall have the option, exercisable by notice 60 days prior to the Expiration Date, to redeem the Warrants on the Expiration Date for a cash redemption price per Warrant equal to the average closing price of the NHL Common Stock over a specified period prior to the Expiration Date minus the exercise price. It is understood and agreed by the parties hereto that the representations and warranties of NHL with respect to the Warrant Agreement set forth in Article 3 hereof are based upon the assumption that the Warrant Agreement will conform to the description set forth in the preceding sentence.

(b) At or prior to the Effective Time, Roche shall cause to be delivered to NHL an amount in cash equal to the Roche Warrant Consideration in payment of the aggregate purchase price of $51,048,900 payable in respect of the Roche Warrants. In consideration of receipt of such payment, NHL shall issue and deliver to Roche pursuant to the Warrant Agreement a warrant certificate or certificates (in such denominations as requested by Roche) representing the Roche Warrants so purchased.

SECTION 1.5. Stock Options. (a) Each employee stock option or right to acquire NHL Shares under NHL's 1988 and 1994 Stock Option Plans (such rights being referred to as "Employee Stock Options") outstanding on the date hereof shall be deemed fully vested and, immediately prior to the Effective Time, NHL shall use reasonable efforts, including with respect to obtaining consents, to cause each Employee Stock Option to be canceled and terminated in exchange for an amount in cash and NHL Shares (in the proportions set forth below) equal to the product of (i) the number of NHL Shares subject to such Employee Stock Option immediately prior to the Effective Time and (ii) the excess of (1) $18.50 over (2) the per share exercise price of such Employee Stock Option (such product, the "Option Value Amount"). The Option Value Amount shall be payable at the Effective Time as follows: 40% of such amount (the "Option Cash Amount") shall be payable in cash, and 60% of such amount (the "Option Stock Amount") shall be payable in the number of NHL Shares obtained by dividing the Option Stock Amount by $15.42; provided that any fractional share resulting from such calculation shall be paid in cash, with the value of a whole share for such purpose assumed to be $15.42. All amounts payable to this Section 1.5(a) shall be subject to any required withholding of taxes and shall be paid without interest thereon.

(b) Notwithstanding the foregoing Section 1.5(a), the Employee Stock Options with respect to which the requisite consents are not obtained shall not be canceled, but instead shall be immediately converted as of the Effective Time into the right ("Adjusted Option") to purchase the Option Conversion Number (as defined below) of NHL Shares. Each Adjusted Option will have substantially the same terms as the Employee Stock Option to which it is related, except that: (i) the Adjusted Option shall be deemed fully vested and (ii) the exercise price of an Adjusted Option shall be an amount equal to the exercise price of the Employee Stock Option related to such Adjusted Option as of the date of this Agreement divided by the Conversion Number (as defined below). The "Option Conversion Number" for any Adjusted Option shall be equal to the number of NHL Shares purchasable pursuant to the Employee Stock Option related to such Adjusted Option as of the date of this Agreement multiplied by the Conversion Number. The "Conversion Number" shall be a number equal to (i) the sum of (x) the product of (A) the average closing price of a share of NHL Common Stock on the NYSE Composite Tape for the period of five consecutive trading days beginning on the trading day following the date on which the Effective Time occurs (the "Post Merger Value") and (B) 0.72 and (y) $6.60 divided by (ii) the Post Merger Value.

ARTICLE 2
THE SURVIVING CORPORATION

SECTION 2.1. Certificate of Incorporation. The certificate of incorporation of NHL in effect at the Effective Time shall, except as may be amended to give effect, as necessary, to the provisions of this Agreement and the HLR Stockholder Agreement, be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.2. Bylaws. The bylaws of NHL in effect at the Effective Time shall, except as may be amended to give effect, as necessary, to the provisions of this Agreement and the HLR Stockholder Agreement, be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.3. Directors and Officers. From and after the Effective Time, (i) the number of directors constituting the Board of Directors of NHL shall be seven and shall be comprised of three members designated by HLR and four persons who are mutually acceptable to NHL and HLR, until successors are duly elected or appointed and qualified in accordance with applicable law and the HLR Stockholder Agreement, and (ii) the executive officers of the Surviving Corporation shall be such Persons as are identified on a certificate delivered by HLR to NHL prior to the Effective Time, which certificate, upon the delivery thereof, shall be deemed to be incorporated into this Agreement for purposes hereof.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF NHL

NHL represents and warrants to RBL and HLR that, except as set forth on the disclosure schedule delivered by NHL to HLR prior to the execution of this Agreement (the "NHL Disclosure Schedule"):

SECTION 3.1. Corporate Existence and Power. NHL is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated and has all corporate powers required to carry on its business as now being conducted. NHL is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, financial condition, assets, results of operations or prospects of NHL and its Subsidiaries, taken as a whole (an "NHL Material Adverse Effect"), or NHL's ability to perform its obligations under this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement. NHL has heretofore delivered to HLR true and complete copies of its certificate of incorporation and bylaws and the certificate of incorporation and bylaws of each of its Subsidiaries, in each case as currently in effect. For purposes of this Agreement, "Subsidiary" of any Person means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are directly or indirectly owned by such Person. For purposes of this Agreement, a "Significant Subsidiary" of a Person means any Subsidiary of such Person that constitutes a Significant Subsidiary within the meaning of Rule 1-02 of Regulation S-X of the Securities and Exchange Commission (the "SEC").

SECTION 3.2. Corporate Authorization. The execution, delivery and performance by NHL of this Agreement, the HLR Stockholder Agreement, the Warrant Agreement and the Sharing and Call Option Agreement, the consummation by NHL of the transactions contemplated hereby (including, without limitation, the Merger, the delivery of the Conversion Consideration, the issuance of the HLR-NHL Shares and of the Warrants and the NHL Common Stock issuable thereunder) and thereby are within NHL's corporate powers and, except for any required approval by NHL's stockholders in connection with the consummation of the Merger (including any amendments to NHL's certificate of incorporation as referred to in Section 2.1 and the treatment of the Employee Stock Options as referred to in Section 1.5) have been duly authorized by all necessary corporate action. Each of this Agreement and the Sharing and Call Option Agreement constitutes, and each of the HLR Stockholder Agreement, and the Warrant Agreement when executed and delivered by NHL, will constitute, a valid and binding agreement of NHL.

SECTION 3.3. Governmental Authorization. The execution, delivery and performance by NHL of this Agreement, the HLR Stockholder Agreement, the Warrant Agreement and the Sharing and Call Option Agreement, and the consummation by NHL of the transactions contemplated hereby (including, without limitation, the Merger, the delivery of the Conversion Consideration, the issuance of the HLR-NHL Shares and of the Warrants and the NHL Common Stock issuable thereunder) and thereby require no action by, or filing with, any governmental body, agency, official or authority other than (i) the filing of a certificate of merger in accordance with Delaware Law and any amendments to NHL's certificate of incorporation as referred to in Section 2.1, (ii) compliance with any applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (iii) compliance with any applicable requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), (iv) compliance with any applicable requirements of the Securities Act of 1933, as amended (the "1933 Act"), (v) compliance with any applicable foreign or state securities or "blue sky" laws and (vi) such actions by or filings with governmental bodies, agencies, officials or authorities, the failure of which to obtain or make would not reasonably be expected to have, individually or in the aggregate (A) an NHL Material Adverse Effect, (B) impair the ability of NHL to perform its obligations under this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement, or (C) prevent the consummation of any of the transactions contemplated by this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement.

SECTION 3.4. Non-Contravention. The execution, delivery and performance by NHL of this Agreement, the HLR Stockholder Agreement, the Warrant Agreement and the Sharing and Call Option Agreement do not, and the consummation by NHL of the transactions contemplated hereby and thereby do not and will not (i) contravene or conflict with the certificate of incorporation (taking into account appropriate amendments contemplated by Section 2.1 hereof) or the bylaws of NHL or the organizational documents of any of its Subsidiaries, (ii) assuming compliance with the matters referred to in Section 3.3, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to NHL or any of its Subsidiaries, (iii) constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of NHL or any of its Subsidiaries or to a loss of any benefit to which NHL or any of its Subsidiaries is entitled under any provision of any agreement, contract or other instrument binding upon NHL or any of its Subsidiaries or any license, franchise, permit or other similar authorization held by NHL or any of its Subsidiaries, or (iv) result in the creation or imposition of any Lien on any asset of NHL or any of its Subsidiaries, except, with respect to clauses (ii), (iii) and (iv) above, for contraventions, conflicts, defaults, rights of termination, cancellation or acceleration, losses of benefits and creation or imposition of Liens that would not reasonably be expected to have, individually or in the aggregate, an NHL Material Adverse Effect. For purposes of this Agreement, "Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset.

SECTION 3.5. Capitalization. The authorized capital stock of NHL consists of 10,000,000 shares of preferred stock, par value $0.10 per share ("NHL Preferred Stock"), and 220,000,000 NHL Shares. As of December 12, 1994, (a) there were issued and outstanding 84,761,817 NHL Shares and no shares of NHL Preferred Stock, (b) no NHL Shares were held in NHL's treasury and (c) 1,756,507 NHL Shares were reserved for issuance upon exercise of outstanding Employee Stock Options (of which options to purchase an aggregate of 3,527,876 NHL Shares were vested and exercisable). All outstanding shares of capital stock of NHL are validly issued, fully paid and nonassessable and free and clear of any preemptive or similar rights. All shares of NHL Common Stock issuable as HLR-NHL Shares in the Merger and all shares of NHL Common Stock issuable upon exercise of the Warrants will be, upon issuance thereof, validly issued, fully paid and nonassessable and free of any preemptive or similar rights. Except as set forth in this Section 3.5, and except for the exercise or conversion of Employee Stock Options outstanding on December 12, 1994 there are outstanding (i) no shares of capital stock or other voting securities of NHL, (ii) no securities of NHL convertible into or exchangeable for shares of capital stock or voting securities of NHL and (iii) no options or other rights to acquire from NHL, and no obligation of NHL to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or other voting securities of NHL (the items in clauses (i), (ii) and (iii) above being referred to collectively as the "NHL Securities"). There are no outstanding obligations of NHL or any of its Subsidiaries to repurchase, redeem or otherwise acquire any NHL Securities.

SECTION 3.6. Subsidiaries. (a) Each Subsidiary of NHL is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, has all corporate powers required to carry on its business as now being conducted and is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities make such qualification necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have an NHL Material Adverse Effect. NHL has delivered to HLR a list of all of NHL's Subsidiaries. There are no partnerships or joint venture arrangements or other business entities in which NHL or any Subsidiary of NHL owns an equity interest that is material to the business of NHL and its Subsidiaries, taken as a whole.

(b) All of the outstanding capital stock of each Subsidiary of NHL is owned by NHL, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock) other than any such limitations or restrictions imposed by statutes or regulations of general applicability. There are no outstanding (i) securities of NHL or any of its Subsidiaries convertible into or exchangeable for shares of capital stock or other voting securities of any of NHL's Subsidiaries, or (ii) options or other rights to acquire from NHL or any Subsidiary, and no other obligation of NHL or any Subsidiary of NHL to issue, any capital stock, voting securities of, or any securities convertible into or exchangeable for any capital stock or other voting securities of any Subsidiary of NHL (the items in clauses (i) and (ii) being referred to collectively as the "NHL Subsidiary Securities"). There are no outstanding obligations of NHL or any Subsidiary of NHL to repurchase, redeem or otherwise acquire any outstanding NHL Subsidiary Securities.

(c) Neither NHL nor any Affiliate of NHL:

(i) is currently engaged in the manufacture or production of drugs of abuse reagent products in the United States; or

(ii) owns presently (or has owned within the two-year period prior hereto):

(A) any stock, share capital, equity or other interest in any concern, corporate or non-corporate, engaged in at the time of such acquisition, or within the two years preceding such acquisition engaged in, the manufacture or production of drugs of abuse reagent products in the United States; or

(B) any assets used or previously used (and still suitable for use) in the manufacture and production of drugs of abuse reagent products in the United States to which annual sales of $3,000,000 or more of drugs of abuse reagent products are or in the past have been attributable.

SECTION 3.7. SEC Filings. (a) NHL has filed all required reports, forms, and other documents with the SEC since January 1, 1992 (the "SEC Documents"). As of their respective dates, the SEC Documents complied in all material respects with the requirements of the 1933 Act or the 1934 Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any SEC Document has been revised or superseded by a later-filed SEC Document filed and publicly available prior to the date hereof, none of the SEC Documents contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) No such registration statement referred to in Section 3.7(a), as amended or supplemented, if applicable, filed pursuant to the 1933 Act as of the date such statement or amendment became effective contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

SECTION 3.8. Financial Statements. The financial statements of NHL included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of NHL and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

SECTION 3.9. Disclosure Documents. (a) None of the information supplied or to be supplied by NHL specifically for inclusion or incorporation by reference in (i) the registration statement on Form S-4 to be filed with the SEC by NHL in connection with the issuance of NHL Shares in the Merger (the "Registration Statement", which Registration Statement will include a resale prospectus) will, at the time the Registration Statement is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the 1933 Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) the proxy statement relating to the approval by the stockholders of NHL of the Merger and certain other matters, together with all other related proxy materials prepared in connection with the NHL Stockholder Meeting relating to the Merger (the "NHL Proxy Statement") will, at the date the NHL Proxy Statement is first mailed to NHL's stockholders or at the time of the NHL Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Registration Statement will comply as to form in all material respects with the requirements of the 1933 Act and the rules and regulations promulgated thereunder and the NHL Proxy Statement will comply as to form in all material respects with the requirements of the 1934 Act and the rules and regulations promulgated thereunder.

(b) The representations and warranties contained in Sections 3.9(a) will not apply to statements included in or omissions from the Registration Statement or the NHL Proxy Statement based upon information furnished to NHL by or on behalf of HLR or RBL specifically for use therein or information that is omitted by HLR or RBL.

SECTION 3.10. Absence of Certain Changes. Except as disclosed in the SEC Documents, since December 31, 1993 NHL has conducted its business only in the ordinary course, and except as specifically contemplated by this Agreement there has not been:

(a) any material adverse change in the business, financial condition, assets or results of operations of NHL and its Subsidiaries, taken as a whole, or any event, occurrence or development of or in a state of circumstances or facts (including, without limitation, any development of or in a state of facts or any change in the estimated or expected exposure arising or occurring after the date hereof relating to any litigation or investigation disclosed, or required to be disclosed, pursuant to Section 3.12 or Section 5.5 hereof or in any SEC Document referred to in Section 3.12) known to NHL or any Subsidiary of NHL which could reasonably be expected to result in such a material adverse change (an "NHL Material Adverse Change");

(b) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of NHL, or any repurchase, redemption or other acquisition by NHL or any of its Subsidiaries of any outstanding shares of capital stock or other securities of, or other ownership interests in, NHL or any of its Subsidiaries;

(c) any amendment of any material term of any outstanding NHL Securities or any NHL Subsidiary Securities;

(d) any incurrence, assumption or guarantee by NHL or any of its Subsidiaries of any indebtedness for borrowed money other than in the ordinary course of business and in an amount not in excess of $25,000,000 and which is on terms consistent with past practices;

(e) any creation or assumption by NHL or any of its Subsidiaries of any Lien on any material asset other than in the ordinary course of business consistent with past practices;

(f) any making of any loan, advance or capital contributions to or investment in any Person other than loans, advances or capital contributions to or investments in wholly-owned Subsidiaries made in the ordinary course of business consistent with past practices;

(g) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of NHL or any of its Subsidiaries which, individually or in the aggregate, has had or would reasonably be expected to have an NHL Material Adverse Effect;

(h) any transaction or commitment made, or any contract or agreement entered into, by NHL or any of its Subsidiaries relating to its assets or business (including the acquisition or disposition of any assets) or any relinquishment by NHL or any of its Subsidiaries of any contract or other right, in either case, material to NHL and its Subsidiaries taken as a whole, other than transactions and commitments in the ordinary course of business consistent with past practice;

(i) any change in any method of accounting or accounting practice by NHL or any of its Subsidiaries, except for any such change required by reason of a concurrent change in GAAP or which is disclosed in the SEC Documents;

(j) any (i) grant of any severance or termination pay other than pursuant to existing contracts, plans or arrangements to any director, officer or employee of NHL or any of its Subsidiaries whose total annual compensation and bonus is in excess of $200,000, (ii) entering into of any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) involving annual total compensation and bonus in excess of $200,000 with any director, officer or employee of NHL or any of its Subsidiaries, (iii) any amendment or change that increases compensation or benefits payable under any existing severance or termination pay plans, policies or employment agreements which change or amendment is applicable to a class or classes of employees or officers covered thereby other than as expressly required therein or (iv) increase in compensation, bonus or other benefits payable to directors, officers or employees of NHL or any of its Subsidiaries, whose total annual compensation and bonus is in excess of $200,000, except as expressly required by any existing employment agreements, or pursuant to compensation plans and policies in effect December 31, 1993 or set forth on the NHL Disclosure Schedule; or

(k) any labor dispute, other than routine individual grievances, or any activity or proceeding by a labor union or representative thereof to organize any employees of NHL or any of its Subsidiaries, which employees were not subject to a collective bargaining agreement prior to or on December 31, 1993, or any lockouts, strikes, slowdowns, work stoppages or threats thereof by or with respect to such employees.

SECTION 3.11. No Undisclosed Material Liabilities. Except as set forth in the SEC Documents, neither NHL nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) ("Liabilities") required by GAAP to be set forth on a consolidated balance sheet of NHL and its consolidated Subsidiaries or in the notes thereto and neither NHL nor any of its Subsidiaries has, to the knowledge of NHL, incurred any Liabilities since December 31, 1993 which, whether or not required by GAAP to be set forth on such a consolidated balance sheet, when considered together with any corresponding asset resulting from the event which gave rise to such liability, individually or in the aggregate, have had or could reasonably be expected to have an NHL Material Adverse Effect.

SECTION 3.12. Litigation. Except as set forth in the SEC Documents, there is no action, suit, investigation or proceeding pending, or to the knowledge of NHL threatened (or, to the knowledge of NHL or its Subsidiaries, any basis therefor), against NHL or any of its Subsidiaries or any of their respective properties before any court or arbitrator or any governmental body, agency or official that could reasonably be expected to (A) have an NHL Material Adverse Effect, (B) impair the ability of NHL to perform its obligations under this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement or (C) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement.

SECTION 3.13. Taxes. Except as set forth in the SEC Documents, (a) NHL, its Subsidiaries and the NHL Group (as defined in Section 8.1) have filed, been included in or sent, all material returns, declarations and reports and information returns and statements required to be filed or sent by or relating to any of them relating to any Taxes (as defined below) with respect to any material income, properties or operations of NHL, any of its Subsidiaries or the NHL Group prior to the Effective Time (collectively, "NHL Returns"), (b) as of the time of filing, the NHL Returns correctly reflected in all material respects the facts regarding the income, business, assets, operations, activities and status of NHL, its Subsidiaries and the NHL Group and any other information required to be shown therein, (c) NHL, its Subsidiaries and the NHL Group have timely paid or made provision for all material Taxes that have been shown as due and payable on the NHL Returns that have been filed, (d) NHL, its Subsidiaries and the NHL Group have made or will make provision for all material Taxes payable for any periods that end before the Effective Time for which no NHL Returns have yet been filed and for any periods that begin before the Effective Time and end after the Effective Time to the extent such Taxes are attributable to the portion of any such period ending at the Effective Time, (e) the charges, accruals and reserves for Taxes reflected on the books of NHL, its Subsidiaries and the NHL Group are adequate to cover the Tax liabilities accruing or payable by NHL, its Subsidiaries and the NHL Group in respect of periods prior to the date hereof, (f) none of NHL, any of its Subsidiaries or the NHL Group is delinquent in the payment of any material Taxes or has requested any extension of time within which to file or send any material NHL Return, which NHL Return has not since been filed or sent, (g) no material deficiency for any Taxes has been proposed, asserted or assessed in writing against NHL, any of its Subsidiaries or the NHL Group other than those Taxes being contested in good faith, (h) the federal income tax returns of the NHL Group have been examined by and settled with the Internal Revenue Service (the "IRS") for all years through 1984, (i) none of NHL, any of its Subsidiaries or the NHL Group has granted any extension of the limitation period applicable to any material Tax claims (which period has not since lapsed) other than those Taxes being contested in good faith, (j) none of NHL, any of its Subsidiaries or the NHL Group has any contractual obligations under any material Tax sharing agreement with any corporation which, as of the Effective Time, is not a member of the NHL Group, and (k) neither NHL nor any of its Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a)(1) of the Code.

"Tax" or "Taxes" means with respect to any Person (i) any net income, gross income, gross receipts, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, value-added or windfall profit tax, custom duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest and any penalty, addition to tax or additional amount imposed by any taxing authority (domestic or foreign) on such Person and (ii) any liability of such Person or any of its Subsidiaries for the payment of any amount of the type described in clause (i) as a result of being a member of an affiliated or combined group.

SECTION 3.14. ERISA. (a) The NHL Disclosure Schedule identifies each "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA"), which (i) is subject to any provision of ERISA and (ii) is maintained, administered or contributed to by NHL or any ERISA Affiliate (as defined below) and covers any employee or former employee of NHL or any Subsidiary of NHL or under which NHL or any ERISA Affiliate has any liability. Copies of such plans (and, if applicable, related trust agreements, group annuity contracts and summary plan descriptions) and all amendments thereto and written interpretations thereof have been furnished or made available upon request to HLR and RBL together with (x) the most recent annual report (Form 5500 including, if applicable, Schedule B thereto) prepared in connection with any such plan and (y) the most recent actuarial valuation report prepared in connection with any such plan. Such plans are referred to collectively herein as "NHL Employee Plans". For purposes of this Section, "ERISA Affiliate" of any Person means any other Person which, together with such Person, would be treated as a single employer under Section 414 of the Code.

(b) Except as otherwise identified in the NHL Disclosure Schedule:

(i) no NHL Employee Plan constitutes a "multiemployer plan", as defined in Section 3(37) of ERISA (a "Multiemployer Plan"), and no NHL Employee Plan is maintained in connection with any trust described in Section 501(c)(9) of the Code;

(ii) no NHL Employee Plans are subject to Title IV of ERISA (the "NHL Retirement Plans");

(iii) as of December 31, 1993, the fair market value of the assets of each NHL Retirement Plan (excluding for these purposes any accrued but unpaid contributions) exceeded the accumulated benefit obligation, as determined in accordance with GAAP, under such NHL Retirement Plan;

(iv) no "accumulated funding deficiency", as defined in Section 412 of the Code, has been incurred with respect to any NHL Retirement Plan, whether or not waived;

(v) no "reportable event", within the meaning of Section 4043 of ERISA, and no event described in Section 4041, 4042, 4062 or 4063 of ERISA has occurred in connection with any NHL Employee Plan, other than a "reportable event" that will not have an NHL Material Adverse Effect;

(vi) no condition exists and no event has occurred that could constitute grounds for termination of any NHL Retirement Plan or, with respect to any NHL Employee Plan which is a Multiemployer Plan, presents a material risk of a complete or partial withdrawal under Title IV of ERISA;

(vii) neither NHL nor any of its ERISA Affiliates has incurred any material liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA;

(viii) if a "complete withdrawal" by NHL and all of its ERISA Affiliates were to occur as of the Effective Time with respect to all NHL Employee Plans which are Multiemployer Plans, neither NHL nor any ERISA Affiliate would incur any withdrawal liability under Title IV of ERISA;

(ix) nothing done or omitted to be done and no transaction or holding of any asset under or in connection with any NHL Employee Plan has made or will make NHL or any of its Subsidiaries, any officer or director of NHL or any of its Subsidiaries subject to any liability under Title I of ERISA or liable for any Tax pursuant to Section 4975 of the Code that could have an NHL Material Adverse Effect; and

(x) neither NHL nor any of its ERISA Affiliates (A) has engaged in a transaction described in Section 4069 of ERISA that could subject NHL to material liability at any time after the date hereof or (B) has acted in a manner that could, or failed to act so as to, result in fines, penalties, taxes or related charges under (x) Section 502(c), (i) or (1) or ERISA, (y) Section 4071 of ERISA or (z) Chapter 43 of the Code, which penalties, taxes or related charges, individually or in the aggregate, would constitute a liability in a material amount.

