AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 6, 1997

REGISTRATION NO. 333-22427

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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.)

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358 SOUTH MAIN STREET
BURLINGTON, NORTH CAROLINA 27215
(910) 229-1127
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

BRADFORD T. SMITH
EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL,
CORPORATE COMPLIANCE OFFICER AND SECRETARY
LABORATORY CORPORATION OF AMERICA HOLDINGS
358 SOUTH MAIN STREET
BURLINGTON, NORTH CAROLINA 27215
(910) 229-1127
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after the Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
Subscription Rights	(2)	None
Convertible Preferred Stock ("Preferred Stock")	$828,200,000(3)	$250,970(6)
Convertible Subordinated Notes ("Notes")	$250,562,450(4)	None
Common Stock	(5)	None

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).
(2) Such indeterminate number of Rights to purchase Preferred Stock as may be issued to existing stockholders.
(3) Includes Preferred Stock to be issued in the form of dividends on outstanding Preferred Stock in accordance with the terms thereof.
(4) To be issued in exchange for Preferred Stock at the option of the Company.

(5) Such undeterminable number of shares of common stock as may be issued upon conversion of the Preferred Stock or Notes.

(6) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED MAY 6, 1997

10,000,000 Shares

[LOGO]

LABORATORY CORPORATION OF AMERICA HOLDINGS

% Series A Convertible Exchangeable Preferred Stock
or
% Series B Convertible Pay-in-Kind Preferred Stock
(mandatorily redeemable , 2012; liquidation preference $50 per share)

Dividends payable , , and
($500,000,000 aggregate liquidation preference)

Laboratory Corporation of America Holdings, a Delaware corporation (the "Company"), is distributing to holders of record ("Recordholders") of its common stock, par value $0.01 per share (the "Common Stock"), at the close of business on May , 1997 (the "Record Date"), transferable rights (the "Rights") to subscribe for and purchase, at the election of the holders of the Rights (the "Rights Holders"), up to an aggregate of 10,000,000 shares (the "Underlying Shares") of either % Series A Convertible Exchangeable Preferred Stock, par value $0.10 per share, of the Company (the "Series A Exchangeable Preferred Stock") or % Series B Convertible Pay-in-Kind Preferred Stock, par value $0.10 per share, of the Company (the "Series B PIK Preferred Stock" and, together with the Series A Exchangeable Preferred Stock, the "Preferred Stock"), for a cash price of $50 (the "Subscription Price") per share. Payment of the Subscription Price will be held in a segregated account to be maintained by the Subscription and Information Agent (as defined herein) and will be applied to the purchase of Preferred Stock. Rights Holders will be able to exercise their Rights until 5:00 p.m. New York time on , 1997 unless such time is extended by the Company as described herein (the "Expiration Date").

(continued)

FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE PREFERRED STOCK, SEE "RISK FACTORS" BEGINNING ON PAGE 20.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Subscription Price	Dealer Manager and Solicitation Fees(1)	Proceeds to Company(2)
Per Share(3)	$50.00	$2.00	$48.00
Total(3)	$500,000,000	$10,022,498	$489,977,502

(1) The fees payable to Credit Suisse First Boston Corporation ("Credi t Suisse First Boston"), the dealer manager for the Rights Offering, will v ary depending on the amount of the proceeds raised in the Rights Offer ing excluding proceeds raised from or by Roche Holdings or any of its affiliates. Credit Suisse First Boston will also receive a financial advisory fee of $1,000,000. See "Plan of Distribution."

(2) Before deducting other expenses of the Rights Offering payable by the Company estimated at $2,000,000 and the financial advisory fee referred to above.

(3) Assumes that Roche Holdings purchases 4,988,751 shares of Preferred Stock, that no other proceeds are raised by Roche Holdings or any of its affiliates in the Rights Offering, and that Rights Holders other than Roche Holdings purchase the remaining shares. If no Rights Holder other than Roche Holdings purchases Preferred Stock, the total Subscription Price, total Dealer Manager and Solicitation Fees and total Proceeds to Company would be $500,000,000, $0 and $500,000,000, respectively.

The Dealer Manager for the Rights Offering is:

CREDIT SUISSE FIRST BOSTON

Prospectus dated May , 1997.

(continued from previous page)

Recordholders will receive of a Right for each share of Common Stock held as of the Record Date (the "Rights Offering"). As soon as practicable after the Record Date, transferable certificates evidencing the Rights (the "Rights Certificates") will be delivered to the Recordholders. No fractional Rights or cash in lieu thereof will be issued or paid by the Company. The number of Rights issued by the Company to each Recordholder will be rounded to the nearest whole number, with such adjustments as may be necessary to ensure that no more than 10,000,000 shares of Preferred Stock are issued hereunder. Each Right consists of a basic subscription privilege under which Rights Holders may purchase at the Subscription Price one full share of Preferred Stock for each Right held (the "Basic Subscription Privilege").

Rights Holders who exercise their Basic Subscription Privilege in full will also be eligible to subscribe (the "Oversubscription Privilege") at the Subscription Price for shares of Preferred Stock that are not otherwise purchased pursuant to the exercise of Rights (the "Excess Shares") of the same series as purchased pursuant to such Rights Holder's Basic Subscription Privilege, subject to availability and proration. Once a Rights Holder has exercised the Basic Subscription Privilege or the Oversubscription Privilege such exercise may not be revoked.

Roche Holdings, Inc. ("Roche Holdings"), a wholly owned subsidiary of Roche Holding Ltd. ("Roche") is the owner of approximately 49.9% of the Common Stock currently outstanding. Roche Holdings has informed the Company that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in full for the Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock.

The annual dividend for each share of Series A Exchangeable Preferred Stock offered hereby is $, payable in cash. The annual dividend for each share of Series B PIK Preferred Stock offered hereby is $, payable in shares of Series B PIK Preferred Stock until , 2003 and cash thereafter. The Preferred Stock is convertible on or after , 1997 in the case of the Series A Exchangeable Preferred Stock, and on or after , 2000 in the case of the Series B PIK Preferred Stock, in each case, at the option of the holder, unless previously redeemed, into shares of Common Stock at a rate (subject to adjustment in certain events) of shares of Common Stock for each share of Preferred Stock, equivalent to a conversion price of $ for each share of Common Stock. The conversion rate was determined by the Company, in consultation with Credit Suisse First Boston. Among the factors considered by the Board of Directors in determining the conversion rate were (i) the market value of the Common Stock; (ii) the present and projected operating results and financial condition of the Company; (iii) an assessment of the Company's management and management's analysis of the growth potential of the Company and of the Company's market area; (iv) the aggregate size of the Rights Offering; and (v) the conversion rate which the Board of Directors believes investors would readily accept under current economic circumstances. The shares of Series A Exchangeable Preferred Stock will be exchangeable, subject to certain conditions, at the option of the Company, in whole (but not in part), on any dividend payment date on or after , 2000 for the Company's % Convertible Subordinated Notes due 2012 (the "Notes") at a rate of $50 principal amount of Notes for each share of Series A Exchangeable Preferred Stock. The Series B PIK Preferred Stock will not be exchangeable for Notes. See "Description of the Notes." Except as described above, the terms of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock are identical in all respects. The Preferred Stock is not redeemable prior to , 2000. On or after such date, the Company may redeem the Preferred Stock, in whole or in part at the prices set forth herein, plus in each case, accrued and unpaid dividends. All shares of Preferred Stock issued and outstanding as of , 2012 shall be redeemed by the Company at the redemption price of $50 per share. Dividends on the Preferred Stock are cumulative from the date of issuance and are payable quarterly in arrears commencing , 1997. See "Description of Preferred Stock."

The Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "LH." On February 26, 1997, the last full trading day before announcement of the Rights Offering, the last

reported sale of the Common Stock on the NYSE Composite Tape was $3 3/4. On May , 1997, the last full day of trading prior to the effective date of the registration statement of which this Prospectus forms a part, the last reported sale price of the Common Stock on the NYSE Composite Tape was $. Application has been made to list the Preferred Stock on the NYSE. It is unlikely however that the Series B PIK Preferred Stock will be accepted for listing on the NYSE as it is expected that following the Rights Offering the Series B PIK Preferred Stock will be held by fewer than 100 holders. It is expected that the Rights will trade on the NYSE until the close of business on the last trading day prior to the Expiration Date, at which time they will cease to have value.

Upon consummation of the Rights Offering and satisfaction of certain other conditions precedent, an amended and restated credit agreement (the "Amended Credit Agreement") between the Company and its existing lenders will become effective. See "Description of Amended Credit Agreement."

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING STABILIZING TRANSACTIONS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

PROSPECTUS SUMMARY

The following summary is qualified in its entirety and should be read in conjunction with the more detailed information and financial statements, including the notes thereto, included or incorporated by reference in this Prospectus. Each prospective investor is urged to read this Prospectus in its entirety. In connection with the Merger (as defined herein) in April 1995, National Health Laboratories Holdings, Inc. ("NHL") changed its name to Laboratory Corporation of America Holdings. Unless otherwise indicated, all references herein to the "Company" refer to Laboratory Corporation of America Holdings and its consolidated subsidiaries following the Merger or NHL and its consolidated subsidiaries prior to the Merger, as applicable.

THE COMPANY

GENERAL

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1996 net revenues. 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. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states. For the year ended December 31, 1996, the Company had net sales of $1,607.7 million and EBITDA before a provision for settlements and related expenses, restructuring charges and non-recurring expenses of $173.7 million. See footnote (k) to "Summary Financial Data" for a discussion of certain matters related to EBITDA. Primarily as a result of the Settlement Charge discussed below, operating loss and net loss during such period were $118.8 million and $153.5 million respectively.

The Company has achieved a substantial portion of its growth through acquisitions. In June 1994, the Company acquired Allied Clinical Laboratories, Inc. ("Allied"), then the sixth largest independent clinical laboratory testing company in the United States (based on 1993 net revenues) (the "Allied Acquisition"). In addition, in April 1995, the Company completed a merger with Roche Biomedical Laboratories, Inc. ("RBL"), an indirect subsidiary of Roche pursuant to an Agreement and Plan of Merger dated as of December 13, 1994 (the "Merger"). In connection with the Merger, the Company changed its name from National Health Laboratories Holdings, Inc. to Laboratory Corporation of America Holdings. In addition to the Merger and the Allied Acquisition, since 1993 the Company has acquired a total of 57 small clinical laboratories with aggregate sales of approximately $182.4 million.

THE CLINICAL LABORATORY TESTING INDUSTRY

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, monitoring and treatment of diseases and other medical conditions through the examination of substances in the blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical testing, which is performed on body fluids including blood and urine, or anatomical pathology testing, which is performed on tissue and other samples, including human cells. Clinical and anatomical pathology procedures are frequently ordered as part of regular physician office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used principally as tools in the diagnosis and treatment of a wide variety of medical conditions such as cancer, AIDS, endocrine disorders, cardiac disorders and genetic disease. The most frequently requested tests include blood chemistry analyses, urinalyses, blood cell counts, PAP smears, AIDS tests, microbiology cultures and procedures and alcohol and other substance-abuse tests.

The clinical laboratory industry consists primarily of three types of providers: hospital based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company. The Company believes that in 1996 approximately 50 percent of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 15 percent were derived by physicians in their offices and laboratories and approximately 35 percent were derived by independent clinical laboratories. The Health Care Financing Administration ("HCFA") of the Department of Health and Human Services ("HHS") has estimated that in 1996 there were over 5,000 independent clinical laboratories in the United States.

BUSINESS STRATEGY

During 1996, management began implementing a new business strategy in response to the Company's declining performance. These new strategic objectives are as follows: remaining a low cost provider of clinical testing services; providing high quality customer service to its clients; and improving account profitability. In addition, the Company is focused on certain growth initiatives beyond routine clinical laboratory testing. The Company believes that as a result of this change in focus it is well positioned to achieve its goal of leading the clinical laboratory industry by providing its customers with innovative, responsive, and high quality services.

LOW COST PROVIDER

The Company believes that due to synergy programs implemented following the Merger, its standardized equipment and its focus on cost containment, it is a low cost provider of clinical testing services. Since the Merger, the Company has been able to effect substantial operating cost reductions in the combined businesses and expects that the full effect of these savings (approximately $120 million per year when compared to the businesses' costs immediately prior to the Merger) will be realized during 1997. In addition, the Company is focused on other initiatives which are expected to achieve significant cost savings in 1997. These plans include a new agreement with a supplier of telecommunications services, additional supply savings primarily due to increased efficiency, and further regional laboratory consolidation. See "Management's Discussion and Analysis of Results of Operations and Financial Position."

The Company has also developed and implemented sophisticated management information systems to monitor operations and control costs. All financial functions are centralized in Burlington, North Carolina including purchasing and accounting. Management believes this provides greater control over spending as well as increased supervision and monitoring of results of operations.

CLIENT SERVICE

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, the pricing of its services and its ability to employ qualified personnel. The Company believes it is a leading provider of laboratory testing in terms of its menu and quality of testing services. As a result of the required focus on the consolidation process related to the Merger, however, the Company believes that its level of client service has been negatively impacted. Therefore, in 1997, with the consolidation process substantially completed, one of the Company's goals is to improve client service. An important factor in improving client service includes the Company's initiatives to improve its billing process. See "Business Billing."

ACCOUNT PROFITABILITY

Since the third quarter of 1996, the Company has begun an active effort to improve the profitability of new and existing business. To date this effort has focused primarily on reviewing existing contracts,

including those with managed care organizations, and selectively repricing or discontinuing business with existing accounts which perform below Company expectations. The Company believes that as a result of this effort, the fourth quarter of 1996 was the second consecutive quarter since the Merger that the Company's price per accession or specimen did not decline versus the immediately preceding quarter. The Company is also targeting price increases across most of its business lines, including specialty and niche testing which have not seen price increases since the Merger. While such increases may adversely affect volumes, the Company believes that such measures along with other cost reduction programs, will improve its overall profitability. Finally, the Company is reviewing its sales organization and expects to modify its commission structure so that compensation is tied more directly to the profitability of retained and new business instead of the current practice of basing commissions primarily on revenue generated. The Company is also reviewing alternatives relating to regions of the country and certain businesses where profitability is not reaching internal goals and may enter into joint ventures, alliances, or asset swaps with interested parties in order to maximize regional operating efficiencies.

FOCUSED GROWTH INITIATIVES

The Company plans to increase market share in certain sections of the market by providing innovative services in three primary areas: (i) hospital alliances; (ii) specialty and niche businesses; and (iii) direct marketing to payors.

One of the Company's primary growth strategies is to develop an increasing number of hospital alliances. These alliances can take several different forms including laboratory management contracts, reference agreements and joint ventures. Through these alliances the Company provides testing services as well as contract management services. As hospitals continue to be impacted by decreasing fee schedules from third party payors and managed care organizations, the Company believes that they will seek the most cost-effective laboratory services for their patients. The Company's economies of scale as well as its delivery system enable it to assist the hospital in achieving this goal. These alliances are generally more profitable than the Company's core business due to the specialized nature of many of the testing services offered in the alliance program. In 1996, the Company added 6 alliance agreements with hospitals, physician groups and other care provider organizations representing approximately $20 million of annual sales. This increased the total number of alliances to 20 at December 31, 1996 from 14 at December 31, 1995.

Another primary growth strategy for the Company is growth of its specialty and niche businesses. In general the specialty and niche businesses are designed to serve two market segments: (i) markets which are not served by the routine clinical testing laboratory and therefore are subject to less stringent regulatory and reimbursement constraints; and (ii) markets which are served by the routine testing laboratory but offer the possibility of adding related services from the same supplier. The Company's research and development group continually seeks new and improved technologies for early diagnosis. For example, the Company believes its Center for Molecular and Biology and Pathology ("CMBP") is a leader in molecular diagnostics and polymerase chain reaction ("PCR") technologies which are often able to provide earlier and more reliable information regarding HIV, genetic diseases, cancer, and many viral and bacterial diseases. These technologies may represent a significant savings to managed care organizations by increasing the detection of early stage (treatable) diseases. Also, the Company recently acquired Genetic Design, Inc. and management believes it is now the largest provider of identity testing services in the United States.

Finally, in 1996 the Company also began to focus efforts on selling its services directly to payors of laboratory services. As a result of that focus, the Company entered into an agreement with PCS Health Systems, Inc. ("PCS"), a leading pharmacy benefit management company with 58 million covered lives, to provide laboratory services as an extension of the PCS prescription card services. Through this

agreement patients will be provided with identification cards indicating beneficiary eligibility for both prescription benefits and the Company's testing services. The Company will provide the testing services as requested and bill PCS based on a predetermined fee schedule. The Company will pay PCS certain percentage and fixed fees for adjudication of claims. One of the advantages of the PCS agreements is that patient eligibility will be determined at the time of testing through interface with the PCS information system which will expedite processing of the claim for reimbursement.

RECENT DEVELOPMENTS

During 1996 and the early part of 1997, the Company has undergone significant changes in management with Thomas P. Mac Mahon assuming the role of President and Chief Executive Officer in January 1997 in addition to his position as Chairman. Prior to such time Mr. Mac Mahon served as Senior Vice President of Hoffmann--La Roche and President of Roche Diagnostics Group where he was responsible for the management of all United States operations of the diagnostic businesses of Hoffmann-- La Roche. In addition to Mr. Mac Mahon, the Company is led by a new Chief Financial Officer, Wesley R. Elingburg, formerly Senior Vice President-Finance, and a new management committee.

As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the Office of the Inspector General ("OIG") of HHS and the Department of Justice (the "DOJ"), have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies (the "1996 Government Settlement"). See "Business--Regulation and Reimbursement--OIG Investigations - --1996 Government Settlement". Consistent with this overall settlement, the Company paid $187 million to the Federal Government (the "Settlement Payment") in December 1996 with proceeds from a loan from Roche Holdings (the "Roche Loan"). See "--Relationship with Roche". As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185 million in the third quarter of 1996 (the "Settlement Charge") to increase reserves for the 1996 Government Settlement and other related expenses of government and private claims resulting therefrom.

In March 1997, the Company entered into the Sixth Amendment and Waiver (the "Sixth Amendment") to its credit agreement (the "Existing Credit Agreement"). The Sixth Amendment eliminates amortization payments on its term loan facility (the "Term Loan Facility") under the Existing Credit Agreement for 1997 and modifies the interest coverage and leverage ratios for the quarterly periods through December 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Pursuant to this amendment, the Company paid an amendment fee of 37.5 basis points on commitments and will pay an additional fee of 62.5 basis points if the Rights Offering is not completed by June 30, 1997.

In addition, the Roche Loan was originally due on March 31, 1997. In March 1997, the Company negotiated an amendment to the Roche Loan which provided for an extension of the due date to March 31, 1998.

The Company also entered into the Amended Credit Agreement with its lenders under the Existing Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. Upon consummation of the Rights Offering and receipt of $500 million in gross proceeds, the Amended Credit Agreement makes available to the Company a term loan facility of $643.8 million (the "Amended Term Loan Facility") and a $450.0 million revolving credit facility (the "Amended Revolving Credit Facility"). See "Description of Amended Credit Agreement" and Note 9 of the Notes to Consolidated Financial Statements for a complete description of the Amended Credit Agreement.

RECENT FINANCIAL RESULTS

Net sales for the first quarter of 1997 were $391.5 million, versus $403.9 million in the first quarter of 1996. In the first quarter of 1997, the Company posted operating income of $27.8 million, net earnings of $2.4 million, and earnings per share of $0.02. This compares with operating income of $27.8 million, net earnings of $5.9 million, and earnings per share of $0.05 in the same period in 1996.

The first quarter of 1997 was the first quarter in two years that prices increased over the prior year's comparable period. Although sales were approximately $12 million lower than the first quarter of 1996, expense reductions in the first quarter of 1997 offset this revenue decline, allowing the Company to maintain operating income at a level equal to the comparable period in 1996. The lower revenue in 1997 reflects a decline in volume consistent with industry trends as well as the Company's program of selectively eliminating unprofitable accounts and carefully evaluating the acceptability of new business.

In addition, on flat sales, operating income for the first quarter of 1997 represents an increase of approximately 27% when compared to operating income of $21.8 million for the fourth quarter of 1996. This improvement is a direct result of the Company's continuing efforts to reduce costs and increase price.

Additionally, the Company is increasing its emphasis on actively pursuing profitable new growth opportunities that add volume and capitalize on its extensive service capabilities. Recently, the Company finalized a multi-year, preferred provider agreement with United Healthcare Corporation ("United"), one of the nation's largest health care services organizations. Under the national agreement, the Company is eligible to provide clinical laboratory testing services for up to 10 million persons served by United's health plans and preferred provider networks.

Set forth below is certain summarized financial information for the first quarter of 1996 and 1997.

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
Net sales	$ 391.5	$ 403.9
EBITDA(1)	$ 49.3	$ 48.4
Operating Income	$ 27.8	$ 27.8
Earnings before income taxes	$ 5.9	$ 11.8
Provision for income taxes	(3.5)	(5.9)
Net earnings	$ 2.4	$ 5.9
Net earnings per common share(2)	$ 0.02	$ 0.05

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(1) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles ("GAAP") (and should not be considered as an indicator of operating performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(2) Net earnings per common share are based on the weighted average number of shares outstanding during the three-month periods ended March 31, 1997 and

1996 of 122,935,080 and 122,908,722 shares, respectively.

On March 28, 1997, a formal announcement (the "Announcement") from the Securities and Exchange Commission (the "Commission") was made available which will impact the Company's calculation of earnings per share with respect to the issuance of the Preferred Stock. It is currently anticipated that the Preferred Stock will be convertible into Common Stock at a conversion price lower than the current market value of the Common Stock. The Announcement generally requires that the difference between the conversion price to holders of preferred stock at issuance and the value of the related common stock, solely as measured in the public market at that date, be recognized as a preferred dividend (the "Imputed Dividend") and the resulting Imputed Dividend amortized using the effective interest method from the date of issuance through the date the preferred stock is first convertible.

As a result of the Announcement and the anticipated difference between the conversion price of the Preferred Stock and the market value of the related Common Stock, the Company expects that it will record a significant Imputed Dividend upon the issuance of the Preferred Stock resulting in less income or a higher loss applicable to holders of the Common Stock. In addition, net income or loss applicable to holders of Common Stock in future periods will be affected by amortization of the initial Imputed Dividend and additional Imputed Dividend which may arise when additional shares of Series B PIK Preferred Stock are issued as dividends on the Series B PIK Preferred Stock.

The Company's principal executive offices are located at 358 South Main Street, Burlington, North Carolina 27215, and its telephone number is (910) 229-1127.

RELATIONSHIP WITH ROCHE

In connection with the Merger, HLR Holdings Inc. ("HLR"), and its designee, Roche Holdings, received 49.9% of the total outstanding Common Stock of the Company and the Company, HLR, Roche Holdings and Hoffmann--La Roche Inc. entered into a Stockholder Agreement dated as of April 28, 1995 (the "Stockholder Agreement"). In December of 1996, HLR was merged with and into Roche Holdings. As a result of its ownership interest and its rights under the Stockholder Agreement, Roche is able to exercise significant influence on the governance of the Company and on the composition of its board of directors. See "Certain Relationships and Related Transactions--The Stockholder Agreement." Roche Holdings has indicated that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in the Rights Offering in full for Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock. Consequently, following conversion of all of the Preferred Stock, Roche Holdings will own a minimum of 49.9% and a maximum of % of the total outstanding Common Stock of the Company. As mentioned above, in December, 1996, Roche Holdings loaned $187 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1998. A portion of the proceeds of the Rights Offering will be used to repay such loan. See "Use of Proceeds."

THE RIGHTS OFFERING

Securities Offered.....	A total of up to 10,000,000 shares of Preferred Stock are being offered in the Rights Offering pursuant to the exercise of Rights. Once the Rights are distributed and until the Expiration Date, the Company will not effect a reclassification of the Company's equity securities which could have the effect of materially altering the value of the Rights. See "Description of Rights Offering" and "Description of Preferred Stock."
Basic Subscription Privilege.....	Recordholders at the close of business on the Record Date will receive, at no cost, of a Right for each share of Common Stock owned of record at the close of business on such date. Each Right will entitle the Rights Holder to subscribe for one Underlying Share at the Subscription Price. Upon exercise of the Rights, Rights Holders must indicate on their Rights Certificate whether they wish to receive either shares of Series A Exchangeable Preferred Stock or shares of Series B PIK Preferred Stock. A failure to so indicate on the Rights Certificate will result in the issuance of Series A Exchangeable Preferred Stock. No fractional Rights or cash in lieu thereof will be issued or paid. Fractional Rights will be rounded to the nearest whole number, with such adjustments as may be necessary to ensure that no more than 10,000,000 shares of Preferred Stock are issued hereunder. ONCE A RIGHT HAS BEEN PROPERLY EXERCISED, IT CANNOT BE REVOKED. See "Description of Rights Offering--The Rights" and "--Subscription Privileges."
Oversubscription Privilege.....	Each Rights Holder who elects to exercise the Basic Subscription Privilege in full may also subscribe at the Subscription Price for Excess Shares of the same series as purchased pursuant to such Rights Holder's Basic Subscription Privilege, subject to availability and proration. The available Excess Shares will be prorated among Rights Holders who exercise their Oversubscription Privilege based upon the respective number of shares of Preferred Stock each such Rights Holder shall have subscribed for pursuant to the Basic Subscription Privilege; provided, however, that Roche Holdings will not be allocated any Excess Shares until all other Rights Holders exercising the Oversubscription Privilege have been allocated the number of Excess Shares for which they oversubscribed. All excess payments shall be returned by mail without interest or deduction promptly after the Expiration Date and after all prorations and adjustments contemplated by the Rights Offering have been effected. See "Description of Rights Offering--Subscription Privileges."
Subscription Price.....	$50 per share of Preferred Stock. Payment of the Subscription Price will be held in a segregated account to be maintained by the Subscription and Information Agent and will be applied to the purchase of Preferred Stock.

Record Date.....	, 1997.
Expiration Date.....	The Rights will expire, if not exercised prior to 5:00 p.m., New York time, on , 1997 unless extended for up to 30 days in the sole discretion of the Company. The number and length of any such extensions will be set at the time of any such extension. See "Description of Rights Offering--Expiration Date."
The Rights.....	The Rights will be evidenced by transferable certificates that will be exercisable by a Rights Holder until the Expiration Date. It is expected that the Rights will trade on the NYSE until the close of business on the last trading day prior to the Expiration Date, at which time they will cease to have value.
Subscription and Information Agent.....	American Stock Transfer & Trust Company.
Dealer Manager.....	The Company and Credit Suisse First Boston (the "Dealer Manager") have entered into a Dealer Manager Agreement pursuant to which Credit Suisse First Boston is acting as the dealer manager in connection with the Rights Offering. The Company has agreed to pay certain fees to, and expenses of, the Dealer Manager for its services in the Rights Offering. See "Plan of Distribution."
Procedure for Exercising Rights.....	The Basic Subscription Privilege and the Oversubscription Privilege may be exercised by properly completing the Rights Certificate, and forwarding it (or following the Guaranteed Delivery Procedures), with payment of the Subscription Price for each Underlying Share subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege, to the Subscription and Information Agent, who must receive such Rights Certificate or Notice of Guaranteed Delivery and payment on or prior to the Expiration Date. If Rights Certificates are sent by mail, Rights Holders are urged to use insured, registered mail, return receipt requested. See "Description of Rights Offering--Method of Subscription--Exercise of Rights." If the aggregate Subscription Price paid by an exercising Rights Holder is insufficient to purchase the number of Underlying Shares that the Rights Holder indicates are being subscribed for, or if no number of Underlying Shares to be purchased is specified, then the Rights Holder will be deemed to have exercised the Basic Subscription Privilege to purchase Underlying Shares to the full extent of the payment price tendered. If the aggregate Subscription Price paid by an exercising Rights Holder exceeds the amount necessary to purchase the number of Underlying Shares for which the Rights Holder has indicated an intention to subscribe, then the Rights Holder will be deemed to have exercised the Oversubscription Privilege to the full extent of the excess payment tendered, and

	any amount remaining shall be returned to such Rights Holder. See "Description of Rights Offering--Method of Subscription --Exercise of Rights." ONCE A RIGHTS HOLDER HAS EXERCISED THE BASIC SUBSCRIPTION PRIVILEGE OR THE OVERSUBSCRIPTION PRIVILEGE, SUCH EXERCISE MAY NOT BE REVOKED. RIGHTS NOT EXERCISED PRIOR TO THE EXPIRATION DATE WILL EXPIRE.
Persons Holding Common Stock, or Wishing to Exercise Rights, Through Others.....	Persons holding shares of Common Stock beneficially and receiving the Rights issuable with respect thereto, through a broker, dealer, commercial bank, trust company or other nominee, as well as persons holding certificates for Common Stock directly, who would prefer to have such institutions effect transactions relating to the Rights on their behalf, should contact the appropriate institution or nominee and request it to effect such transaction for them. See "Description of Rights Offering--Method of Subscription--Exercise of Rights."
Procedure for Exercising Rights by Stockholders Outside of the United States.....	Rights Certificates will not be mailed to holders of Common Stock whose addresses are outside the United States or who have an Army Post Office ("APO") or a Fleet Post Office ("FPO") address, but will be held by the Subscription and Information Agent for their accounts. To exercise the Rights represented thereby, such holders must notify the Subscription and Information Agent and take all other steps which are necessary to exercise the Rights on or prior to 5:00 p.m. New York time on , 1997. If no contrary instructions have been received by such time, the Rights of such holders will expire. See "Description of Rights Offering--Foreign and Certain Other Stockholders."
Federal Income Tax Consequences.....	In the opinion of Davis Polk & Wardwell, for United States Federal income tax purposes, receipt of Rights by a Recordholder pursuant to the Rights Offering should be treated as a nontaxable distribution with respect to the Common Stock. See "Certain Federal Income Tax Consequences."
Issuance of Preferred Stock.....	Certificates representing shares of Preferred Stock purchased pursuant to the exercise of the Rights will be delivered to subscribers as soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected.

No Board or Financial Advisor Recommendations....	An investment in the Preferred Stock must be made pursuant to each investor's evaluation of such investor's best interests. Accordingly, neither the Board of Directors of the Company nor Credit Suisse First Boston, as financial advisor to the Company, makes any recommendation to Rights Holders regarding whether they should exercise their Rights to purchase Preferred Stock.
Principal Stockholders.....	Roche Holdings, the owner of approximately 49.9% of the Common Stock currently outstanding, has indicated that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in full for Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock.
NYSE Symbol for Common Stock.....	"LH"
NYSE Symbol for Rights.....	"LH RT"
NYSE Symbol for the Series A Exchangeable Preferred Stock.....	"LH PrA"
NYSE Symbol for the Series B PIK Preferred Stock.....	"LH PrB". While application has been made to list the Series B PIK Preferred Stock on the NYSE, it is unlikely that the Series B PIK Preferred Stock will be accepted for listing as it is expected that following the Rights Offering the Series B PIK Preferred Stock will be held by fewer than 100 holders.
Use of Proceeds.....	The gross proceeds of the Rights Offering will be used to (i) repay approximately $294 million outstanding under the Existing Credit Agreement, (ii) pay fees and expenses of approximately $13 million related to the Rights Offering and (iii) repay the $187 million loan from Roche Holdings in order to fund the Settlement Payment plus accrued interest thereon of approximately $6 million. See "Use of Proceeds."

THE PREFERRED STOCK

Securities Offered.....	An aggregate of up to 10,000,000 shares of % Series A Convertible Exchangeable Preferred Stock and % Series B Convertible Pay-in-Kind Preferred Stock. Except as described below, the terms of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock are identical in all respects.
Mandatory Redemption.....	, 2012.
Dividends.....	Annual cumulative dividends of $ per share on the Preferred Stock are payable quarterly on each , , and , when, as and if declared by the Board of Directors. Annual cumulative dividends in the case of the Series A Exchangeable Preferred Stock are payable in cash out of funds legally available therefor, and in the case of the Series B PIK Preferred Stock, are payable in shares of Series B PIK Preferred Stock until , 2003 and cash thereafter. The Company may not pay dividends on the Preferred Stock unless it has paid or declared and set apart for payment accrued and unpaid dividends for all dividend payment periods on any class or series of stock ranking senior to the Preferred Stock as to dividends and it has paid or declared and set apart for payment or contemporaneously pays or declares and sets apart for payment accrued and unpaid dividends for all dividend payment periods on any class or series of stock having parity with the Preferred Stock as to dividends (which, in the case of the Series A Exchangeable Preferred Stock, will include the Series B PIK Preferred Stock and vice versa) ratably, so that the amount of dividends declared and paid per share on each series of Preferred Stock and any such class or series of stock having parity with the Preferred Stock as to dividends will bear to each other the same ratio that the accrued and unpaid dividends to the date of payment on each such class or series of stock and each series of Preferred Stock bear to each other.
Liquidation Preference.....	$50 per share of Preferred Stock, plus accrued and unpaid dividends.
Conversion Rights.....	Each share of Preferred Stock will be convertible at any time at the option of the holder thereof, in the case of the Series A Exchangeable Preferred Stock on or after , 1997 and in the case of the Series B PIK Preferred Stock on or after , 2000, into shares of Common Stock of the Company, subject to adjustment in certain events, including a Fundamental Change (as defined herein). See "Description of Preferred Stock--Conversion Rights."

