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

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

For the quarterly period ended MARCH 31, 1996

OR

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

For the transition period from ______________ to ______________

Commission file number 1-11353

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

| | |
|---|---|
| DELAWARE | 13-3757370 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

358 SOUTH MAIN STREET, BURLINGTON, NORTH CAROLINA 27215
(Address of principal executive offices) (Zip code)

(910) 229-1127
(Registrant's telephone number, including area code)

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

The number of shares outstanding of the issuer's common stock is 122,919,805 shares as of May 7, 1996, of which 61,329,256 shares are held by indirect wholly owned subsidiaries of Roche Holding Ltd.

The number of warrants outstanding to purchase shares of the issuer's common stock is 22,151,308 as of May 7, 1996, of which 8,325,000 are held by an indirect wholly owned subsidiary of Roche Holding Ltd.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in Millions, except per share data)

| | March 31, 1996 (Unaudited) | December 31, 1995 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 15.7 | $ 16.4 |
| Accounts receivable, net | 447.4 | 425.6 |
| Inventories | 63.6 | 53.7 |
| Prepaid expenses and other | 19.6 | 19.0 |
| Deferred income taxes | 62.6 | 63.3 |
| Income taxes receivable | 3.2 | 21.9 |
| Total current assets | 612.1 | 599.9 |
| Property, plant and equipment, net | 301.9 | 304.8 |
| Intangible assets, net | 906.4 | 916.7 |
| Other assets, net | 15.8 | 15.8 |
| | $ 1,836.2 | $ 1,837.2 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 109.0 | $ 106.2 |
| Accrued expenses and other | 169.2 | 173.5 |
| Current portion of long-term debt | 72.9 | 70.8 |
| Total current liabilities | 351.1 | 350.5 |
| Revolving credit facility | 235.0 | 218.0 |
| Long-term debt, less current portion | 693.8 | 712.5 |
| Capital lease obligation | 9.5 | 9.6 |
| Other liabilities | 129.3 | 135.0 |
| Stockholders' equity: | | |
| Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued and outstanding | -- | -- |
| Common stock, $0.01 par value; 220,000,000 shares authorized; 122,908,722 shares outstanding at March 31, 1996 and December 31, 1995, respectively | 1.2 | 1.2 |
| Additional paid-in capital | 411.0 | 411.0 |
| Retained earnings (accumulated deficit) | 5.3 | (0.6) |
| Total stockholders' equity | 417.5 | 411.6 |
| | $ 1,836.2 | $ 1,837.2 |

See notes to unaudited consolidated condensed financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Dollars in Millions, except per share data)
(Unaudited)

| | March 31, 1996 | March 31, 1995 |
|---|---|---|
| Net Sales | $ 403.9 | $ 243.8 |
| Cost of Sales | 303.3 | 164.3 |
| Gross profit | 100.6 | 79.5 |
| Selling, general and administrative expenses | 65.5 | 38.0 |
| Amortization of intangibles and other assets | 7.3 | 4.8 |
| Operating income | 27.8 | 36.7 |
| Other income (expense): | | |
| Investment income | 0.7 | 0.4 |
| Interest expense | (16.7) | (13.7) |
| Earnings before income taxes | 11.8 | 23.4 |
| Provision for income taxes | 5.9 | 10.6 |
| Net earnings | $ 5.9 | $ 12.8 |
| Earnings per common share | $ 0.05 | $ 0.15 |

See notes to unaudited consolidated condensed financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in Millions)
(Unaudited)

| | Three Months Ended March 31, 1996 | Three Months Ended March 31, 1995 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 5.9 | $ 12.8 |
| Adjustments to reconcile net earnings to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 20.8 | 14.2 |
| Provision for doubtful accounts, net | (0.9) | (0.8) |
| Change in assets and liabilities, net of effects of acquisitions: | | |
| Increase in accounts receivable | (20.8) | (11.1) |
| Decrease(increase)in inventories | (9.7) | 0.3 |
| Increase in prepaid expenses and other | (0.7) | (16.0) |
| Decrease in deferred income taxes, net | 4.8 | 1.0 |
| Decrease in income taxes receivable | 18.7 | 7.8 |
| Increase(decrease)in accounts payable, accrued expenses and other | 9.5 | (14.0) |
| Payments for restructuring charges | (6.2) | -- |
| Payments for settlement and related expenses | (0.3) | (19.3) |
| Other, net | (1.9) | (0.7) |
| Net cash provided by (used for) operating activities | 19.2 | (25.8) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (14.9) | (7.1) |
| Acquisitions of businesses | (3.2) | (1.8) |
| Net cash used for investing activities | (18.1) | (8.9) |