(c) Each NHL Employee Plan which is intended to be qualified under Section 401(a) of the Code has received a favorable IRS determination letter to such effect and NHL knows of no event or circumstance occurring or existing since the date of such letter that would adversely affect such NHL Employee Plan's qualified status. NHL has furnished or made available upon request to HLR and RBL copies of the most recent IRS determination letters with respect to each such Plan. Each NHL Employee Plan has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations, including but not limited to ERISA and the Code, which are applicable to such Plan. There are no investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the NHL Employee Plans), suits or proceedings against or involving any NHL Employee Plan or asserting any rights to or claims for benefits under any NHL Employee Plan that could give rise to any material liability, and there are not any facts that could give rise to any material liability in the event of any such investigation, claim, suit or proceeding.

(d) There is no contract, agreement, plan or arrangement covering any employee or former employee of NHL or any ERISA Affiliate that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 280G of the Code. No employee of NHL or any of its Subsidiaries will be entitled to any additional benefits or any acceleration of the time of payment or vesting of any NHL benefits under any NHL Benefit Arrangements (as defined below in Section 3.14(e)) as a result of the transactions contemplated by this Agreement.

(e) NHL has furnished or made available upon request to RBL copies or descriptions of each employment, severance or other similar contract, arrangement or policy providing for annual compensation in excess of $200,000 and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or for deferred compensation, profit-sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an Employee Plan, (ii) is entered into, maintained or contributed to, as the case may be, by NHL or any of its Subsidiaries and (iii) covers any employee or former employee of NHL or any of its Subsidiaries, to the extent existing on the date hereof. The above arrangements (whether or not existing as of the date hereof) are referred to collectively herein as the "NHL Benefit Arrangements"). Each NHL Benefit Arrangement has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations that are applicable to such NHL Benefit Arrangement.

(f) Except as disclosed in the NHL Disclosure Schedule, neither NHL nor any of its Subsidiaries has any current or projected liability in respect of post-employment or post-retirement health and medical benefits for retired or former employees of NHL and its Subsidiaries, except as required to avoid excise tax under Section 4980B of the Code; and no condition exists that would prevent NHL or any of its Subsidiaries from amending or terminating any NHL Employee Plan or NHL Benefit Arrangement providing health or medical benefits in respect of any active employee of NHL or any of its Subsidiaries other than limitations imposed under the terms of a collective bargaining agreement.

(g) Except as disclosed in the NHL Disclosure Schedule, there has been no amendment to, written interpretation or announcement (whether or not written) by NHL or any of its ERISA Affiliates relating to, or change in employee participation or coverage under, any NHL Employee Plan or NHL Benefit Arrangement which would increase materially the expense of maintaining such NHL Employee Plan or NHL Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended on December 31, 1993 (other than those that would not result in the representation and warranty set forth in Section 3.10(j) becoming untrue as of the Effective Time).

(h) Neither NHL nor any of its Subsidiaries is a party to or subject to any collective bargaining or other labor union contracts applicable to persons employed by NHL or its Subsidiaries and no collective bargaining agreement is being negotiated by NHL or any of its Subsidiaries. As of the date of this Agreement, to the knowledge of NHL, neither NHL nor its Subsidiaries, nor their respective representatives or employees, has committed any unfair labor practices in connection with the operation of the respective businesses of NHL or its Subsidiaries, and there is no pending or threatened in writing charge or complaint against NHL or its Subsidiaries by the National Labor Relations Board (the "NLRB") or any comparable state agency, except where such unfair labor practice, charge or complaint would not have an NHL Material Adverse Effect.

SECTION 3.15. Compliance with Laws; Permits. (a) Except as set forth in the SEC Documents and except for violations which do not have and would not reasonably be expected to have, individually or in the aggregate, an NHL Material Adverse Effect, neither NHL nor any of its Subsidiaries is in violation of, or has violated, any applicable provisions of any laws, statutes, ordinances or regulations or any term of any judgment, decree, injunction or order outstanding against it.

(b) As of the date of this Agreement, each of NHL and each of its Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, identification numbers, approvals and orders (collectively, the "NHL Permits") necessary to own, lease and operate its properties and to carry on its business as it is now being conducted, and there is no action, proceeding or investigation pending or, to the knowledge of NHL, threatened regarding suspension or cancellation of any of the NHL Permits, except where the failure to possess, or the suspension or cancellation of, such NHL Permits would not reasonably be expected to have, individually or in the aggregate, an NHL Material Adverse Effect.

SECTION 3.16. Finders' Fees. Except for Morgan Stanley & Co. Incorporated ("Morgan Stanley"), whose fees in the amount previously disclosed to HLR will be paid by NHL, and as contemplated herein, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of, NHL or any of its Subsidiaries which might be entitled to any fee or commission from HLR or any of its Affiliates upon consummation of the transactions contemplated by this Agreement.

SECTION 3.17. Other Information. NHL's projections and forward-looking information furnished by NHL to HLR were prepared in good faith and represent NHL's best estimate as of the date hereof as to the subject matter thereof; provided that NHL makes no representation or warranty as to the completeness or accuracy of the projections or forward-looking information furnished by NHL to HLR.

SECTION 3.18. Environmental Matters. Except as set forth in the SEC Documents:

(a)(i) no notice, notification, notice of violation, demand, request for information, investigation (whether civil or criminal), citation, summons, complaint, order or other similar document has been received by, or, to the knowledge of NHL or any of its Subsidiaries, is pending or threatened by any Person against, NHL or any of its Subsidiaries, nor has any material penalty been assessed against NHL or any of its Subsidiaries in either case with respect to any (A) alleged violation of any Environmental Law or liability thereunder, (B) alleged failure to have any permit, certificate, license, approval, registration or authorization required under any Environmental Law, (C) generation, treatment, storage, recycling, transportation or disposal of any Hazardous Substance or (D) Release of any Hazardous Substance;

(ii) no Hazardous Substance has been Released or is present at any property now owned, leased or operated by NHL or any of its Subsidiaries nor, to the knowledge of NHL, has any Hazardous Substance been Released at any property formerly owned, leased or operated by NHL, which Release or presence, individually or in the aggregate, could reasonably be expected to result in an NHL Material Adverse Effect;

(iii) there are no NHL Environmental Liabilities that have had or may reasonably be expected to have, individually or in the aggregate, an NHL Material Adverse Effect; and

(iv) there are no circumstances relating to the disposal of Hazardous Substances from any properties at the time they were owned, leased or operated by NHL that could give rise to liabilities under Environmental Laws which could reasonably be expected to result in, individually or in the aggregate, an NHL Material Adverse Effect.

(b) There has been no environmental investigation, study, audit, test, review or other analysis conducted since 1989 of which NHL has knowledge in relation to the current or prior business of NHL or any property or facility now or previously owned, leased or operated by NHL or any of its Subsidiaries the contents of which could reasonably be expected to result in an NHL Material Adverse Effect.

(c) Neither NHL nor any of its Subsidiaries owns or leases any real property or an industrial facility, or conducts any operations, in New Jersey or Connecticut.

(d) For purposes of this Section 3.18, the following terms shall have the meanings set forth below:

(i) "NHL" and "Subsidiary" shall include any entity which is, in whole or in part, a predecessor of NHL or any of its Subsidiaries.

(ii) "NHL Environmental Liabilities" means any and all liabilities of or relating to NHL and any of its Subsidiaries, whether vested or unvested, contingent or fixed, actual or potential, known or unknown, which (A) arise under or relate to matters covered by Environmental Laws and (B) arose from actions occurring or conditions existing on or prior to the Effective Time.

(e) For purposes of this Section 3.18 and Section 4.16, the following terms shall have the meanings set forth below:

(i) "Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, codes, injunctions, permits, licenses, agreements and governmental restrictions (whether now or hereinafter in effect), relating to human health, the environment or to emissions, discharges, Releases or threatened Releases of Hazardous Substances or wastes into the environment, including, without limitation, ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances or wastes or the investigation, clean-up, remediation or monitoring thereof.

(ii) "Hazardous Substances" means any toxic, radioactive, caustic, corrosive, infectious, mutagenic, carcinogenic or otherwise hazardous waste, material or substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics, including, without limitation, any substance which meets the definition of "hazardous substance" contained in 42 U.S.C. 9601(14).

(iii) "Release" means any discharge, emission or release, including a Release as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA") at 42 U.S.C. 9601(22). The term "Released" has a corresponding meaning.

SECTION 3.19. Takeover Statutes. The Board of Directors of NHL has approved the HLR Stockholder Agreement, the Merger, the Warrants, the Sharing and Call Option Agreement and this Agreement, and such approval is sufficient to render inapplicable to the HLR Stockholder Agreement, the Merger, the Warrants, the Sharing and Call Option Agreement and this Agreement and the transactions contemplated or permitted thereby and hereby, the provisions of Section 203 of Delaware Law. To NHL's knowledge, no other state takeover statute or similar statute or regulation applicable to NHL applies or purports to apply to the HLR Stockholder Agreement, the Merger, the Warrants, the Sharing and Call Option Agreement or this Agreement, or any of the transactions contemplated thereby and hereby.

SECTION 3.20. Opinion of Financial Advisor. NHL has received the opinion of Morgan Stanley & Co. Incorporated dated the date of this Agreement to the effect that the aggregate consideration to be received by the stockholders of NHL in connection with the Merger, when taken together with the Warrants to be dividended to such stockholders, is fair, from a financial point of view, to such stockholders.

SECTION 3.21. Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of NHL Common Stock is the only vote of the holders of any class or series of NHL securities necessary to approve the Merger and the other transactions contemplated by this Agreement and any amendments to the certificate of incorporation of NHL as referred to in Section 2.1.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF HLR AND RBL

HLR and RBL represent and warrant to NHL that, except as set forth on the disclosure schedule delivered by RBL to NHL prior to the execution of this Agreement (the "RBL Disclosure Schedule"):

SECTION 4.1. Corporate Existence and Power. Each of HLR and RBL is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated and has all corporate powers required to carry on its business as now being conducted. Each of HLR and RBL is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, financial condition, results of operations or prospects of RBL and its Subsidiaries, taken as a whole (a "RBL Material Adverse Effect"), or RBL's ability to perform its obligations hereunder or under the HLR Stockholder Agreement. RBL has heretofore delivered to NHL true and complete copies of its certificate of incorporation and bylaws and the certificate of incorporation and bylaws of each of its Subsidiaries, in each case as currently in effect.

SECTION 4.2. Corporate Authorization. The execution, delivery and performance by each of HLR and RBL of this Agreement, the HLR Stockholder Agreement and the Sharing and Call Option Agreement and the consummation by HLR and RBL of the transactions contemplated hereby and thereby are within their respective corporate powers and, except for any required approval by HLR as RBL's sole stockholder in connection with the consummation of the Merger, have been duly authorized by all necessary corporate action. This Agreement constitutes a valid and binding agreement of each of HLR and RBL, and the HLR Stockholder Agreement when executed and delivered by HLR will constitute, a valid and binding agreement of HLR.

SECTION 4.3. Governmental Authorization. The execution, delivery and performance by each of HLR and RBL of this Agreement and by HLR of each of the HLR Stockholder Agreement and the Sharing and Call Option Agreement and the consummation of the Merger by RBL and the other transactions contemplated hereby and thereby require no action by, or filing with, any governmental body, agency, official or authority other than (i) the filing of a certificate of merger in accordance with Delaware Law, (ii) compliance with any applicable requirements of the HSR Act, (iii) compliance with any applicable requirements of the 1933 Act, (iv) compliance with any applicable requirements of the 1934 Act, (v) compliance with any applicable foreign or state securities or "blue sky" laws, (vi) the filing of a notice pursuant to Section 721 of the Defense Production Act of 1950 ("Exon-Florio"), and (vii) such actions by or filings with governmental bodies, agencies, officials or authorities, the failure of which to obtain or make would not reasonably be expected to have, individually or in the aggregate (A) a RBL Material Adverse Effect, (B) impair the ability of HLR or RBL to perform any of their respective obligations under this Agreement or impair HLR's ability to perform its obligations under the HLR Stockholder Agreement or the Sharing and Call Option Agreement or (C) prevent the consummation of any of the transactions contemplated by this Agreement, the HLR Stockholder Agreement or the Sharing and Call Option Agreement.

SECTION 4.4. Non-Contravention. The execution, delivery and performance by HLR and RBL of this Agreement and by HLR of the HLR Stockholder Agreement do not, and the consummation by HLR and RBL of the transactions contemplated hereby and thereby do not and will not (i) contravene or conflict with the certificate of incorporation or bylaws of HLR, RBL or any of RBL's Subsidiaries, (ii) assuming compliance with the matters referred to in Section 4.3, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to HLR, RBL or any of RBL's Subsidiaries, (iii) constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of HLR, RBL or any of RBL's Subsidiaries or to a loss of any benefit to which HLR, RBL or any of RBL's Subsidiaries is entitled under any provision of any agreement, contract or other instrument binding upon HLR, RBL or any of RBL's Subsidiaries or any license, franchise, permit or other similar authorization held by HLR, RBL or any of RBL's Subsidiaries or (iv) result in the creation or imposition of any Lien on any asset of HLR, RBL or any of RBL's Subsidiaries, except, with respect to clauses (ii), (iii) and (iv) above, for contraventions, conflicts, defaults, rights of termination, cancellation or acceleration, losses of benefits and creation or imposition of Liens that would not reasonably be expected to have, individually or in the aggregate, a RBL Material Adverse Effect.

SECTION 4.5. Capitalization of RBL. The authorized capital stock of RBL consists of 1000 shares of common stock, no par value per share, 100 shares of which are issued and outstanding and no shares of which are held in RBL's treasury. All of the issued and outstanding capital stock of RBL is validly issued, fully paid and nonassessable and is owned by HLR. Except for such common stock, there are outstanding (i) no shares of capital stock or other voting securities of RBL, (ii) no securities of RBL convertible into or exchangeable for shares of capital stock or voting securities of RBL and (iii) no options or other rights to acquire from RBL, and no obligation of RBL to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of RBL. RBL has no liability or obligation in respect of the financing of the HLR Cash Consideration or the Roche Warrant Consideration.

SECTION 4.6. Subsidiaries. (a) Each Subsidiary of RBL is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, has all corporate powers required to carry on its business as now being conducted and is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities make such qualification necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have a RBL Material Adverse Effect. RBL has delivered to NHL a list of all of RBL's Subsidiaries. There are no partnerships or joint venture arrangements or other business entities in which RBL or any Subsidiary of RBL owns an equity interest that is material to the business of RBL and its Subsidiaries, taken as a whole.

(b) All of the outstanding capital stock of each Subsidiary of RBL is owned by RBL, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock) other than any such limitations or restrictions imposed by statutes or regulations of general applicability. There are no outstanding (i) securities of RBL or any Subsidiary of RBL convertible into or exchangeable for shares of capital stock or other voting securities of any of RBL's Subsidiaries or (ii) options or other rights to acquire from RBL or any Subsidiary of RBL, and no other obligation of RBL or any Subsidiary of RBL to issue, any capital stock, voting securities of, or any securities convertible into or exchangeable for any capital stock or other voting securities of any of RBL's Subsidiaries (the items in clauses (i) and (ii) being referred to collectively as the "RBL Subsidiary Securities"). There are no outstanding obligations of RBL or any of its Subsidiaries to repurchase, redeem or otherwise acquire any outstanding RBL Subsidiary Securities.

SECTION 4.7. Financial Statements. RBL has delivered to NHL the audited consolidated balance sheet of RBL as of each of December 31, 1993 and December 31, 1992 and the audited statements of income and cash flows for each of the three fiscal years ended December 31, 1993, together with the notes thereto and the report of Price Waterhouse thereon and its unaudited interim financial statements for the nine months ended September 30, 1994 (the "RBL Financial Statements"). The RBL Financial Statements have been prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of RBL and its consolidated Subsidiaries, excluding Roche Image Analysis Systems ("RIAS"), as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended. For purposes of this Agreement, "RBL Balance Sheet" means the consolidated balance sheet of RBL as of December 31, 1993, and the notes thereto, contained in the RBL Financial Statements and "RBL Balance Sheet Date" means December 31, 1993.

SECTION 4.8. Disclosure Documents. (a) None of the information supplied or to be supplied by HLR or RBL specifically for inclusion or incorporation by reference in (i) the Registration Statement will, at the time the Registration Statement is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the 1933 Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) the NHL Proxy Statement will, at the date the NHL Proxy Statement is first mailed to NHL's stockholders or at the time of the NHL Stockholder Meeting, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

SECTION 4.9. Absence of Certain Changes. Since the RBL Balance Sheet Date, RBL and its Subsidiaries have in all material respects conducted their business in the ordinary course and, except as specifically contemplated by this Agreement, there has not been:

(a) any material adverse change in the business, financial condition, assets or results of operations of RBL and its Subsidiaries, taken as a whole, or any event, occurrence or development of or in a state of circumstances or facts (including, without limitation, any development of or in a state of facts or any change in the estimated or expected exposure arising or occurring after the date hereof relating to any litigation or investigation disclosed, or required to be disclosed, pursuant to Section 4.11 or Section 6.4 or in any document referred to in Section 4.11) known to RBL or any Subsidiary of RBL which could reasonably be expected to result in such a material adverse change (a "RBL Material Adverse Change");

(b) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of RBL, or any repurchase, redemption or other acquisition by RBL or any of its Subsidiaries of any outstanding shares of capital stock or other securities of, or other ownership interests in, RBL or any of its Subsidiaries;

(c) any amendment of any material term of any outstanding RBL Securities or any RBL Subsidiary Securities;

(d) any incurrence, assumption or guarantee by RBL or any of its Subsidiaries of any indebtedness for borrowed money other than in the ordinary course of business and in an amount not in excess of $25,000,000 and which is on terms consistent with past practices;

(e) any creation or assumption by RBL or any of its Subsidiaries of any Lien on any material asset other than in the ordinary course of business consistent with past practices;

(f) any making of any loan, advance or capital contributions to or investment in any Person other than loans, advances or capital contributions to or investments in wholly-owned Subsidiaries made in the ordinary course of business consistent with past practices;

(g) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of RBL or any of its Subsidiaries which, individually or in the aggregate, has had or would reasonably be expected to have a RBL Material Adverse Effect;

(h) other than mergers or consolidations of one or more of its Subsidiaries into and with another Subsidiary or into RBL and activities in connection with the transfer of the business and assets of RIAS, any transaction or commitment made, or any contract or agreement entered into, by RBL or any of its Subsidiaries relating to its assets or business (including the acquisition or disposition of any assets) or any relinquishment by RBL or any of its Subsidiaries of any contract or other right, in either case, material to RBL and its Subsidiaries taken as a whole, other than transactions and commitments in the ordinary course of business consistent with past practice;

(i) any change in any method of accounting or accounting practice by RBL or any of its Subsidiaries, except for any such change required by reason of a concurrent change in GAAP;

(j) any (i) grant of any severance or termination pay (other than pursuant to existing contracts, plans or arrangements), to any director, officer or employee of RBL or any of its Subsidiaries whose total annual compensation and bonus is in excess of $200,000, (ii) entering into of any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) involving annual total compensation and bonus in excess of $200,000 with any director, officer or employee of RBL or any of its Subsidiaries, (iii) any amendment or change that increases compensation or benefits payable under any existing severance or termination pay plans, policies or employment agreements which change or amendment is applicable to a class or classes of employees or officers covered thereby other than as expressly required therein or (iv) increase in compensation, bonus or other benefits payable to directors, officers or employees of RBL or any of its Subsidiaries, whose total annual compensation and bonus is in excess of $200,000, except as expressly required by any existing employment agreements or pursuant to compensation plans and policies in effect December 31, 1993 or set forth on the RBL Disclosure Schedule; or

(k) any labor dispute, other than routine individual grievances, or any activity or proceeding by a labor union or representative thereof to organize any employees of RBL or any of its Subsidiaries, which employees were not subject to a collective bargaining agreement at the RBL Balance Sheet Date, or any lockouts, strikes, slowdowns, work stoppages or threats thereof by or with respect to such employees.

SECTION 4.10. No Undisclosed Material Liabilities. Except as set forth in the RBL Financial Statements, neither RBL nor any of its subsidiaries has any Liabilities required by GAAP to be set forth on a consolidated balance sheet of RBL and its consolidated Subsidiaries or in the notes thereto and neither RBL nor any of its Subsidiaries has, to its knowledge, incurred any Liabilities since December 31, 1993 which, whether or not required by GAAP to be set forth on such a consolidated balance sheet, when considered together with any corresponding asset resulting from the event which gave rise to such liability, individually and in the aggregate, have had or could reasonably be expected to have an RBL Material Adverse Effect.

SECTION 4.11. Litigation. Except as set forth in the RBL Financial Statements, there is no action, suit, investigation or proceeding pending, or to the knowledge of RBL or its Subsidiaries threatened (or, to the knowledge of RBL or its Subsidiaries, any basis therefor), against RBL or any of its Subsidiaries or any of their respective properties before any court or arbitrator or any governmental body, agency or official that could reasonably be expected to (A) have an RBL Material Adverse Effect, (B) impair the ability of RBL or HLR to perform their respective obligations under this Agreement or impair the ability of HLR to perform its obligations under the HLR Stockholder Agreement or the Sharing and Call Option Agreement or (C) prevent or materially delay the consummation of any of the transactions contemplated by this Agreement, the HLR Stockholder Agreement or the Sharing and Call Option Agreement.

SECTION 4.12. Taxes. Except as set forth in the RBL Financial Statements, (a) RBL, its Subsidiaries and the HLR Group (as defined in Section 8.1) have filed, been included in or sent, all material returns, declarations and reports and information returns and statements required to be filed or sent by or relating to any of them relating to any Taxes with respect to any material income, properties or operations of RBL, any of its Subsidiaries or the HLR Group prior to the Effective Time (collectively, "RBL Returns"), (b) as of the time of filing, the Returns correctly reflected in all material respects the facts regarding the income, business, assets, operations, activities and status of RBL, its Subsidiaries and the HLR Group and any other information required to be shown therein, (c) RBL, its Subsidiaries and the HLR Group have timely paid or made provision for all material Taxes that have been shown as due and payable on the RBL Returns that have been filed, (d) RBL, its Subsidiaries and the HLR Group have made or will make provision for all material Taxes payable for any periods that end before the Effective Time for which no RBL Returns have yet been filed and for any periods that begin before the Effective Time and end after the Effective Time to the extent such Taxes are attributable to the portion of any such period ending at the Effective Time, (e) the charges, accruals and reserves for Taxes reflected on the books of RBL, its Subsidiaries and the HLR Group are adequate to cover the Tax liabilities accruing or payable by RBL, its Subsidiaries and the HLR Group in respect of periods prior to the date hereof, (f) none of RBL, any of its Subsidiaries or the HLR Group is delinquent in the payment of any material Taxes or has requested any extension of time within which to file or send any material RBL Return, which RBL Return has not since been filed or sent, (g) no material deficiency for any Taxes has been proposed, asserted or assessed in writing against RBL, any of its Subsidiaries or the HLR Group other than those Taxes being contested in good faith, (h) the federal income tax returns of the HLR Group have been examined by and settled with the IRS for all years through 1989, (i) none of RBL, any of its Subsidiaries or the HLR Group has granted any extension of the limitation period applicable to any material Tax claims (which period has not since lapsed) other than those Taxes being contested in good faith, (j) none of RBL, any of its Subsidiaries or the HLR Group has any contractual obligations under any material Tax sharing agreement with any corporation which, as of the Effective Time, is not a member of the HLR Group, (k) none of HLR, RBL or its Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a)(1) of the Code, and (l) except as provided in Section 2.1, HLR has no current plan or intention to cause the Surviving Corporation to amend its certificate of incorporation.

SECTION 4.13. ERISA. (a) The RBL Disclosure Schedule lists each "employee benefit plan", as defined in Section 3(3) of ERISA, which (i) is subject to any provision of ERISA and (ii)(A) is maintained, administered or contributed to by RBL or any ERISA Affiliate and covers any employee of RBL or any Subsidiary of RBL or under which RBL or any Subsidiary has any liability or (B) is maintained, administered or contributed to by RBL or any Subsidiary and covers any former employee of RBL or any Subsidiary or under which RBL or any Subsidiary has any liability. Copies of such plans (and, if applicable, related trust agreements, group annuity contracts and summary plan descriptions) and all amendments thereto and written interpretations thereof have been furnished or made available upon request to NHL together with (x) the most recent annual report (Form 5500 including, if applicable, Schedule B thereto) prepared in connection with any such plan and (y) the most recent actuarial valuation report prepared in connection with any such plan. Such plans are referred to collectively herein as the "RBL Employee Plans".