Registration Rights....	In connection with the Rights Offering, the Company will grant to each Rights Holder (including Roche Holdings) who upon consummation of the Rights Offering beneficially owns Preferred Stock convertible into 10% or more of the Common Stock outstanding, and who certifies as such, registration rights with respect to such Common Stock on the same terms as those granted to Roche Holdings pursuant to the Stockholder Agreement.
Exchange for Notes.....	The Series A Exchangeable Preferred Stock will be exchangeable, subject to certain conditions, at the option of the Company, in whole (but not in part), on any dividend payment date on or after , 2000 for the Company's % Convertible Subordinated Notes due 2012 in a principal amount equal to $50 per share of Series A Exchangeable Preferred Stock. The Notes will be convertible, at the option of the holder thereof, into shares of Common Stock initially at the conversion price for the Series A Exchangeable Preferred Stock at the time of the exchange. Holders of Notes will be entitled to the same conversion rights as holders of Series A Exchangeable Preferred Stock. The Notes will bear interest at the rate of % payable quarterly in arrears on , , and of each year, commencing on the first such interest payment date following the date of exchange. At the Company's option, on or after , 2000, the Notes will be redeemable, in whole or in part, at the redemption prices set forth herein plus accrued and unpaid interest. The Notes are not subject to mandatory sinking fund payments. The Notes will be subordinated to all Senior Indebtedness (as defined herein) of the Company.
Optional Redemption.....	The Preferred Stock will not be redeemable prior to , 2000. On and after such date, the Preferred Stock will be redeemable, in whole or in part, at the option of the Company, at the prices set forth herein, plus in each case accrued and unpaid dividends to the redemption date.
Ranking.....	The Preferred Stock will rank, with respect to dividend rights and rights upon liquidation, winding up or dissolution, senior to all classes of the Company's common stock, on parity with each other and any other series or class of stock that may hereafter be created with the approval of the holders of Preferred Stock that ranks on parity with the Preferred Stock and junior to any other series or class of stock that may hereafter be created with the approval of the holders of Preferred Stock that ranks senior to the Preferred Stock.
Voting Rights.....	The holders of Preferred Stock will not have any voting rights, except as provided by applicable law and except that, among other things, holders will be entitled to vote together as a sepa- rate class (with the holders of shares of any other series of

	preferred stock of the Company having similar rights) to elect two directors of the Company if the equivalent of six quarterly dividends payable on the Preferred Stock are in arrears. In addition, so long as any Preferred Stock is outstanding the Company will not, without the affirmative vote or consent of the holders of at least (a) 66 2/3% of all outstanding shares of both series of Preferred Stock and outstanding Parity Dividend Stock (as defined herein) (voting as a single class), take certain actions so as adversely to affect the relative rights, preferences, qualifications, limitations, or restrictions of either series of Preferred Stock, authorize or issue, or increase the authorized amount of any Senior Dividend Stock, Senior Liquidation Stock (as such terms are defined herein) or any security convertible into such Senior Dividend Stock or Senior Liquidation Stock or effect any reclassification of either series of Preferred Stock or (b) a majority of all outstanding shares of both series of Preferred Stock and outstanding Parity Dividend Stock (voting as a single class) authorize or issue or increase the authorized amount of any additional class of Parity Stock (as defined herein) or any security convertible into such Parity Stock. Each share of Preferred Stock will be entitled to one vote on matters on which holders of such shares are entitled to vote.
Federal Income Tax Consequences.....	There are certain Federal income tax consequences associated with purchasing, holding and disposing of the Preferred Stock, including the fact that an exchange of the Series A Exchangeable Preferred Stock for Notes or a redemption of shares of Preferred Stock for cash will be a taxable transaction and may be taxable as a dividend. See "Certain Federal Income Tax Consequences."

SUMMARY FINANCIAL DATA

	Year Ended December 31,					
	1996	1996	1995(b)	1994(c)	1993	1992
	Pro forma(a)	Actual				
	(Dollars in millions, except per share amounts)					
STATEMENT OF OPERATIONS DATA:						
Net sales	$1,607.7	$1,607.7	$1,432.0	$872.5	$760.5	$721.4
Cost of sales	1,183.9	1,183.9	1,024.3	597.0	444.5	395.1
Gross profit	423.8	423.8	407.7	275.5	316.0	326.3
Selling general and administrative expenses	305.0	305.0	238.5	149.3	121.4	117.9
Amortization of intangibles and other assets	29.6	29.6	27.0	16.3	9.1	8.3
Restructuring and non-recurring charges	23.0(d)	23.0(d)	65.0(e)	--	--	--
Provision for settlements and related expenses	185.0(d)	185.0(d)	10.0(e)	--	--	136.0(f)
Operating income (loss)	(118.8)	(118.8)	67.2	109.9	185.5	64.1
Litigation settlement and related expenses	--	--	--	(21.0)(g)	--	--
Other gains and expenses, net	--	--	--	--	15.3(h)	--
Net interest income (expense)	(57.2)	(69.5)	(64.1)	(33.5)	(9.7)	(2.0)
Earnings (loss) before income taxes and extraordinary item	(176.0)	(188.3)	3.1	55.4	191.1	62.1
Provision for income taxes	(29.9)	(34.8)	7.1	25.3	78.4	21.5
Earnings (loss) before extraordinary item	(146.1)	(153.5)	(4.0)	30.1	112.7	40.6
Extraordinary item--loss on early extinguishment of debt, net(i)	--	--	(8.3)	--	--	--
Net earnings (loss)	(146.1)	(153.5)	(12.3)	30.1	112.7	40.6
Less preferred stock dividend	(103.4)	--	--	--	--	--
Net earnings (loss) applicable to common shares	$ (249.5)	$ (153.5)	$ (12.3)	$ 30.1	$ 112.7	$ 40.6
Net earnings (loss) per common share:						
Primary						
Before extraordinary loss	(2.03)	(1.25)	(0.03)	0.36	$ 1.26	0.43
Extraordinary loss	--	--	(0.08)	--	--	--
Total	$ (2.03)	$ (1.25)	$ (0.11)	$ 0.36	$ 1.26	$ 0.43
Fully Diluted						
Before extraordinary loss	(2.03)	(1.25)	(0.03)	0.36	$ 1.26	0.43
Extraordinary loss	--	--	(0.08)	--	--	--
Total	$ (2.03)	$ (1.25)	$ (0.11)	$ 0.36	$ 1.26	$ 0.43
Dividends per common share	$ --	$ --	$ --	$ 0.08	$ 0.32	$ 0.31
Weighted average common shares outstanding (in thousands)						
Primary	122,920	122,920	110,579	84,754	89,439	94,468

Fully diluted.....	307,696	122,920	110,579	84,754	89,439	94,468

	1996	1995(b)	1994(c)	1993	1992
	Actual				
	(Dollars in millions)				
SUPPLEMENTAL DATA:					
Net cash provided by (used in) operating activities(j).....	$(186.8)	$ 47.0	$ 14.7	$ 57.2	$102.4
Net cash used in investing activities.....	$ (59.1)	$(115.0)	$(293.6)	$(95.7)	$(36.3)
Net cash provided by (used in) financing activities(j).....	$ 258.8	$ 57.6	$ 293.4	$ 17.4	$(84.0)
Bad debt expense.....	$ 81.4	$ 64.8	$ 29.5	$ 28.0	$ 32.1
Bad debt expense as a % of net sales.....	5.1 %	4.5 %	3.4 %	3.7 %	4.4 %
Capital expenditures.....	$ 54.1	$ 75.4	$ 48.9	$ 33.6	$ 34.9
EBITDA(k).....	$ (34.3)	$ 139.6	$ 154.3	$217.7	$ 91.0
EBITDA as a % of net sales(k).....	(2.1)%	9.7 %	17.7 %	28.6 %	12.6 %
Adjusted EBITDA(l).....	$ 173.7	$ 214.6	$ 154.3	$217.7	$227.0
Adjusted EBITDA as a % of net sales(l).....	10.8 %	15.0 %	17.7 %	28.6 %	31.5 %
Ratio of earnings to combined fixed charges and preferred stock dividends(m).....	NM	1.04x	2.20x	10.16x	5.71x

	As of December 31,					
	1996	1996	1995(b)	1994(c)	1993	1992
	Pro forma(m)	Actual				
	(Dollars in millions)					
BALANCE SHEET DATA:						
Cash and cash equivalents	$ 25.0	$ 29.3	$ 16.4	$ 26.8	$ 12.3	$ 33.4
Working capital	466.7	468.7	249.4	90.2	62.4	32.0
Total assets	1,917.0	1,917.0	1,837.2	1,012.7	585.5	477.4
Total debt(o)	826.7	1,308.0	1,034.2	648.9	341.5	154.2
Total stockholders' equity	332.7	258.1	411.6	166.0	140.8	212.5

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(a) The summary unaudited pro forma statement of operations data for the year ended December 31, 1996 present the results of operations of the Company assuming the Roche Loan, the Settlement Payment, the Rights Offering and the application of the proceeds therefrom and effectiveness of the Amended Credit Agreement had occurred as of the beginning of 1996. For a complete description of the assumptions underlying the pro forma amounts, see "Unaudited Pro Forma Financial Information."

(b) In April 1995, the Company completed the Merger. RBL's results of operations have been included in the Company's results of operations since April 28, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--General" and Note 2 of the Notes to Consolidated Financial Statements.

(c) In June 1994, the Company completed the Allied Acquisition. Allied's results of operations have been included in the Company's results of operations since June 23, 1994. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--General" and Note 2 of the Notes to Consolidated Financial Statements.

(d) In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million in non-recurring charges in the second quarter of 1996 related to the integration of its operations following the Merger. See Note 3 of the Notes to Consolidated Financial Statements. As a result of negotiations with the OIG and DOJ related to the 1996 Government Settlement, the Company recorded the Settlement Charge of $185.0 million in the third quarter of 1996 to increase accruals for settlements and related expenses of government and private claims resulting from these investigations. See "Regulation and Reimbursement--1996 Government Settlement."

(e) In 1995, following the Merger, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where duplicate NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans. See Note 3 of the Notes to Consolidated Financial Statements. Also in 1995, the Company recorded a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which were billing disputes with various third party payors relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

(f) In the fourth quarter of 1992, the Company recorded a charge against operating income of $136.0 million related to the 1992 NHL Government Settlement (as defined herein). See "Regulation and Reimbursement--OIG Settlement--1992 NHL Government Settlement."

(g) In 1994, the Company approved a settlement of shareholder class and derivative litigation. In connection with the settlement, the Company recorded 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. 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 and all payments under the settlement agreement have been paid.

(h) Represents a one-time pretax gain comprised of expense reimbursement and termination fees of $21.6 million in connection with the Company's attempt to purchase Damon Corporation, a competing independent clinical laboratory, less related expenses and write-off of certain bank financing costs of $6.3 million.

(i) In connection with the repayment in 1995 of existing revolving credit and term loan facilities in connection with the Merger, the Company recorded an extraordinary loss of approximately $13.5 million ($8.3 million, net of tax), consisting of the write-off of deferred financing costs, related to the early extinguishment of debt.

(j) The Company made the Settlement Payment in December 1996 with the proceeds of the Roche Loan.

(k) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles ("GAAP") (and should not be considered as an indicator of operating performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(l) Adjusted EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization, extraordinary items, a provision for settlements and related expenses, restructuring charges and nonrecurring expenses. While Adjusted EBITDA is not intended to represent cash flow from operations as defined by GAAP (and should not be considered as an indicator of operating performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. Adjusted EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(m) For the purpose of calculating the ratio of earnings to combined fixed charges and preferred stock dividends (i) earnings consist of income before provision for income taxes and fixed charges and (ii) fixed charges consist of interest expense and one-third of rental expense which is deemed representative of an interest factor. For the year ended December 31, 1996, earnings were insufficient to cover fixed charges and preferred stock dividends by $188.3 million. For the year ended December 31, 1996, pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $300.5 million.

(n) The summary unaudited pro forma consolidated balance sheet data as of December 31, 1996 presents the financial position of the Company adjusted to give pro forma effect to the Roche Loan, the Settlement Payment, the Rights Offering and the application of the proceeds therefrom and effectiveness of the Amended Credit Agreement. For a complete description of the assumptions underlying the pro forma amounts, see "Unaudited Pro Forma Financial Information."

(o) Total debt includes a capital lease obligation of $9.8 million, $9.6 million, $9.8 million, $9.7 million and $9.6 million at December 31, 1996, 1995, 1994, 1993 and 1992, respectively. Total debt also includes the expected value of future contractual and contingent amounts to be paid to the principals of acquired laboratories. Such payments are principally 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 31, 1996, 1995, 1994, 1993 and 1992, such amounts were $27.7 million, $23.3 million, $35.1 million, $26.8 million and $4.6 million, respectively. In December 1996, the Company received a loan of $187 million from Roche Holdings to fund the Settlement Payment. Such loan bears interest at a rate of 6.625% per annum and matures on March 31, 1998.

RISK FACTORS

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the securities offered hereby.

SUBSTANTIAL LEVERAGE. Following the Rights Offering, the Company will continue to be highly leveraged. As of December 31, 1996, after giving pro forma effect to the Rights Offering and the application of the proceeds therefrom, the Company would have had total indebtedness of $826.7 million and stockholders' equity of $332.7 million. For the year ended December 31, 1996, pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $300.5 million. Pro forma net interest expense for the fiscal year ended December 31, 1996 would have been $57.2 million. The Company may incur additional indebtedness in the future, including as a result of the exchange of the Series A Exchangeable Preferred Stock for Notes, subject to limitations imposed by the Amended Credit Agreement. See "Capitalization" and "Unaudited Pro Forma Financial Statements." As a result of potential defaults under the Existing Credit Agreement resulting from, among other things, the Company's performance and higher than projected debt levels, the Settlement Charge and the Roche Loan, the Company has entered into various amendments and obtained waivers of certain covenants thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Borrowings under the Company's revolving credit facility of $450.0 million (the "Revolving Credit Facility") under the Existing Credit Agreement were $384.0 million as of March 31, 1997. Cash and cash equivalents on hand, cash flow from operations and additional borrowing capabilities of $66.0 million as of March 31, 1997 under the Revolving Credit Facility are expected to be sufficient to meet anticipated operating requirements, debt repayments and provide funds for capital expenditures and working capital through 1997. The Company's ability to meet anticipated operating requirements, debt repayments, including the Roche Loan which matures on March 31, 1998, and other anticipated cash outlays beyond 1997 is substantially dependent upon the completion of the Rights Offering. Failure to complete the Rights Offering by the end of February 1998 will require additional waivers or amendments to the Existing Credit Agreement and an extension of the Roche Loan. There can be no assurance that such waivers or amendments or extension can be obtained. Therefore, the failure to complete the Rights Offering by the end of February 1998 could have a material adverse effect on the Company's financial condition and liquidity.

The level of the Company's indebtedness could have important consequences to holders of the Company's securities, including but not limited to the following: (i) a substantial portion of the Company's cash flow from operations will be required to be dedicated to debt service and will not be available for other purposes; (ii) the Company's ability to obtain additional debt financing in the future for working capital and capital expenditures could be limited; (iii) the Company may be more vulnerable to extended economic downturns and may be restricted in exploiting business opportunities; (iv) the Amended Credit Agreement contains financial and restrictive covenants that limit the ability of the Company to, among other things, borrow additional funds, dispose of assets, pay cash dividends in the event of a default, including dividends on the Preferred Stock and pay interest on the Notes, and failure by the Company to comply with such covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on the Company and (v) the Company's level of indebtedness could limit its flexibility in planning for, or reacting to, changes in market conditions, including adverse governmental regulations (including reductions in the amounts reimbursable to the Company under Medicare and Medicaid). See "--Limitations on Third Party Payor Reimbursement of Health Care Costs." In addition, pursuant to the terms of the Preferred Stock, if dividends on the Series A Exchangeable Preferred Stock were to be limited pursuant to the Amended Credit Agreement prior to , 2003, the Company's ability to pay dividends in kind on the Series B PIK Preferred Stock would also be limited. Furthermore, the ability of the Company to satisfy its obligations will be dependent upon its future performance and market conditions, which will be subject to prevailing economic conditions and to financial, business and other factors, including factors beyond the Company's control. In addition, because the borrowings outstanding under the Amended Credit Agreement bear interest at a floating rate, the Company's financial performance may

be adversely affected by increases in interest rates. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by Roche Holdings and its affiliates (other than the Company and its subsidiaries) below 25%, the applicable interest margins and facility fees on borrowings outstanding under the Amended Credit Agreement will increase. The amount of the increase will depend, in part, on the leverage ratio of the Company at the time of such reduction. In addition, pursuant to the Amended Credit Agreement, the applicable interest margins on borrowings outstanding thereunder are based upon the leverage ratio. See "Description of Amended Credit Agreement".

In addition, Notes issued upon exchange of the Preferred Stock will be subordinated to all Senior Indebtedness. Following the Rights Offering, approximately $789.1 million of Senior Indebtedness will be outstanding. There will be no restrictions on the creation of Senior Indebtedness in the Indenture.

LIMITATIONS ON THIRD PARTY PAYOR REIMBURSEMENT OF HEALTH CARE COSTS. The health care industry is undergoing significant change as third party payors, such as Medicare and Medicaid and insurers, increase their efforts to control the cost of health care services. During the year ended December 31, 1996, the Company derived approximately 18% and 5% of its net revenues from tests performed for beneficiaries of Medicare and Medicaid programs, respectively. The Company's business depends significantly on continued participation in these programs and the Company is required by law to accept reimbursement from Medicare and Medicaid as payment in full for covered tests performed for Medicare and Medicaid beneficiaries. In an effort to address the problem of increasing health care costs, legislation has been proposed at both Federal and state levels to further regulate health care delivery in general and clinical laboratories in particular and legislation has been enacted that reduces the amounts reimbursable to the Company and other independent clinical laboratories under Medicare and Medicaid, the levels of which have declined steadily since 1984. See "Regulation and Reimbursement--General--Regulation Affecting Reimbursement of Clinical Laboratory Services." Such reductions have negatively impacted the Company's net sales, cost of sales as a percentage of net sales and selling, general and administrative expenses as a percentage of net sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Congress passed a bill (the Medicare Preservation Act) that would have further reduced the amounts reimbursable to the Company and other clinical laboratories, but the bill was vetoed by the President. In addition, effective January 1, 1996, HCFA adopted a new policy on reimbursement for chemistry panel tests. As of January 1, 1996, 22 automated tests (rather than 19 tests) became reimbursable by Medicare as part of an automated chemistry profile. HCFA retains the authority to expand in the future the list of tests included in a panel. Effective as of March 1, 1996, HCFA eliminated its prior policy of permitting payment for all tests contained in an automated chemistry panel when at least one of the tests in the panel is medically necessary. Under the new policy, Medicare payment will not exceed the amount that would be payable if only the tests that are "medically necessary" had been ordered. In addition, since 1995 most Medicare carriers have begun to require clinical laboratories to submit documentation supporting the medical necessity, as judged by ordering physicians, for commonly ordered tests. The Company has incurred and expects to continue to incur additional reimbursement reductions and additional costs associated with the implementation of these requirements of HCFA and Medicare carriers. These and other proposed changes affecting the reimbursement policy of Medicare and Medicaid programs could have a material adverse effect on the business, results of operations or financial condition of the Company. In particular, the Company has experienced lower collection rates beginning in the second quarter of 1996 as a result of these more stringent medical necessity requirements. See "--Collection Rates from Third Party Payors."

COLLECTION RATES FROM THIRD PARTY PAYORS. During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15.0 million and $10.0 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996. Increased medical necessity and related diagnosis code requirements of the Medicare program were placed on the Company by certain

third party carriers in late 1995 and additional requirements were placed on the Company at the beginning of 1996. The Company expects accounts receivable balances to continue to exceed 1995 levels as a result of these more stringent requirements. In addition, increased difficulty in collecting amounts due from private insurance including certain managed care plans has negatively impacted operating cash flow. Finally, Merger related integration issues have also resulted in increased accounts receivable balances as a result of the Company maintaining multiple billing information systems. Although the Company currently has plans in place to improve the collection of accounts receivable and stabilize collection rates, to date, collection rates continue to decline despite these measures. Moreover, additional changes in requirements of third-party payors could increase the difficulties in collections. There can be no assurance that such trends will be reversed or that additional reserves will not be required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ROLE OF MANAGED CARE. Managed care organizations play a significant role in the health care industry and their role is expected to increase over the next several years. Managed care organizations typically negotiate capitated payment contracts, whereby a clinical laboratory receives a fixed monthly fee per covered individual, regardless of the number or cost of tests performed per covered individual and regardless of the number or cost of tests performed during the month (excluding certain tests, such as esoteric tests and anatomic pathology services). Laboratory services agreements with managed care organizations have historically been priced aggressively due to competitive pressure and the expectation that a laboratory would capture not only the volume of testing to be covered under the contract, but also the additional fee-for-services business from patients of participating physicians who are not covered under the managed care plan. However, as the number of patients covered under managed care plans continues to increase, there is less such fee-for-service business and, accordingly, less high margin business to offset the low margin (and often unprofitable) managed care business. Furthermore, increasingly, physicians are affiliated with more than one managed care organization and as a result may be required to refer clinical laboratory tests to different clinical laboratories, depending on the coverage of their patients. As a result, a clinical laboratory might not receive any fee-for-service testing from such physicians. The increase in managed care has also resulted in declines in the utilization of laboratory testing services. See "Business-- Clients and Payors" and "Business--The Clinical Laboratory Testing Industry." During the year ended December 31, 1996, services to managed care organizations under capitated rate agreements accounted for approximately 4% of the Company's net revenues from clinical laboratory testing and approximately 10% of the volume of specimens or accessions tested by the Company. As discussed below, the Company has begun an active effort to improve the profitability of new and existing business. The Company has experienced some volume declines as a result of this effort, however, the fourth quarter of 1996 was the second consecutive quarter since the Merger that the Company's price per accession or specimen did not decline versus the immediately preceding quarter. There can be no assurance however of the timing or success of such measures or that the Company will not lose market share to other clinical laboratories who continue to aggressively price laboratory services agreements with managed care organizations. In addition, despite such efforts, the Company may experience declines in per test revenue as managed care organizations continue to increase their share of the health care insurance market.

IMPLEMENTATION OF NEW BUSINESS STRATEGY. During the third quarter of 1996, management began implementing a new business strategy in response to the Company's declining performance. See "Business--Strategy." Management believes this new business strategy may result in lower volumes as a result of selectively repricing or discontinuing business with existing accounts which perform below Company expectations. However, management also believes that such measures along with other cost reduction programs will improve the Company's overall profitability. The Company's future results and financial condition are dependent on the successful implementation of this new business strategy. While the Company believes that this strategy will enable it to improve its financial results, there can be no assurance that this new strategy will be successful, that the anticipated benefits of this new strategy will be realized, that management will be able to implement such strategy on a timely basis, that the Company will return to profitability levels experienced prior to 1995 or that losses will not continue in the future.

RECENT OPERATING LOSSES. Following the Merger, the Company experienced a loss in 1995 and 1996. While such losses are largely attributable to costs incurred in connection with the Merger, the related restructuring described below and the Settlement Charge, there can be no assurance that losses will not continue in the future. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Result of Operations." As a result, the Company had an accumulated deficit of $0.6 million and $154.1 million as of December 31, 1995 and December 31, 1996, respectively.

RECENT RESTRUCTURING. In connection with the Merger, the Company recorded a second quarter pre-tax special charge of $65.0 million in 1995 and $23.0 million in 1996 relating to the restructuring and integration of its operations following the Merger. In addition, in the second quarter of 1995, the Company had an extraordinary loss of $8.3 million, net of taxes, related to early extinguishment of debt in connection with the Merger. While the Company believes that these charges should be sufficient to cover all expenses associated with the Merger and related restructuring, in the event such costs are higher than anticipated, or additional restructuring charges are taken, either in connection with the Merger or otherwise, this could have a material adverse effect on the Company's results of operations or financial condition.

INTENSE COMPETITION. The independent clinical laboratory industry in the United States is intensely competitive. The following factors, among others, are often used by health care providers in selecting a laboratory: (i) pricing of the laboratory's testing services; (ii) accuracy, timeliness and consistency in reporting test results; (iii) number and type of tests performed; (iv) service capability and convenience offered by the laboratory; and (v) its reputation in the medical community. The Company believes that in 1996 approximately 50% of the revenues of the clinical laboratory testing industry was generated by hospital-affiliated laboratories, approximately 35% by independent clinical laboratories and 15% by thousands of individual physicians in their offices and laboratories. Independent clinical laboratories fall into two separate categories: (1) smaller, generally local, laboratories that generally offer fewer tests and services and have less capital than the larger laboratories, and (2) larger laboratories such as the Company that provide a broader range of tests and services. The Company has two major competitors that operate in the national market--SmithKline Beecham Clinical Laboratories, Inc. ("SmithKline") and Quest Diagnostics Incorporated, formally known as Corning Clinical Laboratories ("Quest"). There are also many independent clinical laboratories that operate regionally and that compete with the Company in these regions. In addition, hospitals are in general both competitors and clients of independent clinical laboratories. The independent clinical laboratory testing industry has experienced intense price competition over the past several years, which has negatively impacted the Company's profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There can be no assurance that the Company will be able to compete successfully with its existing or any new competitors or that competitive pressures faced by the Company will not materially and adversely affect its results of operations or financial condition. See "Business Competition."

GOVERNMENTAL REGULATION. The clinical laboratory industry is subject to significant governmental regulation at the Federal, state and local levels. The Company's laboratories are required to be certified or licensed under the Clinical Laboratory Improvement Act of 1967 and the Clinical Laboratory Improvement Amendments of 1988 (collectively, as amended, "CLIA"), and approved to participate in the Medicare and Medicaid programs. Currently, all clinical laboratories, including most physician-office laboratories ("POLs"), are required to comply with CLIA. However, the Medicare Preservation Act, passed in 1995 by both Houses of Congress, would have largely exempted POLs from having to comply with CLIA (except with respect to pap smear tests). Although this provision was not maintained by the House Senate conference and was not included in the subsequent legislation, it could be reintroduced at any time. The exemption of POLs from CLIA would significantly reduce their costs, making them more financially viable and a greater competitive challenge to the Company and would more likely encourage physicians to establish laboratories in their offices.

A wide array of Medicare/Medicaid fraud and abuse provisions apply to clinical laboratories participating in such programs. Penalties for violations of these Federal laws include exclusion from participation in the Medicare/Medicaid programs, asset forfeitures and other civil and criminal penalties. Civil penalties for a wide range of offenses may be up to $10,000 per item plus three times the amount claimed. In the case of certain offenses, exclusion from participation in Medicare and Medicaid is a mandatory administrative penalty. The OIG interprets these fraud and abuse administrative provisions liberally and enforces them aggressively. Provisions in a bill enacted in August 1996 are likely to expand the Federal government's involvement in curtailing fraud and abuse due to the establishment of (i) an anti-fraud and abuse trust fund funded through the collection of penalties and fines for violations of such laws and (ii) a health care anti-fraud and abuse task force. As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the OIG and the DOJ, have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. Consistent with this overall settlement, the Company paid $187 million to the Federal Government in December 1996 with proceeds from a loan from Roche Holdings. Additional investigations by the OIG in 1992 and 1994 were settled for $111.4 million in 1992 and $4.9 million in 1995, respectively. See "Regulation and Reimbursement--OIG Investigations."

The Company is also subject to licensing and regulation under Federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including those relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. The sanction for failure to comply with these regulations may be denial of the right to conduct business, significant fines and criminal penalties. The loss of a license, imposition of a fine, incurrence of liability under, 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 and its subsidiaries.

PROFESSIONAL LIABILITY LITIGATION. As a general matter, providers of clinical laboratory testing services may be subject to lawsuits alleging negligence or other similar legal claims, which suits could involve claims for substantial damages. Damages assessed in connection with, and the costs of defending any such actions could be substantial. Litigation could also have an adverse impact on the Company's client base. The Company maintains liability insurance (subject to maximum limits and self-insured retentions) for professional liability claims. This insurance does not cover liability for the Settlement Payment. While there can be no assurance, the Company's management believes that the levels of coverage are adequate to cover currently estimated exposures. Although the Company believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, there can be no assurance that the Company will be able to obtain such coverage or will be able to do so at an acceptable cost or that the Company will not incur significant liabilities in excess of policy limits.

NO ASSURANCE OF DIVIDENDS-RECEIVED DEDUCTION. There is no assurance that the Company will have earnings and profits for Federal income tax purposes. Dividends paid to corporate holders that are in excess of the Company's earnings and profits would not qualify for the intercorporate dividends-received deduction. See "Certain Federal Income Tax Consequences."

SUBSTANTIAL STOCKHOLDER; ABILITY OF SUBSTANTIAL STOCKHOLDER TO INCREASE OWNERSHIP. As a result of the Merger, HLR and Roche Holdings received 49.9% of the total outstanding Common Stock of the Company. In connection with the Merger, the Company, HLR, Roche Holdings and Hoffmann--La Roche Inc. entered into the Stockholder Agreement. In December of 1996, HLR was merged with and into Roche Holdings. As a result of its ownership interest and its rights under the Stockholder Agreement, Roche is able to exercise significant influence on the governance of the Company and on the composition of its board of directors. Pursuant to the Stockholder Agreement, the Board of Directors of the Company (subject to specified exceptions) is comprised of seven members, consisting of three designees of Roche

Holdings (the "Roche Directors") and four Independent Directors (as defined therein) nominated by the Nominating Committee of the board of directors. The Nominating Committee consists of one Roche Director and two Independent Directors and acts by a majority vote of the entire committee. There can be no assurance that the interests of Roche Holdings will be the same as those of the other stockholders of the Company. Pursuant to the Stockholder Agreement, Roche Holdings and its affiliates (other than the Company and its subsidiaries) have the right to acquire Equity Securities (as defined therein) to the extent that, after giving effect thereto, their Total Voting Power would not exceed 75%. Moreover, Roche Holdings and its affiliates (other than the Company and its subsidiaries) may acquire additional Equity Securities notwithstanding the fact that after giving effect thereto, their Total Voting Power would exceed 75%, if Roche Holdings and its affiliates (other than the Company and its subsidiaries) or any one of them offers, prior to consummation of such purchase, to purchase all outstanding Equity Securities and holders of Equity Securities totaling more than 50% of the outstanding Equity Securities (excluding Equity Securities held by Roche Holdings and its affiliates (other than the Company and its subsidiaries)) accept such offer. After the third anniversary of the Merger, the Stockholder Agreement does not restrict purchases by Roche Holdings or its affiliates of Equity Securities. Certain provisions of the Stockholder Agreement described above, including provisions limiting Roche Holding's representation on the Board of Directors of the Company to three of seven members, would be suspended if the Total Voting Power of Roche Holdings and its affiliates (other than the Company and its subsidiaries) were to be increased to over 50%. Roche Holdings has indicated that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in the Rights Offering in full for Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock. Consequently, following conversion of all of the Preferred Stock, Roche Holdings will own a minimum of 49.9% and a maximum of % of the total outstanding Common Stock of the Company. See "Certain Relationships and Related Transactions--The Stockholder Agreement." In addition, as Roche Holdings will own a minimum of 49.9% of the Preferred Stock, it will be in a position to exert significant influence on any matter on which the Preferred Stock is entitled to vote. See "Description of Preferred Stock--Voting Rights."

SPECIAL MAJORITY BOARD APPROVAL REQUIRED FOR CERTAIN ACTIONS. Under the Stockholder Agreement, for so long as the Total Voting Power of Roche Holdings and its affiliates (other than the Company and its subsidiaries) or any one of them is at least 30%, a significant number of types of major corporate actions cannot be taken without the approval of a Special Majority of the Board of Directors (which is defined in the Stockholder Agreement as a majority of the entire Board of Directors that includes a majority of the Roche Directors and at least one Independent Director). These actions include, among others, certain executive officer appointments, certain business combinations, acquisitions or sales of assets, amendments to the Company's Certificate of Incorporation or by-laws, settlements of material litigation, changes in Board or committee composition, material capital expenditures, issuance of securities and incurrence of indebtedness.

EQUITY MARKET CONSIDERATIONS. There can be no assurance that the market price of the Common Stock will not decline during or after the subscription period or that, following the issuance of the Rights and the sale of the Preferred Stock upon exercise of Rights, a subscribing Rights Holder will be able to sell shares purchased in the Rights Offering at a price greater than the Subscription Price. The election of a Rights Holder to exercise Rights in the Rights Offering is irrevocable. Moreover, until certificates are delivered, subscribing Rights Holders may not be able to sell the Preferred Stock that they have purchased in the Rights Offering. In addition, the Company reserves the right to extend the period for the Rights Offering to a date not later than , 1997. Certificates representing shares of Preferred Stock purchased in the Rights Offering will be delivered as soon as practicable after the Expiration Date. There can be no assurance that the market price of the Preferred Stock purchased pursuant to the Rights

Offering will not decline below the Subscription Price before the certificates representing such shares have been delivered. No interest will be paid to any subscriber in the Rights Offering.

NO PRIOR MARKET FOR THE RIGHTS, THE PREFERRED STOCK OR THE NOTES. The Rights, Series A Exchangeable Preferred Stock and Series B PIK Preferred Stock constitute new issues of securities with no established trading market. Application has been made to have the Preferred Stock approved for listing on the New York Stock Exchange. It is unlikely, however, that the Series B PIK Preferred Stock will be accepted for listing on the NYSE as it is expected that following the Rights Offering the Series B PIK Preferred Stock will be held by fewer than 100 holders. In addition, there can be no assurance that an active market for the Rights or the Series A Exchangeable Preferred Stock will develop or be sustained in the future on the New York Stock Exchange. Although Credit Suisse First Boston has indicated to the Company that it intends to make a market in the Rights, and, following the Rights Offering, the Preferred Stock, as permitted by applicable laws and regulations, it is not obligated to do so and may discontinue any such market-making at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Rights or the Preferred Stock, particularly the Series B PIK Preferred Stock.

There is currently no market for the Notes. The Company does not intend to apply for listing of the Notes on any national securities exchange. The Company has been advised by Credit Suisse First Boston that, following exchange of the Series A Exchangeable Preferred Stock for Notes, they presently intend to make a market in the Notes although they are under no obligation to do so and may discontinue market-making activities at any time without notice. Accordingly, there can be no assurance as to whether an active public market for the Notes will develop or, if a public market develops, as to the liquidity of the trading market for the Notes.