(continued)

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - (Continued)
(Dollars in Millions)
(Unaudited)

| | Three Months Ended March 31, 1996 | Three Months Ended March 31, 1995 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from revolving credit facilities | $ 87.0 | $ 42.0 |
| Payments on revolving credit facilities | (70.0) | -- |
| Payments on long-term debt | (16.7) | (9.7) |
| Deferred payments on acquisitions | (2.1) | (3.4) |
| Other | -- | 0.1 |
| Net cash provided by (used for) financing activities | (1.8) | 29.0 |
| Net decrease in cash and cash equivalents | (0.7) | (5.7) |
| Cash and cash equivalents at beginning of year | 16.4 | 26.8 |
| Cash and cash equivalents at end of period | $ 15.7 | $ 21.1 |
| Supplemental schedule of cash flow information: | | |
| Cash paid (received)during the period for: | | |
| Interest | $ 16.8 | $ 13.7 |
| Income taxes | (16.7) | (0.3) |
| In connection with business acquisitions, liabilities were assumed as follows: | | |
| Fair value of assets acquired | $ 7.9 | $ 2.7 |
| Cash paid | (3.2) | (1.8) |
| Liabilities assumed | $ 4.7 | $ 0.9 |

See notes to unaudited consolidated condensed financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Dollars in Millions, except per share data)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated condensed financial statements include the accounts of Laboratory Corporation of America Holdings and its wholly owned subsidiaries (the "Company") after elimination of all material intercompany accounts and transactions.

The accompanying consolidated condensed financial statements of the Company and its subsidiaries are unaudited. In the opinion of management, all adjustments (which include only normal recurring accruals) necessary for a fair statement of the results of operations have been made.

2. EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding during the three months ended March 31, 1996 and 1995 of 122,908,722 shares and 84,766,768 shares, respectively. The increase in the total number of shares outstanding for the three months ended March 31, 1996 resulted primarily from the issuance of shares of common stock to HLR Holdings, Inc. and Roche Holdings, Inc. in connection with merger with Roche Biomedical Laboratories, Inc. ("RBL") in April 1995.

3. MERGER WITH ROCHE BIOMEDICAL LABORATORIES, INC.

On April 28, 1995, the Company completed its merger (the "Merger") with RBL.

The following table provides unaudited pro forma operating results as if the Merger had been completed at the beginning 1995. The pro forma information does not include the restructuring charges and extraordinary item related to the Merger. The pro forma information has been prepared for comparative purposes only and does not puport to be indicative of future operating results.

| | Three Months Ended March 31, 1995 |
|---|---|
| Net sales | $ 429.3 |
| Net earnings | 21.6 |
| Net earnings per common share | 0.18 |

(Dollars in Millions)

## 4. RESTRUCTURING CHARGES

Following the Merger, the Company determined that it would be beneficial to close Company laboratory facilities in certain geographic regions where duplicate Company and RBL facilities existed at the time of the Merger. In addition, the Company decided to downsize certain finance and administrative positions in La Jolla, California in order to eliminate duplicative functions.