(b) Except as otherwise identified in the RBL Disclosure Schedule;

(i) no RBL Employee Plan constitutes a Multiemployer Plan, and no RBL Employee Plan is maintained in connection with any trust described in Section 501(c)(9) of the Code;

(ii) no RBL Employee Plans are subject to Title IV of ERISA (the "RBL Retirement Plans");

(iii) as of the RBL Balance Sheet Date, the fair market value of the assets of each RBL Retirement Plan (excluding for these purposes any accrued but unpaid contributions) exceeded the accumulated benefit obligation, as determined in accordance with GAAP under such RBL Retirement Plan;

(iv) no "accumulated funding deficiency", as defined in Section 412 of the Code, has been incurred with respect to any RBL Retirement Plan, whether or not waived;

(v) no "reportable event", within the meaning of Section 4043 of ERISA, and no event described in Section 4041, 4042, 4062 or 4063 of ERISA has occurred in connection with any RBL Employee Plan, other than a "reportable event" that will not have a Material Adverse Effect;

(vi) no condition exists and no event has occurred that could constitute grounds for termination of any RBL Retirement Plan or, with respect to any RBL Employee Plan which is a Multiemployer Plan, presents a material risk of a complete or partial withdrawal under Title IV of ERISA;

(vii) neither RBL nor any of its ERISA Affiliates has incurred any material liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Title IV of ERISA that would become a liability of RBL after the Effective Time;

(viii) if a "complete withdrawal" by RBL and all of its ERISA Affiliates were to occur as of the Effective Time with respect to all RBL Employee Plans which are Multiemployer Plans, neither RBL nor any ERISA Affiliate would incur any withdrawal liability under Title IV of ERISA that would become a liability of RBL after the Effective Time;

(ix) nothing done or omitted to be done and no transaction or holding of any asset under or in connection with any RBL Employee Plan has made or will make RBL or any of its Subsidiaries, any officer or director of RBL or any of its Subsidiaries subject to any liability under Title I of ERISA or liable for any Tax pursuant to Section 4975 of the Code that could have a RBL Material Adverse Effect; and

(x) neither RBL nor any of its ERISA Affiliates (A) has engaged in a transaction described in Section 4069 of ERISA that could subject RBL to material liability at any time after the date hereof or (B) has acted in a manner that could, or failed to act so as to, result in material fines, penalties, taxes or related charges under (x) Section 502(c), (i) or (1) or ERISA, (y) Section 4071 of ERISA or (z) Chapter 43 of the Code, which penalties, taxes or related charges, individually or in the aggregate, would constitute a liability in a material amount.

(c) Each RBL Employee Plan which is intended to be qualified under Section 401(a) of the Code has received a favorable IRS determination letter to such effect and RBL knows of no event or circumstance occurring or existing since the date of such letter that would adversely affect such RBL Employee Plan's qualified status. RBL has furnished or made available upon request to NHL copies of the most recent IRS determination letters with respect to each such Plan. Each Employee Plan has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations, including but not limited to ERISA and the Code, which are applicable to such Plan. There are no investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the RBL Employee Plans), suits or proceedings against or involving any RBL Employee Plan or asserting any rights to or claims for benefits under any RBL Employee Plan that could give rise to any material liability, and there are not any facts that could give rise to any material liability in the event of any such investigation, claim, suit or proceeding.

(d) There is no contract, agreement, plan or arrangement covering any employee or former employee of RBL or any Subsidiary that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 280G of the Code. No employee of NHL or any of its Subsidiaries will be entitled to any additional benefits or any acceleration of the time of payment or vesting of any RBL benefits under any RBL Benefit Arrangements (as defined below in Section 4.13(e)) as a result of the transactions contemplated by this Agreement.

(e) RBL has furnished or made available upon request to NHL copies or descriptions of each employment, severance or other similar contract, arrangement or policy providing for annual compensation in excess of $200,000 and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or for deferred compensation, profit-sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an Employee Plan, (ii) is entered into, maintained or contributed to, as the case may be, by RBL or any of its Subsidiaries and (iii) covers any employee or former employee of RBL or any of its Subsidiaries, to the extent existing on the date hereof. The above arrangements (whether or not existing as of the date hereof) are referred to collectively herein as the "RBL Benefit Arrangements". Each RBL Benefit Arrangement has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations that are applicable to such RBL Benefit Arrangement.

(f) Except as disclosed in the RBL Disclosure Schedule, neither RBL nor any of its Subsidiaries has any current or projected liability in respect of post-employment or post-retirement health and medical benefits for retired employees of RBL and its Subsidiaries, except as required to avoid excise Tax under Section 4980B of the Code; and no condition exists that would prevent RBL or any of its Subsidiaries from amending or terminating any RBL Employee Plan or RBL Benefit Arrangement providing health or medical benefits in respect of any active employee of RBL or any of its Subsidiaries other than limitations imposed under the terms of a collective bargaining agreement.

(g) Except as disclosed in the RBL Disclosure Schedule, there has been no amendment to, written interpretation or announcement (whether or not written) by RBL or any of its ERISA Affiliates relating to, or change in employee participation or coverage under, any RBL Employee Plan or RBL Benefit Arrangement which would increase materially the expense of maintaining such RBL Employee Plan or RBL Benefit Arrangement above the level of the expense incurred in respect thereof for the fiscal year ended on the RBL Balance Sheet Date (other than those that would not result in the representation and warranty set forth in Section 4.9(i) becoming untrue as of the Effective Time).

(h) Neither RBL nor any of its Subsidiaries is a party to or subject to any collective bargaining or other labor union contracts applicable to Persons employed by RBL or its Subsidiaries and no collective bargaining agreement is being negotiated by RBL or any of its Subsidiaries. As of the date of this Agreement, to the knowledge of RBL, neither RBL nor its Subsidiaries, nor their respective representatives or employees, has committed any unfair labor practices in connection with the operation of the respective businesses of RBL or its Subsidiaries, and there is no pending or threatened in writing charge or complaint against RBL or its Subsidiaries by the NLRB or any comparable state agency, except where such unfair labor practice, charge or complaint would not have a RBL Material Adverse Effect.

SECTION 4.14. Compliance with Laws; Permits. (a) Except for violations which do not have and would not reasonably be expected to have, individually or in the aggregate, a RBL Material Adverse Effect, neither RBL nor any of its Subsidiaries is in violation of, or has violated, any applicable provisions of any laws, statutes, ordinances or regulations or any term of any judgment, decree, injunction or order outstanding against it.

(b) As of the date of this Agreement, each of RBL and its Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, identification numbers, approvals and orders (collectively, the "RBL Permits") necessary to own, lease and operate its properties and to carry on its business as it is now being conducted, and there is no action, proceeding or investigation pending or, to the knowledge of RBL, threatened regarding suspension or cancellation of any of the RBL Permits, except where the failure to possess, or the suspension or cancellation of, such RBL Permits would not have reasonably be expected to have, individually or in the aggregate, a RBL Material Adverse Effect.

SECTION 4.15. Finders' Fees. Except for CS First Boston Corporation, whose fees will be paid by as referred to in Section 11.4 hereof and as contemplated herein, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf, of RBL or any of its Subsidiaries who might be entitled to any fee or commission from NHL or any of its Affiliates upon consummation of the transactions contemplated by this Agreement or any of the related agreements. The amount of the fees of CS First Boston Corporation have previously been disclosed to NHL.

SECTION 4.16. Environmental Matters. Except as set forth in the RBL Financial Statements or in writing to NHL:

(a) (i) no notice, notification, notice of violation, demand, request for information, investigation (whether civil or criminal), citation, summons, complaint, order or other similar document has been received by, or, to the knowledge of RBL or any of its Subsidiaries, is pending or threatened by any Person against, RBL or any of its Subsidiaries, nor has any material penalty been assessed against RBL or any of its Subsidiaries in either case with respect to any (A) alleged violation of any Environmental Law or liability thereunder, (B) alleged failure to have any permit, certificate, license, approval, registration or authorization required under any Environmental Law, (C) generation, treatment, storage, recycling, transportation or disposal of any Hazardous Substance or (D) Release of any Hazardous Substance;

(ii) no Hazardous Substance has been Released or is present at any property now owned, leased or operated by RBL or any of its Subsidiaries nor, to the knowledge of RBL, has any Hazardous Substance been Released at any property formerly owned, leased or operated by RBL, which Release or presence, individually or in the aggregate, could reasonably be expected to result in a RBL Material Adverse Effect;

(iii) there are no RBL Environmental Liabilities that have had or may reasonably be expected to have, individually or in the aggregate, a RBL Material Adverse Effect; and

(iv) there are no circumstances relating to the disposal of Hazardous Substances from any properties at the time they were owned, leased or operated by RBL that could give rise to liabilities under Environmental Laws which could reasonably be expected to result, individually or in the aggregate, in a RBL Material Adverse Effect.

(b) There has been no environmental investigation, study, audit, test, review or other analysis conducted since 1989 of which RBL has knowledge in relation to the current or prior business of RBL or any property or facility now or previously owned, leased or operated by RBL or any of its Subsidiaries, the contents of which could reasonably be expected to result in a RBL Material Adverse Effect.

(c) Neither RBL nor any of its Subsidiaries owns or leases any real property or industrial facility, or conducts any operations, in New Jersey or Connecticut.

(d) For purposes of this Section 4.16, the following terms shall have the meanings set forth below:

(i) "RBL" and "Subsidiary" shall include any entity which is, in whole or in part, a predecessor of RBL or any of its Subsidiaries;

(ii) "RBL Environmental Liabilities" means any and all liabilities of or relating to RBL and any of its Subsidiaries, whether vested or unvested, contingent or fixed, actual or potential, known or unknown, which (A) arise under or relate to matters covered by Environmental Laws and (B) arose from actions occurring or conditions existing on or prior to the Effective Time.

SECTION 4.17. HLR Cash Consideration. HLR and its Affiliates have sufficient funds, investments and credit facilities available to pay the HLR Cash Consideration.

SECTION 4.18. Takeover Statutes. To the best of RBL's knowledge, no state takeover statute or similar statute or regulation applicable to RBL or HLR applies or purports to apply to the HLR Stockholder Agreement, the Merger, the Warrants, the Sharing and Call Option Agreement or this Agreement or any of the transactions contemplated thereby and hereby.

SECTION 4.19. Ownership of NHL Shares. As of the date hereof, HLR, RBL and their Subsidiaries beneficially own, collectively, no more than 100 NHL Shares.

ARTICLE 5
COVENANTS OF NHL

NHL agrees that:

SECTION 5.1. Conduct of NHL. From the date hereof until the Effective Time, NHL and its Subsidiaries shall in all material respects conduct their business in the ordinary course and shall use all reasonable efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing, from the date hereof until the Effective Time:

(a) NHL will not adopt or propose any change in its certificate of incorporation or bylaws, except as referred to in Section 2.1;

(b) Except as contemplated by this Agreement or as set forth on the NHL Disclosure Schedule, NHL will not, and will not permit any of its Subsidiaries to (i) enter into any contract, agreement, plan or arrangement covering any director, officer or employee of NHL or any of its Subsidiaries that provides for the making of any payments, the acceleration of vesting of any benefit or right or any other entitlement contingent upon (A) the Merger, the exercise by HLR of any of its rights under the HLR Stockholder Agreement or any acquisition by HLR of securities of NHL (whether by merger, tender offer, private or market purchases or otherwise) not prohibited by the HLR Stockholder Agreement or (B) the termination of employment after the occurrence of any such contingency if such payment, acceleration or entitlement would not have been provided but for such contingency or (ii) amend any existing contract, agreement, plan or arrangement to so provide;

(c) Except for the Merger or as set forth on the NHL Disclosure Schedule, NHL will not, and will not permit any Subsidiary of NHL to (i) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or (ii) make any acquisition of any business or other material assets of any Person, whether by means of merger, consolidation or otherwise;

(d) Except as set forth on the NHL Disclosure Schedule, NHL will not, and will not permit any Subsidiary of NHL to, sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments or (ii) in the ordinary course of business consistent with past practice;

(e) Except for (i) borrowings under existing credit facilities, replacements therefor and refinancings thereof and (ii) borrowings in the ordinary course of business consistent with past practice, NHL will not, and will not permit any Subsidiary of NHL to, incur any indebtedness for borrowed money or guarantee any such indebtedness except for the financing contemplated by Section 7.2 hereof;

(f) Except pursuant to outstanding Employee Stock Options and as contemplated by this Agreement, NHL will not issue any NHL Securities; and

(g) NHL will not, and will not permit any of its Subsidiaries to, take any action that would result in (i) any of the representations and warranties of such party set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties that are not so qualified becoming untrue in any material respect or (iii) any of the conditions to the Merger set forth in Sections 9.1 or 9.2 not being satisfied.

SECTION 5.2. Stockholder Meeting; Proxy Material; Registration Statement; Stock Exchange Listing. (a) NHL shall cause a meeting of its stockholders (the "NHL Stockholder Meeting") to be duly called and held as soon as reasonably practicable for the purpose of voting on the approval and adoption of this Agreement (and the approval of any amendments to NHL's certificate of incorporation as referred to in Section 2.1 and the treatment of the Employee Stock Options pursuant to Section 1.5). The Board of Directors of NHL shall, subject to their fiduciary duties as determined in good faith by the Board of Directors based on the advice of outside legal counsel, recommend approval and adoption of this Agreement (and approve any such amendments and such treatment of holders of Employee Stock Options. In connection with such meeting, NHL (i) will promptly prepare and file with the SEC, will use all reasonable efforts to have cleared by the SEC the NHL Proxy Statement, (ii) will, subject to the fiduciary duties of its Board of Directors, use all reasonable efforts to obtain the approval and adoption by NHL's stockholders of this Agreement (and approve any such amendments and such treatment) and (iii) will otherwise comply with all legal requirements applicable to such meeting.

(b) As soon as practicable after resolving any comments of the SEC staff with respect to the NHL Proxy Statement, NHL shall promptly prepare and file with the SEC the Registration Statement, in which the NHL Proxy Statement will be included as a prospectus. NHL shall use its best efforts to have the Registration Statement declared effective under the 1933 Act as promptly as practicable after such filing. NHL will use its best efforts to cause the NHL Proxy Statement to be mailed to its stockholders as promptly as practicable after the Registration Statement is declared effective under the 1933 Act. NHL shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified) required to be taken under any applicable state securities laws in connection with the issuance of NHL Shares in the Merger. HLR and RBL shall furnish all information concerning the HLR and RBL as may be reasonably requested in connection with any action contemplated by this Section 5.2.

(c) NHL shall use all reasonable efforts to cause the Warrants to be issued as contemplated hereby to be listed on the NYSE, subject to official notice of issuance and evidence of satisfactory distribution.

(d) Prior to the date on which the Warrants shall become exercisable, in accordance with their terms, NHL shall, if required by the Warrant Agreement and applicable law, prepare and file with the SEC a registration statement relating to the NHL Shares issuable upon exercise of the Warrants. NHL shall use its best efforts to cause the registration statement to be declared effective prior to the date the Warrants become exercisable.

SECTION 5.3. Access to Information; Confidentiality. (a) From the date hereof until the Effective Time, NHL will give HLR, RBL, their counsel, financial advisors, auditors and other authorized representatives reasonable access during normal business hours to the offices, properties, books and records of NHL and its Subsidiaries, will furnish to HLR, RBL and their counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request and will instruct NHL's employees, counsel and financial advisors to cooperate with HLR and RBL in their investigation of NHL and its Subsidiaries, provided that no investigation pursuant to this Section 5.3 shall affect any representation or warranty given by NHL to HLR and RBL hereunder and provided further that the foregoing shall not require NHL to permit any inspection, or to disclose any information, which in the reasonable judgment of NHL would result in the disclosure of any trade secrets of third parties or violate any obligation of NHL with respect to confidentiality if NHL shall have used reasonable efforts to obtain the consent of such third party to such inspection or disclosure. All requests for information made pursuant to this Section 5.3 shall be directed to an executive officer of NHL or such Person as may be designated by the Chief Executive Officer of NHL

(b) Prior to the Effective Time and after any termination of this Agreement, NHL will hold, and will use its best efforts to cause its officers, directors, employees, counsel, financial advisors, auditors and other advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning HLR, RBL and RBL's Subsidiaries furnished to NHL in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known by NHL on a nonconfidential basis or on a basis which permits use on a less restrictive basis than this Section 5.3(b), (ii) in the public domain through no fault of NHL or (iii) later lawfully acquired by NHL from sources other than RBL or HLR or their Affiliates, advisors or representatives, provided that NHL may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement and to its lenders in connection with obtaining the financing for the transactions contemplated by this Agreement so long as such Persons are informed by NHL of the confidential nature of such information and are directed by NHL to treat such information confidentially. NHL's obligation to hold any such information in confidence shall be satisfied if it exercises the same care with respect to such information as it would take to preserve the confidentiality of its own similar information. If this Agreement is terminated, NHL will, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to RBL or HLR, upon request, all documents and other materials, and all copies thereof, obtained by NHL or on its behalf from RBL or HLR in connection with this Agreement that are subject to such confidence.

SECTION 5.4. Other Offers. (a) From the date hereof until the termination of this Agreement in accordance with Section 10.1, NHL shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any officer, director or employee of, or any investment banker, attorney or other advisor or representative of NHL or any of its Subsidiaries to, directly or indirectly, (i) solicit, initiate or encourage the submission of any "Acquisition Proposal" (as defined below) or (ii) participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to, any Acquisition Proposal, provided, however, that to the extent required by the fiduciary obligations of the Board of Directors of NHL, as determined in good faith by the Board of Directors based on the advice of outside counsel, NHL may, (A) in response to an unsolicited request therefor, furnish information with respect to NHL to any Person pursuant to a customary confidentiality agreement (as determined by NHL's outside counsel) and discuss (1) such information (but not the terms of any possible Acquisition Proposal) and (2) the terms of this Section 5.4 with such Person and (B) upon receipt by NHL of an Acquisition Proposal, following delivery to HLR of the notice required pursuant to Section 5.4(c), participate in negotiations regarding such Acquisition Proposal. Without limiting the foregoing, it is understood that any violation of the restrictions set forth in the preceding sentence by any officer, director or employee of NHL or any of its Subsidiaries or any investment banker, attorney or other advisor or representative of NHL or any of its Subsidiaries, whether or not such Person is purporting to act on behalf of NHL or any of its Subsidiaries or otherwise, shall be deemed to be a breach of this Section 5.4 by NHL. For purposes of this Agreement, "Acquisition Proposal" means any proposal for a merger or other business combination involving NHL or any of its Subsidiaries or any proposal or offer to acquire in any manner, directly or indirectly, an equity interest in securities representing not less than 20% of the outstanding voting securities of, or assets representing not less than 10% of the annual revenues of NHL or any of its Subsidiaries, other than the transactions contemplated by this Agreement or the Sharing and Call Option Agreement.

(b) Neither the Board of Directors of NHL nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to RBL or HLR, the approval or recommendation by such Board of Directors or any such committee of this Agreement or the Merger (or the other transactions contemplated hereby), (ii) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (iii) enter into any agreement with respect to any Acquisition Proposal. Notwithstanding the foregoing, in the event the Board of Directors of NHL receives an Acquisition Proposal that, in the exercise of its fiduciary obligations (as determined in good faith by the Board of Directors after reviewing the advice of outside counsel), it determines to be a Superior Proposal (as defined below), the Board of Directors may (subject to the following sentences) withdraw or modify its approval or recommendation of this Agreement or the Merger, approve or recommend any such Superior Proposal, enter into an agreement with respect to such Superior Proposal or terminate this Agreement, in each case at any time after the second business day following HLR's receipt of written notice (a "Notice of Superior Proposal") advising HLR that the Board of Directors has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the Person making such Superior Proposal. For purposes of this Agreement, a "Superior Proposal" means any bona fide Acquisition Proposal on terms which the Board of Directors of NHL determines in its good faith reasonable judgment (after reviewing the advice of a financial advisor of nationally recognized reputation) to be more favorable to NHL's stockholders than the Merger and the transactions contemplated hereby.

(c) In addition to the obligations of NHL set forth in Section 5.4(b) above, NHL shall promptly advise HLR orally and in writing of any request for information or of any Acquisition Proposal, or any inquiry with respect to or which could lead to any Acquisition Proposal, the material terms and conditions of such request, Acquisition Proposal or inquiry, and the identity of the Person making any such Acquisition Proposal or inquiry. NHL will keep HLR fully informed of the status and details of any such request, Acquisition Proposal or inquiry.

(d) NHL shall immediately cease and cause to be terminated all existing discussions and negotiations, if any, with any parties (other than RBL or HLR) conducted heretofore with respect to any Acquisition Proposal.

SECTION 5.5. Notices of Certain Events. NHL shall promptly notify HLR of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement; and

(c) any actions, suits, claims, investigations or proceedings commenced or, to the best of its knowledge threatened against, relating to or involving or otherwise affecting NHL or any of its Subsidiaries which, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.12 or which relate to the consummation of the transactions contemplated by this Agreement, the HLR Stockholder Agreement, the Warrant Agreement or the Sharing and Call Option Agreement.

SECTION 5.6. Tax Matters. From the date hereof until the Effective Time, (i) NHL and its Subsidiaries will file all material Tax returns, statements, reports and forms (collectively, the "NHL Post-Signing Returns") required to be filed with any taxing authority in accordance with all applicable laws, (ii) NHL and its Subsidiaries will timely pay all Taxes shown as due and payable on the NHL Post-Signing Returns that are so filed and as of the time of filing, the NHL Post-Signing Returns will correctly reflect the facts regarding the income, business, assets, operations, activities and the status of NHL and its Subsidiaries in all material respects, (iii) NHL and its Subsidiaries will make provision for all Taxes payable by NHL and its Subsidiaries for which no NHL Post-Signing Return is due prior to the Effective Time, and (iv) NHL and its Subsidiaries will promptly notify HLR of any action, suit, proceeding, investigation, audit or claim pending against or with respect to NHL or any of its Subsidiaries in respect of any Tax where there is a reasonable possibility of a determination or decision which would reasonably be expected to have a significant adverse effect on NHL's Tax liabilities or other Tax attributes.

SECTION 5.7. Board Composition. Prior to the Effective Time, the Board of Directors of NHL shall take all action as is necessary to make effective as of the Effective Time the resignations from the NHL Board of Directors of any Persons then serving on the Board of Directors who are not identified on the certificate delivered by HLR to NHL pursuant to Section 2.3 and to cause each of the persons designated to be directors in such certificate to be duly appointed to the Surviving Corporation's Board of Directors, in each case effective at the Effective Time.

ARTICLE 6
COVENANTS OF HLR AND RBL

HLR and RBL agree that:

SECTION 6.1. Conduct of RBL. From the date hereof until the Effective Time, RBL and its Subsidiaries shall in all material respects conduct their business in the ordinary course and shall use all reasonable efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing, from the date hereof until the Effective Time:

(a) RBL will not adopt or propose any change in its certificate of incorporation or bylaws;

(b) Except as contemplated by this Agreement or as set forth on the RBL Disclosure Schedule, RBL will not, and will not permit any of its Subsidiaries to, (i) enter into any contract, agreement, plan or arrangement covering any director, officer or employee of RBL or any of its Subsidiaries that provides for the making of any payments, the acceleration of vesting of any benefit or right or any other entitlement contingent upon (A) the Merger or any acquisition by HLR of securities of NHL (whether by merger, tender offer, private or market purchases or otherwise) not prohibited by the HLR Stockholder Agreement or (B) the termination of employment after the occurrence of any such contingency if such payment, acceleration or entitlement would not have been provided but for such contingency or (ii) amend any existing contract, agreement, plan or arrangement to so provide;

(c) Except for the Merger or as set forth on the RBL Disclosure Schedule, RBL will not, and will not permit any Subsidiary of RBL to (i) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization other than into or with RBL or any Subsidiary of RBL or (ii) make any acquisition of any business or other material assets of any Person, whether by means of merger, consolidation or otherwise;

(d) Except as set forth on the RBL Disclosure Schedule, RBL will not, and will not permit any Subsidiary of RBL to, sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments, (ii) in the ordinary course of business consistent with past practice, (iii) as NHL agrees in writing or (iv) that RBL or a Subsidiary thereof may dispose of or transfer that certain business known as RIAS the assets and liabilities of which have been disclosed in writing to NHL prior to the date hereof, and the proceeds of such disposition may be paid in a dividend or otherwise to HLR or any other Person;

(e) Except as set forth on the RBL Disclosure Schedule or as contemplated by Section 6.7 hereof, RBL will not, and will not permit any Subsidiary of RBL to, declare, set aside, or apply any dividend or make any other distribution with respect to any shares of RBL capital stock;

(f) Except for (i) borrowings under existing credit facilities, replacements therefor and refinancings thereof and (ii) borrowings in the ordinary course of business consistent with past practice, RBL will not, and will not permit any Subsidiary of RBL to, incur any indebtedness for borrowed money or guarantee any such indebtedness;

(g) RBL will not issue any RBL Securities other than to HLR;

(h) RBL will not, and will cause its Affiliates not to, directly or indirectly, acquire any NHL Shares prior to any termination fee becoming payable to HLR pursuant to Section 11.4(b) hereof; and

(i) RBL will not, and will not permit any of its Subsidiaries to, take any action that would result in (i) any of the representations and warranties of such party set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties that are not so qualified becoming untrue in any material respect or (iii) any of the conditions to the Merger set forth in Sections 9.1 or 9.3 not being satisfied.