INSUFFICIENT AUTHORIZED CAPITAL TO PERMIT CONVERSION AND PAYMENT OF DIVIDENDS ON SERIES B PIK PREFERRED STOCK; DILUTION. There are currently insufficient shares of Common Stock authorized to permit conversion of all of the Preferred Stock issued upon the exercise of Rights or as dividends on the Series B PIK Preferred Stock and insufficient shares of Preferred Stock authorized to permit the payment of dividends on the Series B PIK Preferred Stock. In connection with the next annual meeting of shareholders currently scheduled for , 1997, the Board of Directors will propose amending the Company's Certificate of Incorporation to increase (i) the authorized number of shares of Common Stock to permit the conversion of all of the Preferred Stock and the Notes, if applicable and (ii) the authorized number of shares of Preferred Stock to permit the payment of dividends on the Series B PIK Preferred Stock. Roche Holdings and the directors and executive officers of the Company have indicated to the Company that they intend to vote in favor of such amendment. Rights Holders may experience dilution of their percentage of equity ownership interest and voting power in the Company if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms, if they do not exercise the Basic Subscription Privilege. Even if the Rights Holders exercise their Basic Subscription Privilege in full, they may nevertheless still experience dilution in their voting rights and in their proportional interest in any future net earnings of the Company if other holders of Rights exercise the Oversubscription Privilege and such Rights Holders elect not to exercise the Oversubscription Privilege, if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms. In addition, Rights Holders who exercise Rights for Series A Exchangeable Preferred Stock will experience dilution as dividends on the Series B PIK Preferred Stock are paid in shares of Series B PIK Preferred Stock.

SHARES OF COMMON STOCK ELIGIBLE FOR FUTURE SALE. In accordance with the Sharing and Call Option Agreement dated as of December 13, 1994 (the "Sharing and Call Option Agreement") among HLR, Mafco Holdings Inc. ("Mafco"), all of the capital stock of which is owned by Mr. Ronald O. Perelman and National Healthcare Group, Inc., ("NHCG"), a wholly owned subsidiary of Mafco, the Company has filed with the Commission a registration statement on Form S-3 which has been declared effective by the

Commission and includes a resale prospectus that permits NHCG (or any of its pledgees) to sell shares of Common Stock and Warrants received by NHCG in the Merger without restriction. Moreover, pursuant to the Stockholder Agreement and the Sharing and Call Option Agreement, Roche Holdings and NHCG have been granted demand and piggy-back registration rights with respect to shares of Common Stock owned by them. In addition, in connection with the Rights Offering, the Company will grant to each Rights Holder (including Roche Holdings) who upon consummation of the Rights Offering beneficially owns Preferred Stock convertible into 10% or more of the Common Stock outstanding, and who certifies as such, registration rights with respect to such Common Stock on the same terms as those granted to Roche Holdings pursuant to the Stockholder Agreement. Roche Holdings on the one hand and NHCG on the other hand currently own 49.9% and 11.8%, respectively, of the outstanding Common Stock of the Company. Although the Company cannot make any prediction as to the effect, if any, that sales in the public market of shares of Common Stock owned by Roche Holdings and NHCG would have on the market price for the Preferred Stock or Common Stock prevailing from time to time, sales of substantial amounts of Common Stock or the availability of such shares for sale could adversely affect prevailing market prices.

VOLATILITY OF PRICE OF COMMON STOCK. The market price of the Company's Common Stock has been highly volatile in recent years and on January 7, 1997 reached a 52-week low of $2 1/2. Factors such as quarter-to-quarter variations in the Company's revenues and earnings have caused and are expected to continue to cause the market price of the Company's securities to fluctuate significantly. In addition, in recent years the stock markets have experienced significant volatility, which often may be unrelated to the operating performance of the affected companies. Such volatility may also adversely affect the market price of the Company's securities. See "Common Stock Price Range."

FORWARD LOOKING STATEMENTS

This Prospectus contains certain forward looking statements concerning the Company's operations, economic performance and financial condition, including, in particular, forward looking statements regarding the Company's expectation of future performance following implementation of its new business strategy, consummation of the Rights Offering and effectiveness of the Amended Credit Agreement. Such statements are subject to various risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including those identified under "Risk Factors," under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Prospectus.

USE OF PROCEEDS

The gross proceeds of the Rights Offering will be used to (i) repay approximately $294 million outstanding under the Existing Credit Agreement which bears interest at LIBOR plus 1.0% per annum, (ii) pay fees and expenses of approximately $13 million related to the Rights Offering and (iii) repay the $187 million loan from Roche Holdings in order to fund the Settlement Payment, which bears interest at 6.625% per annum and matures on March 31, 1998 plus accrued interest thereon of approximately $6 million.

COMMON STOCK PRICE RANGE

The Company's Common Stock is traded publicly on the New York Stock Exchange under the symbol "LH." 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.

	High	Low
1995		
First Quarter	15 1/2	12 5/8
Second Quarter	15 1/4	11 3/4
Third Quarter	14	9 1/8
Fourth Quarter	10	8 1/8
1996		
First Quarter	9 3/8	7 1/4
Second Quarter	9	7 3/8
Third Quarter	7 5/8	3 1/4
Fourth Quarter	3 7/8	2 3/8
1997		
First Quarter	4	2 1/2
Second Quarter (through May 1, 1997)	3 3/8	2 3/4

On May 1, 1997 there were approximately 959 holders of record of the Common Stock.

DIVIDEND POLICY

In connection with the Allied Acquisition in June 1994, the Company discontinued its dividend payments for the foreseeable future. The Amended Credit Agreement will expressly permit cash dividends including cash dividends on the Preferred Stock in the absence of a default. However, pursuant to the terms of the Preferred Stock, if dividends on the Series A Exchangeable Preferred Stock were to be limited pursuant to the Amended Credit Agreement prior to , 2003, the Company's ability to pay dividends in kind on the Series B PIK Preferred Stock would also be limited.

CAPITALIZATION

The following table sets forth as of December 31, 1996, (i) the cash and cash equivalents and total capitalization of the Company and (ii) cash and cash equivalents and total capitalization, adjusted to give pro forma effect to the Rights Offering, the execution of the Amended Credit Agreement, the Roche Loan and the Settlement Payment. The proceeds of the Rights Offering are assumed to be applied as set forth under "Use of Proceeds." See also "Unaudited Pro Forma Financial Statements." This table should be read in conjunction with the Consolidated Financial Statements of the Company included elsewhere and incorporated by reference herein.

	As of December 31, 1996	
	Actual	As Adjusted
	(in millions)	
Cash and cash equivalents	$ 29.3	$ 25.0
Short-term debt:		
Current portion of long-term debt(1)	$ 18.7	$ 18.7
Current portion of acquisition contingent payments	12.9	12.9
Total short-term debt	31.6	31.6
Long-term debt:		
Loan from affiliate(2)	187.0	--
Revolving credit facility	371.0	126.7
Long-term debt, less current portion	693.8	643.8
Capital lease obligations	9.8	9.8
Acquisition contingent payments, less current portion	14.8	14.8
Total long-term debt	1,276.4	795.1
Mandatorily redeemable preferred stock, $0.10 par value, 10,000,000 shares authorized, none issued and outstanding actual; 10,000,000 shares issued and outstanding as adjusted(3)	--	409.0
Stockholders' equity:		
Common stock, par value $0.01 per share, 220,000,000 shares authorized; 122,935,080 shares issued and outstanding(3)	1.2	1.2
Additional paid-in capital(4)	411.0	489.0
Accumulated deficit	(154.1)	(157.5)
Total stockholders' equity	258.1	332.7
Total capitalization	$ 1,566.1	$ 1,568.4

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(1) In January 1997, the Company made a payment of $18.7 million on its Term Loan Facility.

(2) In December 1996, the Company received a loan of $187 million from Roche Holdings to fund the Settlement Payment.

(3) There are currently insufficient shares of Common Stock authorized to permit conversion of all of the Preferred Stock issued upon the exercise of Rights or as dividends on the Series B PIK Preferred Stock and insufficient shares of Preferred Stock authorized to permit the payment of dividends on the Series B PIK Preferred Stock. In connection with the next annual meeting of shareholders currently scheduled for , 1997, the Board of Directors will propose amending the Company's Certificate of Incorporation to increase (i) the authorized number of shares of Common Stock to permit the conversion of all of the Preferred Stock and the Notes, if applicable and (ii) the authorized number of shares of Preferred Stock to permit the payment of dividends on the Series B PIK Preferred Stock. Roche Holdings and the directors and executive officers of the Company have indicated to the Company that they intend to vote in favor of such amendment.

(4) The change in additional paid-in capital reflects the estimate of costs to be incurred in connection with the Rights Offering and the pro forma Imputed Dividend on the Preferred Stock.

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma consolidated financial statements for the year ended December 31, 1996 present the results of operations of the Company assuming that the Roche Loan, the Settlement Payment, the Rights Offering and effectiveness of the Amended Credit Agreement had occurred as of the beginning of the period, in the case of the pro forma statement of operations, or December 31, 1996, in the case of the pro forma balance sheet. The proceeds of the Rights Offering have been assumed to be applied as set forth under "Use of Proceeds". In the opinion of management, the unaudited pro forma financial statements for the year ended December 31, 1996 include all material adjustments necessary to restate the Company's historical results. The adjustments required to reflect such assumptions are described in the Notes to the unaudited pro forma financial statements and are set forth in the "Pro Forma Adjustments" columns.

The pro forma financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere and incorporated by reference herein. The pro forma financial statements presented are for informational purposes only and may not necessarily reflect the future results of operations or financial position or what the results of operations or financial position would have been had the Roche Loan, the Settlement Payment, the Rights Offering and effectiveness of the Amended Credit Agreement occurred as assumed herein.

PRO FORMA CONDENSED COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 31, 1996
(Dollars in millions, except share data)
(Unaudited)

	Historical	Pro Forma Adjustments		
	Company	Roche Loan	Rights Offering	Pro Forma Combined
Net sales	$1,607.7			$1,607.7
Cost of sales	1,183.9			1,183.9
Gross profit	423.8			423.8
Selling, general and administrative expenses	305.0			305.0
Amortization of intangibles and other assets	29.6			29.6
Restructuring and other non-recurring charges	23.0			23.0
Provisions for settlements and related expenses	185.0			185.0
Operating loss	(118.8)			(118.8)
Other income (expenses):				
Investment income	2.2			2.2
Interest expense	(71.7)	$(12.4)(1)	$ 24.7(2)	(59.4)
Loss before income taxes	(188.3)	(12.4)	24.7	(176.0)
Provision for income taxes	(34.8)	(5.0)(3)	9.9(3)	(29.9)
Net loss	(153.5)	(7.4)	14.8	(146.1)
Less preferred stock dividend(4)	--	--	(103.4)	(103.4)
Net loss applicable to common shares	$ (153.5)	$ (7.4)	$ (88.6)	$ (249.5)
Primary loss per common share(5)	$ (1.25)			$ (2.03)
Fully diluted loss per common share(5)	$ (1.25)			$ (2.03)
Weighted average common shares outstanding (thousands)(5):				
Primary	122,920			122,920
Fully diluted	122,920			307,696
Ratio of earnings to combined fixed charges and preferred stock dividends(6)	NM			NM

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See accompanying Notes to Pro Forma Condensed Combined Consolidated Statements of Operations.

NOTES TO PRO FORMA CONDENSED COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS

(1) In December 1996, Roche Holdings loaned $187.0 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1998. Such note is assumed to be outstanding at the beginning of the period and then repaid with proceeds from the Rights Offering. See Note 2 below.

(2) Assumes the sale of approximately $250 million in Series B PIK Preferred Stock to Roche Holdings and approximately $250 million in Series A Exchangeable Preferred Stock to all other Rights Holders and the application of the proceeds therefrom to (i) repay the Roche Loan, (ii) pay fees and expenses of $15 million related to the Amended Credit Agreement and the Rights Offering and (iii) repay approximately $248 million under the Revolving Credit Facility and $50 million under the Term Loan Facility. The pro forma adjustment to interest expenses (based on the interest rate assumptions shown below) reflects the following:

	Year ended 12/31/96
	(in millions)
Paydown of Roche Loan	$12.4
Paydown of Revolving Credit Facility	15.1
Paydown on Term Loan Facility	3.2
Incremental interest under Amended Credit Agreement	(4.2)
Amortization of deferred financing costs	(0.7)
Commitment fee on Amended Credit Agreement	(1.1)
	$24.7

The interest rate assumptions used in the foregoing were as follows:

	Year ended 12/31/96
Roche Loan	6.625%
Term Loan Facility	6.451%
Revolving Credit Facility	6.201%
Incremental interest under Amended Credit Agreement	0.625%
Commitment fee on Amended Credit Agreement	0.250%

Incremental interest under the Amended Credit Agreement is calculated based on (i) an average Revolving Credit Facility balance outstanding during the period of $309.0 million times 0.625% and (ii) 0.625% times the actual balance outstanding under the Term Loan Facility of $783.3 million on January 1, 1996 less principal payments of $16.7 million on January 31, 1996, $16.7 million on April 30, 1996, $18.7 million on July 31, 1996 and $18.7 million on October 31, 1996.

The amortization of deferred financing costs is calculated based on total deferred financing costs of $4.3 million and a weighted average life under the Amended Credit Agreement of 6.3 years.

The commitment fee on the Amended Credit Agreement is calculated based on a commitment of $450 million under the Amended Revolving Credit Facility times 0.25%.

An increase or decrease in the interest rate of one-quarter of one percent (0.25%) with respect to the pro forma debt capitalization of the Company would increase or decrease interest expense as follows:

	Year ended 12/31/96
	(in millions)

Revolving Credit Facility	$ 0.3
Term Loan Facility	1.7

(3) Reflects the change in the provision for income taxes as a result of the pro forma adjustments. Such tax adjustments were based on the historical effective tax rates used for the Company's consolidated financial statements.

(4) Dividends on Series B PIK Preferred Stock and Series A Exchangeable Preferred Stock are calculated as follows:

(A)Quarterly Dividends

	Series B PIK Preferred Stock(a)	Series A Exchangeable Preferred Stock
	(in millions)	(in millions)
Total liquidation preference	$ 250.0	$ 250.0
Assumed dividend rate	8.5%	8.5%
Dividends Quarter ended March 31, 1996	$ 5.3	$ 5.3
Quarter ended June 30, 1996	5.4	5.3
Quarter ended September 30, 1996	5.6	5.3
Quarter ended December 31, 1996	5.7	5.3
	$ 22.0	$ 21.2

(B) Assuming a conversion price of $2.75 in light of the closing market price of the Common Stock as of May 1, 1997 of $3.25 results in a discount that must be amortized as a preferred dividend from the date of issuance, (which is assumed to be January 1, 1996) through the date the Preferred Stock is first convertible into shares of Common Stock. The Series A Exchangeable Preferred Stock is assumed to be convertible after 90 days and the Series B PIK Preferred Stock is assumed to be convertible after three years. The Imputed Dividend upon issuance of both series of Preferred Stock is calculated as follows:

	Series A Exchangeable Preferred Stock	Series B PIK Preferred Stock
Total liquidation preference (in millions)	$ 250.0	$ 250.0
Common shares to be issued upon conversion (in thousands)	90,909.1	90,909.1
Imputed Dividend per common share	$ 0.50	$ 0.50
Total Imputed Dividend	$ 45.5	$ 45.5
Imputed Dividend amortization		
Series A Exchangeable Preferred Stock	$ 45.5	
Series B PIK Preferred Stock	14.2(b)	
Series B PIK Preferred Stock dividends issued	0.6(c)	
	$ 60.2	

(a) Dividends on Series B PIK Preferred Stock are calculated based on the initial shares outstanding after the Rights Offering and, in subsequent quarters, on additional shares issued as paid-in-kind dividends.

(b) Reflects amortization of the Imputed Dividend based on an effective interest rate of 6.75%.

(c) Reflects additional Imputed Dividend on Series B PIK Preferred Stock dividends issued with conversion prices at less that the market value of the Common Stock on the date of issuance which is

assumed to be $3.25.

The conversion rate will be considered by the Company, in consultation with Credit Suisse First Boston. Among the factors to be considered by the Board of Directors in determining the conversion rate will be (i) the market value of the Common Stock; (ii) the present and projected operating results and financial condition of the Company; (iii) an assessment of the Company's management and management's analysis of the growth potential of the Company and of the Company's market area; (iv) the aggregate size of the Rights Offering; and (v) the conversion rate which the Board of Directors believes investors would readily accept under current economic circumstances.

(5) The primary and fully diluted shares assuming that Roche Holdings purchases approximately $250 million of Series B PIK Preferred Stock and that the remaining Rights Holders purchase approximately $250 million in Series A Exchangeable Preferred Stock, are calculated as follows:

	Year ended 12/31/96
	(in thousands)
Historical weighted average shares outstanding.....	122,920
Weighted average shares used for primary earnings per share.....	122,920
Common Stock issuable upon conversion of Preferred Stock.....	181,818
Common Stock issuable upon conversion of PIK dividend....	2,958
Weighted average shares used for diluted earnings per share.....	307,696

The primary and fully diluted shares, assuming that Roche Holdings purchases $500 million of Series B PIK Preferred Stock, are calculated as follows:

	Year ended 12/31/96
	(in thousands)
Historical weighted average shares outstanding.....	122,920
Weighted average shares used for primary earnings per share.....	122,920
Common Stock issuable upon conversion of Preferred Stock.....	181,818
Common Stock issuable upon conversion of PIK dividend....	5,916
Weighted average shares used for diluted earnings per share.....	310,654

(6) For the year ended December 31, 1996, actual and pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $188.3 million and $300.5 million, respectively.

PRO FORMA CONDENSED COMBINED CONSOLIDATED BALANCE SHEET
As of December 31, 1996
(Dollars in millions)
(Unaudited)

	Actual	Pro Forma Adjustments	Pro Forma Combined
ASSETS			
Current assets:			
Cash and cash equivalents	$ 29.3	$ (4.3)(1)	$ 25.0
Accounts receivable, net	505.6		505.6
Inventories	44.3		44.3
Prepaid expenses and other	21.8		21.8
Deferred income taxes	66.2		66.2
Income taxes receivable	54.3		54.3
Total current assets	721.5	(4.3)	717.2
Property, plant and equipment, net	282.9		282.9
Intangible assets, net	891.1		891.1
Other assets, net	21.5	4.3 (1)	25.8
	$1,917.0	$ --	$1,917.0
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 65.7		$ 65.7
Accrued expenses and other	168.4	$ (2.3)(4)	166.1
Current portion of long-term debt	18.7		18.7(3)
Total current liabilities	252.8	(2.3)	250.5
Loan from affiliate	187.0	(192.7)(5) 5.7 (4)	--
Revolving credit facility	371.0	(244.3)(5)	126.7
Long-term debt, less current portion	693.8	(50.0)(5)	643.8
Capital lease obligation	9.8		9.8
Other liabilities	144.5		144.5
Mandatorily redeemable preferred stock	--	409.0 (5)	409.0
Stockholders' equity:			
Common stock	1.2		1.2
Additional paid-in capital	411.0	(13.0)(2) 91.0 (5)	489.0
Accumulated deficit	(154.1)	(3.4)(4)	(157.5)
Total stockholders' equity	258.1	74.6	332.7
	$1,917.0	$ --	$1,917.0

See accompanying Notes to Pro Forma Condensed Combined Consolidated Balance Sheet

NOTES TO PRO FORMA CONDENSED COMBINED CONSOLIDATED BALANCE SHEET

(1) Reflects fees and expenses of $4.3 million in connection with the Amended Credit Agreement which have been capitalized as deferred financing costs and included in the caption "Other assets". These amounts were paid on March 31, 1997.

(2) Reflects estimated fees and expenses of $13.0 million in connection with the Rights Offering. These are deemed to be stock offering costs and are charged against additional paid-in capital.

(3) In January 1997, the Company made a payment of $18.7 million on the Term Loan Facility.

(4) In December 1996, Roche Holdings loaned $187.0 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1998. Such note and estimated accrued interest of $5.7 million (through June 15, 1997) thereon are assumed to be repaid with a portion of the proceeds from the Rights Offering.

(5) Reflects the issuance of approximately $500 million of Preferred Stock in the Rights Offering and the application of the proceeds therefrom. Approximately $91.0 million of the proceeds are deemed to be Imputed Dividend resulting from a conversion price of the Preferred Stock which is approximately $0.50 less than the current market value of the Common Stock. Such Imputed Dividend will be amortized as a preferred dividend from the date of issuance through the date the Preferred Stock is first convertible.

SELECTED HISTORICAL FINANCIAL DATA

The following table presents selected historical financial data of the Company at the dates and for each of the periods indicated. The selected financial data as of and for each of the years ended December 31, 1996, 1995 and 1994 have been derived from the Consolidated Financial Statements and the notes thereto included elsewhere and incorporated by reference herein. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	1996	1995(a)	1994(b)	1993	1992
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 1,607.7	$ 1,432.0	$ 872.5	$ 760.5	$ 721.4
Cost of sales	1,183.9	1,024.3	597.0	444.5	395.1
Gross profit	423.8	407.7	275.5	316.0	326.3
Selling general and administrative expenses	305.0	238.5	149.3	121.4	117.9
Amortization of intangibles and other assets	29.6	27.0	16.3	9.1	8.3
Restructuring and non-recurring charges	23.0(c)	65.0(d)	--	--	--
Provision for settlements and related expenses	185.0(c)	10.0(d)	--	--	136.0(e)
Operating income (loss)	(118.8)	67.2	109.9	185.5	64.1
Litigation settlement and related expenses	--	--	(21.0)(f)	--	--
Other gains and expenses, net	--	--	--	15.3(g)	--
Net interest income (expense)	(69.5)	(64.1)	(33.5)	(9.7)	(2.0)
Earnings (loss) before income taxes and extraordinary item	(188.3)	3.1	55.4	191.1	62.1
Provision for income taxes	(34.8)	7.1	25.3	78.4	21.5
Earnings (loss) before extraordinary item	(153.5)	(4.0)	30.1	112.7	40.6
Extraordinary item--loss on early extinguishment of debt, net(h)	--	(8.3)	--	--	--
Net earnings (loss)	$ (153.5)	$ (12.3)	$ 30.1	$ 112.7	$ 40.6
Weighted average common shares outstanding (in thousands)	122,920	110,579	84,754	89,439	94,468
Earnings (loss) per common share before extraordinary loss	$ (1.25)	$ (0.03)	$ 0.36	$ 1.26	$ 0.43
Extraordinary loss per common share	--	(0.08)	--	--	--
Net earnings (loss) per common share	$ (1.25)	$ (0.11)	$ 0.36	$ 1.26	$ 0.43
Dividends per common share	--	--	$ 0.08	$ 0.32	$ 0.31
SUPPLEMENTAL DATA:					

Net cash provided by (used in) operating activities(i)	$(186.8)	$ 47.0	$ 14.7	$ 57.2	$102.4
Net cash used in investing activities	$ (59.1)	$(115.0)	$(293.6)	$(95.7)	$(36.3)
Net cash provided by (used in) financing activities(i)	$(258.8)	$ 57.6	$ 293.4	$ 17.4	$(84.0)
Bad debt expense	$ 81.4	$ 64.8	$ 29.5	$ 28.0	$ 32.1
Bad debt expense as a % of net sales	5.1%	4.5%	3.4%	3.7%	4.4%
Capital expenditures	$ 54.1	$ 75.4	$ 48.9	$ 33.6	$ 34.9
EBITDA(j)	$ (34.3)	$ 139.6	$ 154.3	$217.7	$ 91.0
EBITDA as a % of net sales(j)	(2.1)%	9.7%	17.7%	28.6%	12.6%
Adjusted EBITDA(k)	$ 173.7	$ 214.6	$ 154.3	$217.7	$227.0
Adjusted EBITDA as a % of net sales(k)	10.8%	15.0%	17.7%	28.6%	31.5%
Ratio of earnings to combined fixed charges and preferred stock dividends(l)	NM	1.04x	2.20x	10.16x	5.71x

	As of December 31,				
	1996	1995(a)	1994(b)	1993	1992
	(DOLLARS IN MILLIONS)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 29.3	$ 16.4	$ 26.8	$ 12.3	$ 33.4
Working capital(m)	468.7	249.4	90.2	62.4	32.0
Total assets	1,917.0	1,837.2	1,012.7	585.5	477.4
Total debt(m)	1,308.0	1,034.2	648.9	341.5	154.2
Total stockholders' equity	258.1	411.6	166.0	140.8	212.5

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(a) In April 1995, the Company completed the Merger. RBL's results of operations have been included in the Company's results of operations since April 28, 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--General" and Note 2 of the Notes to Consolidated Financial Statements.

(b) In June 1994, the Company completed the Allied Acquisition. Allied's results of operations have been included in the Company's results of operations since June 23, 1994. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--General" and Note 2 of the Notes to Consolidated Financial Statements.

(c) In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million in non-recurring charges in the second quarter of 1996 related to the integration of its operations following the Merger. See Note 3 of the Notes to Consolidated Financial Statements. As a result of negotiations with the OIG and DOJ related to the 1996 Government Settlement, the Company recorded a special charge of $185.0 million in the third quarter of 1996 to increase accruals for settlements and related expenses of government and private claims resulting from these investigations. See "Regulation and Reimbursement--1996 Government Settlement."

(d) In 1995, following the Merger, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where duplicate NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans. See Note 3 of the Notes to Consolidated Financial Statements. Also in 1995, the Company recorded a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, with various third party payors relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

(e) In the fourth quarter of 1992, the Company recorded a charge against operating income of $136.0 million related to the 1992 NHL Government Settlement. See "Regulation and Reimbursement--OIG Settlement--1992 NHL Government Settlement."

(f) In 1994, the Company approved a settlement of shareholder class and derivative litigation. In connection with the settlement, the Company recorded 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. 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 and all payments under the settlement agreement have been paid.

(g) Represents a one-time pretax gain comprised of expense reimbursement and termination fees of $21.6 million in connection with the Company's attempt to purchase Damon Corporation, a competing independent clinical laboratory, less related expenses and write-off of certain bank financing costs of $6.3 million.

(h) In connection with the repayment in 1995 of existing revolving credit and term loan facilities in connection with the Merger, the Company recorded an extraordinary loss of approximately $13.5 million ($8.3 million, net of tax), consisting of the write-off of deferred financing costs, related to the early extinguishment of debt.

(i) The Company made the Settlement Payment in December 1996 with the proceeds of the Roche Loan.

(j) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by GAAP (and should not be considered as an indicator of operating

performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(k) Adjusted EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization, extraordinary items, a provision for settlements and related expenses, restructuring charges and nonrecurring expenses. While Adjusted EBITDA is not intended to represent cash flow from operations as defined by GAAP (and should not be considered as an indicator of operating performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. Adjusted EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(l) For the purpose of calculating the ratio of earnings to combined fixed charges and preferred stock dividends (i) earnings consist of income before provision for income taxes and fixed charges and (ii) fixed charges consist of interest expense and one-third of rental expense which is deemed representative of an interest factor. For the year ended December 31, 1996, earnings were insufficient to cover fixed charges and preferred stock dividends by $188.3 million.

(m) Total debt includes a capital lease obligation of $9.8 million, $9.6 million, $9.8 million, $9.7 million and $9.6 million at December 31, 1996, 1995, 1994, 1993 and 1992, respectively. Total debt also includes the expected value of future contractual and contingent amounts to be paid to the principals of acquired laboratories. Such payments are principally 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 31, 1996, 1995, 1994, 1993 and 1992, such amounts were $27.7 million, $23.3 million, $35.1 million, $26.8 million and $4.6 million, respectively. In December 1996, the Company received a loan of $187 million from Roche Holdings to fund the Settlement Payment. Such loan bears interest at a rate of 6.625% per annum and matures on March 31, 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company has grown significantly over the last several years, a substantial portion of which growth has been achieved through acquisitions. In June 1994, the Company acquired Allied for approximately $191.5 million in cash plus the assumption of $24.0 million of Allied indebtedness. In April 1995, the Company completed the Merger with RBL. In connection with the Merger, the Company issued 61,329,256 shares of Common Stock to HLR and Roche Holdings in exchange for all outstanding shares of RBL and $135.7 million in cash. The exchange consideration of approximately $558.0 million for the purchase of RBL consisted of the value of the stock issued to HLR and Roche Holdings, as well as other cash costs of the Merger, net of cash received from HLR. The Allied Acquisition and the Merger have been accounted for under the purchase method of accounting; as such, the acquired assets and liabilities were recorded at their estimated fair values on the date of acquisition. Allied's and RBL's results of operations have been included in the Company's results of operations since June 23, 1994 and April 28, 1995, respectively. See Note 2 of Notes to Consolidated Financial Statements. In addition to the Merger and the Allied Acquisition, since 1993 the Company has acquired a total of 57 small clinical laboratories with aggregate sales of approximately $182.4 million.

Following the Merger in 1995, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where both NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans in 1995. In addition, in the second quarter of 1995, the Company had an extraordinary loss of $8.3 million, net of taxes, related to early extinguishment of debt related to the Merger. In the second quarter of 1996, the Company recorded certain additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions and $10.0 million in non-recurring charges related to the integration of its operations following the Merger. See Note 3 of the Notes to Consolidated Financial Statements. Future cash payments under the restructuring plan are expected to be $16.1 million in the year ended December 31, 1997 and $9.1 million thereafter.

In the last several years, the Company's business has been affected by significant government regulation, price competition and increased influence of managed care organizations resulting from payors' efforts to control the cost, utilization and delivery of health care services. As a result of these factors, the Company's profitability has been impacted by changes in the volume of testing, the prices and costs of its services, the mix of payors and the level of bad debt expense.

Many market-based changes in the clinical laboratory business have occurred, most involving the shift away from traditional, fee-for-service medicine to managed-cost health care. The growth of the managed care sector presents various challenges to the Company and other independent clinical laboratories. Managed care providers typically contract with a limited number of clinical laboratories and negotiate discounts to the fees charged by such laboratories in an effort to control costs. Such discounts have resulted in price erosion and have negatively impacted the Company's operating margins. In addition, managed care providers have used capitated payment contracts in an attempt to promote more efficient use of laboratory testing services. Under a capitated payment contract, the clinical laboratory and the managed care provider agree to a per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed. Such contracts also shift the risks of additional testing beyond that covered by the capitated payment to the clinical laboratory. For the year ended December 31, 1996, such contracts accounted for approximately $64.5 million in net sales. The increase in managed-cost health care has also resulted in declines in the utilization of laboratory testing services.

In addition, Medicare (which principally serves patients 65 and older) and Medicaid (which principally serves indigent patients) and insurers, have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices and added costs and decreasing test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules in conjunction with certain budgetary bills. Any future changes to the Medicare fee schedules 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 or financial condition of the Company.

These market based factors have had a significant adverse impact on the clinical laboratory industry, and on the Company's profitability. Management expects that price erosion and utilization declines will continue to negatively impact net sales and 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 cost savings the Company expects to realize following the Merger, and through comprehensive cost reduction programs as discussed below. In addition, since the third quarter of 1996 the Company has expanded its efforts to improve the profitability of new and existing business. To date this effort has focused primarily on reviewing existing contracts, including those with managed care organizations, and selectively repricing or discontinuing business with existing accounts which perform below Company expectations. The Company believes that as a result of this effort, the fourth quarter of 1996 was the second consecutive quarter since the Merger that the Company's price per accession or specimen did not decline versus the immediately preceding quarter. The Company is also targeting price increases across most of its business lines, including specialty and niche testing, which have not seen price increases since the Merger. While such increases may adversely affect volumes, the Company believes that such measures along with other cost reduction programs, will improve its overall profitability. There can be no assurance, however, of the timing or success of such measures or that the Company will not lose market share as a result of these measures. Finally, the Company is reviewing its sales organization and expects to modify its commission structure so that compensation is tied more directly to the profitability of retained and new business instead of the current practice of basing commissions primarily on revenue generated. The Company is also reviewing alternatives relating to regions of the country and certain businesses where profitability is not reaching internal goals and may enter into joint ventures, alliances or asset swaps with interested parties in order to maximize regional operating efficiencies.

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. Since the Merger, the Company has been able to effect substantial operating cost reductions in the combined businesses and expects that the full effect of these savings (in excess of $120 million per year when compared to the businesses' costs immediately prior to the Merger) will be realized during 1997. Such savings include an annualized reduction of $4.7 million in corporate, general and administrative expenses including the consolidation of administrative staff. Combining the NHL sales force with the RBL sales force where duplicate territories existed has added approximately $17.8 million of annualized synergies. Operational savings have resulted in approximately $94.8 million of annualized synergies. These include closing of overlapping laboratories and other facilities and savings realized from additional buying power by the larger Company. The Company has also realized annualized savings of approximately $14.2 million relating to employee benefits as a result of changes to certain benefit arrangements. The realization of the savings have been partially offset by increased temporary help and overtime expenses during the consolidation process. These costs are expected to reduce to normal levels at the conclusion of the consolidation process in early 1997. In addition, these savings have been largely offset by price erosion and utilization declines resulting from the increase in managed care and to a lesser extent from increases in other expenses such as bad debt expenses as discussed below. The effects of price erosion and

utilization declines on the Company's results of operations, however, would have been greater but for savings achieved through the synergy program. In addition, the Company is focused on additional initiatives which are expected to achieve incremental cost savings in 1997. These plans include further regional laboratory consolidation, a new agreement with a supplier of telecommunications services and additional supply savings primarily due to increased efficiency. There can be no assurance that the estimated additional cost savings expected to be achieved 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.