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

| | Severance Costs | Asset revaluations and write-offs | Lease and other facility obligations | Total |
|---|---|---|---|---|
| Balance at December 31, 1995 | $ 12.8 | $ 18.6 | $ 18.9 | $ 50.3 |
| Non cash items | -- | (4.7) | -- | (4.7) |
| Cash payments | (5.8) | -- | (0.4) | (6.2) |
| Balance at March 31, 1996 | $ 7.0 | $ 13.9 | $ 18.5 | $ 39.4 |
| | | | | |
| Current | | | | $ 22.9 |
| Non-current | | | | 16.5 |
| | | | | $ 39.4 |

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in Millions)

## RESULTS OF OPERATIONS

Net sales for the three months ended March 31, 1996 were $403.9, an increase of 65.7% from $243.8 reported in the comparable 1995 period. Net sales from the inclusion of RBL increased net sales by approximately $179.9 or 73.8%. Acquisitions of small clinical laboratory companies increased net sales by approximately 3.6%. Severe weather in January and February of 1996 decreased net sales by approximately $11.5 or 4.7%. A reduction in Medicare fee schedules from 80% to 76% of the national limitation amounts on January 1, 1996, reduced net sales by approximately 1.8%. Price erosion in the industry as a whole, lower utilization of laboratory testing and lost accounts, net of growth in new accounts, comprised the remaining reduction in net sales. Lower utilization of laboratory testing and price erosion primarily resulted from continued changes in payor mix brought on by the increase in managed care.

Cost of sales, which includes primarily laboratory and distribution costs, was $303.3 for the three months ended March 31, 1996 compared to $164.3 in the corresponding 1995 period, an increase of $139.0. Cost of sales increased approximately $138.9 due to the inclusion of the cost of sales of RBL, approximately $2.5 due to an increase in overtime and temporary employee expenses related to acceleration of the Company's synergy plan and other operational factors and approximately $5.0 in several other expense categories. These increases were partially offset by decreases in volume related expenses, primarily related to weather, of $2.3, supplies of $3.6 and insurance of $1.5. Cost of sales as a percentage of net sales was 75.1% for the three months ended March 31, 1996 and 67.4% in the corresponding 1995 period. The increase in the cost of sales percentage of net sales primarily resulted from a reduction in net sales due to severe weather in January and February of 1996, a reduction in Medicare fee schedules, price erosion and utilization declines, each of which provided little corresponding reduction in costs.

Selling, general and administrative expenses increased to $65.5 for the three months ended March 31, 1996 from $38.0 in the same period in 1995. The inclusion of the selling, general and administrative expenses of RBL since April 28, 1995 increased expenses by approximately $27.0. Increases in other expenses, primarily overtime and temporary employee expenses related to customer service issues, aggregated $3.8. These increases were partially offset by decreases in several expense categories, including selling expenses, as a result of the Company's on-going

synergy and cost-reduction programs. As a percentage of net sales, selling, general and administrative expenses were 16.2% and 15.6% for the three months ended March 31, 1996 and 1995, respectively. The increase in the selling, general and administrative percentage primarily resulted from the factors noted in the preceding paragraph.

Management expects that price erosion and utilization declines will continue to negatively impact net sales and the results of operations for the foreseeable future. It is the objective of management to partially offset the increases in cost of sales as a percentage of net sales and selling, general and administrative expenses as a percentage of net sales through the synergy program, as discussed below, and comprehensive cost reduction programs at each of the Company's regional laboratories, although there can be no assurance of the timing or success of such programs. Congress is also considering changes to the Medicare fee schedules in conjunction with certain budgetary bills pending in Congress. The ultimate outcome of these deliberations on pending legislation cannot be predicted at this time and management, therefore, cannot predict the impact, if any, such proposals, if enacted, would have on the results of operations of the Company.

The increase in amortization of intangibles and other assets to $7.3 for the three months ended March 31, 1996 from $4.8 in the corresponding period in 1995 primarily resulted from the Merger in April 1995.

Interest expense was $16.7 for the three months ended March 31, 1996 compared with $13.7 for the same period in 1995. The change resulted primarily from increased borrowings used to finance the Merger partially offset by a lower effective borrowing rate.