SECTION 6.2. Access to Information; Confidentiality. (a) From the date hereof until the Effective Time, HLR and RBL will give NHL, its counsel, financial advisors, auditors and other authorized representatives reasonable access during normal business hours to the offices, properties, books and records of RBL and its Subsidiaries, will furnish to NHL and its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information as such Persons may reasonably request and will instruct RBL's employees, counsel and financial advisors to cooperate with NHL in its investigation of RBL and its Subsidiaries, provided that no investigation pursuant to this Section 6.2 shall affect any representation or warranty given by HLR or RBL to NHL hereunder and provided further that the foregoing shall not require RBL or HLR to permit any inspection, or to disclose any information, which in the reasonable judgment of RBL or HLR would result in the disclosure of any trade secrets of third parties or violate any obligation of RBL or HLR with respect to confidentiality if RBL or HLR, as the case may be, shall have used reasonable efforts to obtain the consent of such third party to such inspection or disclosure. All requests for information made pursuant to this Section 6.2 shall be directed to an executive officer of RBL or such Person as may be designated by the Chief Executive Officer of RBL.

(b) Prior to the Effective Time and after any termination of this Agreement, each of HLR and RBL will hold, and will use its best efforts to cause its officers, directors, employees, counsel, financial advisors, auditors and other advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning NHL and its Subsidiaries furnished to each of HLR and RBL in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known by HLR or RBL on a nonconfidential basis or on a basis which permits use on terms less restrictive than this Section 6.2(b), (ii) in the public domain through no fault of each of HLR or RBL or (iii) later lawfully acquired by HLR or RBL from sources other than NHL or its Affiliates, advisors or representatives, provided that each of HLR and RBL may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement and to its lenders in connection with obtaining the financing for the transactions contemplated by this Agreement so long as such Persons are informed by each of HLR and RBL of the confidential nature of such information and are directed by each of HLR and RBL to treat such information confidentially. Each of HLR's and RBL's obligation to hold any such information in confidence shall be satisfied if it exercises the same care with respect to such information as it would take to preserve the confidentiality of its own similar information. If this Agreement is terminated, each of HLR and RBL will, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to NHL, upon request, all documents and other materials, and all copies thereof, obtained by either of HLR and RBL or on its behalf from NHL in connection with this Agreement that are subject to such confidence.

SECTION 6.3. Voting of Shares. Each of HLR and RBL agrees to vote any NHL Shares beneficially owned by it in favor of adoption of this Agreement and the Merger (including any amendments to NHL's certificate of incorporation as referred to in Section 2.1 and the treatment of any Employee Stock Options pursuant to Section 1.5 at the NHL Stockholder Meeting.

SECTION 6.4. Notices of Certain Events. RBL shall promptly notify NHL of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement; and

(c) any actions, suits, claims, investigations or proceedings commenced or, to the best of its knowledge threatened against, relating to or involving or otherwise affecting RBL or any of its Subsidiaries which, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 4.11 or which relate to the consummation of the transactions contemplated by this Agreement or the Sharing and Call Option Agreement.

SECTION 6.5. Tax Matters. From the date hereof until the Effective Time, (i) HLR/RBL and RBL's Subsidiaries will file all material Tax returns, statements, reports and forms (collectively, the "HLR/RBL Post-Signing Returns") required to be filed with any taxing authority in accordance with all applicable laws, (ii) HLR/RBL and RBL's Subsidiaries will timely pay all Taxes shown as due and payable on the respective HLR/RBL Post-Signing Returns that are so filed and as of the time of filing, the HLR/RBL Post-Signing Returns will correctly reflect the facts regarding the income, business, assets, operations, activities and the status of HLR/RBL and RBL's Subsidiaries in all material respects, (iii) HLR/RBL and RBL's Subsidiaries will make provision for all respective Taxes payable by HLR/RBL and RBL's Subsidiaries for which no HLR/RBL Post-Signing Return is due prior to the Effective Time and (iv) HLR/RBL and RBL's Subsidiaries will promptly notify NHL of any action, suit, proceeding, investigation, audit or claim pending against or with respect to HLR/RBL or any of RBL's Subsidiaries in respect of any Tax where there is a reasonable possibility of a determination or decision which would reasonably be expected to have a significant adverse effect on HLR/RBL's Tax liabilities or other Tax attributes.

SECTION 6.6. NHL Employment Agreements. HLR will not and will use its best efforts to cause its Affiliates not to take any action to prevent NHL from honoring the financial terms of the existing employment agreements between NHL and its employees to the extent that copies of such agreements have been provided to HLR prior to the date hereof (or if not so provided, if such agreements were entered into after the date hereof and would not result in any of the representations and warranties of NHL hereunder becoming untrue at the Effective Time and which are otherwise entered into in compliance with this Agreement).

SECTION 6.7. Certain Actions Regarding RBL. (a) Prior to the Effective Time, HLR and RBL will prepare a pro forma balance sheet for RBL and its Subsidiaries (excluding RIAS) as of December 31, 1994 (the "Pro Forma Balance Sheet") to eliminate any outstanding intercompany account balances (other than current trade payables but including any intercompany balances with respect to Taxes) as of that date and to remove and eliminate as liabilities of RBL and any of its Subsidiaries indebtedness for borrowed money ("Borrowed Funds"), such that the aggregate liabilities of RBL and its Subsidiaries (excluding RIAS) for Borrowed Funds as of December 31, 1994, reduced by cash and cash equivalents as of that date, shall not exceed $44,000,000 (the "Net Debt Amount"). HLR and RBL will cause the assets and liabilities of RBL and its Subsidiaries at the Effective Time to be consistent with the amounts set forth in the Pro Forma Balance Sheet (other than intercompany account balances relating to federal income Taxes of RBL and its Subsidiaries for the Pre-Merger Tax Period (as defined in Section 8.1) that begins on January 1, 1995 and ends on the date on which the Effective Time occurs, which shall be settled in the manner provided in Section 8.4(a)), adjusted to give effect to the operations (on an arm's length basis) of RBL and its Subsidiaries since January 1, 1995.

(b) From January 1, 1995 until the Effective Time, no interest will be charged or paid on any intercompany account or on any Borrowed Funds, except to the extent of the interest that would accrue during the period beginning on January 1, 1995 and ending at the Effective Time on the Net Debt Amount at the interest rate provided under the agreement with the Swiss Bank Corporation, or if any interest is paid during such period to a third party, HLR will repay to RBL the excess over the amount which would be payable at such Swiss Bank Corporation interest rate.

ARTICLE 7
COVENANTS OF HLR, RBL AND NHL

The parties hereto agree that:

SECTION 7.1. Reasonable Efforts. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from governmental entities and the making of all necessary registrations and filings (including filings with governmental entities, if any) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity provided, however that in so doing none of HLR, RBL or their respective Affiliates shall be obligated to accept or be subject to an HLR Adverse Condition (as defined in Section 9.2(d) and NHL shall not be obligated to accept or be subject to an NHL Adverse Condition as defined in Section 9.3(d)), (ii) the obtaining of all necessary consents, approvals or waivers from third parties and (iii) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement; provided that the foregoing shall not (a) require HLR to furnish, other than for RBL and RBL's Subsidiaries, financial statements prepared in accordance with United States GAAP or any reconciliation of financial statements with United States GAAP or (b) prohibit the Board of Directors of NHL from taking any action permitted by Section 5.4.

SECTION 7.2. Cash Consideration. Each of HLR and RBL will use their good faith best efforts from and after the date hereof to assist NHL in NHL's effecting of the refinancing of NHL's existing indebtedness and obtaining new financing sufficient for NHL to pay the NHL Cash Consideration as contemplated hereby. NHL will use its good faith best efforts from and after the date hereof to effect the refinancing of NHL's existing indebtedness and to obtain new financing sufficient for NHL to pay the NHL Cash Consideration as contemplated hereby (and NHL will deposit the NHL Cash Consideration with the Exchange Agent as contemplated by Section 1.3 hereof), it being understood and agreed by the parties hereto that none of the parties hereto shall have any liability to any other party hereto or any other Person if such financing and refinancing, including sufficient financing for the NHL Cash Consideration, is not obtained by NHL and the parties have complied with the provisions of this Section 7.2. HLR will deposit the HLR Cash Consideration with the Exchange Agent as contemplated by Section 1.3.

Each of HLR and NHL acknowledge receipt of the Credit Suisse commitment letter to NHL dated December 13, 1994 relating to possible financing of the NHL Cash Consideration (the "CS Commitment Letter").

SECTION 7.3. Public Announcements. NHL, HLR and RBL will use all reasonable efforts to consult with each other before issuing any press release or making any public statement with respect to this Agreement and the transactions contemplated hereby or thereby and, except as may be required by applicable law or any listing agreement with any national securities exchange, will use all reasonable efforts not to issue any such press release or make any such public statement prior to such consultation and agreement among the parties with respect to the substance thereof.

SECTION 7.4. Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of NHL or RBL, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of NHL or RBL, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of NHL acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

SECTION 7.5. HLR Stockholder Agreement. HLR and NHL each agree to execute and deliver the HLR Stockholder Agreement immediately prior to the Effective Time.

SECTION 7.6. Indemnification and Insurance. (a) The certificate of incorporation and the bylaws of the Surviving Corporation shall contain the provisions with respect to indemnification set forth in NHL's certificate of incorporation and bylaws on the date of this Agreement, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder of individuals who on or prior to the Effective Time were directors, officers, employees or agents of NHL or RBL, unless such modification is required by law, and the Surviving Corporation shall indemnify and hold harmless the present and former officers and directors of NHL and RBL in respect of acts or omissions occurring prior to the Effective Time to the maximum extent provided thereunder; provided that such indemnification shall (to the maximum extent permitted by law) be mandatory rather than permissive except in instances involving wilful misconduct or bad faith and that the Surviving Corporation shall advance expenses, including attorneys' fees promptly on demand and delivery of any required undertaking. For six years after the Effective Time, the Surviving Corporation will cause to be maintained the current policies of officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such Person currently covered by RBL's officers' and directors' liability insurance policy or NHL's officers' and directors' liability insurance policy or who becomes covered thereby prior to the Effective Time, provided that the Surviving Corporation may substitute therefor policies of at least the same coverage containing terms and conditions which in all material respects are no less favorable than those of the policies in effect on the date hereof for so long as such substitution does not result in gaps or lapses in coverage; and provided further that in satisfying its obligation under this Section, the Surviving Corporation shall not be obligated to pay premiums in excess of 200% of the aggregate amount per annum which RBL and NHL paid in their last full fiscal years, but provided further, that the Surviving Corporation shall be obligated to provide such coverage as may be obtained for such amount. The Surviving Corporation shall pay all expenses (including attorneys' fees) that may be incurred by any indemnified party in enforcing the indemnity and other obligations provided for in this Section 7.6. The obligations of the Surviving Corporation under this Section 7.6 shall not be terminated or modified in such manner as to adversely affect directors and officers to whom this Section 7.6 applies without the consent of such director or officer. RBL's and NHL's directors and officers, present and former, and their heirs, executors and personal representatives to whom this Section 7.6 applies shall be third party beneficiaries of this Section.

ARTICLE 8
TAX MATTERS

SECTION 8.1.   Definitions. The following terms, as used herein, have the following meanings:

"HLR Group" means, with respect to federal income Taxes, the Affiliated group of corporations (as defined in Section 1504(a) of the Code) of which HLR is a member and, with respect to state income or franchise Taxes, the consolidated, combined or unitary group of which HLR or any of its Affiliates is a member.

"NHL Group" means, with respect to federal income Taxes, the Affiliated group of corporations (as defined in Section 1504(a) of the Code) of which NHL (or, after the Effective Time, the Surviving Corporation) is a member and, with respect to state income or franchise Taxes, the consolidated, combined or unitary group of which NHL or any of its Affiliates is a member.

"Post-Merger Tax Period" means any Tax period that is not a Pre-Merger Tax Period.

"Pre-Merger Tax Period" means any Tax period ending on or before the date on which the Effective Time occurs, and the portions ending on such date of any Tax Period that includes (but does not end on) such day.

"Tax Sharing Agreement" means all existing written or unwritten Tax sharing agreements or arrangements, including agreements or arrangements based on past practices, binding RBL or any of its Subsidiaries.

SECTION 8.2. Tax Covenants. (a) The Surviving Corporation shall promptly pay or shall cause prompt payment to be made to HLR of all refunds of Taxes and interest thereon received by the Surviving Corporation or any Subsidiary of the Surviving Corporation attributable to Taxes paid by HLR, RBL or any Subsidiary of RBL (or any predecessor of HLR or any Subsidiary of HLR) with respect to any Pre-Merger Tax Period, provided that (i) in the case of refunds attributable to RBL or any of its Subsidiaries relating to federal income Taxes for Pre-Merger Tax Periods with respect to which no return has been filed (and is not yet due) at the Effective Time, the Surviving Corporation shall be obligated to pay or cause prompt payment to be made to HLR of such refunds only to the extent that such refunds exceed the amount paid by RBL or the Surviving Corporation to HLR pursuant to Section 8.4(a) or (b), and (ii) the Surviving Corporation shall not be obligated to pay or cause to be paid to HLR any refunds with respect to Taxes (other than federal income Taxes) with respect to any Pre-Merger Tax Period with respect to which no return has been filed (and is not yet due) at the Effective Time.

(b) All transfer, real estate gains, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement shall be borne and paid by the Surviving Corporation, and the Surviving Corporation will, at its own expense, file all necessary Tax returns and other documentation with respect to all such Taxes and fees, and, if required by applicable law, HLR will, and will cause its Subsidiaries to, join in the execution of any such Tax returns and other documentation.

(c) In the event that it is determined that the Surviving Corporation or any of its Subsidiaries is a member of the HLR Group on a consolidated, combined or unitary basis for purposes of any income or franchise Tax imposed by any state or local taxing jurisdiction, HLR and the Surviving Corporation agree to negotiate in good faith with each other and with the other members of such HLR Group in an attempt to enter into an agreement regarding the allocation of liability for and/or indemnification with respect to such Tax among the members of such HLR Group on such basis as the parties may agree is appropriate and equitable.

(d) (i) Neither NHL nor any of its Subsidiaries will take or permit any action prior to the Effective Time that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a)(1) of the Code.

(ii) The Surviving Corporation shall promptly indemnify HLR or any other member of the HLR Group for any liability for Taxes or loss arising as a result of the breach by NHL or any of its Subsidiaries of its obligations under Section 8.2(d)(i) the representation contained in Section 3.13(k) or the representations and covenants contained in the NHL Representations Letter (as defined in Section 8.2(h) (other than covenant (3) therein)) that results in the Merger failing to qualify as a reorganization within the meaning of Section 368(a)(1) of the Code (or any comparable provision of state or local tax law).

(e) (i) During the period beginning on the date hereof and ending two years after the Effective Time, neither HLR nor any of its Subsidiaries will take or permit any action or, after the Effective Time, cause the Surviving Corporation or any of its Subsidiaries to take or permit any action, that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a)(1) of the Code.

(ii) HLR shall promptly indemnify the Surviving

Corporation or any other member of the NHL Group for any liability for Taxes or loss arising as a result of the breach by HLR or any of its Subsidiaries of its obligations under Section 8.2(e)(i), the representation contained in Section 4.12(k) or the representations and covenants contained in the HLR Representations Letter (as defined in Section 8.2(i)) that results in the Merger failing to qualify as a reorganization within the meaning of Section 368(a)(1) of the Code (or any comparable provision of state or local tax law), or in the recognition of gain by RBL pursuant to Section 357(c) of the Code (or any other provision of state or local tax law).

(f) HLR shall promptly indemnify the Surviving Corporation or any other member of the NHL Group for (i) all Taxes of RBL and its Subsidiaries for any Pre-Merger Tax Period, but, with respect to Taxes (other than federal income taxes) for any Pre-Merger Tax Period with respect to which no return has been filed (and is not yet due) at the Effective Time, only to the extent in each case that such Tax exceeds the portion of the Tax shown as due on the return which includes such Pre-Merger Tax Period that is attributable to such Pre-Merger Tax Period; and (ii) all Taxes of any member of the HLR Group (other than RBL and its Subsidiaries, and for any Post-Merger Tax Period, the Surviving Corporation and its Subsidiaries) with respect to any Pre-Merger or Post-Merger Tax Period.

(g) None of the Surviving Corporation, any other member of the NHL Group, HLR, or any other member of the HLR Group shall settle or pay any claim for Taxes with respect to which the Surviving Corporation or HLR, as the case may be, is obligated to make any payment pursuant to Sections 8.2(d)(ii), 8.2(e)(ii) or 8.2(f) without the consent of the Surviving Corporation or HLR, as the case may be, which consent shall not be unreasonably withheld.

(h) NHL agrees to execute and deliver a letter, dated as of the date on which the Effective Time occurs, in the form set forth in Exhibit B hereto (the "NHL Representations Letter") to each of counsel for NHL and counsel for RBL and HLR prior to the Effective Time.

(i) HLR agrees to execute and deliver a letter, dated as the date on which the Effective Time occurs, in the form set forth in Exhibit C hereto (the "HLR Representations Letter") to each of counsel for NHL and counsel for RBL and HLR prior to the Effective Time.

SECTION 8.3. Termination of Existing Tax Sharing Agreements. Any and all existing Tax Sharing Agreements between RBL or any Subsidiary of RBL and any member of the HLR Group shall be terminated as of the date on which the Effective Time occurs. After such date neither RBL, any Subsidiary of RBL, HLR nor any Subsidiary of HLR shall have any further rights or liabilities thereunder. This Agreement shall be the sole Tax sharing agreement relating to RBL or any Subsidiary of RBL for all Pre-Merger and Post-Merger Tax Periods.

SECTION 8.4. Tax Sharing. (a) (i) Immediately before the Effective Time, RBL shall pay to HLR an amount equal to the federal income Taxes of RBL and its Subsidiaries with respect to the Pre-Merger Tax Period that ends on the date of the Effective Time. The amount of such payment in respect of such Taxes shall be based upon HLR's reasonable good faith estimates of the amounts of federal taxable income of RBL and its Subsidiaries (determined as if RBL and its Subsidiaries filed a consolidated federal income Tax return with RBL as the common parent) for such Pre-Merger Tax Period and an effective federal tax rate of 35%, and reduced by the amount of any payments on account of such Taxes previously paid by RBL or any of its Subsidiaries to HLR, any other member of the HLR Group (other than RBL and its Subsidiaries) or the IRS.

(ii) At such time as the HLR Group prepares its federal income tax return for such Pre-Merger Tax Period, it shall deliver to the Surviving Corporation a pro forma return (each a "Pro Forma Return") for RBL and its

Subsidiaries which calculates the amount of federal income Taxes that RBL and its Subsidiaries would have paid with respect to such Pre-Merger Tax Period had RBL timely filed its own consolidated federal income Tax return including its Subsidiaries (with RBL as the common parent) for such Pre-Merger Tax Period. The Surviving Corporation shall have the right at its expense to review all work papers and procedures used to prepare such Pro Forma Return. Unless the Surviving Corporation timely objects as specified in this Section 8.4(a)(ii) such Pro Forma Return shall be binding on the parties without further adjustment. If the Surviving Corporation objects to any item on such Pro Forma Return, it shall notify HLR in writing that it so objects, specifying with particularity any such item and the factual or legal basis for its objection, within 10 days after delivery of such Pro Forma Return. If HLR and the Surviving Corporation are unable to reach agreement on such items within 20 days after HLR receives such notice, the disputed items shall be resolved by a nationally recognized accounting firm with no material relationship to the Surviving Corporation, HLR or any of their Affiliates, chosen within 5 days of the date upon which the need to retain such firm arises by and mutually acceptable to both HLR and the Surviving Corporation. The costs and expenses of retaining such firm shall be borne equally by HLR and the Surviving Corporation. Upon resolution by such firm of all such items and adjustment of the Pro Forma Return to reflect such resolution, the Pro Forma Return shall be binding on the parties without further adjustment. Once the Pro Forma Return has become binding, HLR shall promptly pay the Surviving Corporation, or the Surviving Corporation shall promptly pay HLR, as appropriate, an amount equal to (A) the difference between (x) the sum of the liabilities shown on the Pro Forma Return and (y) the sum of all payments previously made by RBL (including any payment pursuant to Section 8.4(a)(i)) or any Subsidiary with respect thereto to HLR, any other member of the HLR Group (other than RBL and its Subsidiaries) or the IRS, and (B) interest on such difference, which shall accrue at a rate equal to the three-month London Interbank Offered Rate plus 0.5% from the Effective Time until the date payment is made pursuant to this sentence.

(b) At such time as the HLR Group prepares its federal income tax return for its 1994 tax year, it shall deliver to the Surviving Corporation a pro forma return (each a "Pro Forma Return") for RBL and its Subsidiaries which calculates the amount of federal income Taxes that RBL and its Subsidiaries would have paid with respect to such tax year had RBL timely filed its own consolidated federal income Tax return including its Subsidiaries (with RBL as the common parent) for such tax year. The Surviving Corporation shall have the right at its expense to review all work papers and procedures used to prepare such Pro Forma Return. Unless the Surviving Corporation timely objects as specified in this Section 8.4(b) such Pro Forma Return shall be binding on the parties without further adjustment. If the Surviving Corporation objects to any item on such Pro Forma Return, it shall notify HLR in writing that it so objects, specifying with particularity any such item and the factual or legal basis for its objection, within 10 days after delivery of such Pro Forma Return. If HLR and the Surviving Corporation are unable to reach agreement on such items within 20 days after HLR receives such notice, the disputed items shall be resolved by a nationally recognized accounting firm with no material relationship to the Surviving Corporation, HLR or any of their Affiliates, chosen within 5 days of the date upon which the need to retain such firm arises by and mutually acceptable to both HLR and the Surviving Corporation. The costs and expenses of retaining such firm shall be borne equally by HLR and the Surviving Corporation. Upon resolution by such firm of all such items and adjustment of the Pro Forma Return to reflect such resolution, the Pro Forma Return shall be binding on the parties without further adjustment. Once the Pro Forma Return has become binding, HLR shall promptly pay the Surviving Corporation, or the Surviving Corporation shall promptly pay HLR, as appropriate, an amount equal to (A) the difference between (x) the sum of the liabilities shown on the Pro Forma Return and (y) the sum of all payments previously made by RBL or any Subsidiary with respect thereto to HLR, any other member of the HLR Group (other than RBL and its Subsidiaries) or the IRS, provided that, where (x) exceeds (y), the Surviving Corporation shall be obligated to pay to HLR such difference only to the extent that it does not exceed the greatest amount of intercompany account balances in respect of such Taxes that, if in existence as of December 31, 1994, in addition to the other intercompany account balances existing as of that date and actually taken into account in formulating the Pro Forma Balance Sheet pursuant to Section 6.7(a), could have been eliminated by payment rather than capitalization in formulating such Pro Forma Balance Sheet, and (B) interest on the amount required to be paid pursuant to clause (A) (determined taking into account the proviso thereto), which shall accrue at a rate equal to the three-month London Interbank Offered Rate plus 0.5% from the Effective Time until the date payment is made pursuant to this sentence.