As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the OIG and the DOJ, have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. See "Regulation and Reimbursement--OIG Investigations--1996 Government Settlement." Consistent with this overall settlement the Company paid $187.0 million to the Federal Government in December 1996, with proceeds from the Roche Loan. As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185.0 million in the third quarter of 1996 to increase accruals for the 1996 Government Settlement, and other related expenses of government and private claims resulting therefrom.

In March 1997, the Company entered into the Sixth Amendment which eliminates amortization payments on the Term Loan Facility for 1997 and modifies the interest coverage and leverage ratios for the quarterly periods through December 31, 1997. Pursuant to this amendment, the Company paid an amendment fee of 37.5 basis points on commitments and will pay an additional fee of 62.5 basis points if the Rights Offering is not completed by June 30, 1997. In addition, the Roche Loan which originally matured on March 31, 1997 was amended to extend the maturity thereof to March 31, 1998.

The Company also entered into the Amended Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. Upon consummation of the Rights Offering and the receipt of $500 million in gross proceeds, the Amended Credit Agreement makes available to the Company a term loan facility of $643.8 million and a $450.0 million revolving credit facility. See "Description of Amended Credit Agreement" below and Note 9 of the Notes to Consolidated Financial Statements for a complete description of the Amended Credit Agreement.

RECENT FINANCIAL RESULTS

Net sales for the first quarter of 1997 were $391.5 million, versus $403.9 million in the first quarter of 1996. In the first quarter of 1997, the Company posted operating income of $27.8 million, net earnings of $2.4 million, and earnings per share of $0.02. This compares with operating income of $27.8 million, net earnings of $5.9 million, and earnings per share of $0.05 in the same period in 1996.

The first quarter of 1997 was the first quarter in two years that prices increased over the prior year's comparable period. Although sales were approximately $12 million lower than the first quarter of 1996, expense reductions in the first quarter of 1997 offset this revenue decline, allowing the Company to maintain operating income at a level equal to the comparable period in 1996. The lower revenue in 1997 reflects a decline in volume consistent with industry trends as well as the Company's program of selectively eliminating unprofitable accounts and carefully evaluating the acceptability of new business.

In addition, on flat sales, operating income for the first quarter of 1997 represents an increase of approximately 27% when compared to operating income of $21.8 million for the fourth quarter of 1996. This improvement is a direct result of the Company's continuing efforts to reduce costs and increase price.

Additionally, the Company is increasing its emphasis on actively pursuing profitable new growth opportunities that add volume and capitalize on its extensive service capabilities. Recently, the Company finalized a multi-year, preferred provider agreement with United, one of the nation's largest health care services organizations. Under the national agreement, the Company is eligible to provide clinical laboratory testing services for up to 10 million persons served by United's health plans and preferred provider networks.

Set forth below is certain summarized financial information for the first quarter of 1996 and 1997.

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
Net sales	$ 391.5	$ 403.9
EBITDA(1)	$ 49.3	$ 48.4
Operating Income	$ 27.8	$ 27.8
Earnings before income taxes	$ 5.9	$ 11.8
Provision for income taxes	(3.5)	(5.9)
Net earnings	$ 2.4	$ 5.9
Net earnings per common share(2)	$ 0.02	$ 0.05

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(1) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles ("GAAP") (and should not be considered as an indicator of operating performance or an alternative to operating income or cash flow (as measured by GAAP)), as a measure of liquidity, management believes it provides additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. EBITDA may not be comparable to other measures of liquidity and excludes components of net income (loss) which are significant in understanding the Company's financial performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(2) Net earnings per common share are based on the weighted average number of shares outstanding during the three-month periods ended March 31, 1997 and 1996 of 122,935,080 and 122,908,722 shares, respectively.

On March 28, 1997, a formal announcement (the "Announcement") from the Commission was made available which will impact the Company's calculation of earnings per share with respect to the issuance of the Preferred Stock. It is currently anticipated that the Preferred Stock will be convertible into Common Stock at a conversion price lower than the current market value of the Common Stock. The Announcement generally requires that the difference between the conversion price to holders of preferred stock at issuance and the value of the related common stock, solely as measured in the public market at that date, be recognized as a preferred dividend (the "Imputed Dividend") and the resulting Imputed Dividend amortized using the effective interest method from the date of issuance through the date the preferred stock is first convertible.

As a result of the Announcement and the anticipated difference between the conversion price of the Preferred Stock and the market value of the related Common Stock, the Company expects that it will record a significant Imputed Dividend upon the issuance of the Preferred Stock resulting in less income or a higher loss applicable to holders of the Common Stock. In addition, net income or loss applicable to

holders of Common Stock in future periods will be affected by amortization of the initial Imputed Dividend and additional Imputed Dividend which may arise when additional shares of Series B PIK Preferred Stock are issued as dividends on the Series B PIK Preferred Stock.

SEASONALITY

Volume of testing generally declines during the summer months, year-end holiday periods and other major holidays, resulting in net revenues and cash flows in the third and fourth quarter below the annual average. In addition, volume declines due to inclement weather may reduce net revenues and cash flows. Therefore, comparison of the results of successive quarters may not accurately reflect trends or results for the full year.

RESULTS OF OPERATIONS

Year Ended December 31, 1996 compared with Year Ended December 31, 1995

Net sales increased by $175.7 million to $1,607.7 million in 1996, an increase of 12.3% from $1,432.0 million reported in 1995. The inclusion of RBL as a result of the Merger increased net sales by approximately $243.5 million or 17.0%. Acquisitions of small clinical laboratory companies increased net sales by approximately 1.8%. Also contributing to the increases in net sales was growth in new accounts and price increases in selective markets. Such increases were partially offset by price erosion in the industry as a whole, lower utilization of laboratory testing and lost accounts. Price erosion and lower utilization of laboratory testing primarily resulted from continued changes in payor mix brought on by the increase in managed care. A reduction in Medicare fee schedules from 80% to 76% of the national limitation amounts on January 1, 1996, reduced net sales by approximately 1.3%. Severe weather in January and February of 1996 also negatively impacted net sales.

Cost of sales, which includes primarily laboratory and distribution costs, increased to $1,183.9 million in 1996 from $1,024.3 million in 1995. Of the $159.6 million increase, approximately $181.9 million or 17.8% was due to the inclusion of the cost of sales of RBL. Cost of sales increased (i) approximately $23.8 million as a result of wage increases prior to the implementation of a six-month deferral on wage rate increases implemented on July 1, 1996, (ii) approximately $5.0 million as a result of higher overtime and temporary employee expenses related to the acceleration of the Company's synergy program and other operational factors, (iii) approximately $7.5 million due to higher depreciation and maintenance of lab equipment as a result of the Company's purchase in 1996 of more sophisticated equipment to improve efficiency, and (iv) approximately $8.0 million in outside collection and reference testing fees. These increases were partially offset by decreases due to lower volume of approximately $14.7 million. Additional decreases in salaries and benefits of $49.5 million, and several other expense categories aggregating approximately $2.4 million were primarily a result of the Company's synergy and cost reduction programs. Cost of sales as a percentage of net sales was 73.6% in 1996 and 71.5% in 1995. The increase in the cost of sales percentage of net sales primarily resulted from a reduction in net sales due to price erosion and utilization declines, each of which provided little corresponding reduction in costs, and, to a lesser extent, due to severe weather in January and February of 1996 and a reduction in Medicare fee schedules.

Selling, general and administrative expenses increased to $305.0 million in 1996 from $238.5 million in the same period in 1995 representing an increase of $66.5 million or 27.9%. The inclusion of the selling, general and administrative expenses of RBL since April 28, 1995 increased expenses by approximately $36.5 or 15.3%. Increases in salaries, overtime and temporary employee expenses, primarily related to billing issues, and related telephone and data processing costs, aggregated approximately $24.8. Also, increased medical necessity and related diagnosis code requirements of third-party payors placed on the Company in late 1995 and additional requirements placed on the Company at the beginning of 1996 have resulted in lower collection rates. As a result the provision for doubtful accounts for 1996 increased approximately $16.6 million, including a charge of $10.0 million in the second quarter of 1996 compared

to 1995 which included a $15.0 million charge in the fourth quarter of 1995. The 1995 charge was necessitated by the deterioration in the Company's accounts receivable collection rates in the fourth quarter of 1995 primarily due to the effect of increased medical necessity and diagnosis code requirements of third party payors placed on the Company in the second half of 1995. Additional such requirements were placed on the Company at the beginning of 1996, which resulted in a further deterioration in accounts receivable collection rates in the second quarter of 1996. As a result of this further deterioration, the Company recorded the special charge of $10.0 million in the second quarter of 1996. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996 as a result of continued lower collection rates. These increases were partially offset by decreases in legal expenses, excluding settlement expenses, insurance and several other expense categories aggregating approximately $1.9 million. Selling, general and administrative expenses were 19.0% and 16.7% as a percentage of net sales in 1996 and 1995, respectively. The increase in the selling, general and administrative percentage primarily resulted from increased employee expenses related to billing and collection activities, the increases in the provision for doubtful accounts discussed above and to a lesser extent, from a reduction in net sales due to price erosion and utilization declines, each of which provided little corresponding reduction in costs.

In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million of non-recurring charges in the second quarter of 1996 related to the abandonment of certain data processing systems, relocation of its principal drug testing facility and various other items including the write-off of certain laboratory testing supplies related to changes in testing methodologies to increase efficiency.

As a result of negotiations related to the 1996 Government Settlement, the Company recorded the Settlement Charge of $185.0 million in the third quarter of 1996 to increase reserves for the 1996 Government Settlement described above, and other related expenses of government and private claims resulting therefrom.

The increase in amortization of intangibles and other assets to $29.6 million in 1996 from $27.0 million in 1995 primarily resulted from the Merger in April 1995.

Net interest expense was $69.5 million in 1996 compared to $64.1 million in 1995. The increase resulted primarily from increased borrowings due to higher accounts receivable balances and a higher effective borrowing rate as a result of an amendment to the Company's credit agreement. See "Liquidity and Capital Resources."

As a result of the restructuring and non-recurring charges in 1996 and 1995, the provision for income taxes is not comparable between periods. However, before charges, the Company's effective income tax rate in 1996 has increased from 1995 as a result of increased non-deductible amortization and lower earnings before income taxes.

Year Ended December 31, 1995 compared with Year Ended December 31, 1994.

Net sales increased by $559.5 million to $1,432.0 million in 1995, an increase of 64.1% from $872.5 million reported in 1994. Net sales from the inclusion of RBL increased net sales by approximately $514.7 million or 59.0%. Also, net sales from the inclusion of Allied, which was acquired on June 23, 1994, increased net sales by approximately $56.6 million or 6.5%. Growth in new accounts and acquisitions of small clinical laboratory companies increased net sales by approximately 8.6% and 2.8%, respectively. Lower utilization of laboratory testing and price erosion in the industry as a whole decreased net sales by approximately 5.0%. A reduction in Medicare fee schedules from 84% to 80% of the national limitation amounts on January 1, 1995, plus changes in reimbursement policies of various third-party payors, reduced

net sales by approximately 1.5%. Other factors, including accounts terminated by management, comprised the remaining reduction in net sales.

Cost of sales increased to $1,024.3 million in 1995 from $597.0 million in 1994. Of the $427.3 million increase, approximately $368.8 million was due to the inclusion of the cost of sales of RBL and approximately $44.8 million was due to the inclusion of the cost of sales of Allied. Cost of sales increased by approximately $26.1 million due to higher testing volume unrelated to the Merger or acquisition of Allied and approximately $4.5 million due to increases in other expenses. Reductions in compensation and benefit expense of $9.2 million, insurance of $4.8 million, and other expense categories of $2.9 million decreased cost of sales an aggregate of approximately $16.9 million. These decreases resulted from the consolidation of operations as a result of the Merger and the Company's on-going cost-reduction program. As a percentage of net sales, cost of sales increased to 71.5% in 1995 from 68.4% in 1994. 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 provided little corresponding reduction in costs.

Selling, general and administrative expenses increased to $238.5 million in 1995 from $149.3 million in 1994, an increase of $89.2 million. Approximately $74.3 million of the increase was due to the inclusion of the selling, general and administrative expenses of RBL and approximately $7.7 million due to the inclusion of the selling, general and administrative expenses of Allied. In the fourth quarter of 1995, the Company recorded an additional $15.0 million of provision for doubtful accounts which reflects the Company's determination, based on trends that became evident in the fourth quarter, that additional reserves were needed primarily to cover potentially lower collection rates from several third-party payors. The increase in selling, general and administrative expenses was partially offset by decreases in other expense categories, including reductions in selling expenses, as a result of the elimination of duplicative functions in connection with the Merger and the Company's on-going cost-reduction program. Before the increase to the provision for doubtful accounts, selling, general and administrative expenses as a percentage of net sales was 15.6% in 1995 and 17.1% in 1994. The decrease in the selling, general and administrative percentage primarily resulted from reductions in expenses as discussed above.

The increase in amortization of intangibles and other assets to $27.0 million in 1995 from $16.3 million in 1994 primarily resulted from the Merger in April 1995 and the acquisition of Allied in June 1994.

See Note 3 of the Notes to Consolidated Financial Statements which sets forth the Company's restructuring activities for the year ended December 31, 1995.

In the second quarter of 1995, the Company took a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which were billing disputes with various third party payors relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

Net interest expense was $64.1 million in 1995 compared to $33.5 million in 1994. The change resulted primarily from increased borrowings used to finance the Merger with RBL and the acquisition of Allied and, to a lesser extent, due to a higher effective borrowing rate in the first four months of 1995.

In connection with the repayment of the Company's existing revolving credit and term loan facilities at the time of the Merger, the Company recorded an extraordinary loss from the early extinguishment of debt of approximately $13.5 million ($8.3 million net of tax) consisting of the write-off of deferred financing costs.

As a result of the restructuring charges and extraordinary loss, the provision for income taxes as a percentage of earnings before income taxes for 1995 is not comparable to prior periods.

LIQUIDITY AND CAPITAL RESOURCES

Net cash (used for) provided by operating activities (after payment of settlement and related expenses of $188.9 million, $32.1 million and $29.8 million, respectively) was $(186.8) million, $47.0 million and $14.7 million, in 1996, 1995 and 1994, respectively. The decrease in cash flow from operations in 1996 primarily resulted from the Settlement Payment, an increase in accounts receivable related to increased medical necessity and related diagnosis code requirements of third-party payors placed on the Company at the beginning of 1996 and reflects the lower collection rates experienced beginning in the second quarter as a result of the more stringent requirements as discussed above.

Capital expenditures were $54.1 million, $75.4 million and $48.9 million for 1996, 1995 and 1994, respectively. The Company expects capital expenditures to be approximately $65.0 million in 1997 and $70.0 million in 1998 to further automate laboratory processes and to improve efficiency. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's credit facilities.

Increased medical necessity and related diagnosis code requirements of the Medicare program were placed on the Company by certain third party carriers in late 1995 and additional requirements were placed on the Company at the beginning of 1996. The Company has experienced lower collection rates as a result of these more stringent requirements. In addition, increased difficulty in collecting amounts due from private insurance carriers, including certain managed care plans, has negatively impacted cash flow from operations. Finally, Merger related integration issues have also resulted in increased accounts receivable balances as a result of the Company maintaining multiple billing information systems. The Company currently has plans in place to stabilize collection rates and improve the collection of accounts receivable. See "Business--Billing". To date, however, collection rates have continued to decline and additional changes in requirements of third-party payors could increase the difficulty in collections. There can be no assurance of the success of the Company's plans to improve collections and, due to changes in medical necessity requirements, the Company expects accounts receivable balances to continue to exceed 1995 levels.

In connection with the Merger, the Company entered into the Existing Credit Agreement, with the banks named therein (the "Banks") and an administrative agent (the "Bank Agent"), which made available to the Company the Term Loan Facility of $800.0 million and the Revolving Credit Facility of $450.0 million. On April 28, 1995, the Company borrowed $800.0 million under the Term Loan Facility and $184.0 million under the Revolving Credit Facility (i) to pay the cash payment to shareholders in connection with the Merger; (ii) to repay in full the existing revolving credit and term loan facilities of a wholly owned subsidiary of the Company of approximately $640.0 million including interest and fees; (iii) to repay approximately $50.0 million of existing indebtedness of RBL; and (iv) for other transaction costs in connection with the Merger and for use as working capital and general corporate purposes of the Company and its subsidiaries. Availability of funds under the Existing Credit Agreement is conditioned on certain customary conditions, and the Existing Credit Agreement, as amended, contains customary representations, warranties, covenants and events of default.

As a result of potential defaults under the Existing Credit Agreement resulting from among other things, the Company's performance and higher than projected debt levels, the Settlement Charge, and the Roche Loan, the Company has obtained several amendments and waivers to the Existing Credit Agreement. In September 1996, the Company negotiated an amendment (the "Fourth Amendment") to the Existing Credit Agreement. The Fourth Amendment modified the interest coverage and leverage ratios applicable to the quarters ending September 30 and December 31, 1996. The Fourth Amendment also increased the interest rate margin on its revolving credit facility from 0.25% to 0.875% and increased the interest rate margin on its term loan facility from 0.375% to 1.00%. As a result of the Settlement Charge in the third quarter of 1996, as described above, the Company obtained a waiver (the "Third Waiver") which excluded the special charge from covenant calculations for the periods covered by the most recent

amendment until 30 days after the 1996 Government Settlement. As a result of the Roche Loan and the 1996 Government Settlement, the Company negotiated a Fifth Amendment and Fourth Waiver (the "Fifth Amendment") to the Existing Credit Agreement. The Fifth Amendment extended the Third Waiver until January 31, 1997 and excluded the Roche Loan from covenant calculations for the quarters ending December 31, 1996 and March 31, 1997. On January 27, 1997, the Company negotiated a waiver (the "Fifth Waiver") which further extended the Third Waiver until March 31, 1997.

As mentioned above, in March 1997, the Company entered into the Sixth Amendment which eliminates amortization payments on the Term Loan Facility for 1997 and modifies the interest coverage and leverage ratios for the quarterly periods through December 31, 1997. As a result of the Sixth Amendment certain amounts outstanding under the Revolving Credit Facility and Term Loan Facility that were classified as current liabilities in the September 30, 1996 financial statements have been reclassified to long-term debt in the December 31, 1996 financial statements. Under the Sixth Amendment, maturities under the term loan facility aggregate $243.8 million, $162.5 million, $187.5 million and $100.0 million in 1998 through 2001, respectively.

In March 1997 the Company also entered into the Amended Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. Upon consummation of the Rights Offering and receipt of $500 million in gross proceeds, the Amended Credit Agreement makes available to the Company the Amended Term Loan Facility of $643.8 million and the Amended Revolving Credit Facility of $450.0 million.

As in the Existing Credit Agreement, the senior unsecured credit facilities under the Amended Credit Agreement are composed of the Amended Term Loan Facility and the Amended Revolving Credit Facility. The Amended Revolving Credit Facility includes a $50.0 million letter of credit sublimit. The Amended Credit Agreement maturity dates are extended approximately three years for the Amended Term Loan Facility to March 31, 2004 and approximately two years for the Amended Revolving Credit Facility to March 31, 2002. See "Description of Amended Credit Agreement."

Borrowings under the Revolving Credit Facility were $384.0 million as of March 31, 1997. In addition, in December 1996, the Company received a loan of $187.0 million from Roche Holdings to fund the Settlement Payment in the form of a promissory note which bears interest at 6.625% per annum and originally matured on March 31, 1997. As discussed above, in late March 1997, the Company obtained an extension of the Roche Loan to March 31, 1998. The Company subsequently made the Settlement Payment in December 1996. The Roche Loan is expected to be repaid with a portion of the proceeds from the Rights Offering.

Cash and cash equivalents on hand, cash flow from operations and additional borrowing capabilities of $66.0 million under the Revolving Credit Facility as of March 31, 1997 are expected to be sufficient to meet anticipated operating requirements, debt repayments and provide funds for capital expenditures and working capital through 1997. The Company's ability to meet anticipated operating requirements, debt repayments, including the Roche Loan, and other anticipated cash outlays beyond 1997 is substantially dependant upon the completion of the Rights Offering. Failure to complete the Rights Offering or to complete it by the end of February 1998 will require additional waivers or amendments to the Existing Credit Agreement and an extension of the Roche Loan. There can be no assurance that such waivers or amendments or extension can be obtained. Therefore, the failure to complete the Rights Offering or complete it by the end of February 1998 could have a material adverse effect on the Company's financial condition and liquidity.

At December 31, 1996, the Company was 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 changed the interest rate exposure on $600.0 million of floating rate debt to a

weighted average fixed interest rate, of 6.01%, through requiring that the Company pay a fixed rate in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in 1996 were $2.0 million. 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 cost at which the Company could terminate such agreements was $0.9 million at December 31, 1996.

The gross proceeds of the Rights Offering will be used to (i) repay approximately $294 million outstanding under the Existing Credit Agreement, (ii) pay fees and expenses of approximately $13 million related to the Rights Offering and (iii) repay the $187 million loan from Roche Holdings made in December 1996 in order to fund the Settlement Payment plus accrued interest thereon of approximately $6 million. See "Use of Proceeds."

CHANGES IN ACCOUNTING STANDARDS

On March 3, 1997, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," replacing Accounting Principles Board ("APB") Opinion No. 15, "Earnings per Share." SFAS No. 128 replaces "primary" and "fully diluted" earnings per share ("EPS") under APB Opinion No. 15 with "basic" and "diluted" EPS. Unlike primary EPS, basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Dilutive EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS. However, under SFAS No. 128, the Company would use the average market price for its stock during the reporting period to determine the cost of options as opposed to the greater of the closing price at the end of the period or the average market price during the period, as currently required by APB Opinion No. 15. SFAS No. 128 is effective for years ending after December 15, 1997. The Company is currently evaluating the impact of the implementation of SFAS No. 128.

FORWARD LOOKING STATEMENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a new "safe harbor" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. Included herein are certain forward-looking statements concerning the Company's operations, economic performance and financial condition, including, in particular, forward-looking statements regarding the Company's expectation of future performance following implementation of its new business strategy. Such statements are subject to various risks and uncertainties. Accordingly, the Company hereby identifies the following important factors that could cause the Company's actual financial results to differ materially from those projected, forecast, estimated, or budgeted by the Company in such forward-looking statements.

(a) Heightened competition, including intensification of price competition.

(b) Impact of changes in payor mix, including the shift from traditional, fee-for-service medicine to managed-cost health care.

(c) Adverse actions by governmental or other third-party payors, including unilateral reduction of fee schedules payable to the Company.

(d) The impact upon the Company's collection rates or general or administrative expenses resulting from compliance with Medicare administrative policies including specifically the HCFA's recent requirement that 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.

(e) Adverse results from investigations of clinical laboratories by the Federal Bureau of Investigation and the OIG including specifically significant monetary damages and/or exclusion from the Medicare and Medicaid programs.

(f) Failure to obtain new customers, retain existing customers or reduction in tests ordered or specimens submitted by existing customers.

(g) Adverse results in significant litigation matters.

(h) Denial of certification or licensure of any of the Company's clinical laboratories under CLIA, by Medicare and Medicaid programs or other Federal, state or local agencies.

(i) Adverse publicity and news coverage about the Company or the clinical laboratory industry.

(j) Inability to carry out marketing and sales plans.

(k) Inability to successfully integrate the operations of or fully realize the costs savings expected from the consolidation of certain operations and the elimination of duplicative expenses resulting from the April 28, 1995 merger of the Company and RBL or risk that declining revenues or increases in other expenses will offset such savings.

(l) Ability of the Company to attract and retain experienced and qualified personnel.

(m) Changes in interest rates causing an increase in the Company's effective borrowing rate.

(n) The effect of the Company's effort to improve account profitability by selectively repricing or discontinuing business with existing accounts which perform below Company expectations.

(o) The failure to consummate the Rights Offering by the end of the second quarter of 1997.

BUSINESS

OVERVIEW

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1996 net revenues. 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. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states. For the year ended December 31, 1996, the Company had net sales of $1,607.7 million and EBITDA before a provision for settlements and related expenses, restructuring charges and non-recurring expenses of $173.7 million. See footnote (j) to "Selected Financial Data" for a discussion of certain matters related to EBITDA. Primarily as a result of the Settlement Charge, operating loss and net loss during such period were $118.8 million and $153.5 million, respectively.

The Company has achieved a substantial portion of its growth through acquisitions. In June 1994 the Company acquired Allied Clinical Laboratories, Inc., then the sixth largest independent clinical laboratory testing company in the United States (based on 1993 net revenues). On April 28, 1995, the Company completed a merger with RBL, an indirect subsidiary of Roche pursuant to an Agreement and Plan of Merger dated as of December 13, 1994. In connection with the Merger, the Company changed its name from National Health Laboratories Holdings Inc. to Laboratory Corporation of America Holdings. In addition to the Merger and the Allied Acquisition, since 1993, the Company has acquired a total of 57 small clinical laboratories with aggregate sales of approximately $182.4 million.

During 1996 and the early part of 1997, the Company has undergone significant changes in management with Thomas P. Mac Mahon assuming the role of President and Chief Executive Officer in January 1997 in addition to his position as Chairman. Prior to such time Mr. Mac Mahon served as Senior Vice President of Roche and President of Roche Diagnostics Group where he was responsible for the management of all United States operations of the diagnostic businesses of Roche. In addition to Mr. Mac Mahon, the Company is led by a new Chief Financial Officer, Wesley R. Elingburg, formerly Senior Vice President--Finance, and a new management committee.

THE CLINICAL LABORATORY TESTING INDUSTRY

OVERVIEW

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, monitoring and treatment of diseases and other medical conditions through the examination of substances in blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical testing, which is performed on body fluids including blood and urine, or anatomical pathology testing, which is performed on tissue and other samples, including human cells. Clinical and anatomical pathology procedures are frequently ordered as part of regular physician office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used principally as tools in the diagnosis and treatment of a wide variety of medical conditions such as cancer, AIDS, endocrine disorders, cardiac disorders and genetic disease. The most frequently requested tests include blood chemistry analyses, urinalyses, blood cell counts, PAP smears, AIDS tests, microbiology cultures and procedures and alcohol and other substance-abuse tests.

The clinical laboratory industry consists primarily of three types of providers: hospital based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company. The Company believes that in 1996 approximately 50 percent of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 15 percent was derived by

physicians in their offices and laboratories and approximately 35 percent went to independent clinical laboratories. The HCFA has estimated that in 1996 there were over 5,000 independent clinical laboratories in the United States.

EFFECT OF MARKET CHANGES ON THE CLINICAL LABORATORY BUSINESS

Many market-based changes in the clinical laboratory business have occurred, most involving the shift away from traditional, fee-for-service medicine to managed-cost health care. The growth of the managed care sector presents various challenges to the Company and other independent clinical laboratories. Managed care providers typically contract with a limited number of clinical laboratories and negotiate discounts to the fees charged by such laboratories in an effort to control costs. Such discounts have resulted in price erosion and have negatively impacted the Company's operating margins. In addition, managed care providers have used capitated payment contracts in an attempt to promote more efficient use of laboratory testing services. Under a capitated payment contract, the clinical laboratory and the managed care provider agree to a per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed. Such contracts also shift the risks of additional testing beyond that covered by the capitated payment to the clinical laboratory. For the year ended December 31, 1996 such contracts accounted for approximately $64.5 million in net sales. The increase in managed-cost health care has also resulted in declines in the utilization of laboratory testing services.

In addition, Medicare and Medicaid and insurers, have increased their effort to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices and added costs and decreasing test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules in conjunction with certain budgetary bills. Any future changes to the Medicare fee schedules 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 Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including primarily: an expanded base of scientific knowledge which has led to the development of more sophisticated specialized tests and increased the awareness of physicians of the value of clinical laboratory testing as a cost-effective means of prevention, early detection of disease and monitoring of treatment. Additional factors which have contributed to recent volume growth include: an increase in the number and types of tests which are, due to advances in technology and increased cost efficiencies, readily available on a more affordable basis to physicians; expanded substance-abuse testing by corporations and governmental agencies; increased testing for sexually transmitted diseases such as AIDS; and the general aging of the population in the United States. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare and other third party payors, particularly managed care organizations.

BUSINESS STRATEGY

During 1996, management began implementing a new business strategy in response to the Company's declining performance. These new strategic objectives are as follows: remaining a low cost provider of clinical testing services; providing high quality customer service to its clients; and improving account profitability. In addition, the Company is focused on certain growth initiatives beyond routine clinical laboratory testing. The Company believes that as a result of this change in focus it is well positioned to achieve its goal of leading the clinical laboratory industry by providing its customers with innovative, responsive, and high quality services.

LOW COST PROVIDER

The Company believes that due to synergy programs implemented following the Merger, its standardized equipment and its focus on cost containment, it is a low cost provider of clinical testing services. Since the Merger, the Company has been able to effect substantial operating cost reductions in the combined businesses and expects that the full effect of these savings (approximately $120 million per year when compared to the businesses' costs immediately prior to the Merger) will be realized during 1997. In addition, the Company is focused on other initiatives which are expected to achieve significant cost savings in 1997. These plans include a new agreement with a supplier of telecommunications services, additional supply savings primarily due to increased efficiency, and further regional laboratory consolidation. See "Management's Discussion and Analysis of Results of Operations and Financial Position."

The Company has also developed and implemented sophisticated management information systems to monitor operations and control costs. All financial functions are centralized in Burlington, North Carolina including purchasing and accounting. Management believes this provides greater control over spending as well as increased supervision and monitoring of results of operations.

CLIENT SERVICE

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, the pricing of its services and its ability to employ qualified personnel. The Company believes it is a leading provider of laboratory testing in terms of its menu and quality of testing services. As a result of the required focus on the consolidation process related to the Merger, however, the Company believes that its level of client service has been negatively impacted. Therefore, in 1997, with the consolidation process substantially completed, one of the Company's goals is to improve client service. An important factor in improving client service includes the Company's initiatives to improve its billing process. See "--Billing."

ACCOUNT PROFITABILITY

Since the third quarter of 1996, the Company has begun an active effort to improve the profitability of new and existing business. To date this effort has focused primarily on reviewing existing contracts, including those with managed care organizations, and selectively repricing or discontinuing business with existing accounts which perform below Company expectations. The Company believes that as a result of this effort, the fourth quarter of 1996 was the second consecutive quarter since the Merger that the Company's price per accession or specimen did not decline versus the immediately preceding quarter. The Company is also targeting price increases across most of its business lines, including specialty and niche testing which have not seen price increases since the Merger. While such increases may adversely affect volumes, the Company believes that such measures along with other cost reduction programs, will improve its overall profitability. Finally, the Company is reviewing its sales organization and expects to modify its commission structure so that compensation is tied more directly to the profitability of retained and new business instead of the current practice of basing commissions primarily on revenue generated. The Company is also reviewing alternatives relating to regions of the country and certain businesses where profitability is not reaching internal goals and may enter into joint ventures, alliances, or asset swaps with interested parties in order to maximize regional operating efficiencies.

FOCUSED GROWTH INITIATIVES

The Company plans to increase market share in certain sections of the market by providing innovative services in three primary areas: (i) hospital alliances; (ii) specialty and niche businesses; and (iii) direct marketing to payors.

One of the Company's primary growth strategies is to develop an increasing number of hospital alliances. These alliances can take several different forms including laboratory management contracts, reference agreements and joint ventures. Through these alliances the Company provides testing services as well as contract management services. As hospitals continue to be impacted by decreasing fee schedules from third party payors and managed care organizations, the Company believes that they will seek the most cost-effective laboratory services for their patients. Management believes the Company's economies of scale as well as its delivery system will enable it to assist the hospital in achieving this goal. These alliances are generally more profitable than the Company's core business due to the specialized nature of many of the testing services offered in the alliance program. In 1996, the Company added 6 alliance agreements with hospitals, physician groups and other care provider organizations representing approximately $20 million of annual sales. This increased the total number of alliances to 20 at December 31, 1996 from 14 at December 31, 1995.

Another primary growth strategy for the Company is growth of its specialty and niche businesses. In general the specialty and niche businesses are designed to serve two market segments: (i) markets which are not served by the routine clinical testing laboratory and therefore are subject to less stringent regulatory and reimbursement constraints; and (ii) markets which are served by the routine testing laboratory but offer the possibility of adding related services from the same supplier. The Company's research and development group continually seeks new and improved technologies for early diagnosis. For example, the Company believes its Center for Molecular and Biology and Pathology is a leader in molecular diagnostics and polymerase chain reaction technologies which are often able to provide earlier and more reliable information regarding HIV, genetic diseases, cancer and many viral and bacterial diseases. These technologies may represent a significant savings to managed care organizations by increasing the detection of early stage (treatable) diseases. Also, the Company recently acquired Genetic Design, Inc. and management believes it is now the largest provider of identity testing services in the United States.

Finally, in 1996 the Company also began to focus efforts on selling its services directly to payors of laboratory services. As a result of that focus, the Company entered into an agreement with PCS Health Systems, Inc., a leading pharmacy benefit management company with 58 million covered lives, to provide laboratory services as an extension of the PCS prescription card services. Through this agreement patients will be provided with identification cards indicating beneficiary eligibility for both prescription benefits and the Company's testing services. The Company will provide the testing services as requested and bill PCS based on a predetermined fee schedule. The Company will pay PCS certain percentage and fixed fees for adjudication of claims. One of the advantages of the PCS agreements is that patient eligibility will be determined at the time of testing through interface with the PCS information system which will expedite processing of the claim for reimbursement.

LABORATORY TESTING OPERATIONS AND SERVICES

The Company has 28 major laboratories, and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories. A "branch" 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 branch and conveniently delivered to the client. A branch 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 or other strategic locations. 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 processed an average of approximately 250,000 patient specimens per day in 1996. 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 specimen 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 computerized testing equipment is directly linked with the Company's information systems. 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 a life-threatening result is found at any point during the course of the testing process.