The provision for income taxes as a percentage of earnings before taxes was 50.0% for the three months ended March 31, 1996 compared to 45.3% for the three months ended March 31, 1995. The increased effective rate primarily resulted from an increase in non-deductible amortization resulting from the Merger and from lower earnings before income taxes.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by (used for) operating activities (after payment of settlement and related expenses of $0.3 and $19.3 in 1996 and 1995, respectively) was $19.2 and ($25.8), respectively. Capital expenditures were $14.9 and $7.1 for 1996 and 1995, respectively. The Company expects capital expenditures to be approximately $65.0 in

1996 to continue the Merger related integration, to accommodate expected growth, to further automate laboratory processes and to improve efficiency.

The Company is a party to interest rate swap agreements with certain major financial institutions, rated A or better by Moody's Investor Service, solely to manage its interest rate exposure with respect to $600.0 million of its floating rate debt under the Term Loan Facility. The agreements effectively change the interest rate exposure on $600.0 of floating rate debt to a weighted average fixed interest rate of 6.01%, through requiring that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in the three months ended March 31, 1996 were not significant. The notional amounts of the agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. These agreements mature in September 1998. The estimated unrealized gain on such agreements was approximately $2.7 at April 30, 1996.

See Note 4 of the Notes to Unaudited Consolidated Condensed Financial Statements which sets forth the Company's restructuring activities for 1996. Future cash payments under the restructuring plan are expected to be $9.0 over the next twelve months and $16.5 thereafter.

As a result of the Merger, the Company has realized and is expected to continue to achieve substantial savings in operating costs through the consolidation of certain operations and the elimination of redundant expenses. Such savings are being realized over time as the consolidation process is completed. The Company expects to continue to realize incremental savings from the synergy program in 1996 and expects to achieve an annualized net savings run-rate of approximately $110.0 million within two years following the Merger. The synergies expected to be realized by the Company are being derived from several sources, including corporate, general and administrative expenses, including the consolidation of administrative staff. Other reductions in sales staff where duplicate territories exist, operational savings, including the closing of overlapping laboratories and other facilities, and savings to be realized from the additional buying power of the larger Company, are generating significant savings. In addition, savings have been realized from certain changes in employee benefits. These estimated savings are anticipated to be partially offset by a loss of existing business during the conversion process. In addition, the acceleration of certain portions of the Company's plans have resulted

in increases in certain costs, primarily overtime and temporary employee expenses, as consolidation continues. Realization of improvements in profitability is dependent, in part, on the extent to which the revenues of the combined companies are maintained and will be influenced by many factors, including factors outside the control of the Company. There can be no assurance that the estimated cost savings described above will be realized or achieved in a timely manner or that improvements, if any, in profitability will be achieved or that such savings will not be offset by increases in other expenses.

The Company expects that its cash needs for working capital, capital expenditures and the cash costs of the restructuring and operations of the Company after the Merger will be met by its cash flow from operations and borrowings under a revolving credit facility of $450.0.

Each of the above forward-looking statements are subject to change based on various important factors, including without limitation, competitive actions in the marketplace and adverse actions of governmental and other third-party payors. Further information on potential factors which could affect the Company's financial results is included in the Company's Form 10-K for the year ended December 31, 1995.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

20 Press release of the Registrant dated April 25, 1996.*

27 Financial Data Schedule (electronically filed version only).

(b) Reports on Form 8-K

A report on Form 8-K dated April 25, 1996 was filed on May 8, 1996 in connection with the press release dated April 25, 1996 announcing operating results of the Registrant for the three month period ended March 31, 1996 as well as certain other information.

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* Incorporated by reference herein to the report on Form 8-K filed with the Securities and Exchange Commission on May 8, 1996.

# S I G N A T U R E S

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

LABORATORY CORPORATION OF AMERICA HOLDINGS
Registrant

By:/s/ HAYWOOD D. COCHRANE, JR.
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Haywood D. Cochrane, Jr.
Executive Vice President, Chief
Financial Officer and Treasurer

By:/s/ WESLEY R. ELINGBURG
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Wesley R. Elingburg
Senior Vice President, Finance
(Principal Accounting Officer)

Date: May 14, 1996

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS AND STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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LABORATORY CORPORATION OF AMERICA HOLDINGS
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DEC-31-1996
MAR-31-1996
15,700
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534,800
87,400
63,600
612,100
444,900
143,000
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