(c) The Surviving Corporation shall prepare or cause to be prepared, and shall deliver to HLR, each return with respect to state or local income, franchise, sales and use Taxes for any Pre-Merger Tax Period for which no return has been filed (and is not yet due) as of the Effective Time and which relates, in whole or in part, to Taxes with respect to which HLR may be required to indemnify the Surviving Corporation or any other member of the N Co. Group at least 90 days prior to the due date for such return. HLR shall have the right at its expense to review all work papers and procedures used to prepare such return. Unless HLR timely objects as specified in this Section 8.4(c), the Surviving Corporation or its Subsidiary, as appropriate, shall file such return without further adjustment with the appropriate taxation authority, and pay the Tax shown as due thereon. If HLR objects to any item on such return, it shall notify the Surviving Corporation in writing that it so objects, specifying with particularity any such item and the factual or legal basis for its objection, within 10 days after delivery of such return. If HLR and the Surviving Corporation are unable to reach agreement on such items within 20 days after the Surviving Corporation receives such notice, the disputed items shall be resolved by a nationally recognized accounting firm with no material relationship to the Surviving Corporation, HLR or any of their Affiliates, chosen within 5 days of the date upon which the need to retain such firm arises by and mutually acceptable to both HLR and the Surviving Corporation. The costs and expenses of retaining such firm shall be borne equally by HLR and the Surviving Corporation. Upon resolution by such firm of all such items and adjustment of the return to reflect such resolution, the Surviving Corporation or its Subsidiary, as appropriate, shall file such return without further adjustment with the appropriate taxation authority, and pay the Tax shown as due thereon.

SECTION 8.5. Cooperation on Tax Matters. The Surviving Corporation and HLR agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information (including access to books and records) and assistance relating to RBL and its Subsidiaries as is reasonably necessary for the filing of any return, for the preparation for any audit, and for the prosecution or defense of any claim, suit or proceeding relating to any proposed adjustment, provided that (i) HLR shall not be obligated to furnish or cause to be furnished any information with respect to Genentech, Inc. and any of its Subsidiaries, and (ii) in the case of information which also relates, in whole or in part, to members of the HLR Group other than RBL and its Subsidiaries, in order to ensure the confidentiality of the HLR Group's commercial or proprietary information to the maximum extent feasible HLR shall be obligated to furnish or to be caused to be furnished such information upon request only to an independent advisor with no material relationship to the Surviving Corporation, HLR or any of their Affiliates chosen by and mutually acceptable to both HLR and the Surviving Corporation. The Surviving Corporation and HLR agree to retain or cause to be retained all books and records pertinent to RBL and its Subsidiaries until the end of the fifth year after the Effective Time, and to abide by or cause the abidance with all record retention agreements entered into with any taxation authority, in the case of the Surviving Corporation, but only to the extent such agreements have been disclosed in writing to NHL prior to the date hereof. The Surviving Corporation agrees to give HLR reasonable notice prior to transferring, discarding or destroying any such books and records relating to Tax matters and, if HLR so requests, the Surviving Corporation shall allow HLR to take possession of such books and records at HLR's cost and expense. The Surviving Corporation and HLR shall cooperate with each other in the conduct of any audit or other proceedings involving RBL or any of its Subsidiaries for any Tax purposes and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this subsection.

ARTICLE 9
CONDITIONS TO THE MERGER

SECTION 9.1. Conditions to the Obligations of Each Party. The obligations of NHL, HLR and RBL to consummate the Merger are subject to the satisfaction or waiver as of the Effective Time of the following conditions:

(a) this Agreement, the HLR Stockholder Agreement and any amendments to the Surviving Corporation's certificate of incorporation to be effected by the Merger and any amendments to the Employee Stock Options contemplated by Section 1.5 shall have been approved by the stockholders of NHL in accordance with Delaware Law;

(b) any applicable waiting period under the HSR Act relating to the Merger shall have expired or been terminated;

(c) no provision of any applicable law or regulation and no judgment, injunction, order or decree shall prohibit the consummation of the Merger;

(d) the Warrant Agreement shall have been executed and delivered by NHL and the warrant agent to be named therein and such agreement shall be in full force and effect and the Warrants shall have been approved for listing on the NYSE subject to official notice of issuance and satisfactory distribution;

(e) the Registration Statement shall have been declared effective and no stop order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the SEC;

(f) the HLR Stockholder Agreement shall have been executed and delivered by HLR and NHL and shall be in full force and effect;

(g) NHL shall have obtained sufficient financing to effect the refinancing of NHL's existing indebtedness, if required, and to pay for the NHL Cash Consideration on terms reasonably acceptable to HLR and NHL with financing obtained on the terms no less favorable than those referred to in the CS Commitment Letter being for this purpose deemed reasonably acceptable to HLR and NHL; and

(h) there shall not be in effect any banking moratorium or suspension of payments in respect of banks in the United States or Switzerland, or any general suspension in trading in, or limitation on prices for, securities on the NYSE.

SECTION 9.2. Conditions to the Obligations of HLR and RBL. The obligations of HLR and RBL to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) (i) NHL shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, (ii) the representations and warranties of NHL set forth in Article 3 that are qualified as to materiality shall be true and correct and the representations and warranties of NHL set forth in Article 3 that are not so qualified shall be true and correct in all material respects, in each case as of the Effective Time as though made on and as of the Effective Time, except to the extent such representations and warranties speak only as of a particular earlier date, and (iii) HLR shall have received a certificate or certificates signed by such executive officers of NHL as reasonably requested by HLR to the foregoing effect;

(b) HLR shall have received all documents it may reasonably request relating to the existence of NHL and its Subsidiaries and the authority of NHL for this Agreement and the HLR Stockholder Agreement, all in form and substance reasonably satisfactory to HLR;

(c) either (i) the Committee on Foreign Investment in the United States shall have determined not to investigate the Merger under Exon-Florio (either by action or nonaction) or (ii) if such Committee shall have determined to make such an investigation, such investigation shall have been completed and the President shall have determined (either by action or nonaction) not to take any action under Exon-Florio with respect to the transactions contemplated by this Agreement;

(d) there shall be no order, decree, injunction of any court or governmental authority of competent jurisdiction that would, and there shall not be threatened or pending by any governmental authority any litigation or investigation that seeks to, (i) prohibit or enjoin consummation of, or materially impair or diminish the intended benefits of, the transactions contemplated hereby, or by the HLR Stockholder Agreement or the Warrant Agreement, (ii) restrain the ownership or operation by HLR or any of its Affiliates of all or any material portion of the assets or business of the Surviving Corporation or any of its Subsidiaries or to compel HLR or any of its Affiliates to dispose of all or any material portion of the business or assets of the Surviving Corporation or HLR or any of its Affiliates, (iii) impose or confirm limitations on the ability of HLR effectively to exercise full rights and privileges of ownership of the HLR-NHL Shares, the Warrants or other NHL Securities HLR may acquire except as limited by the HLR Stockholder Agreement, including, without limitation, the right to exercise the Warrants or to vote any NHL Shares on all matters properly presented to the Surviving Corporation's stockholders, or (iv) require divestiture by HLR or any of its Affiliates or any NHL Shares or other NHL Securities (each such circumstance described in clauses (i) through (iv) being referred to herein as an "HLR Adverse Condition");

(e) all action by, or filings with, any governmental body, agency, official or authority referred to in clauses (i) through (v) of Section 3.3 shall have been obtained and made;

(f) the NHL Cash Consideration and the Roche Warrant Consideration received by NHL pursuant to Section 1.4(b) shall have been deposited with the Exchange Agent as contemplated by Section 1.3 hereof;

(g) HLR shall have received from counsel to NHL an opinion in form and substance reasonably satisfactory to HLR to the effect that the HLR-NHL Shares have been duly authorized and upon delivery to HLR at the Effective Time will be validly issued, fully paid and nonassessable and that the Roche Warrants have been duly authorized and upon payment of the Roche Warrant Consideration will be validly issued; and

(h) RBL and HLR shall have received from their counsel an opinion substantially in the form attached as Exhibit D hereto to the effect that the Merger will constitute a reorganization pursuant to Section 368(a)(1) of the Code.

SECTION 9.3. Conditions to the Obligations of NHL. The obligations of NHL to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) (i) HLR and RBL shall have performed in all material respects all of their respective obligations hereunder required to be performed by them at or prior to the Effective Time, (ii) the representations and warranties of HLR and RBL set forth in Article 4 that are qualified as to materiality shall be true and correct and the representations and warranties of HLR and RBL set forth in Article 4 that are not so qualified shall be true and correct in all material respects, in each case as of the Effective Time as though made on and as of the Effective Time, except to the extent such representations and warranties speak only as of a particular earlier date, and (iii) NHL shall have received a certificate or certificates signed by such executive officers of Roche as reasonably requested by NHL to the foregoing effect;

(b) NHL shall have received all documents it may reasonably request relating to the existence of HLR or RBL and the authority of HLR or RBL for this Agreement and the HLR Stockholder Agreement, all in form and substance reasonably satisfactory to NHL;

(c) HLR shall have deposited the HLR Cash Consideration with the Exchange Agent as contemplated by Section 1.3 hereof and Roche shall have paid the Roche Warrant Consideration to NHL;

(d) there shall be no order, decree, injunction of any court or governmental authority of competent jurisdiction that would, and there shall not be threatened or pending by any governmental authority any litigation that seeks to (i) prohibit or enjoin consummation of, or materially impair or diminish the intended benefits to NHL's stockholders of, the transactions contemplated hereby or by the Warrant Agreement or (ii) restrain the ownership or operation by NHL or any of its Affiliates or the Surviving Corporation of all or any material portion of the assets or business of either NHL or RBL or any Subsidiary of either or to compel NHL or any of its Affiliates to dispose of all or any material portion of the business or assets of NHL or RBL or any Subsidiary of either (each such circumstances described in clauses (i) and (ii) being referred to herein as an "NHL Adverse Condition");

(e) NHL shall have received from its counsel an opinion substantially in the form attached as Exhibit E hereto to the effect that the Merger will constitute a reorganization pursuant to Section 368(a)(1) of the Code;

(f) all actions by, or filings with, any governmental body, agency, official or authority referred to in clauses (i) through (v) of Section 4.3 shall have been obtained and made; and

(g) (A) Roche shall have performed in all material respects its obligations Under Section 11.9 required to be performed at or prior to the Effective Time, (i) the representations and warranties of Roche set forth in Section 11.9 that are qualified as to materiality shall be true and correct and the representations and warranties of Roche set forth in Section 11.9 that are not so qualified shall be true and correct in all material respects, in each case as of the Effective Time as though made on and as of the Effective Time, except to the extent such representations and warranties speak only as of a particular earlier date, and (ii) NHL shall have received a certificate or certificates signed by such executive officers of Roche as reasonably requested by NHL to the foregoing effect.

ARTICLE 10
TERMINATION

SECTION 10.1. Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the stockholders of NHL):

(a) by mutual written consent of NHL and HLR;

(b) by either NHL or HLR, if the Merger has not been consummated by September 1, 1995;

(c) (i) by either NHL or HLR, if there shall be any law or regulation that makes consummation of the Merger illegal or otherwise prohibited or any judgment, injunction, order or decree (other than a temporary restraining order or a preliminary injunction) enjoining consummation of the Merger or (ii) by NHL if any such law or regulation or any judgment, injunction, order or decree, which, if applicable, would in NHL's reasonable judgment constitute an NHL Adverse Condition or (iii) by HLR, if any such law or regulation or any judgment, injunction, order or decree, which, if applicable, would in HLR's reasonable judgment constitute an HLR Adverse Condition;

(d) by NHL in accordance with Section 5.4;

(e) by either HLR or NHL, if the NHL Stockholder Meeting shall have been held and the stockholders of NHL shall have failed to approve, in accordance with Delaware Law, this Agreement (including any amendments to the certificate of incorporation of the Surviving Corporation to be effected thereby, if any, as referred to in Section 2.1);

(f) by HLR, if it is not in material breach of its obligations under this Agreement, if the Board of Directors of NHL shall have (i) withdrawn its recommendation of the Merger or this Agreement (or the transactions contemplated hereby) or (ii) recommended or approved any Acquisition Proposal (other than an Acquisition Proposal made by HLR or a controlled Affiliate of HLR); or

(g) by HLR or NHL if HLR, RBL or NHL shall have received any communication from the Department of Justice or Federal Trade Commission (each an "HSR Authority") (which communication shall be confirmed to the other parties by the HSR Authority) that causes such party to reasonably believe that any HSR Authority has authorized the institution under United States antitrust laws of litigation seeking an order, decree or injunction that, if entered, would (in the reasonable judgment of the party invoking this Section 10.1(g)), be reasonably likely to constitute an NHL Adverse Condition, if NHL is the invoking party, or an HLR Adverse Condition, if HLR is the invoking party.

SECTION 10.2. Effect of Termination. If this Agreement is terminated pursuant to Section 10.1, this Agreement shall become void and of no effect with no liability on the part of any party hereto, except for liability or damages resulting from a wilful breach of this Agreement and except that the agreements contained in this Section 10.2 and in Sections 5.3(b), 6.2(b) and 11.4 shall survive the termination hereof.

ARTICLE 11
MISCELLANEOUS

SECTION 11.1. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including telecopy or similar writing) and shall be given:

if to HLR, to:

HLR Holdings Inc.
1403 Foulk Road
Suite 102
P.O. Box 8985
Wilmington, Delaware 19899
Attn.: William D. Johnston

if to RBL, to:

Roche Biomedical Laboratories, Inc.
358 South Main Street
Burlington, North Carolina 27215
Attn.: Bradford T. Smith, Esq.

with a copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
Attn: Peter R. Douglas, Esq.
Telecopy: (212) 450-4800

and

if to NHL, to: National Health Laboratories Holdings Inc.
4225 Executive Square
La Jolla, California 92037
Attn: James G. Richmond, Esq.
Telecopy: (619) 658-6693

with a copy to: Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Attn: Allen Finkelson, Esq.
Telecopy: (212) 474-3700

or such other address or telecopy number as such party may hereafter specify for the purpose by notice to the other parties hereto. Each such notice, request or other communication shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopy number specified in this Section 11.1 and the appropriate confirmation of transmittal is received or (ii) if given by any other means, when delivered at the address specified in this Section 11.1.

SECTION 11.2. Survival of Agreements and Representations and Warranties. Except for the representations, warranties and agreements contained in Articles 1, 2 and 8 and Sections 3.13(k), 4.12(k), 7.4, 7.5 and 7.6, the NHL Representations Letter, the HLR Representations Letter, and this Section 11.2 hereof, the representations and warranties and agreements contained herein and in any certificate or other writing delivered pursuant hereto (other than the HLR Stockholder Agreement) shall not survive the Effective Time.

SECTION 11.3. Amendments; No Waivers. (a) Any provision of this Agreement may be amended or waived prior to the Effective Time if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by NHL, HLR and RBL or in the case of a waiver, by the party against whom the waiver is to be effective, provided that after the adoption of this Agreement by the stockholders of NHL, no such amendment or waiver shall, without the further approval of such stockholders, alter or change (i) the NHL Share Conversion, (ii) any term of the certificate of incorporation of the Surviving Corporation or (iii) any of the terms or conditions of this Agreement if such alteration or change would adversely affect the holders of any shares of capital stock of NHL.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 11.4. Fees and Expenses. (a) Except as otherwise provided in this Section 11.4, all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense, provided however in the event RBL's legal and financial advisory fees and expenses exceed in the aggregate those of NHL, HLR or an Affiliate thereof (other than RBL or NHL or any of their respective Subsidiaries) shall pay such excess amount.

(b) So long as each of HLR and RBL shall not have materially breached its obligations under this Agreement, NHL will pay HLR, in immediately available funds, the amounts referred to below, promptly after the termination of this Agreement (x) pursuant to clause (d) or (f)(i) of Section 10.1 if any Person or group (as defined in Section 13(d)(iii) of the 1934 Act) (other than HLR or an Affiliate of HLR) shall have made an Acquisition Proposal (excluding for this purpose any indication of interest that has not resulted in an offer or proposal) or become the beneficial owner (as defined in Rule 13d-3 promulgated under the 1934 Act) of at least 20% of the outstanding NHL Shares or (y) pursuant to clause (f)(ii) of Section 10.1. The amounts referred to in the preceding sentence are (A) a termination fee of $30,000,000 and (B) up to an additional $7,000,000 as reimbursement for expenses actually incurred by HLR and RBL in connection with this Agreement and the transactions contemplated hereby. For purposes of the foregoing, the reimbursement referred to in clause (B), above, shall be payable only if and to the extent HLR and RBL provide written statements to NHL that they have incurred such expenses and such back-up data as may be reasonably be requested.

SECTION 11.5. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto. Section 11.4(b) is intended to be for the benefit of and grant to HLR the rights specified therein, and HLR shall be entitled to enforce the covenants contained therein. Except as provided in the preceding sentence or in Section 7.6, this Agreement shall be binding upon and is solely for the benefit of each of the parties hereto and their respective successors and assigns, and nothing in this Agreement (other than Section 7.6) is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 11.6. Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of Delaware.

SECTION 11.7. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

SECTION 11.8. Certain Definitions. For purposes of this Agreement the phrases "to the knowledge of" or "known to" mean with respect to such Person (x) in the case of NHL, or any of its Subsidiaries, actually known to any regional manager (which is a person in charge of an individual laboratory) of NHL or any Subsidiary or actually known to or which could reasonably be expected to be known by an executive of NHL more senior than a regional manager and (y) in the case of RBL, or any of its Subsidiaries, actually known to a subregional laboratory manager (which is a person in charge of a sub-regional laboratory) of RBL or any Subsidiary or actually known to or which could reasonably be expected to be known by an executive of RBL more senior than a sub-regional manager. Additionally, as used in this Agreement, the following terms have the following meanings:

(a) "Affiliate" means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such first Person.

(b) "Business Day" means any day except a Saturday, Sunday or other day on which commercial banking institutions in New York City are authorized by law or executive order to close.

(c) "Person" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a governmental or political subdivision or any agency or instrumentality thereof.

SECTION 11.9. Agreements of Roche. (a) Roche represents and warrants to NHL that: Roche is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated and has all corporate powers required to carry on its business as now being conducted. The execution, delivery and performance by Roche of this Agreement are within Roche's corporate powers and have been duly authorized by all necessary corporate action. This Agreement constitutes a valid and binding agreement of Roche. The execution, delivery and performance by Roche of this Agreement require no action by, or filing with, any governmental body, agency, official or authority other than compliance with any applicable requirements of the HSR Act. The execution, delivery and performance by Roche of this Agreement do not and will not (i) contravene or conflict with the certificate of incorporation or the bylaws of Roche or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to Roche, (ii) constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of Roche or to a loss of any benefit to which Roche is entitled under any provision of any agreement, contract or other instrument binding upon Roche or (iii) result in the creation or imposition of any Lien on any asset of Roche, except in each case for contraventions, conflicts, violations, defaults, rights of termination, cancellation or acceleration, losses of benefits or creation or imposition of Liens that would not be reasonably expected to have, individually or in the aggregate, a material adverse effect on the business, financial condition, assets, results of operations or prospects of Roche and its Subsidiaries, taken as a whole.

(b) Roche agrees to use its best efforts to cause RBL and HLR to perform their obligations under this Agreement.

(c) Roche and its Affiliates have sufficient funds, investments and credit facilities available to it to pay the Roche Warrant Consideration and will to the extent necessary make funds available to HLR to enable HLR to satisfy the obligation of HLR to deposit the HLR Cash Consideration pursuant to Section 1.3.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

NATIONAL HEALTH LABORATORIES HOLDINGS INC.

By: /s/ James R. Maher

Name: James R. Maher
Title: President and Chief Executive Officer

HLR HOLDINGS INC.

By: /s/ Bradford T. Smith

Name: Bradford T. Smith
Title: Assistant Secretary

ROCHE BIOMEDICAL LABORATORIES, INC.

By: /s/ James B. Powell

Name: James B. Powell
Title: President

HOFFMANN-LA ROCHE INC.

By: /s/ Thomas P. MacMahon

Name: Thomas P. MacMahon
Title: Senior Vice President

EXHIBIT 2.5

STOCK PURCHASE AGREEMENT

BY AND BETWEEN

ALLIED CLINICAL LABORATORIES, INC.

AND

REFERENCE PATHOLOGY HOLDING COMPANY, INC.

DATED AS OF DECEMBER 30, 1994

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STOCK PURCHASE AGREEMENT

This Agreement (the "Agreement") is made and entered into this 30th day of December, 1994, by and between Reference Pathology Holding Company, Inc., a Tennessee corporation having its principal place of business in Nashville, Tennessee (the "Buyer") and Allied Clinical Laboratories, Inc. (the "Seller").

WHEREAS, Seller owns all of the issued and outstanding shares of the capital stock of Reference Pathology Laboratory, Inc., a Delaware corporation (the "Company");

WHEREAS, Buyer desires to acquire from Seller, and Seller desires to sell to Buyer, all of the issued and outstanding shares of the capital stock of the Company upon and subject to the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements herein contained, the parties agree as follows:

ARTICLE I

PURCHASE AND SALE OF SHARES

1.01. Transfer of Shares. Subject to all of the terms and conditions of this Agreement, at the Closing (as defined in Section 3.01), Seller hereby agrees to sell, transfer and convey to Buyer, and Buyer agrees to purchase and acquire from Seller, free and clear of all liens, claims, charges, restrictions, security interests, equities, proxies, pledges and encumbrances of any kind, 1,000 shares of the common stock, $.01 par value per share, of the Company, which constitute all of the issued and outstanding shares of the capital stock of the Company (the foregoing shares of the Company are hereinafter collectively referred to as the "Shares").

ARTICLE II

CONSIDERATION

2.01. Purchase Price. The Purchase Price for the Shares shall be (a) $10,148,180 cash and (b) a $500,000 promissory note of Buyer issued and delivered in accordance with Section 2.02(b) hereof (the "Purchase Price"). The parties hereto agree and acknowledge that $10,000 of the Purchase Price shall be deemed to be allocated to the Seller Non-Solicitation Agreement attached hereto and made a part hereof as Exhibit D-1.

2.02. Payment of Purchase Price. (a) At the Closing, the Buyer shall make a wire transfer to an account designated by the Seller in an amount equal to the cash portion of the Purchase Price.

(b) At the Closing, the Buyer shall pay the non-cash portion of the Purchase Price to the Seller by delivering to the Seller, Buyer's promissory note, which note shall be substantially in the form attached hereto as Exhibit A (the "Escrow Note").

2.03. Satisfaction of Existing Obligations. At the Closing, Buyer shall cause Dr. Robert R. West ("West") to execute and deliver to Seller and National Health Laboratories Incorporated ("NHL"), and Seller shall execute and deliver, and shall cause NHL to execute and deliver, to Buyer and West, that certain Employment Termination Agreement (the "Employment Termination Agreement") substantially in the form of Exhibit B attached hereto.

2.04. Data Processing and Conversion Support Services. After the Closing, Seller will provide Buyer and the Company with the data processing services and conversion support identified on Schedule 2.04(a) attached hereto) from Seller's data processing department for three months after the Closing at no charge to Buyer or the Company and for a period of nine months thereafter at the option of Buyer and the Company at the rates set forth on Schedule 2.04(b) hereto. Except as provided otherwise on Schedule 2.04(a), on the Closing Date, Seller will be ready to provide data processing services for the Company (as a stand alone entity) at the same level of service as is currently provided by Seller to the Company.

ARTICLE III

CLOSING; OBLIGATIONS OF THE PARTIES

3.01. Closing Date. The documents to be delivered and the payments to be made at the closing (the "Closing") shall be delivered and made at 10:00 a.m., local time, on December 30, 1994 at the offices of Stokes & Bartholomew, P.A., Nashville, Tennessee, or at such other time and place as the parties hereto mutually agree (the "Closing Date").

3.02. Obligations of the Parties at the Closing.

(a) At the Closing, Buyer shall deliver to the Seller and NHL:

(i) the consideration as specified in Section 2.01, including the Escrow Note;

(ii) a copy of resolutions of the Board of Directors of Buyer, certified by Buyer's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Buyer, and the consummation of the transactions contemplated hereby;

(iii) a certificate of Buyer certifying as to the accuracy of Buyer's representations and warranties at and as of the Closing and that Buyer has performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by Buyer at or before the Closing;

(iv) the opinion of Stokes & Bartholomew, P.A., legal counsel for Buyer;

(v) the Services Agreement by and among Seller, NHL and Buyer substantially in the form of Exhibit C hereto (the "Services Agreement") and the Employment Termination Agreement; and

(vi) such other certificates and documents as Seller or its counsel may reasonably request.