TESTING SERVICES

ROUTINE TESTING

The Company currently offers over 1,700 different clinical laboratory tests or procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication or to search for an otherwise undiagnosed condition. The most frequently requested routine tests include blood chemistry analyses, urinanalyses, blood cell counts, pap smears and AIDS tests. These routine procedures are most often used by practicing physicians in their outpatient office practices. Physicians may elect to send such procedures to an independent laboratory or they may choose to establish an in-house laboratory to perform some of the tests.

The Company performs this core group of routine tests in each of its 28 major regional laboratories, which constitutes a majority of the testing performed by the Company. The Company generally performs and reports most routine procedures within 24 hours, utilizing a variety of sophisticated and computerized laboratory testing instruments.

SPECIALTY AND NICHE TESTING

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures are more specialized in nature. Certain types of unique testing capabilities and/or client requirements have been developed into specialty or niche businesses by the Company which have become a primary growth strategy for the Company. In general the specialty and niche businesses are designed to serve two market segments; (i) markets which are not served by the routine clinical testing laboratory and therefore are subject to less stringent regulatory and reimbursement constraints; and (ii) markets which are served by the routine testing laboratory and offer the possibility of adding related services from the same supplier. The following are specialty and niche businesses in which the Company offers testing and related services:

Allergy Testing.....	The Company offers an extensive range of allergen testing services as well as computerized analysis and a treatment program that enables primary care physicians to diagnose and treat many kinds of allergic disorders.
Ambulatory Monitoring.....	The Company performs a computer assisted analysis of electrocardiograms and blood pressure measurements. Many of these analyses are submitted by physicians who require extended (up to 24 hours) monitoring of these parameters for patients.

Clinical Research Testing....	The Company regularly performs clinical laboratory testing for pharmaceutical companies conducting clinical research trials on new drugs. This testing often involves periodic testing of patients participating in the trial over several years.
Diagnostic Genetics.....	The Company offers cytogenetic, biochemical and molecular genetic tests.
Identity Testing.....	The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in the resolution of disputed parentage in child support litigation. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father.
Industrial Hygiene Testing...	The Company maintains a separate testing facility in Richmond, Virginia, dedicated to the analysis of potentially toxic substances in the workplace environment.
Kidney Stone Analysis.....	The Company offers specialized patient analysis assessing the risk of kidney stones based on laboratory measurements and patient history.
Oncology Testing.....	The Company offers an extensive series of testing technologies that aid in diagnosing and monitoring certain cancers and predicting the outcome of certain treatments.
Substance Abuse Testing.....	The Company provides urinalysis testing for the detection of drugs of abuse for private and government customers, and also provides blood testing services for the detection of drugs of abuse and alcohol. These testing services are designed to produce "forensic" quality test results that satisfy the rigorous requirements for admissibility as evidence in legal proceedings.
Veterinary Testing.....	The Company offers clinical laboratory testing of animal specimens for veterinarians which require specialized testing procedures and handling due to their differing characteristics.

The specialized or niche testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the people, instruments and related resources for performing such procedures so that quality and efficiency can be most effectively monitored. The Company's Center for Molecular Biology and Pathology in Research Triangle Park, North Carolina, also specializes in new test development and education and training related thereto.

CLIENTS

The Company provides testing services to a broad range of health care providers. During the year ended December 31, 1996, no client or group of clients under the same contract accounted for more than two percent of the Company's net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups

Physicians requiring testing for their patients who are unaffiliated with a managed care plan are one of the Company's primary sources of testing services. Fees for clinical laboratory testing services rendered for these physicians are billed either to the physician, to the patient or the patient's third party payor such as insurance companies, Medicare and Medicaid. Billings are typically on a fee-for-service basis. If the billings are to the physician, they are based on the wholesale or customer fee schedule and subject to negotiation. Otherwise, the patient is billed at the laboratory's retail or patient fee schedule and subject to third party payor limitations and negotiation by physicians on behalf of their patients. Medicare and Medicaid billings are based on government set fee schedules.

Hospitals

The Company serves hospitals with services ranging from routine and specialty testing to contract management services. Hospitals generally maintain an on-site laboratory to perform immediately needed testing on patients receiving care. However, they also refer less time sensitive procedures, less frequently needed procedures and highly specialized procedures to outside facilities, including independent clinical laboratories and larger medical centers. The Company typically charges hospitals for any such tests on a fee-for-service basis which is derived from the Company's customer fee schedule.

HMOs and Other Managed Care Groups

The Company serves HMOs and other managed care organizations. These medical service providers typically contract with a limited number of clinical laboratories and then designate the laboratory or laboratories to be used for tests ordered by participating physicians. Testing is mostly performed on a capitated basis for managed care organizations. Under a capitated payment contract, the Company agrees to cover all laboratory tests during a given month for which the managed care organization agrees to pay a flat monthly fee. The tests covered under agreements of this type are negotiated for each contract, but usually include mostly routine tests and exclude highly specialized tests. Many of the national and large regional managed care organizations prefer to use large independent clinical labs such as the Company because they can service them on a national basis.

Other Institutions

The Company serves other institutions, including governmental agencies, large employers and other independent clinical laboratories that do not have the breadth of the Company's testing capabilities. The institutions typically pay on a negotiated or bid fee-for-service basis.

PAYORS

Most testing services are billed to a party other than the "client" that ordered the test. In addition, tests performed by a single physician may be billed to different payors depending on the medical benefits of a particular patient. Payors other than the direct patient, include, among others, insurance companies, managed care organizations, Medicare and Medicaid. Based on the year ended December 31, 1996 billings to the Company's respective payors based on the total volume of accessions are as follows:

	Accession Volume as a % of Total	
	1996	Revenue per Accession
Private Patients	3-5%	$65-75
Medicare, Medicaid and Insurance	25-30%	$25-35
Commercial Clients	45-50%	$15-25
Managed Care	15-20%	$10-30

AFFILIATIONS AND ALLIANCES

The Company provides management services in a variety of health care settings. The Company generally supplies the laboratory manager and other laboratory personnel, as well as, equipment and testing supplies, to manage a laboratory that is owned by a hospital, managed care organization 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 hospital or clinic ("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 contract management 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 management service contracts typically have terms between three and five years. However, most contracts contain 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 up to 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.

One of the Company's primary growth strategies is to develop an increasing number of hospital alliances. See "Growth Strategies."

PCS HEALTH SYSTEMS, INC.

In 1996, the Company began to focus efforts on selling its services directly to payors of laboratory services. As a result of that focus, the Company entered into an agreement with PCS to provide laboratory services as an extension of its prescription card services. PCS, a wholly-owned subsidiary of Eli Lilly and Company, is one of the leading pharmacy benefit management companies in the United States with 58 million members covered by its programs and services. The arrangement with PCS is modeled after the current PCS prescription benefit plan. Patients will be provided with identification cards indicating beneficiary eligibility for both PCS prescription benefits and Company testing services. The Company will provide testing services as requested and bill PCS based on a predetermined fee schedule. The Company will pay PCS certain percentage and fixed fees for adjudication of claims.

The process begins when a test sample is collected at the physician's office or local Company service center. Patient eligibility will be determined at the time of testing through interface with the PCS information system which will expedite processing of the claim for reimbursement. The laboratory sample will be sent via the courier to the Company testing facility. After tests are completed, the results are forwarded to the

physician and the billing information regarding the tests performed are sent to PCS for plan processing and claim remittance.

The benefits to the client under the PCS arrangement include the ability to tailor the program to meet the specific needs of client companies and their employees and the ability to provide (i) combined utilization reporting for potential outcomes measurement and disease management and (ii) consistent, cost effective, quality laboratory services to employees in several geographic locations through the Company's national presence. The benefits to the Company are the ability to ensure eligibility at the time of specimen collection, pricing above the Company's current composite price per accession despite a significant discount to the client and improved cash flow through contracted reimbursement. The Company expects to begin to realize revenues from this agreement beginning in the second half of 1997.

SALES AND MARKETING AND CLIENT SERVICE

The Company offers its services through a combination of direct sales generalists and specialists. Sales generalists market the mainstream or traditional routine laboratory services primarily to physicians, while specialists concentrate on individual market segments, such as hospitals or managed care organizations, or on testing niches, such as identity testing or genetic testing. Specialist positions are established when an in-depth level of expertise is necessary to effectively offer the specialized services. When the need arises, specialists and generalists work cooperatively to address specific opportunities. At December 31, 1996, the Company employed approximately 267 generalists and 81 specialists. The Company's sales generalists and specialists are compensated through a combination of salaries, commissions and bonuses, at levels commensurate with each individual's qualifications and responsibilities. Commissions are primarily based upon the individual's productivity in generating new business for the Company.

The Company also employs customer service associates ("CSAs") to interact with clients on an ongoing basis. CSAs monitor the status of the services being provided to clients, act as problem-solvers, provide information on new testing developments and serve as the client's regular point of contact with the Company. At December 31, 1996, the Company employed approximately 370 CSAs. CSAs are compensated with a combination of salaries and bonuses commensurate with each individual's qualifications and responsibilities.

The Company believes that the clinical laboratory service business is shifting away from the traditional direct sales structure and into one in which the purchasing decisions for laboratory services are increasingly made by managed care organizations, insurance plans, employers and increasingly by patients themselves. In view of these changes, the Company has adapted its sales and marketing structure to more appropriately address the new opportunities. For example, the Company has expanded its specialists sales positions in both its primary business and its niche businesses in order to maximize the Company's competitive strengths of advanced technology and marketing focus. Additionally, the Company has begun to integrate selected traditional sales and customer support functions into a new position, the Account Manager, which will have responsibility for certain sales, service and daily operational contact with physician-clients.

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, the pricing of its services and its ability to employ qualified personnel. As a result of the required focus on the consolidation process related to the Merger, however, the Company believes that its level of client service has been negatively impacted. Therefore, in 1997, with the consolidation process substantially completed, one of the Company's goals is to improve client service. An important factor in improving client service includes the Company's initiatives to improve its billing process. See "--Billing,"

INFORMATION SYSTEMS

The Company has developed and implemented sophisticated management information systems to monitor operations and control costs. All financial functions are centralized in Burlington, North Carolina including purchasing and accounting. Management believes this provides greater control over spending as well as increased supervision and monitoring of results of operations.

The Company believes that the health care provider's need for data will continue to place high demands on its information systems staff. The Company operates several systems to handle laboratory, billing and financial data and transactions. The Company believes that the efficient handling of information involving clients, patients, payors and other parties will be a critical factor in the Company's future success. The Corporate Information Systems Division manages its information resources and programs on a consolidated basis in order to achieve greater efficiency and economies of scale. In addition, as a key part of its response to these challenges, the Company employs a Chief Information Officer, whose responsibility is to integrate, manage and develop the Company's information systems.

In 1996, information systems activities have been focused on selection and consolidation of the Company's multiple laboratory and billing systems to standardized laboratory testing and billing systems. The Company has also been focused on the establishment of regional data centers to handle all of the information processing needs of the Company. The Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system which it plans to implement once problems with the collection of accounts receivable balances resulting from increased medical necessity and diagnosis code requirements are corrected. These conversions are expected to be completed within two years. The Company does not anticipate that the conversion costs will result in a significant increase in capital expenditures over the levels spent during the last several years.

BILLING

Billing for laboratory services is a complicated process. Laboratories must bill many different payors such as doctors, patients, hundreds of different insurance companies, Medicare, Medicaid and employer groups, all of whom have different billing requirements. The Company believes that a majority of its bad debt expense is the result of non-credit related issues which slow the billing process, create backlogs of unbilled requisitions and generally increase the aging of accounts receivable. A primary cause of bad debt expense is missing or incorrect billing information on requisitions. The Company believes that this experience is similar to that of its primary competitors. The Company performs the requested tests and returns back the test results regardless of whether billing information has been provided at all or has been provided incorrectly. The Company subsequently attempts to obtain any missing information or rectify any incorrect billing information received from the health care provider. Among the many other factors complicating the billing process are more complicated billing arrangements due to contracts with third-party administrators, disputes between payors as to the party responsible for payment of the bill and auditing for specific compliance issues. Ultimately, if all issues are not resolved in a timely manner, the related receivables are written off.

The Company's bad debt expense has increased since the Merger principally due to three developments that have further complicated the billing process: (1) increased complexities in the billing process due to requirements of managed care payors; (2) increased medical necessity and diagnosis code requirements; and (3) existence of multiple billing information systems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15 million and $10 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. The 1995 charge was necessitated by the deterioration in the Company's accounts receivable collection rates in the fourth quarter of 1995 primarily due to the effect of increased medical necessity and diagnosis

code requirements of third party payors placed on the Company in the second half of 1995. Additional such requirements were placed on the Company at the beginning of 1996, which resulted in a further deterioration in accounts receivable collection rates in the second quarter of 1996. As a result of this further deterioration, the Company recorded the special charge of $10.0 million in the second quarter of 1996. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996 as a result of continued lower collection rates. To date, accounts receivable balances have continued to grow even though revenues have not increased. Although there can be no assurance of success, the Company has recently developed a number of initiatives to address the complexity of the billing process and to improve collection rates. These initiatives include: reorganization of departments to allow for more focus on specific issues; retention of management consultants to assess the situation and assist in re-engineering the billing process; establishment of a project group to address inaccurate and missing billing information captured when the specimen is received; addition of staff in each operating division to train field personnel in billing matters and to review and approve contracts with third-party payors to ensure that contracts can be properly billed; and training of clients related to limited coverage tests and the importance of providing diagnosis codes pertaining to such tests. Additionally, the Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system which it plans to implement once the growth in accounts receivable is stabilized.

QUALITY ASSURANCE

The Company considers the quality of its tests to be of critical importance, and it has established a comprehensive quality assurance program for all of its laboratories and other facilities, designed to help assure accurate and timely test results. In addition to the compulsory external inspections and proficiency programs demanded by HCFA and other regulatory agencies, Company-wide systems and procedures are in place to emphasize and monitor quality assurance. All of the Company's regional laboratories are subject to on-site evaluations, the College of American Pathologists ("CAP") proficiency testing program, state surveys and the Company's own internal quality control programs.

External Proficiency/Accreditations. The Company participates in numerous externally-administered, blind quality surveillance programs, including the CAP program. The blind programs supplement all other quality assurance procedures and give Company management the opportunity to review its technical and service performance from the client's perspective.

Internal Quality Control. The Company regularly performs internal quality control testing by running quality control samples with known values with patient samples submitted for testing. All quality control sample test results are entered into the Company's national laboratory computer, which connects the Company's facilities nationwide to a common on-line quality control database. This system helps technologists and technicians check quality control values and requires further prompt verification if any quality control value is out of range. The Company has an extensive, internally administered program of blind sample proficiency testing (i.e. the testing laboratory does not know the sample being tested is a quality control sample), as part of which the Company's locations receive specimens from the Company's Quality Assurance and Corporate Technical Services departments for analysis.

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. The CAP is an independent non-governmental organization of board certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. The CAP has been accredited by HCFA to inspect clinical laboratories to determine CLIA standards. A laboratory's receipt of accreditation by the CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. All of the Company's major laboratories are accredited by the CAP.

COMPETITION

The clinical laboratory business is intensely competitive. The Company believes that in 1996 the entire United States clinical laboratory testing industry had revenues exceeding $36 billion; approximately 50% of such revenues were attributable to hospital-affiliated laboratories, approximately 35% were attributable to independent clinical laboratories and approximately 15% were attributable to physicians in their offices and laboratories. As recently as 1993, there were seven laboratories that provided clinical laboratory testing services on a national basis: NHL, RBL, Quest, SmithKline, Damon Corporation, Allied and Nichols Institute. Apart from the Merger and the Allied Acquisition, Quest acquired Nichols Institute in August 1994 and Damon Corporation in August 1993. In addition, in the last several years a number of large regional laboratories have been acquired by national clinical laboratories. There are presently three national independent clinical laboratories: the Company; Quest, which had approximately $1.6 billion in revenues from clinical laboratory testing in 1996; and SmithKline, which had approximately $1.3 billion in revenues from clinical laboratory testing in 1996.

In addition to the two other national clinical laboratories, the Company competes on a regional basis with many smaller regional independent clinical laboratories as well as laboratories owned by hospitals and physicians. The Company believes that the following factors, among others, are often used by health care providers in selecting a laboratory: (i) pricing of the laboratory's test services; (ii) accuracy, timeliness and consistency in reporting test results; (iii) number and type of tests performed; (iv) service capability and convenience offered by the laboratory; and (v) its reputation in the medical community. The Company believes that it competes favorably with its principal competitors in each of these areas and is currently implementing strategies to improve its competitive position. See "--Clients" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

PROPERTIES

The following table summarizes certain information as to the Company's principal operating and administrative facilities as of December 31, 1996.

NATURE OF LOCATION	APPROXIMATE AREA (IN SQUARE FEET)	NATURE OF OCCUPANCY
OPERATING FACILITIES:		
Birmingham, Alabama.....	100,000	Lease expires 2005
Phoenix, Arizona.....	43,000	Lease expires 2001; one 5 year renewal option
San Diego, California...	54,000	Lease expires 2007
Denver, Colorado.....	20,000	Lease expires 2001; two 5 year renewal options
Tampa, Florida.....	95,000	Lease expires 2009; one 5 year renewal option
Chicago, Illinois.....	40,000	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
Kansas City, Missouri...	78,000	Owned
Reno, Nevada.....	16,000	Owned
	14,000	Lease expires 1999; 2 year renewal option
Raritan, New Jersey.....	186,000	Owned
Uniondale, New York.....	108,000	Lease expires 2007; two 5 year renewal options
Burlington, North Carolina.....	205,000	Owned
Charlotte, North Carolina.....	25,000	Lease expires 1997; renewal option every 3 years
Research Triangle Park, North Carolina.....	74,000	Lease expires 2008, three 5 year renewal options
	111,000	Lease expires 2011; three 5 year renewal options
Winston-Salem, North Carolina.....	73,000	Lease expires 2009; one 5 year renewal option
Dublin, Ohio.....	82,000	Owned
Memphis, Tennessee.....	30,000	Lease expires 1999; one 5 year renewal option
Dallas, Texas.....	54,000	Lease expires 2004; one 5 year renewal option
Houston, Texas.....	32,000	Lease expires 1997
San Antonio, Texas.....	44,000	Lease expires 2004; one 5 year renewal option
Salt Lake City, Utah....	20,000	Lease expires 2002; two 5 year renewal options
Chesapeake, Virginia....	21,000	Lease expires 2002; two 5 year renewal options
Herndon, Virginia.....	64,000	Leases expire 1999, 2004; one 5 year renewal option, one five year renewal option
Richmond, Virginia.....	57,000	Lease expires 2001; one 5 year renewal option
Seattle, Washington.....	42,000	Lease expires 1998; two 5 year renewal options
Fairmont, West Virginia.....	25,000	Lease expires 2005; three 5 year renewal options
ADMINISTRATIVE FACILITIES:		
Burlington, North Carolina.....	160,000	Owned
	188,000	Leases expire 1997-2008; various options to purchase or renew

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.

EMPLOYEES

At December 31, 1996, the Company employed approximately 22,000 people. These include approximately 18,000 full-time employees and approximately 4,000 part-time employees, which represents the equivalent of approximately 19,300 persons full-time. Of the approximately 19,300 full-time equivalent employees, approximately 400 are sales personnel, approximately 17,000 are laboratory and distribution personnel and approximately 1,900 are administrative and data processing personnel. A subsidiary of the Company has one collective bargaining agreement which covers approximately 20 employees. The Company believes that its overall relations with its employees are good.

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 addition, the Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims, and although there can be no assurance, based upon the information currently available to it, management does not believe that the ultimate outcome of these claims will have a material adverse effect on its financial condition. However, due to the early stage of such claims, management cannot make an estimate of loss or predict whether or not such claims will have a material adverse effect on the Company's results of operations in any particular period.

REGULATION AND REIMBURSEMENT

GENERAL

The clinical laboratory industry is subject to significant governmental regulation at the Federal, state and local levels. Under CLIA, virtually all clinical laboratories, including those owned by the Company, must be certified by the Federal government. Many clinical laboratories must also meet governmental standards, undergo proficiency testing and are subject to inspection. Certifications or licenses are also required by various state and local laws.

The health care industry is undergoing significant change as third-party payors, 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 the 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, initially advanced in 1994, was not enacted, 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 payors are likely to 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.

REGULATION OF CLINICAL LABORATORIES

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 test 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 approximately twelve routine "waivered" tests may apply for a waiver from most requirements of CLIA. All major and many smaller company facilities 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's laboratories have continuing programs to ensure that their operations meet all applicable regulatory requirements.

REGULATION AFFECTING REIMBURSEMENT OF CLINICAL LABORATORY SERVICES

Containment of health care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. 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 bill the program directly and must accept the scheduled amount as payment in full for covered tests performed on behalf of Medicare beneficiaries. In addition, state Medicaid programs are prohibited from paying more than the Medicare fee schedule amount for clinical laboratory services furnished to Medicaid recipients. In 1996 and 1995 the Company derived approximately 23% and 28%, respectively, of its net sales from tests performed for beneficiaries of Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation in these programs because clients often want a single laboratory to perform all of their testing services. Since 1984, 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 were implemented on a phased-in basis from 1994 through 1996 (to 84% in 1994, 80% in 1995 and 76% in 1996). The 1996 reduction to 76% was implemented as scheduled on January 1, 1996. OBRA '93 also eliminated the provision for annual fee schedule increases based upon the consumer price index for 1994 and 1995. These reductions were partially offset, however, by annual consumer price index fee schedule increases of 3.2% and 2.7% in 1996 and 1997, respectively. 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. The Company cannot predict if additional Medicare reductions will be implemented.

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 on August 1, 1993. The CPT changes have altered the way the Company bills third-party payors 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.

Moreover, Medicare denied reimbursement to NHL for claims submitted for HDL cholesterol and serum ferritin (a measure of iron in the blood) tests from September 1993 to December 1993, at which time NHL removed such tests from its basic test profiles.

In 1996, the HCFA implemented 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 changes established a consistent standard nationwide for the content of the automated chemistry profiles. Another change incorporated in the HCFA policy requires 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. The Company expects to incur additional

costs associated with the implementation of these requirements. The amount of additional costs and potential reductions in reimbursement for certain components of chemistry profiles and the impact on the Company's financial condition and results of operations have not yet been determined.

Future changes in Federal, state and local regulations (or in the interpretation of current regulations) affecting governmental reimbursement for clinical laboratory testing could have a material adverse effect on the Company. The Company is unable to predict, however, whether and what type of legislation will be enacted into law.

FRAUD AND ABUSE REGULATIONS

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, although literally covered by the laws, will 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 if all conditions of the safe harbor are met; rather, the arrangement would remain subject to scrutiny by HHS.

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 physicians benefit from such lower utilization; providing free pickup and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; providing facsimile machines or computers to physicians that 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 Special 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 negotiation 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 combating 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 with purchasers of laboratories' services. The OIG will assess the potential benefits of such arrangements as well as the extent to which such arrangements might be unlawful.

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.

ENVIRONMENTAL AND OCCUPATIONAL SAFETY

The Company is subject to licensing and regulation under Federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. All Company laboratories are subject to applicable Federal and state laws and regulations relating to biohazard disposal of all laboratory specimens and the Company utilizes outside vendors for disposal of such specimens. In addition, the Federal Occupational Safety and Health Administration 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. Although the Company is not aware of any current material non-compliances with such Federal, state and local laws and regulations, failure to comply could subject the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions.

DRUG TESTING

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 Federal government contractors and certain other entities. To the extent that the Company's laboratories perform such testing, each must be certified as meeting SAMSHA standards. The Company's Research Triangle Park, North Carolina; Memphis, Tennessee; Raritan, New Jersey; Seattle, Washington; Herndon, Virginia and Reno, Nevada laboratories are SAMSHA certified.

CONTROLLED SUBSTANCES

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

OIG INVESTIGATIONS

Several Federal agencies are responsible for investigating allegations of fraudulent and abusive conduct by health care providers, including the Federal Bureau of Investigation, the OIG and the DOJ. 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 through the country."

1996 GOVERNMENT SETTLEMENT

In August 1993, RBL and Allied each received a subpoena from the OIG requesting documents and information concerning pricing and billing practices. In September 1993, NHL received a subpoena from

the OIG which required NHL to provide documents to the OIG concerning its regulatory compliance procedures. Among other things, the OIG subpoena received by RBL and 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 billed separately to Medicare or Medicaid. An automated chemistry profile is a grouping of tests that can be performed together on a single specimen and that Medicare and Medicaid pay under the Medicare fee schedule. The government's investigations covered billings for tests performed by NHL, RBL and Allied from 1988 to 1994. These tests were deemed by regulators to be medically unnecessary. The investigations were part of a broad-based federal inquiry into Medicare and related billings that have resulted in financial settlements with a number of other clinical laboratories. The inquiries have also prompted the imposition of more stringent regulatory compliance requirements industry-wide. In November 1996, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale--a liability the Company later succeeded to, following the Allied Acquisition and Merger. As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185.0 million in the third quarter of 1996 to increase reserves for the 1996 Government Settlement described above and other related expenses of government and private claims resulting therefrom. In addition, the Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims, and although there can be no assurance, based upon the information currently available to it, management does not believe that the ultimate outcome of these claims will have a material adverse effect on its financial condition. However, due to the early stage of such claims, management cannot make an estimate of loss or predict whether or not such claims will have a material adverse effect on the Company's results of operations in any particular period.

Pursuant to the 1996 Government Settlement, the Company paid $187 million in December 1996. The Settlement Payment was paid from the proceeds of a $187 million loan made by Roche to the Company in December 1996. See "Certain Relationships and Related Transactions Other Transactions with Roche."

1992 NHL GOVERNMENT SETTLEMENT

In November 1990, NHL 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 OIG. On December 18, 1992, NHL entered into a settlement with the United States Attorney (the "1992 NHL Government Settlement"), which related to the government's contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test 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 basic test profile at no extra charge. As a result, the government contended, NHL's marketing activities denied physicians the ability to exercise their judgment as to the medical necessity of these tests.

Pursuant to the 1992 NHL Government Settlement, NHL 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, NHL also agreed to pay $100 million to the Federal Government in installments. As of December 31, 1995, all such payments due to the government under the 1992 NHL Government Settlement had been made. Concurrent with the 1992 NHL Government Settlement, NHL settled related Medicaid claims with states that account for over 99.5% of its Medicaid business and paid $10.4 million to the settling states.

1994 ALLIED GOVERNMENT SETTLEMENT

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 March 1995, Allied resolved the issues raised by the April 1994 subpoena and a related qui tam action commenced in Cincinnati, Ohio Federal court by entering into agreements with, among others, HHS, the United States Department of Justice and the relators in the qui tam action pursuant to which it agreed to pay $4.9 million to settle all pending claims and inquiries regarding these billing practices and certain others. NHL had previously established reserves that were adequate to cover such settlement payments. In connection with the settlement, Allied agreed with HHS, among other things, to implement a corporate integrity program to ensure that Allied and its representatives remain in compliance with applicable laws and regulations and to provide certain reports and information to HHS regarding such compliance efforts.

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 has implemented a comprehensive company-wide compliance program. The objective of the program is to develop, implement and update as necessary 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 a 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.

MANAGEMENT

The following table sets forth the directors and executive officers of the Company:

NAME	AGE	POSITION
Thomas P. Mac Mahon.....	50	Chairman of the Board, President, Chief Executive Officer and Director
Jean-Luc Belingard.....	48	Director
Wendy E. Lane.....	46	Director
Robert E. Mittelstaedt, Jr.	53	Director
James B. Powell, M.D.	58	Director
David B. Skinner, M.D.	62	Director
Andrew G. Wallace, M.D.	62	Director
Wesley R. Elingburg.....	40	Executive Vice President, Chief Financial Officer and Treasurer
Larry L. Leonard.....	56	Executive Vice President
Richard L. Novak.....	56	Executive Vice President
Bradford T. Smith.....	43	Executive Vice President, General Counsel, Corporate Compliance Officer and Secretary
Stevan R. Stark.....	49	Executive Vice President
Ronald B. Sturgill.....	60	Executive Vice President
William M. Meilahn.....	56	Senior Vice President, Chief Information Officer

Thomas P. Mac Mahon has served as Chairman of the Board and Director since April 28, 1996. Prior to such date and since April 28, 1995 he served as Vice Chairman and Director. Mr. Mac Mahon has been President and Chief Executive Officer since January 1997. Mr. Mac Mahon was Senior Vice President of Hoffmann-La Roche Inc. from 1993 to January 1997 and President of Roche Diagnostics Group and a Director and member of the Executive Committee of Hoffmann-La Roche Inc. from 1988 to January 1997. Mr. Mac Mahon was also a Director of HLR until December 1996. As Senior Vice President of Hoffmann-La Roche Inc. and President of Roche Diagnostics Group, Mr. Mac Mahon was responsible for the management of all United States operations of the diagnostic business of Hoffmann-La Roche Inc. Mr. Mac Mahon is also Chairman of the Board of AutoCyte, Inc. ("AutoCyte"). Mr. Mac Mahon is a member of the management committee of the Company.

Jean-Luc Belingard has served as a Director of the Company since the Merger. Mr. Belingard is Director General of the Diagnostics Division and member of the Executive Committee of F. Hoffmann-La Roche Ltd ("F. Hoffmann-La Roche"), Basel, Switzerland, a subsidiary of Roche. He joined F. Hoffmann-La Roche in 1982, and held various positions prior to being named to his current positions in 1990. His current responsibilities include the management of the worldwide diagnostic business of F. Hoffmann-La Roche. Mr. Belingard is also a director of Perkin-Elmer Corporation, Norwalk, Connecticut and a Foreign Trade Advisor to the French Government.

Wendy E. Lane has been a Director of the Company since November 1996. Ms. Lane has been Chairman of Lane Holdings, Inc., a private investment firm, since 1992. Prior to forming Lane Holdings, Inc., Ms. Lane was a Principal and Managing Director of Donaldson, Lufkin & Jenrette, an investment banking firm, serving in these and other positions from 1980 to 1992. Ms. Lane also serves as a director of Watts Industries, Inc.

Robert E. Mittelstaedt, Jr. has been a Director of the Company since November 1996. Mr. Mittelstaedt is Vice Dean of The Wharton School of the University of Pennsylvania, Director of the Aresty Institute of Executive Education. Mr. Mittelstaedt has held these and other positions with the Wharton school since 1973, with the exception of the period from 1985 to 1989 when he founded, served as President and Chief Executive Officer, and sold Intellego, Inc., a company engaged in practice management, systems

development and service bureau billing operations in the medical industry. Mr. Mittelstaedt is also a director of A.G. Simpson Automotive Systems, Inc. and IS&S Inc.

James B. Powell, M.D. has served as a Director of the Company since the Merger. From the Merger to January 1997, Dr. Powell served as President and Chief Executive Officer. Previously, Dr. Powell was President of RBL from 1982 until the Merger. Dr. Powell has been President, Chief Executive Officer and Director of AutoCyte, Inc. since January 1997. AutoCyte is a newly formed company specializing in the development of advanced, automated pap-smear testing technologies. Dr. Powell is a principal investor in AutoCyte. He is a medical doctor and became certified in anatomic and clinical pathology in 1969.

David B. Skinner, M.D. has served as a Director of the Company since the Merger. Dr. Skinner has been President and Chief Executive Officer of New York Hospital and Professor of Surgery at Cornell Medical School since 1987. He was the Chairman of the Department of Surgery and Professor of Surgery at the University of Chicago Hospitals and Clinics from 1972 to 1987.

Andrew G. Wallace, M.D. has served as a Director of the Company since the Merger. Dr. Wallace has served as both the Dean of Dartmouth Medical School and Vice President for Health Affairs at Dartmouth College since 1990. He was the Vice Chancellor for Health Affairs at Duke University and the Chief Executive Officer of Duke Hospital from 1981 to 1990.

Wesley R. Elingburg has served as Executive Vice President, Chief Financial Officer and Treasurer since October 24, 1996. Prior to this date and since the Merger, Mr. Elingburg was Senior Vice President, Finance. Mr. Elingburg is responsible for the day to day supervision of the finance function of the Company, including treasury functions. Previously, Mr. Elingburg served as Senior Vice President-Finance and Treasurer of RBL from 1988 through April 1995 and Assistant Vice President of Hoffmann-La Roche from 1989 until the Merger in April 1995. Mr. Elingburg is a member of the management committee of the Company.

Larry L. Leonard has served as Executive Vice President of the Company since 1993. He joined the Company in 1978. Dr. Leonard, who holds a Ph.D degree in microbiology, was named Senior Vice President of the Company in 1991 and previously was Vice President-Division Manager. Dr. Leonard oversees Western Operations of the Company which includes the Central, Great Lakes, Midlands, Southwest and West Divisions. Dr. Leonard is a member of the management committee of the Company.

Richard L. Novak has served as Executive Vice President of the Company since March 1997. Previous to joining the Company, Mr. Novak was employed by SmithKline Beecham Clinical Laboratories for more than the past five years serving in a variety of senior management positions including Senior Vice President, U.S. Operations and most recently President, International. Mr. Novak oversees operations of the Company's Eastern Operations which include the Mid-Atlantic, Northeast, South and South Atlantic Divisions. Mr. Novak is a member of the management committee of the Company.

Bradford T. Smith has served as Executive Vice President, General Counsel and Secretary since the Merger. He was appointed Corporate Compliance Officer in August 1996. Previously, Mr. Smith served as Assistant General Counsel of HLR, Division Counsel of RBL and Assistant Secretary and member of RBL's Senior Management Committee from 1988 until April 1995. Mr. Smith served as Assistant Secretary of HLR from 1989 until the Merger and as an Assistant Vice President of HLR during 1992 and 1993. Mr. Smith is a member of the management committee of the Company.