(b) At the Closing, Seller and NHL will deliver to Buyer:

(i) stock certificates for the Shares, free and clear of all liens, claims, charges, restrictions, security interests, proxies, pledges, equities or encumbrances of any kind, which certificates shall be duly endorsed to Buyer or accompanied by duly executed stock powers in form satisfactory to Buyer;

(ii) a copy of Resolutions of the Board of Directors certified by Seller's Secretary, authorizing the execution, delivery and performance of this Agreement and the other documents referred to herein to be executed by Seller, and the consummation of the transactions contemplated hereby;

(iii) a certificate of the Seller certifying as to the accuracy of Seller's representations and warranties at and as of the Closing and that it has performed or complied with all of the covenants, agreements, terms, provisions and conditions to be performed or complied with by it at or before the Closing;

(iv) resignations of those officers and directors of the Company identified by Buyer, effective as of the Closing Date;

(v) the opinion of Coffield, Ungaretti & Harris;

(vi) the Services Agreement and the Employment Termination Agreement;

(vii) the Non-Solicitation Agreement executed by each of NHL and Seller substantially in the form of Exhibit D attached hereto ("Seller Non-Solicitation Agreement");

(viii) physical control of the Company's First Union Bank lock box account; and

(ix) such other certificates and documents as Buyer or its counsel may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

In order to induce Buyer to enter into this Agreement and consummate the transactions contemplated hereby, Seller hereby represents and warrants as follows:

4.01. Ownership of Shares; Validity and Enforceability. Seller represents and warrants that (i) Seller is the record and beneficial owner of the Shares, free and clear of all liens, claims, charges, restrictions, security interests, equities, proxies, pledges or encumbrances of any kind, except for the lien and security interest of Citicorp USA, Inc.; (ii) Seller has the full right, power, authority and capacity to sell and transfer the respective Shares owned by such Seller; (iii) by virtue of the transfer of the Shares to Buyer at the Closing, Buyer will obtain full title to such shares, free and clear of all liens, claims, charges, restrictions, security interests, equities, proxies, pledges, or encumbrances of any kind. This Agreement constitutes a legal, valid and binding agreement of the Seller, enforceable against Seller in accordance with its terms. As of the Closing Date, all intercompany receivables and payables between Seller and Buyer shall be cancelled.

4.02. Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware. The Company has full corporate power and authority to carry on its business as now conducted and possesses all governmental and other permits, licenses, and other authorizations to own, lease, or operate its assets and properties as now owned, leased, and operated and to carry on its business as presently conducted. The Company is duly licensed or qualified to do business as a foreign corporation and is in good standing in each state listed in Schedule 4.02 (attached hereto are certificates of qualification for each state in which the Company is qualified as a foreign corporation).

4.03. Corporate Power and Authority: Due Authorization. Seller has full corporate power and authority to execute and deliver this Agreement, the Employment Termination Agreement, the Services Agreement, the Seller Non-Solicitation Agreement and to consummate the transactions contemplated hereby. The Board of Directors of Seller has duly approved and authorized the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and no other corporate proceedings on the part of Seller are necessary to approve and authorize the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby. Assuming that this Agreement and each of the documents to which Buyer is a party constitutes a valid and binding agreement of Buyer, this Agreement and each of the documents to which Seller is a party constitutes, or will constitute when executed and delivered, a valid and binding agreement of Seller, in each case enforceable in accordance with its terms.

4.04. Subsidiaries. Suburban Pathology Associates, Inc., a Delaware corporation (the "Subsidiary"), is the only subsidiary in which the Company owns, directly or indirectly, any capital stock or other equity interest, or with respect to which the Company, alone or in combination with others, is in a control position. The Subsidiary is a corporation duly organized, validly existing, and in good standing under the laws of Delaware and is duly qualified to transact business as a foreign corporation and is in good standing in the State of Georgia. The Subsidiary has the power and authority and possesses all governmental and other permits, licenses, and other authorizations to own or lease its properties and carry on its business as now conducted. The outstanding capital stock of the Subsidiary is validly issued, fully paid, and nonassessable. The Company has good and valid title to the equity interests in the Subsidiary, free and clear of all liens, claims, charges, restrictions, security interests, equities, proxies, pledges, or encumbrances of any kind, except the lien and security interest of Citicorp USA, Inc. Except where otherwise indicated herein or unless the context otherwise requires, any reference to the Company herein shall include the Company and the Subsidiary.

4.05. No Violation. The execution and delivery of this Agreement, the Employment Termination Agreement, the Services Agreement and the Seller Non-Solicitation Agreement and the consummation of the transactions contemplated hereby and thereby will not as of the Closing: (i) require Seller to file or register with, or obtain any permit, authorization, consent or approval of, any governmental entity, except filings and registrations duly made and permits, authorizations, consents and approvals duly obtained prior to the Closing Date, (ii) to the actual knowledge of Seller, require Seller to obtain any authorization, consent or approval of any other person other than those which, if not duly obtained prior to the Closing Date, individually or in the aggregate, are not reasonably likely to have a material adverse effect on the Company's business, (iii) result in the breach of any of the terms or conditions of, or constitute a default under, the Certificate of Incorporation or Bylaws of Seller or, to the actual knowledge of Seller, any mortgage, bond, indenture, agreement, franchise or other instrument or obligation to which Seller is a party or by which any of Seller's properties or assets may be bound or materially affected, other than the lien and security interest of Citicorp USA, Inc., (iv) either itself or with notice or lapse of time or both, violate or be in conflict with, or constitute a default under, or result in the termination of, or cause the acceleration of the maturity of any debt or obligation pursuant to, or result in the creation or imposition of any lien upon any of the Shares under, any agreement to which Seller is a party or by which the Shares are bound or subject, other than the lien and security interest of Citicorp USA, Inc., (v) violate any statute, law, regulation or rule of any governmental entity, or (vi) violate any judgment, decree, writ, injunction or order of any court, administrative agency of governmental entity or any arbitration award applicable to the Seller or the Shares.

4.06. Capitalization. The authorized capital stock of the Company consists solely of 1,000 shares of common stock, $.01 par value per share, all of which common shares (collectively the "Shares") are issued and outstanding and owned by Seller. All of the Shares are duly authorized, validly issued and outstanding and fully paid and nonassessable and free of preemptive rights. Except for the Shares, there are no shares of capital stock or other securities of the Company issued or outstanding. There are no outstanding options, warrants or rights to purchase or acquire from, to the Seller's actual knowledge, the Company or the Seller any securities of the Company, and there are no contracts, commitments, agreements, understandings, arrangements, or restrictions as to which, to the Seller's actual knowledge, the Company or the Seller is a party or by which either of them is bound relating to any shares of capital stock or other securities of the Company (including the Shares), whether or not outstanding other than the lien and security interest of Citicorp USA, Inc. on the stock of the Company.

4.07. Financial Statements. Seller has delivered to Buyer an unaudited consolidated balance sheet of the Company as of November 30, 1994, and the related unaudited consolidated statement of income for the period from June 23, 1994 through November 30, 1994 (the "Financial Statements"). To Seller's actual knowledge, the Financial Statements are true, complete and correct and fairly present the consolidated assets, liabilities, financial condition, and results of operations of the Company as of the respective dates thereof and for the period therein referred to, all in accordance with generally accepted United States accounting principles, subject to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse) and the absence of notes.

4.08. Assets. Seller acknowledges that neither it nor NHL claims ownership in any of the assets listed on Schedule 4.08.

4. 09. No Undisclosed Liability. To Seller's actual knowledge, except as and to the extent of the amounts specifically reflected or reserved against in the Financial Statements, to the actual knowledge of Seller, the Company does not have any liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise and whether due or to become due, except for liabilities for federal and state income taxes for the period from January 1, 1994 through November 30, 1994. To Seller's actual knowledge, the reserves reflected in the Financial Statements are adequate, appropriate and reasonable in accordance with generally accepted accounting principles applied on a consistent basis. Furthermore, Seller does not have actual knowledge of or actual knowledge of any basis for the assertion against the Company of any such liability or obligation of any nature not fully reflected or reserved against in the Financial Statements, except for liabilities for federal and state income taxes for the period from January 1, 1994 through November 30, 1994.

4.10. Tax Matters. Except as set forth on Schedule 4.10, Seller and the Company have duly and timely filed all tax reports and returns required to be filed by the Company and have duly paid all taxes and other charges due or claimed to be due from the Company by federal, state or local taxing authorities (including without limitation, those due in respect of its properties, income, franchises, licenses, sales and payrolls); and true and correct copies of all tax reports and returns relating to such taxes and other charges for the period since April 1, 1991 have been heretofore delivered to Buyer. Except as set forth on Schedule 4.10, the Company is not delinquent in the payment of any tax, assessment or governmental charge and has not violated any federal, state, local or foreign tax law. The reserves for taxes contained in the Financial Statements and carried on the books of the Company, Allied or NHL are adequate to cover all tax liabilities of the Company as of the date of this Agreement. To Seller's actual knowledge, since December 31, 1993, the Company has not incurred any tax liabilities other than in the ordinary course of business; except as set forth on Schedule 4.10, there are no tax liens (other than liens for current taxes not yet due) upon any properties or assets of the Company (whether real, personal or mixed, tangible or intangible), and, except as reflected in the Financial Statements, there are no pending or threatened questions or examinations relating to, or claims asserted for, taxes or assessments against the Company, and there is no basis for any such question or claim. The Company has not granted or been requested to grant any extension of the limitation period applicable to any claim for taxes or assessments with respect to taxes. Neither the Company nor the selling consolidated group has executed or entered into a closing agreement or a compromise pursuant to Section 7121 of the Code or any predecessor provision thereof or any similar provision of state, local or foreign tax law which is binding on the Company or the selling consolidated group for any taxable period ending after the Closing Date. The Company is not a party to or bound by, or has any obligation under, any tax sharing or similar agreement.

4.11. Litigation. To Seller's actual knowledge and except as set forth in Schedule 4.11, there are no claims, actions, suits, proceedings, inquiry or investigations pending or threatened by or against, or otherwise affecting the Company at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, agency, instrumentality or authority. Seller does not have actual knowledge of any basis for any such claim, action, suit, proceeding or investigation. To Seller's actual knowledge, no claim, action, suit, proceeding or investigation set forth in Schedule 4.11, could, if adversely decided, have a material adverse effect on the condition (financial or otherwise), assets, liabilities, earnings, prospects or business of the Company.

4.12. Insurance. Schedule 4.12 hereto sets forth a complete and accurate list (including carriers) of all professional liability policies of insurance presently in effect with respect to the Company. All such policies are valid, outstanding and enforceable policies; and are and will remain in full force and effect at least through the respective dates set forth in Schedule 4.12 without the payment of additional premiums; and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. Such policies are sufficient for compliance with all requirements of law and, to Seller's actual knowledge, of all agreements to which the Company is a party. The Company has not been refused any insurance, nor has its coverage been limited, by any insurance carrier to which it has applied for insurance or with whichit has carried insurance during the last three years.

4.13. Employees and Fringe Benefit Plans.

(a) To the actual knowledge of Seller, Schedule 4.13 sets forth a complete list of all of the Company's employees (both full- and part-time) (the "Company Employees") and the annual rate of compensation being paid to each Company Employee as of the most recent practicable date.

(b) To the Seller's actual knowledge, Schedule 4.13 hereto contains a complete list of each employment, bonus, deferred compensation, pension, stock option, stock appreciation right, profit-sharing or retirement plan, arrangement or practice, and each other agreement or fringe benefit plan, arrangement or practice, of the Seller which applies to Company Employees (the "Plans"), whether formal or informal, whether legally binding or not, and whether affecting one or more of its employees. Copies of each such agreement or plan have heretofore been delivered to Buyer. Seller does not have any commitment, whether formal or informal and whether legally binding or not, (i) to create any additional such agreement, plan, arrangement or practice; (ii) to modify or change any such agreement, plan, arrangement or practice, except as necessary to comply with applicable law; or (iii) to maintain for any period of time any such agreement, plan, arrangement or practice, except as accurately and completely described in Schedule 4.13. Schedule 4.13 contains an accurate and complete description of the funding policies (and commitments, if any) of Seller with respect to each such existing plan, arrangement or practice.

(c) Except as disclosed in Schedule 4.13, (i) each employer who is participating in each Plan (the "Sponsors") is in compliance with the requirements provided by any and all statutes, orders or governmental rules or regulations currently in effect, including without limitation the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Internal Revenue Code of 1986, as amended (the "Code"); (ii) each Plan and its related trust, if any, are qualified under Code Section 401(a) and Code Section 501(a) and has been determined by the IRS to qualify, and nothing has since occurred to cause the loss of the plan's qualification; (iii) all contributions for all periods ending prior to Closing (including periods from the first day of the current plan year to Closing) will be made prior to the Closing by Seller in accordance with past practice, the terms of each such Plan and the recommended contribution in the applicable actuarial report; (iv) all insurance premiums have been paid in full, subject only to normal retrospective adjustments in the ordinary course, with regard to each plan for policy years or other applicable policy periods ending on or before Closing; (v) that no accumulated funding deficiency within the meaning of ERISA Section 302 or Code Section 412 has been incurred with respect to any plan, whether or not waived; (vi) neither the Sponsors nor any of their directors, officers, employees or any other fiduciary has any liability for failure to comply with ERISA or the Code for any action or failure to act in connection with the administration or investment of the plan; (vii) no plan subject to Title IV of ERISA has been completely or partially terminated; (viii) the Pension Benefit Guaranty Corporation has not instituted or threatened a proceeding to terminate any plan pursuant to Subtitle 1 of Title IV of ERISA; (ix) Seller does not have any liability for the termination of any single employer plan under ERISA Section 4062 or any multiple employer plan under ERISA Section 4063; (x) Seller has not incurred, nor expects to incur any withdrawal liability (either as a contributing employer or as part of a controlled group which includes a contributing employer), which has not been satisfied, to any multiemployer plan (as defined in ERISA) in connection with any complete or partial withdrawal from such plan occurring on or before the Closing; (xi) Seller has no unfunded past service liability in respect of any of its employee benefit plans; (xii) the actuarially computed value of vested benefits under any employee benefit plan of Seller does not exceed the fair market value of the fund assets relating to such plan; (xiii) neither Seller nor any plan nor any trustee, administrator, fiduciary or sponsor of any plan has engaged in any prohibited transactions as defined in the ERISA, or the Code; (xiv) all filings and reports as to such Plans required to have been made on or prior to the Closing Date to the Internal Revenue Service, the United States Department of Labor or other governmental agencies have been or will be made on or prior to the Closing Date; (xv) there is no material litigation, disputed claim, governmental proceeding or investigation pending or threatened with respect to any of such Plans, the related trusts, or any fiduciary, trustee, administrator or sponsor of such Plans; (xvi) such Plans have been established, maintained and administered in all material respects in accordance with their governing documents and applicable provisions of ERISA and the Code and Treasury Regulations promulgated thereunder; and (xvii) there has been no "Reportable Event" as defined in Section 4043 of ERISA with respect to any Plan subject to Subtitle B of Title IV of ERISA that has not been waived by the Pension Benefit Guaranty Corporation.

(d) Except as set forth on Schedule 4.13 and to the actual knowledge of Seller, the Company has complied in all material respects with all applicable federal, state and local laws, rules and regulations relating to employees' employment and/or employment relationships, including, without limitation, wage related laws, anti-discrimination laws and employee safety laws.

(e) Except to the extent required by applicable law and to Seller's actual knowledge, the Company is not a party to any contract or agreement which would require Buyer to hire, or subject Buyer to liability if it terminated or did not hire, any employee of the Company or which would require Buyer to pay or provide, or subject Buyer to liability if it did not pay or provide, any employee benefits to any employee of the Company for periods prior to or after the Closing Date (including any and all employee benefits and any compensatory, over-time, vacation, sick or holiday pay).

4.14. Banking Relationships. To the actual knowledge of Seller, Schedule 4.14 sets forth the names and locations of all banks, trust companies, savings and loan associations and other financial institutions at which the Company maintains safe deposit boxes or accounts of any nature and the names of all persons authorized to have access thereto, draw thereon or make withdrawals therefrom. At the Closing, Seller will deliver to Buyer copies of all records of which Seller has actual knowledge, including all signatures or authorization cards, pertaining to such safe deposit boxes and bank accounts.

4.15. Professional Fees. Seller has not done anything to cause or incur any liability or obligation for investment banking, brokerage, finders, agents or other similar fees, commissions, expenses or charges in connection with the negotiation, preparation, execution or performance of this Agreement or the consummation of the transactions contemplated hereby, and Seller does not know of any claim by anyone for such a fee, commission, expense or charge.

4.16. Consents and Approvals. Seller has obtained all consents, approvals, authorizations or orders of third parties, including governmental authorities, necessary for the authorization, execution and performance of this Agreement by Seller.

4.17. Corporate Records. Seller has delivered or provided to Buyer for its review true, complete and correct copies of the following items, as amended and presently in effect, for the Company and each Subsidiary: (a) Certificate of Incorporation, (b) Bylaws (only for the Company), (c) minute books, and (d) stock registration books (all hereinafter referred to as the "Corporate Records"). To the actual knowledge of Seller, the Minute Books contain a record of all shareholder, director and executive committee meetings and actions taken without a meeting from the date of the Company's incorporation to the date hereof. To the actual knowledge of Seller, the stock registration books are complete and accurate and contain a complete record of all transactions in the Company's capital stock from the date of its incorporation to the date hereof.

4.18. Full Disclosure. To the actual knowledge of Seller, neither this Agreement, nor any Schedule, exhibit, list, certificate or other instrument and document furnished or to be furnished by Seller to Buyer pursuant to this Agreement, contains any untrue statement of a material fact or omits to state any material fact required to be stated herein or therein or necessary to make the statements and information contained herein or therein not misleading; provided, however, in each instance in which the qualification "to the Seller's actual knowledge" is made, such representation is made and given by Seller solely on the basis of the actual knowledge of Haywood D. Cochrane, Jr., Gerard M. Hayden, Jr., David C. Flaugh, and James G. Richmond. Seller has not withheld from Buyer disclosure of any event, condition or fact which Seller actually knows may materially adversely affect the Company's assets, prospects or condition (financial or otherwise).

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

In order to induce Seller to enter into this transaction and consummate the transactions contemplated hereby, Buyer hereby represents and warrants to Seller as follows:

5.01. Organization and Good Standing. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has full corporate power and authority to enter into this Agreement, the Escrow Note, the Services Agreement and the Buyer Non-Competition Agreement and to carry out the transactions contemplated hereby and thereby. Buyer has full corporate power and authority to carry on its business as now conducted and possesses all governmental and other permits, licenses, and other authorizations to own, lease, or operate its assets and properties as now owned, leased, and operated and to carry on its business as presently conducted.

5.02. Authorization. The Board of Directors of Buyer has taken all action required by law, its Charter, its Bylaws and otherwise to authorize the execution and delivery by Buyer of this Agreement, the Escrow Note, the Services Agreement and the Buyer Non-Competition Agreement and the consummation by Buyer of the transactions contemplated hereby and thereby.

5.03. Valid and Binding Agreement. This Agreement, the Escrow Note, the Services Agreement and the Buyer Non-Competition Agreement constitute the legal, valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms.

5.04. No Violation. The execution and delivery of this Agreement, the Escrow Note, the Services Agreement and the Buyer Non-Competition Agreement and the consummation of the transactions contemplated hereby and thereby will not as of the Closing: (i) require Buyer to file or register with, obtain any permit, authorization, consent or approval of, any governmental entity, except filings and registrations duly made and permits, authorizations, consents and approvals duly obtained prior to the Closing Date, (ii) require Buyer to obtain any authorization, consent or approval of any other person other than those which, if not duly obtained prior to the Closing Date, individually or in the aggregate, are not reasonably likely to have a material adverse effect on Buyer's business, (iii) result in the breach of any of the terms or conditions of, or constitute a default under, the Certificate of Incorporation or Bylaws of Buyer or any mortgage, bond, indenture, agreement, franchise or other instrument or obligation to which Buyer is a party or by which any of Buyer's properties or assets may be bound or materially affected, (iv) either itself or with notice or lapse of time or both, violate or be in conflict with, or constitute a default under, or result in the termination of, or cause the acceleration of the maturity of any debt or obligation pursuant to, or result in the creation or imposition of any lien upon any of the assets of Buyer under, any agreement to which Buyer is a party or by which any of Buyer's assets are bound or subject, (v) violate any statute, law, regulation or rule of any governmental entity, or (vi) violate any judgement, decree, writ, injunction or order of any court, administrative agency of governmental entity or any arbitration award applicable to the Buyer or any of the assets of Buyer.

5.05. Professional Fees. Buyer has not done anything to cause or incur any liability for investment banking, brokerage, finders, agents or other fees, commissions, expenses or charges in connection with the negotiation, preparation, execution or performance this Agreement or the consummation of the transactions contemplated hereby, and Buyer does not know of any claim by anyone for such expense, charge, commission or fee.

5.06. Consents and Approvals. Buyer has obtained all consents, approvals, authorizations or orders of third parties, including governmental authorities, necessary for the authorization, execution and performance of this Agreement, the Escrow Note, the Services Agreement and the Buyer Non-Competition Agreement by Buyer.

5.07. Full Disclosure. Neither this Agreement, nor any certificate or other instrument or document furnished or to be furnished by Buyer to Seller pursuant to this Agreement, contains any untrue statement of a material fact or omits to state a material fact required to be stated herein or therein or necessary to make the statements and information contained herein or therein not misleading. Buyer has not withheld from Seller disclosure of any event, condition or fact which Buyer knows may materially adversely affect the Buyer's ability to perform this Agreement, the Escrow Note, the Services Agreement or the Buyer Non-Competition Agreement.

5.08. No View to Distribution. The purchase of the Shares by the Buyer is being made for investment only and not with a view to sale or distribution thereof.

ARTICLE VI

COVENANTS AND AGREEMENTS OF SELLER

Seller agrees that from the date hereof until the Closing, and thereafter if so specified, it will, and will cause the Company to, fulfill the following covenants and agreements unless otherwise consented to by Buyer in writing:

6.01 Further Assurances. At any time and from time to time after the Closing, at Buyer's request and without further consideration, Seller will execute and deliver such other instruments of sale, transfer, conveyance, assignment, and delivery and confirmation and take such action as the Buyer may reasonably deem necessary or desirable in order more effectively to transfer, convey and assign to Buyer and to place Buyer in possession and control of, and to confirm Buyer's title to, the Shares, and to assist Buyer in exercising all rights and enjoying all benefits with respect thereto. After the Closing, at Buyer's request, Seller will deliver physical possession to the Buyer of any of the Company's assets which may be in the possession of Seller. In addition, the Seller will take all such other action as may be reasonably requested by Buyer in order to facilitate Buyer's favorable tax treatment with respect to the transactions contemplated by this Agreement.

6.02. Confidentiality. In the event the transactions contemplated by this Agreement are consummated, Seller agrees that for a period of three (3) years thereafter, neither Seller nor NHL, nor any of their affiliates, or any of their agents, directors, officers or employees, shall, directly, indirectly or otherwise, disclose or disseminate to any third parties any Confidential Information (as defined below), except for any information that must be disclosed under applicable law. Seller acknowledges that Seller and its affiliates may have access from time to time to such Confidential Information as a result of the data processing services contemplated by Section 2.04 of this Agreement. For purposes of this Section 6.04(b), "Confidential Information" shall mean any information, documents and records disclosed or furnished by Buyer or the Company to Seller or its affiliates, whether orally or in writing, in connection with the contemplated data processing services or otherwise other than information which is generally known, or readily ascertainable by a proper means, by other persons concerning the Company, that through no fault of Seller or its affiliates, becomes available generally (i.e., from sources other than Buyer or the Company) to either Seller or its affiliates.

6.03. Taxes. Seller will be responsible for, and hereby agrees to assume and pay, all sales and similar taxes which may be due to any jurisdiction or governmental body as a result of the sale and transfer of the Shares. Seller shall file, or cause to be filed, with the appropriate taxing authorities, all returns and reports with respect to any federal, state, local or other taxes that are required to be filed by the Company for the period ended the Closing Date, and the Seller shall pay, or cause to be paid, all taxes of any nature due for such period.