Stevan R. Stark was appointed Executive Vice President in October 1996 and was Senior Vice President, New York Division, Cranford Region and Alliance/Hospital Division since the Merger in April 1995. Mr. Stark oversees the Company's sales operations including business alliances, managed care and new business development. Previously, Mr. Stark was a Vice President and Division Manager from 1991 to 1995 and a Division Manager from 1986 to 1991. He joined the Company in 1983. Mr. Stark is a member of the management committee of the Company.

Ronald B. Sturgill has served as Executive Vice President since October 1996. Mr. Sturgill oversees operations in the Company's South Atlantic Division and certain corporate functions. Prior to that date and since the Merger, Mr. Sturgill served as Senior Vice President, South Atlantic Division. Mr. Sturgill served as Senior Vice President, Administration of RBL from 1987 until the Merger where his duties included the supervision of Information Systems, Human Resources, Sales Support and Training. Mr. Sturgill is a member of the management committee of the Company.

William M. Meilahn has served as Senior Vice President and Chief Information Officer since December 1995. Previously, Mr. Meilahn was Executive Vice President, MIS and a director of Eduserv Technologies, Inc. from 1993 through 1996, and was a Vice President in various capacities for Automatic Data Processing, Inc. from 1983 through 1993. Mr. Meilahn is a member of the management committee of the Company.

OWNERSHIP OF CAPITAL STOCK

The following table sets forth as of April 15, 1997, the total number of shares of Common Stock beneficially owned, and the percent so owned, by (i) each director of the Company who is a beneficial owner of any shares of Common Stock, (ii) each person known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, (iii) certain executive officers and (iv) all current 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.

BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF COMMON STOCK OUTSTANDING
Roche Holdings, Inc. 15 East North Street Dover, DE 19901	61,329,256(1)	49.9%
Ronald O. Perelman. 35 East 62nd Street New York, NY 10021	14,527,244(2)	11.8%
Thomas P. Mac Mahon	170,663(3)	*
James B. Powell, M.D.	--	*
Jean-Luc Belingard	3,996	*
Wendy E. Lane	946	*
Robert E. Mittelstaedt, Jr.	946	*
David B. Skinner, M.D.	3,996	*
Andrew G. Wallace, M.D.	3,996	*
Larry L. Leonard, Ph.D	51,779	*
Bradford T. Smith	30,000	*
Stevan R. Stark	33,601	*
Wesley R. Elingburg	30,000	*
Haywood D. Cochrane, Jr.	107,735	*
David C. Weavil	--	*
All current directors and executive officers as a group (14 persons)	354,923(3)	*

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* Less than 1%

(1) As reported on the Schedule 13D filed with the Commission on May 8, 1995, on behalf of Roche Holdings, 61,329,256 of these shares are directly held by Roche Holdings (49,008,538 shares of which were previously held by HLR). Roche Holdings is an indirect wholly owned subsidiary of Roche. Dr. h.c. Paul Sacher, an individual and citizen of Switzerland has, pursuant to an agreement, the power to vote a majority of the voting shares of Roche.

(2) As reported in the Schedule 13G/A filed with the Commission on February 13, 1997, on behalf of Mafco, all shares are owned by NHCG, an indirect wholly owned subsidiary of Mafco. All of the capital stock of Mafco is owned by Mr. Ronald O. Perelman.

(3) Beneficial ownership by officers and directors of the Company includes shares of Common Stock which such officers and directors have the 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. Mac Mahon--166,667; Dr Leonard--44,130; Mr. Smith--30,000; Mr. Stark--33,601; Mr. Elingburg--30,000; all directors and executive officers as a group (not including Dr. Powell and Messrs. Cochrane and Weavil who are no longer employed by the Company)--329,398.

THE STOCKHOLDER AGREEMENT

In connection with the Merger, the Company, HLR, Roche Holdings and Hoffmann-La Roche Inc. entered into a stockholder agreement dated as of April 28, 1995. In December 1996, HLR was merged with and into Roche Holdings. The Stockholder Agreement contains certain provisions relating to (i) the governance of the Company following the Merger, including but not limited to the composition of the Board of Directors, (ii) the issuance, sale and transfer of the Company's Equity Securities (as defined therein) by the Company and Hoffmann-La Roche Inc., (iii) the acquisition of additional Equity Securities and (iv) the registration rights granted by the Company to Roche Holdings and Hoffmann-La Roche Inc. with respect to the Company's Equity Securities. A copy of the Stockholder Agreement was included as an exhibit to the current report on Form 8-K of the Company filed with the Commission on May 12, 1995 in connection with the consummation of the Merger.

Pursuant to the Stockholder Agreement, the Board of Directors of the Company will (subject to specified exceptions) be comprised of seven members, consisting of three designees of Roche Holdings (the "Roche Directors") and four Independent Directors (as defined therein) nominated by the Nominating Committee of the Board of Directors.

The Stockholder Agreement also provides that, among other things, certain actions by the Company will require approval by a majority of the Roche Directors and at least one Independent Director (a "Special Majority Vote"). Included in these items is any change in the size or composition of the Board of Directors or any committee thereof and the establishment of a new committee of the Board of Directors, and with certain exceptions, the issuance of securities by the Company.

The Stockholder Agreement also provides that, except under certain circumstances, which include the issuance of Common Stock pursuant to a public offering, the Company may not issue any equity securities unless Roche Holdings is offered the opportunity to purchase an amount of such stock necessary to maintain their interest.

Pursuant to the Stockholder Agreement, Roche Holdings and its affiliates (other than the Company and its subsidiaries) have the right to acquire Equity Securities (as defined therein) to the extent that, after giving effect thereto, their Total Voting Power would not exceed 75%. Moreover, Roche Holdings and its affiliates (other than the Company and its subsidiaries) may acquire additional Equity Securities notwithstanding the fact that after giving effect thereto, their Total Voting Power would exceed 75%, if Roche Holdings and its affiliates (other than the Company and its subsidiaries) or any one of them offers, prior to consummation of such purchase, to purchase all outstanding Equity Securities and holders of Equity Securities totaling more than 50% of the outstanding Equity Securities (excluding Equity Securities held by Roche Holdings and its affiliates (other than the Company and its subsidiaries)) accept such offer. After the third anniversary of the Merger, the Stockholder Agreement does not restrict purchases by Roche Holdings or its affiliates of Equity Securities.

In addition, the Stockholder Agreement contains a Demand Registration provision pursuant to which the Company is obligated, upon the request of Roche Holdings or Roche, to file registration statements with the Commission covering any shares of Common Stock owned by those parties which are restricted securities within the meaning of Rule 144(a)(3) of the Securities Act of 1933, as amended (the "Securities Act"). Roche Holdings and Roche will also have the right to include such securities in any registration statement filed by the Company offering securities for its own account or for the account of any holder other than Mafco or any of its affiliates, subject to certain reductions if the managing underwriter determines that the size of the offering or the combination of securities offered would materially interfere with the offering.

THE SHARING AND CALL OPTION AGREEMENT

In connection with the Merger Agreement, HLR, Mafco, NHCG, and the Company entered into the Sharing and Call Option Agreement. The Sharing and Call Option Agreement provides, among other things, that at any time after the third anniversary of the Merger, Roche Holdings (as the successor to HLR) or one of its affiliates (other than the Company) may exercise the right, which right may only be exercised

once, to purchase all, but not less than all, of the shares of Common Stock then owned by NHCG, Mafco or any of their controlled affiliates. The Sharing and Call Option Agreement provides that Roche Holdings or one of its affiliates will, if it elects to exercise this purchase right, pay a price per share for the shares to be purchased equal to 102% of the average closing price per share of such security for the 30 trading days before the date of such exercise.

In addition, in accordance with the Sharing and Call Option Agreement, the Company has filed with the Commission a registration statement on Form S-3 (the "NHGC Registration Statement") which has been declared effective by the Commission and includes a resale prospectus that permits NHCG (or any of its pledgees) to sell shares of Common Stock and Warrants received by NHCG in the Merger without restriction. The Company has agreed to use its best efforts to prepare and file with the Commission such post-effective amendments to the NHCG Registration Statement or other filings as may be necessary to keep such NHCG 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 to use its best efforts to cause the resale prospectus to be supplemented by any required prospectus supplement. The Company has also agreed to pay the applicable Registration Expenses (as defined therein) arising from exercise of the registration rights set forth in the Sharing and Call Option Agreement. A copy of the Sharing and Call Option Agreement was filed with the Commission by the Company as an exhibit to the Company's December 31, 1994 Form 10-K.

REGISTRATION RIGHTS AGREEMENT

In addition to those registration rights granted to NHCG under the Sharing and Call Option Agreement, the Company and NHCG also are parties to a registration rights agreement dated as of April 30, 1991 (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 upon the completion of certain public offerings by the Company of shares of Common Stock in 1991. 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 will also have 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 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 agreed to a similar restriction with respect to underwritten offerings by the Company. NHCG's rights under the Registration Rights Agreement are transferable as provided therein.

Until the third anniversary of the Sharing and Call Option Agreement, when the Company's obligation to keep the NHCG Registration Statement effective expires, the registration rights granted to NHCG pursuant to the Registration Rights Agreement are substantially duplicative of those granted pursuant to the Sharing and Call Option Agreement. After such date and only to the extent that NHCG still holds shares of Common Stock or Warrants that it held as of or received in the Merger, NHCG will continue to be entitled to the registration rights described in the preceding paragraph, unless the Rights Agreement has been otherwise amended or terminated.

TAX ALLOCATION ARRANGEMENT

Until May 7, 1991, 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 and Revlon. As a result of the reduction of M&F Holdings' indirect 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 M&F Holdings' 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 would be required to pay.

OTHER TRANSACTIONS WITH ROCHE

In December 1996, the Company received a loan from Roche Holdings of $187.0 million to fund the Settlement Payment in the form of a promissory note which bears interest at 6.625% per annum. In March 1997, the original maturity of March 31, 1997 of such note was extended to March 31, 1998. Such note will be repaid with a portion of the proceeds from the Rights Offering.

The Company has certain ongoing arrangements with Roche for the purchase by the Company of certain products and the licensing by the Company from Roche of certain diagnostics technologies, with an aggregate value of approximately $18.7 million in 1996. The Company provides certain diagnostic testing and support services to Roche in connection with Roche's clinical pharmaceutical trials, with an aggregate value of approximately $2.4 million in 1996. In addition, in connection with the Merger, the Company and Roche entered into a transition services agreement for the provision by Roche to the Company of certain payroll and other corporate services for a limited transition period following the Merger. These services were charged to the Company based on the time involved and the Roche personnel providing the service. The Company paid Roche a total of approximately $267,000 in 1996 for these services. Each of these arrangements was entered into in the ordinary course of business, on an arm's-length basis and on terms which the Company believes are no less favorable to it than those obtainable from unaffiliated third parties.

Roche Holdings has indicated that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in the Rights Offering in full for Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock.

REGISTRATION RIGHTS

In connection with the Rights Offering, the Company will grant to each Rights Holder (including Roche Holdings) who upon consummation of the Rights Offering beneficially owns Preferred Stock convertible into 10% or more of the Common Stock outstanding, and who certifies as such, registration rights with respect to such Common Stock on the same terms as those granted to Roche Holdings pursuant to the Stockholder Agreement.

CERTAIN TRANSACTIONS WITH AUTOCYTE, INC.

The Company has certain on-going arrangements with AutoCyte for the purchase by the Company of certain products with an aggregate value of approximately $2.2 million in 1996.

DESCRIPTION OF THE AMENDED CREDIT AGREEMENT

The Amended Credit Agreement will become effective upon consummation of the Rights Offering subject to satisfaction of certain conditions precedent referred to below. A copy of the Amended Credit Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The following summaries of certain provisions of the Amended Credit Agreement do not purport to be complete and where reference is made to particular provisions of the Amended Credit Agreement such provisions, including definitions of certain terms, are incorporated by reference as a part of such summaries or terms, which are qualified in their entirety by such reference.

Following consummation of the Rights Offering and the receipt of $500 million in gross proceeds, the Amended Credit Agreement makes available to the Company the Amended Term Loan Facility of $643.8 million and the Amended Revolving Credit Facility of $450.0 million. Following the Rights Offering, the Company estimates that availability under the Amended Credit Agreement will be approximately $327.0 million. Such availability will be conditioned on certain customary conditions contained in the Amended Credit Agreement.

FACILITIES AND MATURITY DATES

As in the Existing Credit Agreement, the senior unsecured credit facilities under the Amended Credit Agreement are composed of the Amended Term Loan Facility and the Amended Revolving Credit Facility. The Amended Revolving Credit Facility includes a $50 million letter of credit sublimit. The Amended Credit Agreement extends maturity dates by approximately three years for the Amended Term Loan Facility to March 31, 2004 and approximately two years for the Amended Revolving Credit Facility to March 31, 2002.

INTEREST MARGINS AND FACILITY FEE

As in the Existing Credit Agreement, both the Amended Term Loan Facility and the Amended Revolving Credit Facility bear interest, at the option of the Company, at (i) the base rate plus the applicable base rate margin or (ii) the eurodollar rate plus the applicable eurodollar rate margin. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by Roche Holdings and its affiliates (other than the Company and its subsidiaries) below 25%, the applicable interest margins and facility fees on borrowings outstanding under the Amended Credit Agreement will increase. The amount of the increase will depend, in part, on the leverage ratio of the Company at the time of such reduction. In addition, pursuant to the Amended Credit Agreement, the applicable interest margins on borrowings outstanding thereunder are based upon the leverage ratio.

AMENDMENT FEES

The Company will pay each lender an amendment fee based on the sum of its revolving credit commitments and term loans.

LETTER OF CREDIT ISSUERS, FRONTING FEE AND LETTER OF CREDIT FEE

Any lender that is party to the Amended Credit Agreement may serve as a letter of credit issuer under the Amended Credit Agreement, as agreed between the Company and such lender. The fronting fee payable to each letter of credit issuer will be as negotiated between the Company and such issuer, but will not exceed 0.125% per annum of the outstanding amount of such issuer's letter of credit. Each lender will be deemed to have purchased a participating interest in each letter of credit, and in addition to the fronting fee the Company will pay a letters of credit fee for the account of all the lenders equal to the applicable Amended Revolving Credit Facility Eurodollar Rate Margin minus 0.125% per annum.

TERM FACILITY AMORTIZATION

Total amortization of the Amended Term Loan Facility for each twelve-month period following consummation of the Rights Offering will be reduced significantly for the first three years, and will be made (in quarterly installments) in accordance with the following table:

Year	Amount (in millions)
1997	$ 0
1998	$ 0
1999	$ 46.4
2000	$ 92.8
2001	$139.2
2002	$139.2
2003	$139.2
3/31/2004	$ 87.0

MANDATORY AND OPTIONAL PREPAYMENTS AND COMMITMENT REDUCTIONS

As in the Existing Credit Agreement, the amounts available under the Amended Revolving Credit Facility are subject to certain mandatory permanent reduction and prepayment requirements and the Amended Term Loan Facility is subject to specified mandatory prepayment requirements. In the Amended Credit Agreement, required amounts will first be applied to repay scheduled Amended Term Loan Facility payments until the Amended Term Loan Facility is repaid in full and then to reduce the commitments and advances under the Amended Revolving Credit Facility. Required payments and reductions will include (i) the proceeds of debt issuances, subject to certain exceptions; (ii) the proceeds of certain asset sales, unless reinvested within one year of the applicable asset sale in productive assets of a kind then used or usable in the business of the Company and its subsidiaries; (iii) the proceeds of sales of equity securities in excess of certain amounts; and (iv) under certain circumstances, a percentage of excess cash flow, as calculated annually.

REPRESENTATIONS AND WARRANTIES

The Amended Credit Agreement contains representations and warranties substantially similar to those set forth in the Existing Credit Agreement.

CONDITIONS PRECEDENT

Conditions precedent to effectiveness of the Amended Credit Agreement include, without limitation, receipt of appropriate certificates and legal opinions, accuracy in all material respects of representations and warranties, including absence of material adverse change in the Company and its subsidiaries (taken as a whole) since December 31, 1996, absence of defaults, evidence of authority, and payment of transaction fees.

COVENANTS

The Amended Credit Agreement contains customary covenants similar to, and in the case of limitations on acquisitions and incurrence of additional debt more restrictive than, the covenants set forth in the Existing Credit Agreement.

FINANCIAL COVENANTS

Like the Existing Credit Agreement, the Amended Credit Agreement contains financial covenants with respect to a leverage ratio, an interest coverage ratio and minimum stockholders' equity. The covenant levels are less restrictive than under the Existing Credit Agreement, and will be tested quarterly.

EVENTS OF DEFAULT

The Amended Credit Agreement contains events of default substantially similar to those set forth in the Existing Credit Agreement.

DESCRIPTION OF RIGHTS OFFERING

THE RIGHTS

The Company is hereby issuing transferable Rights at no cost to each Recordholder of Common Stock as of the close of business on the Record Date of , 1997. The Company will issue of a Right for each share of Common Stock held on the Record Date. The Rights will be evidenced by transferable Rights Certificates, which are being distributed to each Recordholder contemporaneously with the delivery of this Prospectus. The Rights permit the holder thereof to purchase an equal amount of either Series A Exchangeable Preferred Stock or Series B PIK Preferred Stock. Except as to payment of dividends, conversion and exchangeability as described in "Description of Preferred Stock," the terms of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock are identical in all respects.

No fractional Rights or cash in lieu thereof will be issued or paid. Instead, the number of Rights issued to a Recordholder will be rounded to the nearest whole number, with such adjustments as may be necessary to ensure that no more than 10,000,000 shares of Preferred Stock are issued hereunder.

Because the number of Rights issued to each Recordholder will be rounded to the nearest whole number, with such adjustments as may be necessary to ensure that no more than 10,000,000 shares of Preferred Stock are issued hereunder, beneficial owners of Common Stock who are also Recordholders of their shares may receive more Rights under certain circumstances than beneficial owners of Common Stock who are not Recordholders of their shares. Beneficial owners of Common Stock who are not Recordholders may obtain a separate Rights Certificate upon request to the nominee Recordholder. See "Method of Subscription--Exercise of Rights."

Once the Rights are distributed and until the Expiration Date, the Company will not effect a reclassification of the Company's equity securities which could have the effect of materially altering the value of the Rights.

EXPIRATION DATE

The Rights will expire at 5:00 p.m., New York time, on , 1997 subject to extension in the sole discretion of the Company for up to 30 additional days. The Company does not currently contemplate any extensions. After the Expiration Date, unexercised Rights will be null and void. The Company will not be obligated to honor any purported exercise of Rights received by the American Stock Transfer & Trust Company (the "Subscription and Information Agent") or any transfer of Rights into the Subscription and Information Agent's Account at the Depository Trust Company ("DTC") after the Expiration Date, regardless of when the documents relating to that exercise were sent, except pursuant to the Guaranteed Delivery Procedures described below. The Company may extend the Expiration Date by giving oral or written notice to the Subscription and Information Agent on or before the Expiration Date, followed by a press release no later than 9:00 a.m. New York time on the next business day after the previously scheduled Expiration Date. The Rights Offering will not be extended to a time later than 5:00 p.m., New York time, on , 1997.

SUBSCRIPTION PRIVILEGES

Basic Subscription Privilege. Each Right will entitle the holder thereof to purchase at the Subscription Price one Underlying Share. Upon exercise of Rights, Rights Holders must indicate on their Rights Certificate whether they wish to receive either shares of Series A Exchangeable Preferred Stock or shares of Series B PIK Preferred Stock. A failure to so indicate on the Rights Certificate will result in issuance of Series A Exchangeable Preferred Stock. Each Rights Holder is entitled to subscribe for all, or any portion of, the Underlying Shares which may be acquired through the exercise of Rights held by it;

provided, that all of the Underlying Shares purchased must be either Series A Exchangeable Preferred Stock or Series B PIK Preferred Stock. Payment of the Subscription Price will be held in a segregated account to be maintained by the Subscription and Information Agent and will be applied to the purchase of Preferred Stock. The certificates representing Underlying Shares purchased pursuant to the Basic Subscription Privilege will be delivered to subscribers as soon as practicable after the Expiration Date.

Oversubscription Privilege. Subject to availability and proration as described below, Rights Holders who fully exercise the Basic Subscription Privilege will be eligible to subscribe, at the Subscription Price, for additional shares of the same series of Preferred Stock purchased pursuant to such Rights Holder's Basic Subscription Privilege available after satisfaction of all subscriptions pursuant to the Basic Subscription Privilege. This Oversubscription Privilege must be exercised at the same time as the Basic Subscription Privilege is exercised.

Shares of Preferred Stock will be available for purchase pursuant to the Oversubscription Privilege only to the extent that any Underlying Shares are not subscribed for through exercise of the Basic Subscription Privilege. The Excess Shares will be allocated pro rata (subject to the elimination of fractional shares) among the Rights Holders who exercise their Oversubscription Privilege in proportion to the respective number of shares of Preferred Stock each such Rights Holder subscribes for pursuant to the Basic Subscription Privilege; provided, however, that if such pro rata allocation results in any Rights Holder being allocated a greater number of Excess Shares than such holder subscribed for pursuant to the exercise of the Oversubscription Privilege, then each Rights Holder will be allocated only that number of Excess Shares for which such holder oversubscribed, and the remaining Excess Shares will be allocated among all other Rights Holders exercising the Oversubscription Privilege on the same pro rata basis outlined above; such proration will be repeated until all Excess Shares have been allocated to the full extent of the Oversubscription Privilege exercised; provided further, however, that Roche Holdings will not be allocated any Excess Shares until all other Rights Holders exercising the Oversubscription Privilege have been allocated the number of Excess Shares for which they oversubscribed. Payment for oversubscription will be deposited upon receipt by the Subscription and Information Agent and held in a segregated account with the Subscription and Information Agent pending a final determination of the number of Underlying Shares to be issued pursuant to such Oversubscription Privilege. THEREFORE, RIGHTS HOLDERS WHO PLACE OVERSUBSCRIPTION ORDERS PRIOR TO THE EXPIRATION DATE WILL LOSE ACCESS TO FUNDS TENDERED FOR AN INDETERMINATE PERIOD OF TIME UP TO TEN DAYS AFTER THE EXPIRATION DATE AND MAY NOT ACTUALLY ACQUIRE SHARES OF PREFERRED STOCK SUBSCRIBED FOR. If a proration of the Excess Shares results in a Rights Holder receiving fewer Excess Shares than such Rights Holder subscribed for pursuant to the Oversubscription Privilege, then the excess funds paid by that holder at the Subscription Price for shares not issued will be returned without interest or deduction. Certificates representing Underlying Shares purchased pursuant to the Oversubscription Privilege, together with certificates representing Underlying Shares purchased pursuant to the Basic Subscription Privilege, will be delivered to subscribers as soon as practicable after the Expiration Date.

SUBSCRIPTION PRICE

The Subscription Price is $50 per Underlying Share subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege.

NO BOARD OR FINANCIAL ADVISOR RECOMMENDATION

An investment in the Preferred Stock must be made pursuant to each investor's evaluation of such investor's best interests. Accordingly, neither the Board of Directors of the Company nor Credit Suisse First Boston, as financial advisor to the Company, makes any recommendation to Rights Holders regarding whether they should exercise their Rights to subscribe for shares of Preferred Stock.

METHOD OF SUBSCRIPTION--EXERCISE OF RIGHTS

Rights Holders may exercise their Rights by delivering to the Subscription and Information Agent, at the addresses specified below, at or prior to the Expiration Date, the properly completed and executed Rights Certificate(s) evidencing those Rights, with any signatures guaranteed as required, together with payment in full of the Subscription Price for each Underlying Share subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege. Payment may be made only (i) by check or bank draft drawn upon a U.S. bank, or postal, telegraphic or express money order, payable to the Subscription and Information Agent; or (ii) by wire transfer of funds to the escrow account maintained by the Subscription and Information Agent for the purpose of accepting subscriptions (the "Subscription Account"). In the case of Rights that are held of record through DTC, exercises of the Basic Subscription Privilege and Oversubscription Privilege may be effected by instructing DTC to transfer Rights from the DTC account of such holder to the DTC account of the Subscription and Information Agent, together with certification as to the aggregate number of Rights exercised and the number of shares of Preferred Stock thereby subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege by each beneficial owner of Rights on whose behalf such nominee Recordholder is acting, and payment of the Subscription Price for each share of Preferred Stock subscribed for pursuant to the Subscription Privilege. Requests for information by Rights Holders, including with respect to payment by wire transfer to the Subscription Account, should be directed to the Subscription and Information Agent at (800) 937-5449 or (718) 921-8200. The Subscription Price will be deemed to have been received by the Subscription and Information Agent only upon (i) clearance of any uncertified check; (ii) receipt by the Subscription and Information Agent of any certified check or bank draft drawn upon a U.S. bank or any postal, telegraphic or express money order; or (iii) receipt of collected funds in the Subscription Account. Funds paid by uncertified personal check may take up to five business days to clear. Accordingly, Rights Holders who wish to pay the Subscription Price by means of an uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such time and are urged to consider, in the alternative, payment by means of certified check, bank draft, money order or wire transfer. All funds received in payment of the Subscription Price shall be held by the Subscription and Information Agent and invested at the direction of the Company in short-term certificates of deposit, short-term obligations of the United States or any state or any agency thereof or money market mutual funds investing in the foregoing instruments. The account in which such funds will be held will not be insured by the FDIC. Any interest earned on such funds will be retained by the Company.

The Rights Certificates and payment of the Subscription Price or, if applicable, Notices of Guaranteed Delivery, as defined below, must be delivered to the Subscription and Information Agent by one of the methods described below.

(1) BY FIRST CLASS MAIL; EXPRESS MAIL OR OVERNIGHT COURIER; AND BY HAND:

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005

(2) BY FACSIMILE:

FOR NOTICE OF GUARANTEED DELIVERY ONLY

(718) 234-5001

Delivery to an address or facsimile other than those above does not constitute valid delivery.

The Company will pay the fees and expenses of the Subscription and Information Agent and has also agreed to indemnify the Subscription and Information Agent from certain liabilities which it may incur in connection with the Rights Offering. All commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will

be for the account of the transferor of the Rights, and none of such commissions, fees or expenses will be paid by the Company or the Subscription and Information Agent.

If a Rights Holder wishes to exercise Rights, but time will not permit such Rights Holder to cause the Rights Certificate(s) evidencing those Rights to reach the Subscription and Information Agent prior to the Expiration Date, such Rights may nevertheless be exercised if all of the following conditions (the "Guaranteed Delivery Procedures") are met:

(i) the Rights Holder has caused payment in full of the Subscription Price for each Underlying Share being subscribed for pursuant to the Basic Subscription Privilege and, if applicable, the Oversubscription Privilege to be received (in the manner set forth above) by the Subscription and Information Agent at or prior to the Expiration Date;

(ii) the Subscription and Information Agent receives, on or prior to the Expiration Date, a guarantee notice (a "Notice of Guaranteed Delivery"), guaranteed by a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or from a commercial bank or trust company having an office or correspondent in the United States, giving the name of the exercising Rights Holder, the number of Underlying Shares being subscribed for pursuant to the Basic Subscription Privilege and, if any, pursuant to the Oversubscription Privilege and guaranteeing the delivery to the Subscription and Information Agent of the Rights Certificate(s) evidencing those Rights within two (2) business days following the date of the Notice of Guaranteed Delivery; and

(iii) the properly completed Rights Certificate(s) evidencing the Rights being exercised, with any signatures guaranteed as required, is received by the Subscription and Information Agent or such Rights are transferred to the DTC account of the Subscription and Information Agent within two (2) business days following the date of the Notice of Guaranteed Delivery relating thereto. The Notice of Guaranteed Delivery may be delivered to the Subscription and Information Agent in the same manner as Rights Certificates at the address set forth above or may be delivered to the Subscription and Information Agent by telegram or facsimile transmission. Additional copies of the form of Notice of Guaranteed Delivery are available upon request from the Subscription and Information Agent at the address and telephone number set forth below.

If an exercising Rights Holder does not indicate the number of Rights being exercised, or does not forward full payment of the aggregate Subscription Price for the number of Rights that the Rights Holder indicates are being exercised, then the Rights Holder will be deemed to have exercised the Basic Subscription Privilege with respect to the maximum number of Rights that may be exercised for the aggregate payment delivered by the Rights Holder and, to the extent that the aggregate payment delivered by a Rights Holder exceeds the product of the Subscription Price multiplied by the number of Rights evidenced by the Rights Certificates delivered by a Rights Holder (such excess being the "Subscription Excess"), the Rights Holder will be deemed to have exercised the Oversubscription Privilege to purchase, to the extent available, that number of whole Excess Shares equal to the quotient obtained by dividing the Subscription Excess by the Subscription Price. Any amount remaining after application of the foregoing procedures shall be returned to the Rights Holder promptly by mail without interest or deduction.

Certificates for shares of Preferred Stock issued pursuant to the exercise of Rights will be registered in the name of the Rights Holder exercising such Rights. There can be no assurance that the value of the Preferred Stock will not decline below the Subscription Price before such shares of Preferred Stock are delivered.

A Rights Holder who subscribes for fewer than all of the shares represented by its Right Certificates may, under certain circumstances, receive from the Subscription and Information Agent a new Rights Certificate representing the remaining Rights. See "--Partial Exercise Procedures."

Recordholders who hold shares of Common Stock for the account of others, such as brokers, trustees or depositories for securities, should contact the respective beneficial owners of such shares as soon as possible to ascertain these beneficial owners' intentions and to obtain instructions with respect to their Rights. If a beneficial owner so instructs, the Recordholders of that beneficial owner's Rights should complete appropriate Rights Certificates and submit them to the Subscription and Information Agent with the proper payment. In addition, beneficial owners of Rights through such a nominee holder should contact the nominee holder and request the nominee holder to effect transactions in accordance with the beneficial owners' instructions. If a beneficial owner wishes to obtain a separate Rights Certificate he, she or it should contact the nominee as soon as possible and request that a separate Rights Certificate be issued. A nominee may request any Rights Certificate held by it to be split into such smaller denominations as it wishes, provided that the Rights Certificate is received by the Subscription and Information Agent, properly endorsed, no later than 5:00 p.m., New York time, on , 1997.

The instructions as to use of Laboratory Corporation of America Holdings Rights Certificates (the "Instructions") accompanying the Rights Certificates should be read carefully and followed in detail. RIGHTS CERTIFICATES SHOULD BE SENT WITH PAYMENT TO THE SUBSCRIPTION AND INFORMATION AGENT. DO NOT SEND RIGHTS CERTIFICATES OR PAYMENTS TO THE COMPANY.

THE METHOD OF DELIVERY OF RIGHTS CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO THE SUBSCRIPTION AND INFORMATION AGENT WILL BE AT THE ELECTION AND RISK OF THE RIGHTS HOLDERS. IF RIGHTS CERTIFICATES AND PAYMENTS ARE SENT BY MAIL, RIGHTS HOLDERS ARE URGED TO SEND SUCH MATERIALS BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND ARE URGED TO ALLOW A SUFFICIENT NUMBER OF DAYS TO ENSURE DELIVERY TO THE SUBSCRIPTION AND INFORMATION AGENT AND CLEARANCE OF PAYMENT PRIOR TO THE EXPIRATION DATE. BECAUSE UNCERTIFIED CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, RIGHTS HOLDERS ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF CERTIFIED CHECK, BANK DRAFT, MONEY ORDER OR WIRE TRANSFER.

Certain directors and officers of the Company will assist the Company in the Rights Offering by, among other things, participating in informational meetings regarding the Rights Offering, generally being available to answer questions of potential subscribers and soliciting orders in the Rights Offering. None of such directors and officers will receive additional compensation for such services. None of such directors and officers are registered as securities brokers or dealers under the Federal or applicable state securities laws, nor are any of such persons affiliated with any broker or dealer. Because none of such persons are in the business of either effecting securities transactions for others or buying and selling securities for their own account, they are not required to register as brokers or dealers under the Federal securities laws. In addition, the proposed activities of such directors and officers are exempted from registration pursuant to a specific safe-harbor provision under Rule 3a4-1 under the Exchange Act. Substantially similar exemptions from registration are available under applicable state securities laws.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Company, whose determination will be final and binding. The Company, in its sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine. Rights Certificates will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Company determines, in its sole discretion. Neither the Subscription and Information Agent nor the Company will be under any duty to give notification of any defect or irregularity in connection with the submission of Rights Certificates or incur any liability for failure to give such notification. The Company reserves the right to reject any exercise if such exercise is not in accordance with the terms of the Rights Offering or not in proper form or if the acceptance thereof or the issuance of the Preferred Stock pursuant thereto could be deemed unlawful.

Any questions or requests for assistance concerning the method of subscribing for shares of Preferred Stock or for additional copies of this Prospectus, the Instructions or the Notice of Guaranteed Delivery may be directed to the Subscription and Information Agent at the address and telephone number below:

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
(800) 937-5449
(718) 921-8200

PARTIAL EXERCISE PROCEDURES

A new Rights Certificate will be issued to a submitting Rights Holder or transferred according to the Rights Holder's instructions upon the partial exercise of Rights only if the Subscription and Information Agent receives a properly endorsed Rights Certificate no later than the fourth business day prior to the Expiration Date. After such time and date no new Rights Certificates will be issued. Accordingly, after such time and date a Rights Holder exercising less than all of its Rights will lose the power to exercise its remaining Rights. A new Rights Certificate will be sent by first class mail to the submitting Rights Holder if the Subscription and Information Agent receives the properly completed Rights Certificate by 5:00 p.m. New York time, on , 1997. Unless the submitting Rights Holder makes other arrangements with the Subscription and Information Agent, a new Rights Certificate received by the Subscription and Information Agent after 5:00 p.m. New York time, on , 1997 will be held for pickup by the submitting Rights Holder at the Subscription and Information Agent's hand delivery address provided above. All deliveries of newly issued Rights Certificates will be at the risk of the submitting Rights Holder.