6.04. Consents and Approvals. Seller shall take all necessary corporate and other action and use all reasonable efforts to obtain all consents, approvals, permits, licenses and amendments of agreements necessary to carry out the transactions contemplated in this Agreement.

6.05. Employees. Seller agrees to pay bonuses to those employees of the Company set forth on Schedule 6.05 hereto for calendar year 1994 in the amounts set forth opposite each such employee's name on Schedule 6.05.

6.06. Seller Savings Deferral Plan. Seller will cause the account balances under the Allied Clinical Laboratories Savings Deferral Plan of all individuals actively employed by the Company on December 31, 1994 to become fully (100%) vested in connection with the merger of such plan into the National Health Laboratories Incorporated Employees' Savings and Investment Plan, to be effected as of such date.

ARTICLE VII

COVENANTS AND AGREEMENTS OF BUYER

Buyer agrees that from the date hereof until the Closing, and thereafter, if so specified, it will, and will cause the Company to, fulfill the following covenants and agreements, unless otherwise consented to by Seller in writing:

7.01. Debt Limitation. As long as the Escrow Note remains outstanding, Buyer covenants and agrees that Buyer will not, and will not permit any subsidiary of Buyer, to create, assume or incur or in any manner be or become liable for any indebtedness at any time in excess, individually or in the aggregate, of $4,000,000.

7.02. Employee Benefits. (a) Buyer shall cause Company to provide group medical, group dental, group-term life and other welfare benefit plan benefits to employees of the Company after the Closing Date. Buyer further agrees that (i) it shall cause the Company to take all necessary actions to satisfy the notice and benefit requirements under Code Section 4980B and Part 6 of Title I of ERISA (collectively, "COBRA") with respect to the Company's employees and independent contractors as of the Closing Date (and their spouses and dependent children), (ii) neither Seller, NHL, nor any group health plan (as defined in COBRA) maintained by Seller or NHL, shall have any obligation or liability whatsoever with respect to any action, demand, tax or claim which relates to any such individual, regardless of whether such action, demand, tax or claim arises before, on or after the Closing Date, and (iii) any such obligation or liability shall be borne by the Company and the Buyer.

(b) Within 30 days after the Closing, Buyer shall cause the Company to adopt a defined contribution profit sharing plan with a cash or deferred feature, which plan shall be tax-qualified under Section 401(a) of the Code.

ARTICLE VIII

CONDITIONS TO BUYER'S OBLIGATIONS

All obligations of Buyer hereunder are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

8.01. Representations and Warranties. The representations and warranties made by the Seller in this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of such date.

8.02. Performance. Seller shall have performed and complied with all agreements, obligations, and conditions required by this Agreement to be so complied with or performed.

8.03. Officer's Certificate. Seller shall have delivered to Buyer a Certificate of the President of Seller dated the Closing Date, certifying as to the fulfillment of the conditions specified in Sections 8.01 and 8.02 hereof.

8.04. Opinion of Counsel. Buyer shall have received an opinion of Seller's counsel, Coffield, Ungaretti & Harris, dated the Closing Date, in form and substance satisfactory to Buyer.

8.05. Consents and Approvals. Buyer shall have received all consents required for the consummation of the transactions contemplated hereby, all of which consents shall be in form and substance satisfactory to Buyer.

8.06. Litigation. Except as set forth in Schedule 4.11, on the date of the Closing, neither the Company nor any Subsidiary shall be a party to, nor will there otherwise be pending or threatened, any judicial, administrative, or other action, proceeding or investigation which, if adversely determined might, in the reasonable opinion of Buyer, have a material adverse effect upon the Company, Buyer or the transactions contemplated hereby; and there shall be no lawsuits pending against the Company, the Seller or Buyer seeking to enjoin, prohibit, restrain or otherwise prevent the transactions contemplated hereby.

8.07. Services Agreement. Seller and NHL shall have executed and delivered to Buyer the Services Agreement.

8.08. Seller Non-Solicitation Agreement. Seller and NHL shall have executed and delivered to Buyer the Seller Non-Solicitation Agreement.

8.09. Citicorp USA Release. Citicorp USA, Inc., as administrative agent for NHL's lending group, shall cause such lending group to release its lien on the Company's and Subsidiary's assets, and Buyer and its counsel shall have received evidence of such release in form reasonably satisfactory to them at or prior to the Closing.

ARTICLE IX

CONDITIONS TO SELLER'S OBLIGATIONS

All obligations of Seller under this Agreement are subject to the fulfillment, prior to or at the Closing, of each of the following conditions:

9.01. Representations and Warranties. The representations and warranties made by the Buyer in this Agreement shall be true when made and at and as of the time of the Closing as though such representations and warranties were made at and as of such date.

9.02. Performance. Buyer shall have performed and complied with all agreements, obligations, and conditions required by this Agreement to be so complied with or performed.

9.03. Officer's Certificate. Buyer shall have delivered to Seller a Certificate of the President of Buyer, dated the Closing Date, certifying as to the fulfillment of the conditions specified in Sections 9.01 and 9.02 hereof.

9.04. Opinion of Counsel for Buyer. Seller shall have received an opinion of Buyer's counsel, Stokes & Bartholomew, P.A., dated the Closing Date, in form and substance satisfactory to Seller.

9.05. Services Agreement. Buyer shall have executed and delivered to Seller the Services Agreement.

9.06. Escrow Note. Buyer shall have executed and delivered to Seller the Escrow Note.

ARTICLE X

INDEMNIFICATION

10.01. Indemnification by Seller. Subject to Section 11.01, Seller hereby agrees to defend, indemnify and hold harmless Buyer, the Company, the Subsidiary, and each of Buyer's shareholders, affiliates, officers, directors, employees, agents, successors and assigns ("Buyer's Indemnified Persons") and shall reimburse Buyer's Indemnified Persons for, from and against each claim, loss, liability, cost and expense (including, without limitation, interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors) (collectively, "Losses"), directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or nonfulfillment of any covenant, agreement or other obligation by or of Seller contained herein, any Schedule hereto or in any certificate, document or instrument delivered to Buyer pursuant hereto.

10.02. Indemnification by Buyer. Buyer hereby agrees to defend, indemnify and hold harmless Seller, and each of Seller's affiliates, officers, directors, employees, agents, successors and assigns ("Seller's Indemnified Persons"), and shall reimburse Seller's Indemnified Persons for, from and against Losses directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or nonfulfillment of any covenant, agreement or other obligation by Buyer contained herein or in any certificate, document or instrument delivered to Seller pursuant hereto.

10.03. Procedure. (a) The indemnified party shall promptly notify the indemnifying party of any claim, demand, action or proceeding for which indemnification will be sought under Sections 10.01 or 10.02 of this Agreement, and, if such claim, demand, action or proceeding is a third party claim, demand, action or proceeding, the indemnifying party will have the right at its expense to assume the defense thereof using counsel reasonably acceptable to the indemnified party. The indemnified party shall have the right to participate, at its own expense, with respect to any such third party claim, demand, action or proceeding. In connection with any such third party claim, demand, action or proceeding, Buyer and the Seller shall cooperate with each other and provide each other with access to relevant books and records in their possession. No such third party claim, demand, action or proceeding shall be settled without the prior written consent of the indemnified party. If a firm written offer is made to settle any such third party claim, demand, action or proceeding and the indemnifying party proposes to accept such settlement and the indemnified party refuses to consent to such settlement, then: (i) the indemnifying party shall be excused from, and the indemnified party shall be solely responsible for, all further defense of such third party claim, demand, action or proceeding; and (ii) the maximum liability of the indemnifying party relating to such third party claim, demand, action or proceeding shall be the amount of the proposed settlement if the amount thereafter recovered from the indemnified party on such third party claim, demand, action or proceeding is greater than the amount of the proposed settlement. In addition to its other remedies, Buyer shall have the right to recover its Losses by offset against the Escrow Note, subject to Sections 11.01 and 10.03(b). In addition to its other remedies, Seller shall have the right to recover its Losses by offset against amounts payable to Buyer under the Services Agreement, subject to Sections 11.01 and 10.03(b).

(b) Notwithstanding any provision contained herein to the contrary, neither Seller nor Buyer shall have any obligation to indemnify or to reimburse the other pursuant to Sections 10.01 or 10.02 except to the extent that the obligations to the other hereunder exceed in the aggregate $100,000.00, in which event the indemnifying party shall reimburse the indemnified party for all Losses.

ARTICLE XI

SURVIVAL OF REPRESENTATIONS

11.01. Survival of Representations. All representations, warranties, covenants and agreements by the parties contained in this Agreement shall survive the Closing, and except for the representations and warranties contained in Section 4.10 of this Agreement, shall expire on the second anniversary of the Closing Date. The representation contained in Section 4.10 of this Agreement shall expire concurrently with the expiration of the applicable statute of limitations for the various tax matters covered by such representation.

11.02. Statements as Representations. All statements contained in any certificate or Schedule delivered pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties for all purposes of this Agreement.

11.03. Remedies Exclusive. Except as otherwise provided under applicable law, the remedies provided herein shall be exclusive and shall preclude the assertion by any party hereto of any other rights or the seeking of any other remedies against the other party hereto.

ARTICLE XII

MISCELLANEOUS

12.01. Expenses. All fees and expenses incurred by Seller, including without limitation, legal fees and expenses, in connection with this Agreement will be borne by Seller and all fees and expenses incurred by Buyer, including, without limitation, legal fees and expenses, in connection with this Agreement will be borne by Buyer.

12.02. Assignability; Parties in Interest.

(a) With Seller's prior written consent, Buyer may assign any and all of its rights hereunder to any affiliate of or any direct or indirect subsidiary of Buyer, and Buyer shall advise Seller of any such assignment and shall designate such party as the assignee and transferee of the securities purchased. Any such assignee shall assume all of Buyer's duties, obligations and undertakings hereunder, but the assignor shall remain liable thereunder.

(b) Seller may not assign, transfer or otherwise dispose of any of its rights hereunder without the prior written consent of Buyer.

(c) All the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the respective heirs, successors, permitted assigns and legal or personal representatives of the parties hereto.

12.03. Entire Agreement; Amendments. This Agreement, including the exhibits, Schedules, lists and other documents and writings referred to herein or delivered pursuant hereto, which form a part hereof, contains the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein or therein. This Agreement supersedes all prior agreements and undertakings between the parties with respect to its subject matter. This Agreement may be amended only by a written instrument duly executed by all parties or their respective heirs, successors, permitted assigns or legal personal representatives. Any condition to a party's obligations hereunder may be waived, but only by a written instrument signed by the party entitled to the benefits thereof. The failure or delay of any party at any time or times to require performance of any provision or to exercise its rights with respect to any provision hereof, shall in no manner operate as a waiver of or affect such party's right at a later time to enforce the same.

12.04. Headings. The section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretations of this Agreement.

12.05. Severability. The invalidity of any term or terms of this Agreement shall not affect any other term of this Agreement, which shall remain in full force and effect.

12.06. Notices. All notices, request, claims, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered or mailed (registered or certified mail, postage prepaid, return receipt requested) as follows:

If the Seller or NHL:

Allied Clinical Laboratories, Inc.
c/o National Health Laboratories Incorporated
4225 Executive Square, Suite 800
La Jolla, California 92037
Attn: Mr. Haywood D. Cochrane, Jr.

With a copy to:

John W. Christy, Esq.
Coffield, Ungaretti & Harris
3500 Three First National Plaza
Chicago, Illinois 60602

If the Buyer:

Reference Pathology Holding Company, Inc.
1800 Church Street, Suite 300
Nashville, Tennessee 37203
Attn: Robert R. West, M.D.

With a copy to:

Carter R. Todd, Esq.
Stokes & Bartholomew, P.A.
424 Church Street, Suite 2800
Nashville, Tennessee 37219

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

12.07. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Tennessee, without regard to its conflict of law rules.

12.08. Counterparts. This Agreement may be executed simultaneously in one or more counterparts, with the same effect as if the signatories executing the several counterparts had executed one counterpart, provided, however, that the several executed counterparts shall together have been signed by Buyer, and the Seller. All such executed counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Buyer and by the Seller on the date first above written.

BUYER:

REFERENCE PATHOLOGY HOLDING COMPANY, INC.

By:/s/ Robert R. West

Title: President

SELLER:

ALLIED CLINICAL LABORATORIES, INC.

By:/s/ James G. Richmond

Title: Executive Vice President

SCHEDULE 2.04

(a) Included Data Processing Services for the One-Year Term on the Terms Set Forth in Section 2.04 of the Agreement.

1. Immediate release from "Expect Pricing"
2. Conversion within 60 days of Closing of printing of all mailers locally at the Company
3. Access to make changes in billable party configurations
4. Resolution of any outstanding electronic filing and claims printing issues
5. Satisfactory implementation and maintenance of electronic signatures modifications
6. Two weeks of on-site training for new RPL Data Processing Manager
7. Reasonable cooperation, including up to 120 hours of free service, in effecting conversion of all pertinent data to new RPL system
8. Ongoing support for all DP issues until permanent conversion to an independent Company system at the existing levels of support for the 12-month term.

(b) Rates for Elective Continuation of Data Processing Services

$12,500/month	Fixed Rate Support
$75/hour	For development and new project support work outside existing support services

EXHIBIT 10.30

AMENDMENT TO EMPLOYMENT AGREEMENT

Amendment dated as of April 1, 1994, to Employment Agreement as heretofore amended (the "Agreement"), dated May 1, 1991 between La Jolla Management Corp., a Delaware corporation (the "Company"), and David C. Flaugh (the "Executive").

The Agreement is hereby amended as follows:

1. Section 1 is amended to provide that the term of the Agreement shall extend through December 31, 1996 or such later date to which the Executive's employment may be extended as provided in Section 5 of the Agreement.

2. Section 2 is amended by adding the following sentence to the end thereof:

> The duties to be performed by the Executive shall be performed primarily at the offices of the Company in the San Diego County California metropolitan area, subject to reasonable travel requirements on behalf of the Company.

3. Section 6(b) is amended in its entirety to read as follows:

> (b) The Executive may terminate his employment hereunder for "Good Reason" within thirty (30) days after the occurrence, without written consent of the Executive, of one of the following events that has not been cured within ten (10) days after written notice thereof has been given by Executive to the Company:
>
> (i) the assignment to Executive of duties materially inconsistent with his status as Senior Executive Vice President and Chief Operating Officer of the Company or an adverse alteration in the nature of Executive's responsibilities as Executive Vice President;
>
> (ii) a reduction by the Company in the Executive's Base Salary or Annual Bonus or a failure by the Company to pay any such amounts when due;
>
> (iii) the Company's material breach of the terms of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Amendment to the Agreement as of the date first above written.

LA JOLLA MANAGEMENT CORP.

By:/s/David C. Flaugh	By:/s/James R. Maher
David Flaugh	James R. Maher
Executive	Chief Executive Officer

EXHIBIT 10.44

EMPLOYMENT AGREEMENT

AGREEMENT dated June 23, 1994 between NATIONAL HEALTH LABORATORIES INCORPORATED, a Delaware corporation (the "Company"), and Haywood D. Cochrane, Jr. (the "Executive").

The Company desires to employ Executive and Executive desires to be in the employ of the Company upon the terms set forth herein.

Accordingly, the parties agree as follows:

1. Employment Term. The Company agrees to employ the Executive and the Executive agrees to be in the employ of the Company, for the period commencing on June 22, 1994 and ending on June 21, 1995, or such later date to which the Executive's employment may be extended as provided in Section 5 hereof (the "Term").

2. Duties and Responsibilities. The Executive's duties and responsibilities shall be as may be assigned to the Executive. The Executive shall devote full working time and attention to the Executive's duties and responsibilities hereunder, and his principal employment location shall be La Jolla, California. The Executive shall report directly to the President and C.E.O.

3. Salary. During the Term, for all services provided hereunder, the Executive shall receive a salary, payable monthly, subject to discretionary increases in accordance with the Company's normal review policies and procedures. The Executive shall be eligible to participate in the executive bonus plan or plans applicable to similar executives of the Company from time to time. The Executive shall be eligible to receive an annual bonus of up to and including an amount equal to Five-hundred Thousand Dollars ($500,000.00) pursuant to such bonus plan or plans. Initial base salary shall be Five Hundred Thousand Dollars ($500,000.00) per year.

4. Benefits.

(a) During the Term, the Executive shall be eligible to participate in all pension, insurance, medical, disability and other like benefit plans made available generally to executives of the Company of the Executive's level, whether presently in effect or adopted hereafter during the Term.

(b) During the term, the Company shall reimburse the Executive for reasonable and necessary expenses related to the Executive's performance under this Agreement, including expenses associated with Executive's initial relocation to his principal employment location, upon submission of detailed vouchers therefor in accordance with the Company's standard practices in effect from time to time.

(c) During the Term, the Company shall provide the Executive with a car allowance in accordance with the Company's standard practice in effect from time to time.

(d) The Executive shall be entitled to four weeks' vacation per year.

(e) The Executive shall receive Two Hundred Thousand (200,000) stock options in NHL common stock, effective July 12, 1994 as to one-third (1/3) of such shares, July 12, 1995 as to one-third (1/3) of such shares and July 12, 1996 as to the balance of such shares issued as part of the 1994 Stock Option Plan. Notwithstanding any termination of Executive's employment on or prior to December 22, 1994, such option shall remain exercisable as to one-third of such shares until at least January 22, 1995, and shall otherwise be exercisable on terms consistent with the foregoing and not less favorable than those generally applicable to options issued by the Company under its 1994 Stock Option Plan.

5. Extension of Time. If neither party gives to the other party notice of termination on or before the 90th day prior to the date of expiration of the Term hereof, the Term shall continue from year to year unless either party gives notice of termination on or before the 90th day prior to the expiration of

the Term hereof. If the Company gives notice of termination on or before the 90th day prior to the expiration of the Term hereof, then, following the end of the Term, the Executive shall be entitled to normal severance in accordance with the policies of the Company in effect from time to time.

6. Termination.

(a) The Company shall have the right to terminate the Term at any time immediately by written notice for cause or in the event of the Executive's death or disability. As used herein, (i) "cause" shall mean the Executive's material breach of the terms of this Agreement, the Executive's commission of a felony or an act which is materially detrimental to the Company's reputation, or his habitual neglect of his duties under this Agreement, and (ii) "disability" shall mean the Executive's inability to perform in accordance herewith by reason of mental or physical disorder or injury constituting "long-term disability" for purposes of the Company's medical and long-term disability plans in effect from time to time.

(b) In the event of the Company's material breach of the terms of this Agreement, the Executive shall have the right to terminate the Term at any time immediately by written notice.

7. Payment Upon Termination.

(a) In the event that the Company shall terminate the Term pursuant to Section 6(a) hereof, the Company shall have the right to terminate all further payments pursuant hereto, except as provided in Section 11(a) hereof (unless the Executive has died), and shall have no further obligations hereunder.

(b) In the event that the Company shall terminate the Term otherwise than pursuant to Sections 5 or 6(a) hereof or the Executive shall terminate the Term pursuant to Section 6(b) hereof, then, except as provided in Section 8 hereof, the Company's sole obligations under this Agreement and the severance policies and procedures of the Company in effect from time to time shall be (i) to continue to pay to the Executive, in monthly installments, the Executive's salary at the rate in effect pursuant to Section 3 on the date of termination, through the date on which the Term should expire pursuant to Sections 1 or 5 hereof, as if the Company had given notice of termination pursuant to Section 5 hereof, and (ii) to pay the compensation set forth in Section 11(a) hereof (unless the Executive has died).

8. Benefits Continuation. Upon any termination of the Executive's employment as provided in Section 7(b) hereof, the Executive's employment shall nevertheless be deemed to continue for a period of 90 days after such termination of employment for purposes of determining the Executive's coverage under the medical plan and group life insurance programs of the Company or its assignee as then in effect.

9. Mitigation. The Executive shall not be required to mitigate the amount of any payments provided for in Section 7(b) hereof by seeking other employment or a consultancy with any other entity or otherwise, but the Executive shall notify the Company of any employment or consultancy engaged in by the Executive during the period covered by any payments provided for in Section 7(b) hereof, and the amounts payable pursuant to Section 7(b) shall not be reduced by the amount of any salary, discretionary bonus or fees so paid or payable in connection with such employment or consultancy during such period.

10. Non-Alienation. The Executive shall not have any right to pledge, hypothecate, anticipate or in any way create a lien upon any payment or benefits provided under this Agreement, and no such payment or benefits shall be assignable in anticipation of payment either by voluntary or involuntary acts, or by operation of law.

11. Confidentiality; Agreement Not to Compete. The Executive recognizes that the services to be performed by him hereunder are special, unique and extraordinary, and that by reason of such employment the Executive has acquired and will acquire confidential information and trade secrets concerning the Company's operations and the operations of its affiliates. Accordingly, it is agreed that:

(a) During the Term and for a period of twenty-four (24) months following the expiration of the Term, including any period during which payments provided for in Section 7(b) hereof are made, the Executive will not, directly or indirectly, as an officer, director, stockholder, partner, associate, owner, employee, consultant or otherwise, become or be interested in or associated with (although the Executive may conduct activities during said period to seek employment or a consultancy) any other corporation, firm or business that competes with a business of the Company or with any of its affiliates to which the Executive has been assigned and for which the Executive had rendered substantial services in any geographical areas in which the Company or any of such affiliates are then so engaged, provided that the Executive's ownership, directly or indirectly, of not more than one percent of the issued and outstanding stock of a corporation, the shares of which are regularly traded on a national securities exchange or in the over-the-counter market, shall not, in any event, be deemed to be a violation of the provision of this Section 11(a). As consideration for the Executive's agreement contained hereinabove, the Company, at its sole and absolute discretion, during the twenty-four (24) month period following the expiration of the Term, may pay the Executive, in equal monthly installments, an amount equal to one-half (1/2) of the Executive's salary at the rate in effect on the date of expiration of the Term hereof. (Failure to make such payments relieves the Executive of any future obligations under Section 11 of this Agreement.) Provided, however, during said twenty-four (24) month period, the Executive shall not be considered an employee of the Company and, except as provided in Section 8 hereof, shall not be entitled to any of the benefits plans made available generally to executives of the Company of the Executive's level; and, provided further, the Company shall not be obligated to make the payments to Executive, as provided hereinabove, in the event of any violation by the Executive of the restrictions set forth hereinabove.

(b) The Executive shall not divulge to any entity or person (other than the Company's assignees and its affiliates) during the Term or for a period of two (2) years thereafter any information acquired by the Executive concerning the Company's or its affiliates' customer lists, research or development programs or plans, processes, methods or any other of its or their trade secrets, except information which is available to the public in published literature or becomes public knowledge through no fault of the Executive. The Executive acknowledges that all information the disclosure of which is prohibited hereby is of a confidential and proprietary character and of great value to the Company and, upon the expiration or sooner termination of this Agreement, the Executive shall forthwith deliver up to the Company all records, memoranda, data and documents of any description which refer or relate in any way to such information and return to the Company any of its equipment and property which may then be in the Executive's possession or under the Executive's personal control. The Executive agrees also during the Term and for a two (2) year period thereafter not to disclose the existence or the terms of this Agreement to any person, other than the Executive's immediate family, the Executive's attorneys, accountants and other professional advisors, lenders, or a prospective employer permitted hereby, except as otherwise required by law.

(c) The Executive agrees that because he is rendering services of a special, unique and extraordinary character, damages would not be an adequate or reasonable remedy for breach of his obligations under this Agreement. Accordingly, in the event of a breach or threatened breach by the Executive of the provisions of Section 11 of this Agreement, the Company shall be entitled to an injunction restraining the Executive from violating the terms hereof, or from rendering services to any person, firm, corporation, association or other entity to whom any confidential information, trade secrets, or proprietary materials of the Company have been disclosed or are threatened to be disclosed, or for whom the Executive is working or rendering service, or threatens to work or render services. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach of this Agreement, including the right to terminate any payments to the Executive pursuant to this Agreement or the recovery of damages from the Executive. The Executive agrees that the issuance of the injunction described in this paragraph may be without the posting of any bond or other security by the Company.

12. Notices. Any notice to be given hereunder will be deemed sufficient if given in writing and delivered either personally or sent by certified mail to the Executive at the Executive's address set forth in the records of the Company, and to the Company at its principal offices, Attention: President, or in either case to such other persons or addresses as either party may request by written notice.

13. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the local laws of the State of New York applicable to agreements made and to be performed entirely within such State.

14. Assignment. This Agreement may be assigned by the Company to any affiliate of the Company or to any non-affiliate of the Company that shall succeed to the business and assets of the Company. In the event of any such assignment, the Company shall cause such affiliate or non-affiliate, as the case may be, to assume the obligations of the Company hereunder, by a written agreement addressed to the Executive, concurrently with any assignment with the same effect as if such assignee were the "Company" hereunder. This Agreement is personal to the Executive and the Executive may not assign any rights or delegate any responsibilities hereunder without the prior approval of the Company.

15. Covenant Not to Sue. In the event of any breach of this Agreement by the Company, whether or not by or through any of its officers, directors, employees or shareholders, the Executive hereby covenants, warrants and agrees that he shall not directly or indirectly sue or bring any legal action against, or attempt to obtain any injunction or other legal or equitable remedy against any shareholder, director, officer or employee of the Company or of any firm or corporation affiliated with the Company, it being understood that his sole right of action shall be against the Company as a corporation.

16. Binding Effect. This Agreement shall be binding upon

and inure to the benefit of the parties and their respective successors, heirs and permitted assigns. This Agreement may not be altered, modified, changed or discharged except in writing, signed by both of the parties.

17. Entire Agreement. This Agreement supersedes the Executive's employment agreement with Allied Clinical Laboratories, the Company's subsidiary, which will be of no further force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

NATIONAL HEALTH LABORATORIES INCORPORATED

By:/s/James R. Maher

James R. Maher
President and Chief Executive Officer

/s/Haywood D. Cochrane, Jr.

Haywood D. Cochrane, Jr.
Executive

EXHIBIT 10.51

CONFORMED COPY

SHARING AND CALL OPTION AGREEMENT

dated as of

December 13, 1994

among

HLR Holdings Inc.,

Mafco Holdings Inc.

and

National Health Care Group, Inc.

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SHARING AND CALL OPTION AGREEMENT

SHARING AND CALL OPTION AGREEMENT, dated as of December 13, 1994 among HLR Holdings Inc., a Delaware corporation ("HLR") and parent of Roche Biomedical Laboratories, Inc., a New Jersey corporation ("RBL"), Mafco Holdings Inc., a Delaware corporation ("Mafco"), and National Health Care Group, Inc., a Delaware corporation (the "Stockholder") and an indirect wholly-owned subsidiary of Mafco and, solely with respect to Section 8.1 hereof, National Health Laboratories Holdings Inc., a Delaware corporation (the "Company").

WHEREAS, HLR, RBL, the Company and Hoffmann-La Roche Inc., a New Jersey Corporation propose to enter into an Agreement and Plan of Merger of even date herewith (the "Merger Agreement") providing for the merger of RBL into and with the Company as the surviving corporation (the "Merger"); and

WHEREAS, Stockholder owns approximately 23.8%of the issued and outstanding shares of the Company's common stock, $.01 par value, per share (the "Common Stock"); and

WHEREAS, in connection with entering into the Merger Agreement, HLR, Mafco and Stockholder desire to enter into this Agreement setting forth certain rights and obligations of the parties with respect to Stockholder's investment in the Company;

NOW, THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties agree as follows:

ARTICLE 1
DEFINITIONS

SECTION 1.1. Certain Definitions. Capitalized terms used and not defined herein have the meanings assigned to them in the Merger Agreement. The following terms, as used herein, have the following meanings:

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person, provided that no stockholder of the Company shall be deemed an Affiliate of any other stockholder solely by reason of any investment in the Company. For the purpose of this definition, the term "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Board" means the board of directors of the Company.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banking institutions in New York City are authorized by law or executive order to close.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"NASD" means the National Association of Securities Dealers, Inc.

"NASDAQ" means the NASD Automated Quotation System.

"NASDAQ/NMS" means the NASDAQ-National Market System.

"Person" means an individual, corporation, partnership, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

SECTION 1.2. Expenses. All costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

ARTICLE 2
SHARING PAYMENTS

SECTION 2.1. Sharing Payments to HLR. (a) In the event that a termination fee shall have become payable by the Company to HLR pursuant to Section 11.4(b) of the Merger Agreement and Stockholder sells, transfers, assigns or otherwise disposes of (including by conversion or exchange in a merger, exchange offer or the like) (any such action being a "transfer") any of the Stockholder Shares (as defined in Section 2.1(d), Stockholder and Mafco, jointly and severally, agree to pay to HLR an amount in cash (a "Sharing Payment") equal to the product of (i) the number of Stockholder Shares transferred by Stockholder or any of the controlled Affiliates of Mafco and (ii) 50% of the excess, if any, of (A) the per share cash consideration or the per share fair market value, as the case may be, of any non-cash consideration received by Stockholder and each such controlled Affiliate as a result of such transfer over (B) $20.00 (as adjusted to give effect to any stock dividend, stock split, recapitalization, combination or exchange of shares, merger, consolidation, reorganization or other similar change or transaction by the Company).

(b) For purposes of this Section 2.1, the fair market value of any non-cash consideration:

(i) consisting of securities listed on a national securities exchange or traded on the NASDAQ/NMS shall be equal to the average closing price per share of such security as reported on such exchange or NASDAQ/NMS for the five trading days before the date of disposition by Stockholder; and

(ii) consisting of consideration which is other than cash or securities of the type specified in clause (i) of this Section 2.1, shall be determined by a nationally recognized independent investment banking firm (which firm shall be mutually agreed upon by the parties) within 10 Business Days of the selection of such investment banking firm; provided, however, that if the parties are unable to agree within two Business Days after the date of disposition as to the investment banking firm, then Morgan Stanley & Co. Incorporated and CS First Boston Corporation shall jointly name a third investment banking firm; provided further, that the fees and expenses of such investment banking firm shall be borne equally by HLR, on the one hand, and Stockholder, on the other hand. The determination of the investment banking firm shall be binding upon the parties.

(c) Any Sharing Payment required to be made pursuant to this Section 2.1 shall be made two Business Days after the later of (i) the fifth trading day after settlement of any disposition of any securities referred to in subsection (b)(i) above for cash or (ii) the date on which the investment banking firm delivers to the parties its determination of the per share value of any non-cash consideration referred to in subsection (b)(ii) above received pursuant to any disposition, as applicable.

(d) The term "Stockholder Shares" as used herein means (i) 20,176,729 shares of Common Stock which are all of the voting securities of the Company presently beneficially owned or owned of record by Stockholder, Mafco and their respective controlled Affiliates and (ii) any additional shares of Common Stock or rights to acquire voting securities of the Company acquired by Stockholder, Mafco or any of their respective controlled Affiliates (whether by purchase or otherwise) from and after the date of this Agreement.

ARTICLE 3
VOTING OF STOCKHOLDER SHARES FOR THE MERGER

SECTION 3.1. No Sale of Stockholder Shares Prior to Effective Time. Stockholder shall not transfer any Stockholder Shares prior to the Effective Time except if a termination fee shall have become payable by the Company to HLR pursuant to Section 11.4(b) of the Merger Agreement.

SECTION 3.2. Voting of Stockholder Shares. Stockholder shall be, and Stockholder and Mafco shall cause their controlled Affiliates which hold Common Stock to be, present in person or by proxy at the NHL Stockholder Meeting for the purpose of voting on the adoption of the Merger Agreement, and Stockholder and Mafco shall cause all of the Stockholder Shares to be voted in favor of the Merger and adoption of the Merger Agreement.

ARTICLE 4
CALL RIGHTS

SECTION 4.1. Call Right with Respect to Stockholder Shares. (a) At any time after the third anniversary of the date on which the Effective Time occurs, HLR or an Affiliate of HLR (or if such purchase is not permitted pursuant to applicable law or by any material agreement to which HLR or such Affiliate is bound, a third party nominated by HLR) (any such party being a "Purchaser") may exercise the right (the "Call Right"), which right may only be exercised once, to purchase all, but not less than all, the shares of Common Stock then owned by Stockholder, Mafco or any of their controlled Affiliates. If Purchaser intends to exercise the Call Right, then, not less than 20 Business Days prior to the exercise thereof, Purchaser shall so notify Stockholder of such intention to exercise the Call Right, specifying in such notice (the "Call Notice") the date of such exercise (the "Exercise Date").

(b) On the Call Closing Date (as defined in Section 4.2), Purchaser shall pay a price per share for the shares to be purchased as specified in the Call Notice, equal to 102% of the average closing price per share of such security as reported on the principal national securities exchange on which such sharesare listed, or if not so listed, as reported on NASDAQ/NMS, for the 30 trading days before the Exercise Date.

SECTION 4.2. Closing with Respect to Exercise of Call Right. The closing (the "Call Closing") of the call transaction shall take place at such place as may be agreed upon by the parties and on such date as may be set forth in a written notice from Purchaser to Stockholder (the "Call Closing Date"), but in no event more than 5 Business Days after the later of (i) the Exercise Date, and (ii) expiration of any applicable HSR Act waiting period or the satisfaction of any required regulatory approval. At the Call Closing, Stockholder, Mafco, or any of their controlled Affiliates, as the case may be, will convey good, marketable and valid title to the shares being purchased free and clear of any and all claims, liens, charges, encumbrances and security interests. The parties agree to take all actions as may be reasonably required to effect the Call Closing as promptly as practicable.

SECTION 4.3. No Sale After Call Notice. From and after the receipt of a Call Notice, neither Stockholder, Mafco nor any of their controlled Affiliates shall transfer any shares of Common Stock that are owned by Stockholder, Mafco or any such controlled Affiliate except during any period expiring 15 Business Days prior to the Exercise Date.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF STOCKHOLDER

Stockholder and Mafco, jointly and severally, represent and warrant to HLR that:

SECTION 5.1. Valid Title. Stockholder is the sole, true, lawful and beneficial and record owner of the Stockholder Shares with no restrictions on Stockholder's voting rights or rights of disposition pertaining thereto other than those arising pursuant to bona fide pledge arrangements. None of the Stockholder Shares is subject to any voting trust or other agreement (other than this Agreement) or arrangement with respect to the voting of such Stockholder Shares other than those arising from bona fide pledge arrangements.

SECTION 5.2. Authority; Binding Effect. Stockholder and Mafco have all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Stockholder and Mafco of this Agreement and the consummation by Stockholder and Mafco of the transactions contemplated hereby have been duly authorized by all necessary corporate action by Stockholder and Mafco. This Agreement has been duly executed and delivered by Stockholder and Mafco and constitutes a valid and binding agreement of Stockholder and Mafco.

SECTION 5.3. Governmental Authorization. The execution, delivery and performance by Stockholder and Mafco of this Agreement and the consummation by Stockholder and Mafco of the transactions contemplated hereby require no action by, or filing with, any governmental body, agency, official or authority, other than compliance with any applicable requirements of the HSR Act.

SECTION 5.4. Non-Contravention. The execution, delivery and performance of this Agreement by Stockholder and Mafco do not, and the consummation by Stockholder and Mafco of the transactions contemplated hereby do not and will not, (i) contravene or conflict with the certificate of incorporation or the bylaws of Stockholder and Mafco, (ii) assuming compliance with the HSR Act, contravene or conflict with or constitute a violation of any provision of any law, regulation, judgment, injunction, order or decree binding upon or applicable to Stockholder and Mafco, (iii) constitute a default under or give rise to a right of termination, cancellation or acceleration of any right or obligation of Stockholder and Mafco or to a loss of any benefit to which Stockholder and Mafco are entitled under any provision of any agreement, contract or other instrument binding upon Stockholder or Mafco or any license, franchise, permit or other similar authorization held by Stockholder or Mafco or (iv) result in the creation or imposition of any lien on any asset of Stockholder or Mafco. Notwithstanding anything to the contrary in this Section 5.4, it is understood that the Stockholder Shares are subject to bona fide pledge arrangements, but that Stockholder and Mafco will take all actions necessary to enable Stockholder to comply with Section 3.2 and Article 4 hereof.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES OF HLR

HLR represents and warrants to Stockholder:

SECTION 6.1. Corporate Power and Authority. HLR has all requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution, delivery and performance by HLR of this Agreement and the consummation by HLR of the transactions contemplated hereby have been duly authorized by all necessary action, if any, of HLR. This Agreement has been duly executed and delivered by HLR and constitutes a valid and binding agreement of HLR.

SECTION 6.2. Acquisition for HLR's Account. Any shares of Common Stock to be acquired pursuant to the Call Rights set forth in Article 4 will be acquired by HLR for its own account and not with a view to the public distribution thereof and will not be transferred except in compliance with the Securities Act. If required by applicable law, in the written opinion of outside legal counsel to the Company (which opinion shall be) satisfactory to HLR, any shares of Common Stock transferred hereunder may bear a legend providing that such shares of Common Stock may only be sold or otherwise disposed of in accordance with such Act.

ARTICLE 7
COVENANTS OF STOCKHOLDER

SECTION 7.1. No Solicitation; No Shopping. Stockholder and Mafco shall comply with, and be bound by, the restrictions set forth in Section 5.4(a) of the Merger Agreement as if such restrictions were fully set forth in this Agreement.

SECTION 7.2. Further Action. Stockholder and Mafco will take all actions necessary to enable each of them and their Affiliates to comply with Section 3.2 and Article 4 hereof.

ARTICLE 8
MISCELLANEOUS

SECTION 8.1. Registration Provisions. The Company shall use its best efforts to cause the Registration Statement (as defined in the Merger Agreement) to include a resale prospectus that would permit Stockholder (or any pledgee of the Merger Shares under a bona fide pledge arrangement with Stockholder) to sell shares of Common Stock received by Stockholder in the Merger (the "Merger Shares") without restriction and, after the filing of the Registration Statement, shall use its best efforts to prepare and file with the SEC such amendments and post-effective amendments to the Registration Statement as may be necessary to keep such Registration Statement continuously effective for a period ending on the third anniversary of the date hereof and during such period shall use its best efforts to cause the resale prospectus to be supplemented by any required prospectus supplement. In addition, the registration procedures set forth in Sections 6.6 through 6.11 as set forth in the form of the Stockholder Agreement between HLR Holdings Inc. and the Company attached as an Exhibit to the Merger Agreement (the "Stockholder Agreement") (including, without limitation, the provisions with respect to filings, blue sky qualification, amendments, due diligence, indemnification and contribution) for the benefit of Investor (as defined therein) shall be deemed incorporated herein, as applicable, for the benefit of Stockholder as if fully set forth in this place (with all references to the "Investor" therein being deemed to be references to Stockholder or the pledgee of any Merger Shares referred to above, as the case may be) and in connection with the registration referred to above, the Company shall pay the applicable Registration Expenses (as defined in the Stockholder Agreement).

SECTION 8.2. Additional Agreements. Subject to the terms and conditions of this Agreement, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations and which may be required under any agreements, contracts, commitments, instruments, understandings, arrangements or restrictions of any kind to which such party is a party or by which such party is governed or bound, to enable HLR to exercise and enjoy all the benefits and rights associated with the Call Option and the Sharing Payment and otherwise to consummate and make effective the transactions contemplated by this Agreement, to obtain all necessary waivers, consents and approvals and effect all necessary registrations and filings, including, but not limited to, filings under the HSR Act, responses to requests for additional information related to such filings, and submission of information requested by governmental authorities, and to rectify any event or circumstances which could impede consummation of the transactions contemplated hereby.

SECTION 8.3. Specific Performance. (a) The parties hereto agree that HLR would be irreparably damaged if for any reason Stockholder, Mafco or their Affiliates, as the case may be, failed to sell the shares of Common Stock upon exercise of the Call Option, or to perform any of its other obligations under this Agreement, and that HLR would not have an adequate remedy at law for money damages in such event. Accordingly, HLR shall be entitled to specific performance and injunctive and other equitable relief to enforce the performance of this Agreement by Stockholder and Mafco. This provision is without prejudice to any other rights that HLR may have against Stockholder or Mafco for any failure to perform their respective obligations under this Agreement.

(b) The parties hereto also agree that Stockholder would be irreparably damaged if for any reason the Company failed to perform in full its obligations as set forth in Section 8.1 hereof, and that Stockholder would not have any adequate remedy at law or for money damages in such event. Accordingly, Stockholder shall be entitled to specific performance and injunctive and other equitable relief to enforce the performance of this Agreement by the Company. This provision is without prejudice to any other rights that Stockholder may have against the Company for any failure to perform its obligations under this Agreement.

SECTION 8.4. Notices. All notices, requests, claims, demands and other communications hereunder shall be deemed to have been duly given when delivered in Person, by cable, telegram or telex, or by registered or certified mail (postage prepaid, return receipt requested) to such party at its address set forth on the signature page hereto.

SECTION 8.5. Amendments; Termination. This Agreement may not be modified, amended, altered or supplemented, except upon the execution and delivery of a written agreement executed by the parties hereto. This Agreement shall terminate upon the earliest to occur of (i) the date on which Stockholder, Mafco and their Affiliates own no shares of Common Stock except with respect to the obligation to make any Sharing Payment which has become due as a result of any transfer of shares of Common Stock (provided that such shares have not been transferred in violation of this Agreement) or (ii) the effective date of any termination of the Merger Agreement pursuant to Section 10.1(a), (b), (c), (e), or (g) thereof. Article 8 of this Agreement shall terminate when Stockholder, Mafco and their respective controlled Affiliates shall own no shares of Common Stock that are subject to the registration requirements of the Securities Act. Article 2 of this Agreement shall terminate 180 days after the effective date of any termination of the Merger Agreement pursuant to Section 10.1(d) or (f) thereof except with respect to the obligation to make any Sharing Payment which has become due as a result of any transfer of shares of Common Stock.

SECTION 8.6. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other parties hereto, except that HLR may assign its rights and obligations hereunder to any Affiliate of HLR or pursuant to Article 4 to a third party. Any Affiliate of Stockholder or Mafco who acquires shares of Common Stock shall become a party to and be bound by this Agreement.

SECTION 8.7. Governing Law. This Agreement shall be construed in accordance with and governed by the law of Delaware without giving effect to the principles of conflicts of laws thereof.

SECTION 8.8. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

HLR HOLDINGS INC.

/s/ Bradford T. Smith

Name: Bradford T. Smith
Title: Assistant Secretary

1403 Foulk Road, Suite 102
P.O. Box 8985
Wilmington, DE 19899

MAFCO HOLDINGS INC.

/s/ Joram Salig

Name: Joram Salig
Title: Vice President

35 East 62nd Street
New York, NY 10021

NATIONAL HEALTH CARE GROUP, INC.

/s/ Howard F. Gordon

Name: Howard F. Gordon
Title: Vice President

Cypress Financial Center
5900 North Andrews Avenue
Suite 700A
Ft. Lauderdale, FL 33309

NATIONAL HEALTH LABORATORIES HOLDINGS INC.

/s/ James R. Maher

Name:James R. Maher
Title: President and Chief Executive Officer

4225 Executive Square
Suite 800
La Jolla, CA 92037

Exhibit 21.1

National Health Laboratories Holdings Inc.
Listing of Subsidiaries
December 31, 1994

Subsidiary	State of Incorporation
Intermediate Holdings Corp. I	Delaware
Intermediate Holdings Corp. II	Delaware
National Health Laboratories	Delaware
La Jolla Management Corp.	Delaware
Quality Assurance Group, Inc.	Delaware
Executive Tower Travel Inc.	Delaware
Allied Clinical Laboratories, Inc. A Delaware Corporation	Delaware
Allied Clinical Laboratories, Inc. An Oregon Corporation	Oregon

National Health Laboratories Holdings Inc.
Names under which the Registrant conducts business

NHL Intermediate Holdings Corporation I
NHL Intermediate Holdings Corporation II
National Health Laboratories Incorporated
La Jolla Management Corporation
Quality Assurance Group, Inc.
Executive Tower Travel Inc.
Allied Clinical Laboratories, Inc.   A Delaware Corporation
Allied Clinical Laboratories, Inc.   An Oregon Corporation
Sierra Nevada Laboratories, Inc.
Physicians Clinical Laboratories, Inc.
Plaza Diagnostic Services, Inc.
Fulton Medical Laboratory
Hollywood Diagnostics Laboratory
Coast Clinical Laboratories, Inc.
Coast Medical Laboratories, Inc.
Professional Corporations Laboratory, Ltd.
Southern Medical Lab, Inc.
Hoyle-Passon Laboratories, Inc.
Cranston Medical Laboratory, Inc.
Austin Pathology Clinical Laboratories, Inc.
Garden City Medical Laboratory, Inc.
Barrington Medical Laboratory, Inc.
Spectrum Medical Service, Inc.
Zeoli Medical Laboratory, Inc.
Brown & Associates Medical Laboratories
Physicians' Medical Lab Limited Partnership
Associated Medical Services, Inc.
Whatcom Pathology Laboratory and Blood Bank P.S.
Lititiz/Community Laboratory Services
Acculab Medical Laboratories, Inc., dba NDA Laboratories
Park Medical Laboratory, Inc.
Prineville Medical Clinic
Hackensack Clinical Laboratory, Inc.
Pathlabs, Inc.
CenPath Laboratory, Inc.
Clinpath, Inc. (South Tulsa Pathology Laboratory, Inc.)
Pathex Laboratories, Inc.
Pacific Clinical Laboratories, Inc.
Lab Plus, Inc. (Lab Plus X-Ray)

National Health Laboratories Holdings Inc.
Names under which the Registrant conducts business

Omni Lab Inc.
Delano Medical Arts Pharmacy, Inc. dba California Medical Laboratory, Inc.
Medical Arts Laboratory, Inc.
Quantum Laboratories, Inc.
Accutech Medical Laboratories, Inc.
Saddleback Medical Laboratory, a California Limited Partnership
Allied Clinical Laboratories, Inc.
MML Health Services, Inc.
Laboratory Sciences International, Ltd.
Physicians Clinical Laboratories
Colorado Clinical Laboratories, Inc.
Eastside Medical Laboratory, Inc.
AO Northwest, Inc.
Professional Diagnostic Laboratory, Inc.
Biomedical Laboratories of Waterbury, Inc.
Madison Clinical Laboratory, Ltd.
Stroink Pathology Laboratories, Inc.

EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors
National Health Laboratories Holdings Inc.:

We consent to incorporation by reference in the registration statements (No. 33-29182 and No. 33-43006) as amended, and registration statement (No. 33-55065) on Form S-8 of National Health Laboratories Holdings Inc. of our report dated February 13, 1995, relating to the consolidated balance sheets of National Health Laboratories Holdings Inc. and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1994, and the related schedule, which report appears in the December 31, 1994 annual report on Form 10-K of National Health Laboratories Holdings Inc.

KPMG Peat Marwick LLP

San Diego, California
March 1, 1995

EXHIBIT 24.1

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ RONALD O. PERELMAN

Ronald O. Perelman

EXHIBIT 24.2

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ JAMES R. MAHER

James R. Maher

EXHIBIT 24.3

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ SAUL J. FARBER, M.D.

Saul J. Farber, M.D.

EXHIBIT 24.4

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ HOWARD GITTIS

Howard Gittis

EXHIBIT 24.5

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 20th day of February, 1995.

By:/s/ ANN DIBBLE JORDAN

Ann Dibble Jordan

EXHIBIT 24.6

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 21st day of February, 1995.

By:/s/ DAVID J. MAHONEY

David J. Mahoney

EXHIBIT 24.7

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ PAUL A. MARKS, M.D.

Paul A. Marks, M.D.

EXHIBIT 24.8

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 23rd day of February, 1995.

By:/s/ LINDA GOSDEN ROBINSON

Linda Gosden Robinson

EXHIBIT 24.9

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 9th day of February, 1995.

By:/s/ SAMUEL O. THIER, M.D.

Samuel O. Thier, M.D.

EXHIBIT 24.10

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of David C. Flaugh, James G. Richmond and Joram C. Salig or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the National Health Laboratories Holdings Inc. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1994 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 3rd day of March, 1995.

By:/s/ DAVID C. FLAUGH

David C. Flaugh

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS AND STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000920148
NATIONAL HEALTH LABORATORIES HOLDINGS INC. AND SUBSIDIARIES
1000

YEAR
DEC-31-1994
DEC-31-1994
26,800
0
221,400
16,000
20,100
293,000
233,100
93,000
1,012,700
202,800
563,800
800
0
0
165,200
1,012,700
872,500
872,500
597,000
597,000
186,600
0
34,500
55,400
25,300
30,100
0
0
0
30,100
.36
.36