FOREIGN AND CERTAIN OTHER STOCKHOLDERS

Rights Certificates will not be mailed to Recordholders whose addresses are outside the United States and Canada or who have an APO or FPO address, but will be held by the Subscription and Information Agent for each Recordholder's account. To exercise their Rights, such persons must notify the Subscription and Information Agent at or prior to 5:00 p.m., New York time, on , 1997. Such Rights Holder's rights expire at the Expiration Date.

SUBSCRIPTION BY PRINCIPAL STOCKHOLDER

Roche Holdings has informed the Company that it intends to exercise its Basic Subscription Privilege and Oversubscription Privilege in full for the Series B PIK Preferred Stock (subject, in the case of the Oversubscription Privilege, to reduction in certain circumstances). As a result, if no other Rights are exercised, Roche Holdings will purchase 10,000,000 shares of Series B PIK Preferred Stock.

NO REVOCATION

ONCE A RIGHTS HOLDER HAS PROPERLY EXERCISED THE BASIC SUBSCRIPTION PRIVILEGE OR THE OVERSUBSCRIPTION PRIVILEGE, SUCH EXERCISE MAY NOT BE REVOKED.

DILUTION

Rights Holders may experience dilution of their percentage of equity ownership interest and voting power in the Company if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms if they do not exercise the Basic Subscription Privilege. Even if the Rights Holders exercise their Basic Subscription Privilege in full, they may nevertheless still experience dilution in their voting rights and in their proportional interest in any future net earnings of the Company if other holders of Rights exercise the Oversubscription Privilege and such Rights Holders elect not to exercise the Oversubscription Privilege, if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms. In addition, Rights Holders who exercise Rights for Series A Exchangeable Preferred Stock will experience dilution as dividends on the Series B PIK Preferred Stock are paid in shares of Series B PIK Preferred Stock.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 220,000,000 shares of Common Stock, par value $.01 per share, and 10,000,000 shares of preferred stock, par value $0.10 per share. As of May 1, 1997, 122,935,080 shares of Common Stock were issued and outstanding. Prior to the Rights Offering, no shares of preferred stock were issued and outstanding.

There are currently insufficient shares of Common Stock authorized to permit conversion of all of the Preferred Stock issued upon the exercise of Rights or as dividends on the Series B PIK Preferred Stock and insufficient shares of Preferred Stock authorized to permit the payment of dividends on the Series B PIK Preferred Stock. In connection with the next annual meeting of shareholders currently scheduled for , 1997, the Board of Directors will propose amending the Company's Certificate of Incorporation to increase (i) the authorized number of shares of Common Stock to Permit Conversion of the Preferred Stock and the Notes, if applicable, and (ii) the authorized number of shares of preferred stock to permit the payment of dividends on the Series B PIK Preferred Stock. Roche Holdings and the directors and executive officers of the Company have indicated to the Company that they intend to vote in favor of such amendment.

COMMON STOCK

Each holder of Common Stock is entitled to one vote for each share held on all matters to be voted upon by the stockholders. The holders of outstanding shares of Common Stock, subject to any preferences that may be applicable to any outstanding series of Preferred Stock, are entitled to receive ratably such dividends out of assets legally available therefor at such times and in such amounts as the Board of Directors may from time to time determine. Upon liquidation or dissolution of the Company, the holders of Common Stock of the Company will be entitled to share ratably in the assets of the Company legally available for distribution to shareholders after payment of liabilities and subject to the prior rights of any holders of preferred stock then outstanding. Holders of Common Stock generally have no conversion, sinking fund, redemption, preemptive or subscription rights. However, pursuant to the Stockholder Agreement, Roche Holdings was granted certain preemptive rights. See "Certain Relationships and Related Transactions--The Stockholder Agreement". In addition, the Common Stock does not have cumulative voting rights. Shares of Common Stock are not liable to further calls or assessments by the Company and holders of Common Stock are not liable for any liabilities of the Company.

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

WARRANT AGREEMENT

In connection with the Merger, the Company entered into a warrant agreement dated April 10, 1995 (the "Warrant Agreement"). Pursuant to the Warrant Agreement, the Company distributed a dividend consisting of warrants to purchase an aggregate of approximately 13,826,308 shares of Common Stock to stockholders of record as of April 21, 1995, including NHCG. In addition, pursuant to the Merger, on April 28, 1995, Roche purchased from the Company warrants (the "Roche Warrants") to purchase 8,325,000 shares of Common Stock for an aggregate purchase price of $51,048,900. The Warrant Agreement provides that each Warrant may be exercised on the fifth anniversary (the "Warrant Expiration Date") of issuance to purchase one share of Common Stock at a purchase price of $22.00 per share (subject to adjustment); $ per share following the Rights Offering (subject to further adjustment). The Company has the option, exercisable by notice 60 days prior to the Warrant Expiration Date, to redeem the Warrants on the Warrant Expiration Date for a cash redemption price per Warrant equal to the average closing price of the Common Stock over a specified period prior to the Warrant Expiration Date minus the exercise price.

PREFERRED STOCK

The Board of Directors is authorized to issue up to an aggregate of 10,000,000 shares of preferred stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series and as may be permitted by the Delaware General Corporate Law ("DGCL"), including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Company; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Company at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions. See "Description of Preferred Stock" for a description of the Preferred Stock being offered hereby.

DESCRIPTION OF PREFERRED STOCK

GENERAL

The Preferred Stock consists of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock, each of which has been authorized as a new series of preferred stock, which in the aggregate will consist of 10,000,000 shares (plus up to 6,564,000 shares of Series B PIK Preferred Stock to be issued in the form of dividends). The Company's Certificate of Incorporation authorizes the Company to issue without any action on the part of its stockholders, an aggregate of 10,000,000 shares of Preferred Stock, par value $0.10 per share. When issued in accordance with the terms of the Rights Offering, the Preferred Stock will be fully paid and nonassessable. The holders of the Preferred Stock will have no preemptive rights with respect to any shares of capital stock of the Company or any other securities of the Company convertible into, or carrying rights or options to purchase, any such shares. The Preferred Stock will not be subject to any sinking fund. Unless converted, exchanged or redeemed by the Company prior to , 2012, on such date all of the Preferred Stock shall be redeemed by the Company at the redemption price set forth herein. The following summary description of the terms of the Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designation, Preferences and Rights for the Series A Exchangeable Preferred Stock (the "Series A Certificate of Designation") and the Certificate of Designation, Preferences and Rights for the Series B PIK Preferred Stock (the "Series B Certificate of Designation" and together with the Series A Certificate of Designation, the "Certificates of Designation"), copies of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. Upon request, the transfer agent for the Preferred Stock will furnish holders a copy of the applicable Certificate of Designation.

DIVIDENDS AND RANKING

Dividends on Series A Exchangeable Preferred Stock. Holders of shares of Series A Exchangeable Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company out of funds legally available for payment, dividends at an annual rate of % of the Liquidation Preference (as defined) of the Preferred Stock, or $ per share of Series A Exchangeable Preferred Stock payable in cash quarterly in arrears on , , and of each year, commencing , 1997 (with respect to the period from the date of issuance of such shares of Preferred Stock to such date), except that if any such date is a Saturday, Sunday or legal holiday then such dividend will be payable on the next day that is not a Saturday, Sunday or legal holiday. Dividends will accrue and be cumulative from such date of issuance and will be payable to holders of record as they appear on the stock transfer books on such record dates as are fixed by the Board of Directors (provided that no record date shall be later than (a) the sixth business day prior to the date fixed for any redemption of the Preferred Stock or, (b) in the case of the dividend payment date occurring on , the tenth business day prior to such date).

Dividends on Series B PIK Preferred Stock. Holders of shares of Series B PIK Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company out of funds legally available for payment, if applicable, dividends at an annual rate of % of the Liquidation Preference (as defined) of the Preferred Stock, or $ per share of Series B PIK Preferred Stock, payable in shares of Series B PIK Preferred Stock until , 2003 and in cash thereafter, quarterly in arrears on , , and of each year, commencing , 1997 (with respect to the period from the date of issuance of such shares of Preferred Stock to such date), except that if any such date is a Saturday, Sunday or legal holiday then such dividend will be payable on the next day that is not a Saturday, Sunday or legal holiday. Dividends will accrue and be cumulative from such date of issuance and will be payable to holders of record as they appear on the stock transfer books on such record dates as are fixed by the Board of Directors (provided that no record date shall be later than (a) the sixth business day prior to the date fixed for any redemption of the Preferred Stock or, (b) in the case of the dividend payment date occurring on , the tenth business day prior to such date). No fractional shares of Series B PIK Preferred Stock will be issued, so that the number of shares to be paid as a

dividend pursuant to the Series B PIK Preferred Stock shall be rounded to the nearest whole number of shares. All dividends paid in additional shares of Series B PIK Preferred Stock shall be deemed issued on the applicable dividend payment date, and will thereupon be duly authorized, validly issued, fully paid and nonassessable and free and clear of all liens and charges.

The Preferred Stock will be junior as to dividends to any series or class of stock hereafter issued that ranks senior as to dividends to the Preferred Stock, when and if issued ("Senior Dividend Stock"), and if at any time the Company has failed to pay or declare and set apart for payment accrued and unpaid dividends on any Senior Dividend Stock, the Company may not pay any dividend on the Preferred Stock. The Preferred Stock will have priority as to dividends over the Common Stock and any other series or class of the Company's stock hereafter issued that ranks junior as to dividends to the Preferred Stock, when and if issued (collectively, "Junior Dividend Stock"), and no dividend (other than dividends payable solely in stock that is Junior Dividend Stock and that ranks junior to the Preferred Stock as to distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (such stock that is junior as to liquidation rights, "Junior Liquidation Stock") (the Common Stock and any other capital stock of the Company that is both Junior Dividend Stock and Junior Liquidation Stock, "Junior Stock")) may be paid on any Junior Dividend Stock, and no payment may be made on account of the purchase, redemption, retirement, or other acquisition of Junior Dividend Stock or Junior Liquidation Stock (other than such acquisitions pursuant to employee or director incentive or benefit plans or arrangements, or in exchange solely for Junior Stock), unless all accrued and unpaid dividends on the Preferred Stock for all dividend payment periods ending on or before the date of payment of such dividends on Junior Dividend Stock, or such payment for such Junior Dividend Stock or Junior Liquidation Stock, as the case may be, have been paid or declared and set apart for payment. The Company may not pay or declare and set apart for payment dividends on the Preferred Stock unless it has paid or declared and set apart for payment or contemporaneously pays or declares and sets apart for payment accrued and unpaid dividends for all dividend payment periods on any class or series of stock having parity with the Preferred Stock as to dividends ("Parity Dividend Stock" which, in the case of the Series A Exchangeable Preferred Stock, will include the Series B PIK Preferred Stock and vice versa) ratably, so that the amount of dividends declared and paid per share on the Preferred Stock and such Parity Dividend Stock will bear to each other the same ratio that the accrued and unpaid dividends to the date of payment on Preferred Stock and such Parity Dividend Stock bear each other. No payment may be made on account of the purchase, redemption, retirement or other acquisition of shares of Parity Dividend Stock or other class or series of the Company's capital stock ranking on a parity with the Preferred Stock as to distributions of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (such stock that has parity with the Preferred Stock as to liquidation rights which, in the case of the Series A Exchangeable Preferred Stock, will include the Series B PIK Preferred Stock and vice versa, "Parity Liquidation Stock" and, together with Parity Dividend Stock, "Parity Stock") (other than such acquisitions pursuant to employee or director or incentive or benefit plans or arrangements, or in exchange solely for Junior Stock) unless all accrued and unpaid dividends on the Preferred Stock for all dividend payment periods ending on or before the date of payment on account of such acquisition of such Parity Dividend Stock or Parity Liquidation Stock shall have been paid or declared and set apart for payment. The respective definitions of Senior Dividend Stock, Senior Liquidation Stock (as defined herein), Parity Dividend Stock, Parity Liquidation Stock, Junior Dividend Stock and Junior Liquidation Stock shall also include any warrants, rights, calls or options, exercisable for or convertible into any of the Senior Dividend Stock, Senior Liquidation Stock, Parity Dividend Stock, Parity Liquidation Stock, Junior Dividend Stock and Junior Liquidation Stock, as the case may be.

The amount of dividends payable per share of Preferred Stock for each quarterly dividend period will be computed by dividing the annual dividend amount by four. The amount of dividends payable for the initial period and for any period shorter than a full quarterly dividend period will be computed on the basis of a 360-day year of twelve 30-day months. No interest will be payable in respect of any dividend payment on the Preferred Stock which may be in arrears.

Under Delaware law, the Company may declare and pay dividends on its capital stock only out of surplus, as defined in the Delaware General Corporation Law (the "DGCL") or, if there is no such surplus,

out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus under the DGCL is generally defined to mean the excess, at any given time, of the net assets of a corporation over the amount of the corporation's capital. No dividends or distributions may be declared, paid or made if the Company is or would be rendered insolvent by virtue of such dividend or distribution, or if such declaration, payment or distribution would contravene the certificate of incorporation of the corporation. The Company is also subject to restrictions on cash dividend payments pursuant to the terms of the Amended Credit Agreement. In addition, pursuant to the terms of the Preferred Stock, if dividends on the Series A Exchangeable Preferred Stock were to be limited pursuant to the Amended Credit Agreement prior to , 2003, the Company's ability to pay dividends in kind on the Series B PIK Preferred Stock would also be limited. See "Dividend Policy".

LIQUIDATION RIGHTS

In the case of the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of shares of Preferred Stock are entitled to receive the liquidation preference of $50 per share (the "Liquidation Preference"), plus an amount equal to any accrued and unpaid dividends to the payment date, before any payment or distribution is made to the holders of Common Stock or any Junior Liquidation Stock, but the holders of the shares of the Preferred Stock will not be entitled to receive the liquidation preference of such shares until the liquidation preference of any other series or class of stock hereafter issued that ranks senior as to liquidation rights to the Preferred Stock ("Senior Liquidation Stock") has been paid in full. The holders of Preferred Stock and Parity Liquidation Stock are entitled to share ratably, in accordance with the respective preferential amounts payable on such stock, in any distribution (after payment of the liquidation preference of the Senior Liquidation Stock) which is not sufficient to pay in full the aggregate of the amounts payable thereon. After payment in full of the liquidation preference of the shares of the Preferred Stock, the holders of such shares will not be entitled to any further participation in any distribution of assets by the Company. Neither a consolidation nor merger of the Company with another corporation nor a sale or transfer of all or substantially all of the Company's property or assets will be considered a liquidation, dissolution or winding up of the Company.

VOTING RIGHTS

The holders of the Preferred Stock will not have voting rights except as described below or as required by law. In exercising any such vote, each outstanding share of Preferred Stock will be entitled to one vote, excluding shares held by any entity controlled by the Company, which shares shall have no voting rights.

Whenever dividends on the Preferred Stock or any outstanding shares of Parity Dividend Stock have not been paid in an aggregate amount equal to at least six quarterly dividends on such shares (whether or not consecutive), the number of members of the Company's Board of Directors will be increased by two, and the holders of the Preferred Stock, voting separately as a class with the holders of Parity Dividend Stock on which like voting rights have been conferred and are exercisable, will be entitled to elect such two additional directors who shall continue to serve so long as such dividends remain in arrears. Such voting rights will terminate when all such dividends accrued and unpaid have been declared and paid or set apart for payment. The term of office of all directors so elected will terminate immediately upon the termination of such voting rights and the number of members of the Board of Directors will be reduced by two.

In addition, so long as any Preferred Stock is outstanding, the Company will not, without the affirmative vote or consent of the holders of at least (a) 66 2/3% of all outstanding shares of each series of Preferred Stock and outstanding Parity Dividend Stock (voting as a single class), (i) amend, alter or repeal (by merger or otherwise) any provision of the Certificate of Incorporation, Certificates of Designation or the bylaws of the Company so as to affect adversely the relative rights, preferences, qualifications, limitations, or restrictions of the Preferred Stock, (ii) authorize or issue, or increase the authorized amount of any Senior Dividend Stock, Senior Liquidation Stock or any security convertible into such Senior Dividend Stock or such Senior Liquidation Stock or (iii) effect any reclassification of the Preferred Stock. or (b) a majority of all outstanding shares of each series of Preferred Stock and outstanding Parity Dividend Stock (voting as a single class), authorize or issue, or increase the authorized amount of any additional class of Parity Stock or any security convertible into such Parity Stock.

REDEMPTION

The Preferred Stock may not be redeemed prior to , 2000. On or after such date, each series of Preferred Stock may be redeemed by the Company, at its option, in whole or in part at any time, subject to the limitations, if any, imposed by applicable law, at a cash redemption price per share, if redeemed during the 12-month period beginning of the years indicated below, plus, in each case, accrued and unpaid dividends thereon to the date of redemption:

Year	Redemption Price Per Share
2000	%
2001	
2002	
2003	
2004	
2005	
2006 and thereafter	100

If fewer than all the outstanding shares of a series of Preferred Stock are to be redeemed, the Company will select those shares to be redeemed pro rata or by lot or in such other manner as the Board of Directors may determine to be fair. On , 2012, all of the outstanding Preferred Stock will be mandatorily redeemed by the Company at a redemption price of $50 per share. If at any time dividends on the Preferred Stock are in arrears, the Company may not redeem less than all of the then outstanding shares of the applicable series of Preferred Stock until all accrued dividends for all past dividend periods have been paid in full.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the date fixed for redemption to each holder of record of shares of the applicable series of Preferred Stock to be redeemed at the address shown on the stock transfer books. No fractional shares of Preferred Stock will be issued upon a redemption of less than all of the Preferred Stock, but in lieu thereof, an appropriate amount will be paid in cash based on the Closing Price (as defined in the Certificates of Designation) on the date fixed for redemption. After the date fixed for redemption (unless the Company defaults on the payment of the redemption price), dividends will cease to accrue on the shares of Preferred Stock called for redemption and other rights of the holders of such shares will terminate, except the right to receive the redemption price without interest.

CONVERSION RIGHTS

The holder of any shares of Preferred Stock will have the right at any time on or after , 1997 in the case of the Series A Exchangeable Preferred Stock and on or after , 2000 in the case of the Series B PIK Preferred Stock, at the holder's option, to convert any or all shares into Common Stock at the conversion rate (subject to adjustment as described below) of shares for each share of Preferred Stock, equivalent to an initial conversion price of $ for each share of Common Stock. The conversion rate was determined by the Company, in consultation with Credit Suisse First Boston. Among the factors considered by the Board of Directors in determining the conversion rate were (i) the market value of the Common Stock; (ii) the present and projected operating results and financial condition of the Company; (iii) an assessment of the Company's management and management's analysis of the growth potential of the Company and of the Company's market area; (iv) the aggregate size of the Rights Offering; and (v) the conversion rate which the Board of Directors believes investors would readily accept under current economic circumstances. If the Preferred Stock is called for redemption, the conversion right will terminate at 5:00 p.m. New York City time on the business day prior to the date fixed for such redemption and if not exercised prior to such time, such conversion right will be lost, unless the Company defaults in making the payment due upon redemption. Except as provided in the next paragraph, no payment or adjustment will be made upon any conversion of any share of Preferred Stock or on account of any

dividends on the Common Stock issued upon conversion (except that if a converting holder of Preferred Stock is eligible for a dividend on both the Preferred Stock and the Common Stock issued upon conversion, the holder is entitled to the higher of such dividend amounts). Following conversion, the holder will no longer have any right to payment of dividends on the shares surrendered for conversion. No fractional shares of Common Stock will be issued upon conversion but, in lieu thereof, an appropriate amount will be paid in cash based on the Closing Price for the shares of Common Stock on the day of such conversion.

If the Company, by dividend or otherwise, declares or makes a distribution on its Common Stock referred to in clause (iv) or (v) of the next following paragraph, the holders of the Preferred Stock, upon the conversion thereof subsequent to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution and prior to the effectiveness of the conversion price adjustment in respect of such distribution, will be entitled to receive for each share of Common Stock into which each such share of Preferred Stock is converted the portion of the shares of Common Stock, rights, warrants, evidences of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock; provided, however, that the Company may, with respect to all holders so converting, in lieu of distributing any portion of such distribution not consisting of cash or securities of the Company, pay such holder cash equal to the fair market value thereof (as determined by the Board of Directors).

The conversion price will be subject to adjustment in certain events including, without duplication: (i) dividends (and other distributions) payable in Common Stock on any class of capital stock of the Company; (ii) the issuance to all holders of Common Stock of rights or warrants, entitling holders of such rights or warrants to subscribe for or purchase Common Stock at less than the then current market price (as defined in the Certificates of Designation); (iii) subdivisions and combinations of Common Stock; (iv) distributions to all holders of Common Stock of evidences of indebtedness of the Company, shares of capital stock, cash or assets (including securities, but excluding those rights, warrants, dividends and distributions referred to above and dividends and distributions paid exclusively in cash); and (v) distributions consisting of cash, excluding (A) cash that is part of a distribution referred to in (iv) above, and (B) any cash representing an amount per share of Common Stock of any quarterly cash dividend to the extent it does not exceed the amount per share of Common Stock of the next preceding quarterly cash dividend (as adjusted to reflect any of the events referred to in clauses (i) through (iv) of this sentence) or all of any such quarterly cash dividends if the amount thereof per share of Common Stock multiplied by four does not exceed % of the current market price of Common Stock on the trading day (as defined in the Certificates of Designation) next preceding the date of declaration of such dividend. Promptly, following certain adjustments to the conversion price, notice of such event will be mailed to the holders of the Preferred Stock.

The foregoing adjustments to the conversion price are designed to compensate the holders of the Preferred Stock for the value of the cash, securities or other assets that they would have otherwise received had they converted their Preferred Stock into shares of Common Stock prior to such distribution. Such adjustment would generally result in a reduced conversion price, which would entitle the holders of Preferred Stock to receive a greater number of shares of Common Stock upon conversion of the Preferred Stock into Common Stock.

The Company from time to time may reduce the conversion price by an amount for any period of time of at least 20 days, in which case the Company shall give at least 15 days' notice of such reduction, if the Board of Directors of the Company has made a determination that such reduction would be in the best interest of the Company, which determination shall be conclusive.

In the event that the Company is a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets, recapitalization or reclassification of the Common Stock (each of the foregoing being referred to as a "Company Transaction")), in each case (except in the case of a Common Stock Fundamental Change (as defined)) as a result of which shares of

Common Stock shall be converted into the right to receive securities, cash or other property, each share of the Preferred Stock shall thereafter be convertible into the kind and amount of securities, cash and other property receivable upon the consummation of such Company Transaction by a holder of that number of shares of Common Stock into which one share of the Preferred Stock was convertible immediately prior to such Company Transaction (or in the case of a Common Stock Fundamental Change, common stock of the kind received by the holders of Common Stock as a result of such Common Stock Fundamental Change) (but after giving effect to any adjustment discussed in the next paragraph relating to a Fundamental Change (as defined) if such Company Transaction constitutes a Fundamental Change, and subject to funds being legally available for such purpose under applicable law at the time of such conversion).

Notwithstanding any other provision in the preceding paragraphs to the contrary, if any Fundamental Change occurs, then the conversion price in effect will be adjusted immediately after such Fundamental Change as described below. In addition, in the event of a Common Stock Fundamental Change, each share of the Preferred Stock shall be convertible solely into common stock of the kind received by holders of Common Stock as the result of such Common Stock Fundamental Change. For purposes of calculating any adjustment to be made pursuant to this paragraph in the event of a Fundamental Change, immediately after such Fundamental Change:

(i) in the case of a Non-Stock Fundamental Change (as defined), the conversion price of the Preferred Stock will thereupon become the lower of (A) the conversion price in effect immediately prior to such Non-Stock Fundamental Change, but after giving effect to any other prior adjustments, and (B) the result obtained by multiplying the greater of the Applicable Price (as defined) or the then applicable Reference Market Price (as defined) by a fraction of which the numerator will be $50 and the denominator will be the then current redemption price per share (or, for periods prior to , 2000, an amount per share determined in accordance with the Certificates of Designation); and

(ii) in the case of a Common Stock Fundamental Change, the conversion price of the Preferred Stock in effect immediately prior to such Common Stock Fundamental Change, but after giving effect to any other prior adjustments, will thereupon be adjusted by multiplying such conversion price by a fraction, of which the numerator will be the Purchaser Stock Price (as defined) and the denominator will be the Applicable Price; provided, however, that in the event of a Common Stock Fundamental Change in which (A) 100% of the value of the consideration received by a holder of Common Stock is common stock of the successor, acquiror or other third party (and cash, if any, is paid with respect to any fractional interests in such common stock resulting from such Common Stock Fundamental Change) and (B) all of the Common Stock will have been exchanged for, converted into, or acquired for, common stock (and cash with respect to fractional interests) of the successor, acquiror or other third party, the conversion price of the Preferred Stock in effect immediately prior to such Common Stock Fundamental Change will thereupon be adjusted by dividing such conversion price by the number of shares of common stock of the successor, acquiror, or other third party received by a holder of one share of Common Stock as a result of such Common Stock Fundamental Change.

The foregoing conversion price adjustments in the event of a Non-Stock Fundamental Change will apply in situations whereby all or substantially all of the Common Stock is acquired in a transaction in which 50% or less of the value received by holders of Common Stock consists of common stock that has been admitted for listing on a national securities exchange or quoted on the Nasdaq National Market. If the market price of the Common Stock immediately prior to a Non-Stock Fundamental Change is lower than the applicable conversion price of the Preferred Stock then in effect, the conversion price will be adjusted as described in (i) above and the holders of the Preferred Stock will be entitled to receive the amount and kind of consideration that would have been received if the Preferred Stock had been converted into Common Stock prior to the Non-Stock Fundamental Change after giving effect to such adjustment.

The foregoing conversion price adjustments in the event of a Common Stock Fundamental Change will apply in situations whereby more than 50% of the value received by holders of Common Stock consists of common stock of another company that has been admitted for listing on a national securities exchange

or quoted on the Nasdaq National Market, in which case the Preferred Stock will become convertible into shares of common stock of the other company. If consideration for the Common Stock consists partly of common stock of another company and partly of other securities, cash or property, each share of Preferred Stock will be convertible solely into a number of shares of such common stock determined so that the initial value of such shares (measured as described in the definition of Purchaser Stock Price below) equals the value of the shares of Common Stock into which such share of Preferred Stock was convertible immediately before the transaction (measured as described in the definition of Applicable Price below). If consideration for Common Stock is solely common stock of another company, each share of Preferred Stock will be convertible into the same number of shares of such common stock receivable by a holder of the number of shares of Common Stock into which such share of Preferred Stock was convertible immediately before such transaction.

Depending upon whether the Fundamental Change is a Non-Stock Fundamental Change or Common Stock Fundamental Change, a holder may receive significantly different consideration upon conversion. In the event of a Non-Stock Fundamental Change, the holder has the right to convert each share of the Preferred Stock into the kind and amount of shares of stock and other securities or property or assets receivable by a holder of the number of shares of Common Stock issuable upon conversion of such share of the Preferred Stock immediately prior to such Non-Stock Fundamental Change, but after giving effect to the adjustment described above. However, in the event of a Common Stock Fundamental Change in which less than 100% of the value of the consideration received by a holder of Common Stock is common stock of the acquiror or other third party, a holder of a share of the Preferred Stock who converts a share following the Common Stock Fundamental Change will receive consideration in the form of such common stock only, whereas a holder who has converted his share prior to the Common Stock Fundamental Change will receive consideration in the form of common stock as well as any other securities or assets (which may include cash) receivable thereupon by a holder of the number of shares of Common Stock issuable upon conversion of such share of Preferred Stock immediately prior to such Common Stock Fundamental Change.

The term "Applicable Price" means (i) in the event of a Non-Stock Fundamental Change in which the holders of the Common Stock receive only cash, the amount of cash received by the holder of one share of Common Stock and (ii) in the event of any other Non-Stock Fundamental Change or any Common Stock Fundamental Change, the average of the Closing Prices (as defined) for the Common Stock during the ten trading days (as defined in the Certificate of Designation) prior to and including the record date for the determination of the holders of Common Stock entitled to receive cash, securities, property or other assets in connection with such Non-Stock Fundamental Change or Common Stock Fundamental Change, or, if there is no such record date, the date upon which the holders of the Common Stock shall have the right to receive such cash, securities, property or other assets, in each case, as adjusted in good faith by the Board of Directors or the Company to appropriately reflect any of the events referred to in clauses (i) through (v) of the third paragraph of this Conversion Rights subsection.

The term "Closing Price" of any common stock means on any day the last reported sale price regular way on such day or in case no sale takes place on such day, the average of the reported closing bid and asked prices regular way in each case on the NYSE or, if the common stock is not quoted on such system, on the principal national securities exchange or quotation system on which such stock is listed or admitted to trading or quoted, or, if not listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices in the over-the-counter market on such day, or, if not so available in such manner, as furnished by any NYSE Member firm selected by the Company for that purpose.

The term "Common Stock Fundamental Change" means any Fundamental Change in which more than 50% of the value (as determined in good faith by the Board of Directors of the Company) of the consideration received by holders of Common Stock consists of common stock that for each of the ten consecutive trading days referred to in the second preceding paragraph has been admitted for listing or

admitted for listing subject to notice of issuance on a national securities exchange or quoted on the Nasdaq National Market, provided, however, that a Fundamental Change shall not be a Common Stock Fundamental Change unless either (i) the Company continues to exist after the occurrence of such Fundamental Change and the outstanding shares of Preferred Stock continue to exist as outstanding Preferred Stock, or (ii) not later than the occurrence of such Fundamental Change, the outstanding shares of Preferred Stock are converted into or exchanged for shares of preferred stock of a corporation succeeding to the business of the Company, which preferred stock has powers, preferences and relative, participating, optional or other rights, and qualifications, limitations and restrictions, substantially similar to those of the Preferred Stock.

The term "Fundamental Change" means the occurrence of any transaction or event in connection with a plan pursuant to which all or substantially all of the Common Stock shall be exchanged for, converted into, acquired for or constitute solely the right to receive cash, securities, property or other assets (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) provided, in the case of a plan involving more than one such transaction or event, for purposes of adjustment of the conversion price, such Fundamental Change shall be deemed to have occurred when substantially all of the Common Stock of the Company shall be exchanged for, converted into, or acquired for or constitute solely the right to receive cash, securities, property or other assets, but the adjustment shall be based upon the highest weighted average per share consideration which a holder of Common Stock could have received in such transactions or events as a result of which more than 50% of the Common Stock of the Company shall have been exchanged for, converted into, or acquired for or constitute solely the right to receive cash, securities, property or other assets.

The term "Non-Stock Fundamental Change" means any Fundamental Change other than a Common Stock Fundamental Change.

The term "Purchaser Stock Price" means, with respect to any Common Stock Fundamental Change, the average of the Closing Prices for the common stock received in such Common Stock Fundamental Change for the ten consecutive trading days prior to and including the record date for the determination of the holders of Common Stock entitled to receive such common stock, or if there is no such record date, the date upon which the holders of the Common Stock shall have the right to receive such common stock, in each case, as adjusted in good faith by the Board of Directors to appropriately reflect any of the events referred to in clauses (i) through (v) of the third paragraph of this subsection; provided, however, that if no such Closing Prices exist, the Purchaser Stock Price shall be set at a price determined in good faith by the Board of Directors of the Company.

The term "Reference Market Price" shall mean $ (which is an amount equal to 66 2/3% of the reported last sale price for the Common Stock on the NYSE on , 1997) and in the event of any adjustment to the conversion price other than as a result of a Fundamental Change, the Reference Market Price shall also be adjusted so that the ratio of the Reference Market Price to the conversion price after giving effect to any such adjustment shall always be the same ratio of $ to the initial conversion price specified in the first sentence of this subsection.

Notwithstanding the foregoing provisions, the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in shares of Common Stock under any such plan, and the issuance of any shares of Common Stock or options or rights to purchase such shares pursuant to any employee benefit plan or program of the Company or pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date the Preferred Stock was first designated shall not be deemed to constitute an issuance of Common Stock or exercisable, exchangeable or convertible securities by the Company to which any of the adjustment provisions described above applies. There shall also be no adjustment of the conversion price in case of the issuance of any stock (or securities convertible into or exchangeable for stock) of the Company, except as specifically described above. If any action would require adjustment of the conversion price pursuant to more than one of the provisions

described above, only one adjustment shall be made and such adjustment shall be the amount of adjustment which has the highest absolute value to holders of the Preferred Stock. No adjustment in the conversion price will be required unless such adjustment would require an increase or decrease of at least 1% of the conversion price, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

EXCHANGE PROVISIONS

The Series A Exchangeable Preferred Stock may be exchanged, in whole but not in part, at the option of the Company, for Notes on any , , or , on or after , 2000 (a "Notes Exchange Date") through the issuance of Notes, in redemption of and in exchange for shares of Series A Exchangeable Preferred Stock, provided certain conditions described below are met. See "Description of the Notes." Holders of the Series A Exchangeable Preferred Stock will be entitled to receive Notes at the rate of $50 principal amount of Notes for each share of Series A Exchangeable Preferred Stock. The Company will mail notice of its intention to redeem through such an exchange to each holder of record of the Series A Exchangeable Preferred Stock not less than 30 nor more than 60 days before the Notes Exchange Date. If notice of exchange has been given (unless the Company defaults in issuing Notes in redemption of an exchange for the Series A Exchangeable Preferred Stock or fails to pay or set aside for payment accrued and unpaid dividends on the Series A Exchangeable Preferred Stock) on the Notes Exchange Date the holders of the Series A Exchangeable Preferred Stock will cease to be stockholders with respect to such shares and will have no interests in or claims against the Company by virtue thereof (except the right to receive Notes in exchange therefor and accrued and unpaid dividends on the Series A Exchangeable Preferred Stock to the Notes Exchange Date) and will have no voting, conversion or other rights with respect to such shares, and all shares of Series A Exchangeable Preferred Stock will no longer be outstanding. No shares of Series A Exchangeable Preferred Stock may be exchanged for Notes unless the Company has paid or set aside for the benefit of the holders of the Series A Exchangeable Preferred Stock all accrued and unpaid dividends on the Series A Exchangeable Preferred Stock to the Notes Exchange Date. The ability of the Company to exchange Series A Exchangeable Preferred Stock for the Notes is restricted under the terms of the Amended Credit Agreement. See "Risk Factors--Substantial Leverage." The ability of the Company to exchange Series A Exchangeable Preferred Stock for Notes is also subject to certain conditions contained in the Indenture relating to the Notes and to limitations imposed under the DGCL and by applicable laws protecting the rights of creditors.

REGISTRATION RIGHTS

In connection with the Rights Offering, the Company will grant to each Rights Holder (including Roche Holdings) who upon consummation of the Rights Offering beneficially owns Preferred Stock convertible into 10% or more of the Common Stock outstanding, and who certifies as such, registration rights with respect to such Common Stock on the same terms as those granted to Roche Holdings pursuant to the Stockholder Agreement. See "Certain Relationships and Related Transactions."

LACK OF ESTABLISHED MARKET FOR THE PREFERRED STOCK

There is currently no public market for the Preferred Stock. While application has been made to list the Series B PIK Preferred Stock on the NYSE, it is unlikely that the Series B PIK Preferred Stock will be accepted for listing as it is expected that following the Rights Offering the Series B PIK Preferred Stock will be held by fewer than 100 holders. In addition, there can be no assurance that an active market for the Preferred Stock will develop or that, if the Preferred Stock is approved for such listing, such listing will continue while the Preferred Stock is outstanding. Future trading prices for the Preferred Stock will depend on many factors, including, among others, the Company's financial results, the market for similar securities and the volume of trading activity in the Preferred Stock.

TRANSFER AGENT

The transfer agent of the Preferred Stock will be American Stock Transfer & Trust Company.

DESCRIPTION OF THE NOTES

If the Company elects to issue Notes in exchange for the Series A Exchangeable Preferred Stock, the Company will issue the Notes under an Indenture (the "Indenture") between the Company and First Union National Bank of North Carolina, as trustee (the "Trustee") at a rate of $50 principal amount of Notes for each share of Series A Exchangeable Preferred Stock exchanged. The Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part and is available for inspection at the office of the Trustee. The Indenture is governed by the Trust Indenture Act of 1939, as amended. The following summaries of certain provisions of the Indenture do not purport to be complete and where reference is made to particular provisions of the Indenture, such provisions, including definitions of certain terms, are incorporated by reference as part of such summaries, which are qualified in their entirety by such reference.

GENERAL

The Notes will be unsecured, subordinated obligations of the Company, will be limited in aggregate principal amount to $250,562,450 and will mature on , 2012. The Company will pay interest on the Notes quarterly in cash on , , and of each year, at the rate of % per annum. Interest on the Notes will be paid to the persons who are registered holders at the close of business on the , , or immediately preceding the interest payment dates. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal (and premium, if any) and interest will be payable, and the Notes may be presented for conversion, exchange or registration of transfer, at the office or agency of the Company maintained for such purposes or payment of interest may, at the option of the Company, be made by check mailed to the address of the person entitled thereto as it appears on the security register or, at the option of the holder, in immediately available funds. The Notes are to be issued only in registered form, without coupons, in denominations of $50 or any integral multiple thereof.

CONVERSION RIGHTS

The holders of Notes will have the right at any time, through the close of business on the maturity date, subject to prior redemption, to convert any Notes (or any portion thereof that is an integral multiple of $50) into fully paid and nonassessable shares of Common Stock, initially at the conversion rate in effect on the Preferred Stock at the date of exchange of the Series A Exchangeable Preferred Stock for Notes (subject to adjustment as described below). If a Note is called for redemption prior to maturity, the conversion right will terminate at 5:00 p.m. New York City time on the business day prior to the date fixed for redemption unless in any such case, the Company shall default in payment due upon such redemption. Except as described below, no payment of interest and no adjustment in respect of dividends on the shares of Common Stock will be made upon the conversion of any Notes, and the holder will lose any right to payment of interest on the Notes surrendered for conversion. Notes surrendered for conversion during the period from the regular record date for an interest payment to the next succeeding interest payment date (except Notes called for redemption during such period) must be accompanied by payment of an amount equal to the interest thereon which the holder is to receive on such interest payment date. No fractional shares of Common Stock will be issued upon conversion but, in lieu thereof, an appropriate amount will be paid in cash which, if available shall be based on the last reported sale price for the shares of Common Stock on the NYSE on the day of such conversion. The provisions in the Indenture for adjustment of the conversion rate will be substantially the same as those applicable to the Preferred Stock described under "Description of Preferred Stock--Conversion Rights."

SUBORDINATION

Payment of the principal of (and premium, if any) and interest on the Notes will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness when due in accordance with the terms thereof. Senior Indebtedness will be defined in the Indenture as the principal of (and premium, if any) and unpaid interest on, and all other sums, whether direct or contingent including, without limitation, costs and expenses of collection and enforcement (including the reasonable

fees and expenses of legal counsel engaged for such purpose) payable by the Company relating to, the following (whether outstanding at the date of the Indenture or thereafter incurred or created): (a) indebtedness of the Company for money borrowed (including purchase-money obligations) evidenced by notes or other written obligations including, without limitation, letters of credit and bankers acceptances, (b) indebtedness of the Company evidenced by notes, debentures, bonds or other securities issued under the provisions of an indenture or similar instrument, (c) obligations of the Company as lessee under capitalized leases and under leases of property made as part of any sale and leaseback transactions, (d) indebtedness of others of any of the kinds described in the preceding clauses (a) through (c) assumed or guaranteed by the Company and (e) renewals, extensions and refundings of, and indebtedness and obligations of a successor person issued in exchange for or in replacement of indebtedness and obligations of the kinds described in the preceding clauses (a) through (d); provided, however, that the following will not constitute Senior Indebtedness: (i) any indebtedness or obligation as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that such indebtedness or obligation is subordinate in right of payment to all other indebtedness of the Company not expressly subordinated to such indebtedness or obligation, (ii) any indebtedness or obligation which by its terms refers explicitly to the Notes and states that such indebtedness or obligation shall not be senior in right of payment thereto and (iii) any indebtedness or obligation of the Company to a subsidiary.

Following the Rights Offering, $789.1 million of Senior Indebtedness will be outstanding. There will be no restrictions on the creation of Senior Indebtedness in the Indenture.

By reason of such subordination, in the event of liquidation, dissolution, insolvency, bankruptcy, assignment to the benefit of creditors or other similar proceeding, creditors (other than holders of Senior Indebtedness or Notes) may recover less, ratably, than the holders of Senior Indebtedness and may recover more, ratably, than the holders of the Notes and, upon any distribution of assets, the holders of Notes will be required to pay over their share of such distribution to the holders of Senior Indebtedness until such Senior Indebtedness is paid in full. In addition, such subordination may affect the Company's obligation to make principal and interest payments with respect to the Notes, and the rights of the Trustee or the holders of the Notes to exercise certain remedies under the Indenture (including the right to declare the Notes due and payable prior to their stated maturity), in the event of any default on the payment of principal (or premium, if any) or interest on any Senior Indebtedness beyond any applicable grace period, or in the event of any default with respect to Senior Indebtedness that would permit or automatically effect acceleration of the maturity thereof or if any Notes are declared due and payable prior to their stated maturity.

GLOBAL SECURITIES

The Notes will be issued in the form of one or more global securities (each, a "Global Security") that will be deposited with, or on behalf of DTC. Global Securities may be issued only in fully registered form and in either temporary or permanent form. Unless and until it is exchanged in whole or in part for Notes in definitive form, and except as set forth below, a Global Security may not be transferred except as a whole only to DTC or another nominee of DTC or to a successor depositary or any nominee of such successor.

Upon the issuance of a Global Security, DTC or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the individual Notes represented by such Global Security to the accounts of persons that have accounts with DTC or its nominee ("Participants"). Ownership of beneficial interests in a Global Security will be limited to Participants or persons that may hold interests through Participants. Ownership of beneficial interests in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Participants) and the records of Participants (with respect to interests of persons other than Participants). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Security.

So long as DTC, or its nominee, is the registered holder and owner of such Global Security, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such Global Security for all purposes of such Notes and for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Security will not be entitled to have any of the individual Notes represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of any such Notes in definitive form and will not be considered the owners or holders thereof under the Indenture.

Accordingly, each person owning a beneficial interest in a Global Security must rely on the procedures of DTC and, if such person is not a Participant, on the procedures of the Participant through which such person owns its interest, to exercise all rights of a holder of Notes or such Global Security. The Company understands that under existing industry practice, in the event the Company requests any action of holders of Notes or an owner of a beneficial interest in a Global Security desires to take any action that DTC, as the holder of such Global Security, is entitled to take, DTC would authorize the Participants to take such action, and that the Participants would authorize beneficial owners owning through such Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payments of principal of, any premium on, and any interest on, individual Notes represented by a Global Security will be made to DTC or its nominee, as the case may be, as the registered owner and holder of the Global Security representing such Notes.

The Company expects that DTC or its nominee, upon receipt of any payment of principal, premium or interest in respect of a Global Security, immediately will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security as shown on the records of DTC or its nominee. The Company also expects that payments by Participants to owners of beneficial interests in a Global Security held through Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name." Such payments will be the responsibility of such Participants.

No Global Security may be transferred to, or registered or exchanged for Notes registered in the name of, any person other than DTC for such Global Security or any nominee or successor thereof, and no such transfer may be registered, unless (i) DTC (A) notifies the Company that it is unwilling or unable to continue as depositary for such Global Security or (B) ceases to be qualified to serve as depositary, (ii) the Company executes and delivers to the Trustee a written request that such Global Security shall be so transferable, registrable and exchangeable, and such transfers shall be registrable, or (iii) there shall have occurred and be continuing an event of default. A Global Security to which the restriction set forth in the preceding sentence shall have ceased to apply may be transferred only to, and may be registered and exchanged for Notes registered only in the name or names of, such person or persons as DTC shall have directed and no transfer thereof other than such a transfer may be registered.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of Participants and to facilitate the clearance and settlement of securities transactions among the Participants, thereby eliminating the need for physical delivery of securities and certificates. Participants include securities brokers and dealers (including the Dealer Manager), banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own DTC.

Access to the DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Participants, either directly or indirectly ("Indirect Participants"). Persons who are not Participants may beneficially own securities held by DTC only through Participants or Indirect Participants. The rules applicable to DTC and the Participants are on file with the Commission. DTC currently accepts only notes denominated and payable in U.S. dollars.

REDEMPTION AT OPTION OF COMPANY

The Notes are not redeemable prior to , 2000. On or after such date the Notes may be redeemed by the Company, at its option, in whole or in part at any time and from time to time subject to the limitations, if any, imposed by applicable law, at a redemption price, expressed as a percentage of the principal amount, subject to the rights of Holders of record on a record date to receive interest due on an interest payment date that is prior to such redemption date together with accrued and unpaid interest to the date fixed for redemption, if redeemed during the twelve month period beginning of the years indicated below:

Year	Redemption Price
2000	%
2001	
2002	
2003	
2004	
2005	
2006 and thereafter	100%

Notes in any denomination equal to or larger than $50 may be redeemed in whole or in part in multiples of $50. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption.

Notice of redemption will be mailed by first class mail at least 30 but not more than 60 days prior to the redemption date to each holder of Notes to be redeemed at the address appearing in the security register. If less than all the outstanding Notes are to be redeemed, the Trustee will select the Notes (or portion thereof equal to $50 or any integral multiple thereof) to be redeemed by lot or by such other method as the Trustee shall deem fair and appropriate.

CONSOLIDATION, MERGER AND SALE OF ASSETS

The Company, without the consent of any holders of Notes may consolidate or merge with or into any person, or convey, transfer or lease its properties and assets substantially as an entirety to any person, provided that (i) the person (if other than the Company) formed by such consolidation or into which the Company is merged or which acquires by conveyance or transfer or leases the properties and assets of the Company substantially as an entirety is a corporation, partnership or trust organized and validly existing under the laws of the United States, any state thereof or the District of Columbia, and expressly assumes the Company's obligations on the Notes and under the Indenture, (ii) after giving effect to such transaction, no event of default and no event that, after notice or lapse of time or both, would become an event of default shall have happened and be continuing and (iii) certain other conditions are met.

The provisions of the Indenture may not necessarily afford the holders of the Notes protection in the event of a highly leveraged transaction, including a reorganization, restructuring, merger or similar transaction involving the Company that may adversely affect the holders.

REPORTS

The Indenture will provide that whether or not the Company is subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company shall deliver to the Trustee and make available to each Holder, within 15 days after it files or would have been required to file such reports with the Commission, annual and quarterly financial statements substantially equivalent to financial statements that would have been included in reports filed with the Commission if the Company were subject to the requirements of Section 13 or 15(d) of the Exchange Act, including, with respect to annual information only, a report thereon by the Company's certified independent public accountants as such would be required in such reports to the Commission, and in each case, together with management's discussion and analysis of financial condition and results of operations which would be so required.

DEFAULTS AND REMEDIES

An event of default under the Indenture is defined as: default for 30 days in payment of interest on the Notes; default in payment of principal of (or premium, if any, on) the Notes; failure by the Company for 60 days after written notice to it to comply with any of its other covenants or agreements of the Notes or in the Indenture; and certain events of bankruptcy, insolvency or reorganization relative to the Company or its subsidiaries. If an event of default occurs and is continuing (other than certain events of bankruptcy, insolvency or reorganization as specified above in which case the Notes will be immediately due and payable), the Trustee or holders of at least 25% in aggregate principal amount of the Notes outstanding may, subject to the applicable subordination provisions, declare the Notes to be due and payable immediately, but under certain conditions such acceleration may be rescinded by the holders of a majority in principal amount of the Notes then outstanding.

Holders of Notes may not enforce the Indenture except as provided in the Indenture and except that, subject to the applicable subordination provisions, nothing shall prevent the holders of Notes from enforcing payment of the principal (or premium, if any) or (except for defaulted interest as set forth in the Indenture) interest on, or conversion of, their Notes. The Trustee may refuse to enforce the Indenture unless it receives reasonable security or indemnity. Subject to certain limitations, holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power under the Indenture.

The Company will annually furnish the Trustee with an officers' certificate with respect to compliance with the terms of the Indenture.

MODIFICATION

Modification and amendment of the Indenture or the entering into a supplemental indenture may be effected by the Company and the Trustee with the consent of the holders of not less than a majority in aggregate principal amount of the then outstanding Notes, provided that no such modification, amendment or supplemental indenture may, without the consent of each holder affected thereby, (i) reduce the percentage of principal amount of Notes whose holders must consent to an amendment, supplement or waiver of any provision of the Indenture or the Notes; (ii) reduce the rate or extend the time for payment of interest on any Note; (iii) reduce the principal or premium amount of any Note, or reduce the price of redemption; (iv) change the date on which the principal of the Notes or an installment of interest thereon is due and payable; (v) alter the redemption provisions of the Indenture in a manner adverse to any holder of Notes; (vi) make any change to the unconditional right of holders of Notes to receive principal, premium and interest on the Notes or the provisions of the Indenture relating to waiver of default (except to increase the aggregate principal amount of Notes necessary to waive any past default or to include in other provisions of the Indenture, a default in respect of which may not be governed by the provisions of the Indenture relating to waiver of default); (vii) make the principal of, or the interest or premium on, any Note payable with anything or in any manner other than as provided for in the Indenture (including changing the place of payment where, or the coin or currency in which, any Note or any premium or the interest thereon

is payable) and the Notes; (viii) adversely affect the right to convert any Note; or (ix) modify the subordination provisions of the Indenture in a manner adverse to the holders of the Notes. The Indenture also contains provisions permitting the Company and the Trustee to effect certain minor modifications of the Indenture not adversely affecting the rights of holders of Notes in any material respect.

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The Indenture will provide that the Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes ("Legal Defeasance"). Such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Notes, and the Indenture shall cease to be of further effect as to all outstanding Notes, except as to (i) rights of holders of Notes to receive payments in respect of principal of, premium, if any, and interest on such Notes when such payments are due from the trust funds, (ii) the Company's obligation with respect to such Notes concerning issuing temporary Notes, transfer or exchange of Notes, replacement of Notes and the maintenance of an office of agency for payment and money for security payments held in trust, (iii) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's obligations in connection therewith and (iv) the Legal Defeasance provisions of the Indenture. In addition, the Company may at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a default or event of default with respect to the Notes. In the event Covenant Defeasance occurs, certain events will no longer constitute a default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance, (i) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the Note, U.S. legal tender, non-callable government securities or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on such Notes on the stated date for payment thereof or the redemption date of such principal or installment of principal, premium, if any, or interest on such Notes, (ii) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Company has received from, or there has been published by the Internal Revenue Service, or (B) since the date of the Indenture, there has been a change in the applicable Federal income tax law, in each case to the effect that, and based thereon such opinion shall confirm that, the holders of such outstanding Notes shall not recognize income, gain or loss for Federal income tax purposes as a result of such Legal Defeasance, and will be subject to Federal income tax in the same amount, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred, (iii) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States confirming that the holders of such Notes shall not recognize income, gain or loss for Federal income tax purposes as a result of such Covenant Defeasance, and will be subject to Federal income tax in the same amount, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred, (iv) no default or event of default with respect to the Notes shall have occurred and be continuing on the date of such deposit or insofar as events of default for bankruptcy are concerned, at any time in the period ending on the 91st day after the date of deposit, (v) such Legal Defeasance or Covenant Defeasance shall not result in a breach of or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound, (vi) the Company shall have delivered to the Trustee an Officers' Certificate stating that deposit was not made by the Company with the intent of preferring the holders of the Notes over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others, and (vii) the Company shall have delivered to the Trustee an Officers' Certificate stating that all conditions precedent provided for or relating to the Legal Defeasance or Covenant Defeasance have been complied with.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion, which is the opinion of Davis Polk & Wardwell, sets forth the material Federal income tax consequences of the receipt, ownership and disposition of the Rights, the Preferred Stock and the Notes to the United States holders described herein under present law. This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and existing and proposed Treasury Regulations, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein. In this connection, it should be noted that as used in the discussion below, the term "earnings and profits" refers to the Company's earnings and profits as determined under the Code. There is no assurance that the Company will have earnings and profits for any particular taxable year. This discussion addresses only initial distributees of the Rights who hold all their Common Stock, the Rights, the Preferred Stock and the Notes as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as certain financial institutions, insurance companies, dealers in securities and holders that are, for Federal income tax purposes, non-resident alien individuals or foreign corporations. Holders should consult their tax advisors with regard to the application of the Federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

On February 6, 1997, the Clinton Administration released several revenue proposals that, if adopted, may, with respect to certain holders, affect the Federal income tax consequences of holding the Preferred Stock. Among such proposals is the proposal to reduce the dividend-received deduction rate from 70% to 50% for any corporation that owns less than 20% (by vote and value) of the stock of the Company. There can be no assurance as to whether or when any of such proposals will become effective.

THE RIGHTS

For Federal income tax purposes, receipt of Rights by a shareholder pursuant to the Rights Offering should, in the opinion of Davis Polk & Wardwell, be treated as a nontaxable distribution with respect to the Common Stock with the consequences described below.

If the fair market value of the Rights is less than 15% of the fair market value of the Common Stock on the date of distribution, then pursuant to section 307(b) of the Code, the Rights will be allocated a zero basis, unless the shareholder affirmatively elects to allocate basis in proportion to their relative fair market values determined on such date. Such election must be made in the shareholder's tax return for the taxable year in which the Rights are received. On the other hand, if the fair market value of the Rights equals or exceeds 15% of the fair market value of the Common Stock on such date, then the shareholder's basis in the Common Stock must be allocated between the Common Stock and the Rights received in proportion to their relative fair market values.

In the case of exercise, any basis allocated to the Rights should be added to the basis of the Preferred Stock that is so acquired. An initial distributee shareholder would not be able to claim a loss if its Rights expire unexercised. If a shareholder elects to sell its Rights, the shareholder should include its holding period in the Common Stock with respect to which the Rights were distributed in determining the holding period of the Rights.

If the Company has, as of the date of the issuance of the Rights, current or accumulated earnings and profits, then the Rights will, with respect to the initial distributees of such Rights, be treated as "section 306 stock." In that event, each Right, with respect to an initial distributee, shall carry section 306 "taint" in the amount equal to the lesser of (i) the fair market value of the Right on the date of distribution, or (ii) the allocable share of the Company's current or accumulated earnings and profits. Under such circumstances, subject to

certain exceptions, an initial distributee shareholder who disposes of the Rights must treat the proceeds as ordinary income to the extent of the "taint" and cannot recognize a loss on the sale of the Rights.

THE PREFERRED STOCK

Dividends. Cash dividends paid on Preferred Stock will be taxable as ordinary income to the extent of the Company's earnings and profits. To the extent that the amount of cash distributions paid on Preferred Stock exceeds the Company's earnings and profits, such distributions will be treated first as a return of capital and will be applied against and reduce the adjusted tax basis of Preferred Stock in the hands of the shareholder. Any remaining amount after the holder's basis has been reduced to zero will be taxable.

Dividends paid in kind on the Series B PIK Preferred Stock will be taxable as ordinary income in an amount equal to the lesser of (i) the fair market value of the Series B PIK Preferred Stock paid in kind and (ii) the Company's earnings and profits. Thus, holders of Series B PIK Preferred Stock may recognize income without the receipt of cash to pay the tax attributable to such income. To the extent that the fair market value of distributions in Series B PIK Preferred Stock exceed the Company's earnings and profits, such distributions will be treated first as a return of capital and applied against and reduce the basis of the Series B PIK Preferred Stock with respect to which such distributions were made. Any amount remaining after such basis has been reduced to zero will be taxable. A recipient's adjusted basis in the Series B PIK Preferred Stock received as a dividend will equal the fair market value of such shares on the date of distribution, and the holding period for such shares will begin on the date following the date of distribution.

For purposes of the remainder of this discussion, the term "dividend" refers to a distribution taxable as ordinary income as described above unless the context indicates otherwise. Dividends received by corporate shareholders will be eligible for a dividends-received deduction under section 243 of the Code, subject to the limitations contained in sections 246 and 246A of the Code.

Under certain circumstances, section 1059 of the Code would require a corporate shareholder to reduce its basis in the Preferred Stock by the "nontaxed portion" of any "extraordinary dividend." Generally, the nontaxed portion of an extraordinary dividend is the amount excluded from income under section 243 of the Code (relating to the dividends-received deduction). Under the Code, the term "extraordinary dividend" includes any redemption of stock that is treated as a dividend and that is non-pro rata as to all shareholders, including holders of common stock, irrespective of holding period, as well as all dividends on "disqualified preferred stock." An "extraordinary dividend" may arise from an exchange of Preferred Stock for Notes or cash, and the Preferred Stock may constitute "disqualified preferred stock." Corporate shareholders should consult their tax advisors with respect to the possible application of the extraordinary dividend rules.

Redemption and Exchange for the Notes. Subject to the discussion below with respect to section 306 of the Code, the redemption of Preferred Stock for cash will be treated as a distribution that is taxable as a dividend to the extent of the Company's allocable earnings and profits unless the redemption (a) results in a "complete termination" of the shareholder's stock interest in the Company, (b) is "substantially disproportionate," or (c) is "not essentially equivalent to a dividend" under section 302 of the Code. In determining whether any of these tests has been met, shares considered to be owned by the shareholder by reason of certain constructive ownership rules set forth in section 318 of the Code, as well as shares actually owned, must generally be taken into account. A distribution to a shareholder will be "not essentially equivalent to a dividend" if it results in a "meaningful reduction" in the shareholder's stock interest in the Company. The Internal Revenue Service has issued a published ruling indicating that a redemption which results in a reduction in the proportionate interest in the Company (taking into account the section 318 constructive ownership rules) of a shareholder whose relative stock interest is minimal (an interest of less than 1% should satisfy this requirement) and who exercises no control over Company affairs should be treated as being "not essentially equivalent to a dividend." If any of these three tests is

met, the redemption of the Preferred Stock for cash would be treated, as to that shareholder, as an exchange under section 302(a) of the Code giving rise to capital gain or loss.

If the Rights are treated as "section 306 stock," then the Preferred Stock acquired pursuant to the exercise by the initial distributee shareholder of such Rights would constitute "section 306 stock" in the hands of such shareholder to the extent of the original "taint" on the Rights. Under section 306(a)(2) of the Code, proceeds equal to the amount of such "taint" received upon the redemption of the Preferred Stock will be taxable as ordinary income to the extent of the Company's earnings and profits at the time of the redemption, unless the "complete termination" test described above is met.

A redemption of the Series A Exchangeable Preferred Stock in exchange for Notes cannot qualify under the "complete termination" or "substantially disproportionate" tests described above. The redemption would, therefore, be treated as a distribution to the extent of the fair market value of the Notes and taxable as a dividend to the extent of the shareholder's allocable share of the Company's earnings and profits unless it satisfies the "not essentially equivalent to a dividend" test. The Internal Revenue Service has ruled that a holder of convertible notes is considered to own the underlying stock for purposes of the section 318 constructive ownership rules, and further that a redemption which does not result in any reduction in the interest of a shareholder does not satisfy the meaningful reduction standard even if such shareholder holds only a minimal interest. Therefore, under a literal interpretation of the statute, regulations and rulings, the receipt of Notes in exchange for the Series A Exchangeable Preferred Stock will be taxable as a dividend to the extent of the shareholder's allocable share of the Company's earnings and profits. Accordingly, each shareholder should consult its tax advisor regarding this issue, including the possible effect of the disposition of a portion of its interest in the Company contemporaneously and as part of an integrated plan with the exchange for Notes.

If a shareholder is treated as having received a dividend upon a redemption for cash or an exchange for Notes, the basis of its Preferred Stock so redeemed or exchanged will be transferred to any remaining stockholdings in the Company. If the shareholder does not retain any stock ownership in the Company, it may be permitted to transfer such basis to any Notes received in the exchange or it may lose such basis entirely.

Sale of Preferred Stock. Subject to the discussion below with respect to section 306 of the Code, a holder will recognize taxable gain or loss upon the sale or disposition (other than a redemption or an exchange for Notes as discussed above) of shares of Preferred Stock equal to the difference between the amount of cash or the fair market value of property received and the holder's tax basis in the shares. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder has held the shares of Preferred Stock for more than one year.

If the Rights constitute "section 306 stock" as described above, then upon the sale or disposition of the Preferred Stock acquired through the exercise of the Rights, the proceeds received will be taxable as ordinary income to the extent of the "taint." Furthermore, no loss will be recognized upon the sale or disposition; any unrecovered basis would revert to the shareholder's remaining Common Stock holdings or possibly to its Preferred Stock holdings, or, if the shareholder does not retain any such holding, it may lose such basis entirely.

THE NOTES

Original Issue Discount. For purposes of the following discussion, it is assumed that the Notes will constitute debt for Federal income tax purposes and will not constitute "applicable high-yield discount obligations" under section 163(i) of the Code, and that the Notes or the Series A Exchangeable Preferred Stock will be readily tradeable on an established securities market at the time of exchange of the Notes for the Series A Exchangeable Preferred Stock. In general, if a Note's stated redemption price at maturity exceeds its "issue price," it will be considered to have been issued at an original issue discount ("OID")

in an amount equal to such excess. For these purposes, the issue price of a Note will be equal to the fair market value of the Note (including the value of the conversion feature) as of the issue date or, if the Note is not traded on an established securities market within 30 days of the issue date, the fair market value of the Series A Exchangeable Preferred Stock on such date. The stated redemption price at maturity of a Note will equal the sum of all payments required under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable as a series of payments in cash or property (other than interest payments payable in debt instruments of the Company) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a de minimis amount, i.e., 1/4 of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, then the Note will not be considered to have OID.

A holder will be required to include any qualified stated interest payments in income in accordance with the holder's method of accounting for Federal income tax purposes. A holder will also be required to include any OID in income for Federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to such income. Under this method, a holder generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Bond Premium. If the issue price of the Note reduced by the portion attributable to the conversion feature exceeds the amount payable at maturity, a holder will have "amortizable bond premium" equal in amount to such excess, and may elect (in accordance with applicable Code provisions) to amortize such premium, using a constant yield method. A holder who elects to amortize bond premium must reduce its tax basis in the Note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the taxpayer and may be revoked only with the consent of the Internal Revenue Service.

Redemption or Sale of Notes. Generally, any redemption or sale of Notes by a holder will result in taxable gain or loss equal to the difference between the amount of cash received (except to the extent that cash received is attributable to interest which has not been included in income) and the holder's tax basis in the Notes. Unless the exchange for the Notes was treated as a dividend, the tax basis of a holder in a Note will generally be equal to the issue price of the Note plus any OID included in the holder's income prior to sale or redemption of the Note, reduced by any bond premium amortized prior to such sale or redemption. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period exceeds one year.

CONVERSION OF PREFERRED STOCK OR NOTES INTO COMMON STOCK

Generally, no gain or loss will be recognized for Federal income tax purposes on conversion of Preferred Stock or Notes solely into shares of Common Stock, except with respect to any cash received in lieu of a fractional share interest (in an amount equal to the difference between the cash received and the holder's adjusted tax basis allocable to such fractional shares). A holder's basis in the Common Stock received upon conversion will be the same as its basis in the Preferred Stock (assuming there are no dividend arrearages) or Notes, excluding the basis allocated to any fractional share as described above. The holding period of the Common Stock received upon conversion of Preferred Stock will include the holding period of the Preferred Stock. With respect to any Common Stock acquired upon the conversion of a Note, except for the portion, if any, of each full share of Common Stock attributable to interest accrued within the meaning of section 354(a)(2)(B) of the Code on or after the date on which the holder acquired the Note, the Common Stock will have a holding period commencing on the day after the date on which the holder acquired the Note.

If a shareholder converts Preferred Stock when dividends are in arrears, it may be deemed to receive a distribution taxable as a dividend. Under such circumstances, the shareholder is advised to consult its tax advisor concerning the calculation of the amount of the dividend and the determination of the holding period of the Common Stock received upon conversion.

CONVERSION ADJUSTMENTS FOR THE PREFERRED STOCK AND THE NOTES

The conversion price of the Preferred Stock and Notes is subject to adjustment under certain circumstances. Holders may be deemed to receive a dividend to the extent of the Company's earnings and profits if the conversion price is adjusted to reflect a taxable distribution of property to holders of Common Stock or in certain other circumstances involving conversion price adjustments. Such deemed dividend would be includible in gross income, although the holder would not receive any cash.

BACKUP WITHHOLDING AND INFORMATION REPORTING

A holder of Common Stock, Rights, Preferred Stock or Notes may be subject to information reporting and to backup withholding at the rate of 31% with respect to dividends or interest paid on, or the proceeds of a sale, exchange or redemption thereof, as the case may be, unless such holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. The amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the holder's Federal income tax liability, provided the required information is furnished to the Internal Revenue Service on a timely basis.

PLAN OF DISTRIBUTION

The Company has retained Credit Suisse First Boston to act as dealer manager in connection with the Rights Offering. The Dealer Manager will provide marketing assistance and financial advisory services in connection with the Rights Offering and will solicit the exercise of Rights by Rights Holders.

In its capacity as financial advisor, Credit Suisse First Boston provided advice to the Company regarding the structure of the Rights Offering and with respect to marketing the shares of Preferred Stock to be issued in the Rights Offering.

The Company has agreed to pay the Dealer Manager a fee of 4% of the proceeds raised in the Rights Offering excluding proceeds raised from or by Roche Holdings or any of its affiliates. The maximum compensation that the Dealer Manager would receive under this arrangement is $10,022,498.

In addition, the Company has agreed to indemnify the Dealer Manager with respect to certain liabilities, including civil liabilities under the Securities Act, or contribute to payments which the Dealer Manager may be required to make in respect thereof.

The Company is also required to pay to Credit Suisse First Boston, as financial advisor, a fee in the amount of $1,000,000. In addition, the Company has agreed to reimburse Credit Suisse First Boston, upon request made from time to time, for certain out-of-pocket expenses incurred in connection with its activities as financial advisor.

Credit Suisse First Boston has not prepared any report or opinion constituting a recommendation or advice to the Company or its stockholders, nor has Credit Suisse First Boston prepared an opinion as to the fairness of the Subscription Price or the terms of the Rights Offering to the Company or its current stockholders. Credit Suisse First Boston expresses no opinion and makes no recommendation to holders of Rights as to the purchase by any person of Underlying Shares. Credit Suisse First Boston also expresses no opinion as to the prices at which shares to be distributed in connection with the Rights Offering may trade if and when they are issued or at any future time.

Other than the Dealer Manager, the Company has not employed any brokers, dealers or underwriters in connection with the solicitation of exercise of Rights, and, except as described above, no other commissions, fees or discounts will be paid in connection with the Rights Offering. Certain employees of the Company may solicit responses from Rights Holders, but such employees will not receive any commissions or compensation for such services other than their normal employment compensation.

An affiliate of the Dealer Manager will receive proceeds from the Rights Offering in connection with its role as a lender under the Company's Existing Credit Agreement and Amended Credit Agreement.

The Dealer Manager may engage in stabilizing transactions in accordance with Regulation M under the Exchange Act. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Such stabilizing transactions may cause the price of the securities to be higher than it would otherwise be in the absence of such transactions. These transactions may be effected on the NYSE or otherwise and, if commenced, may be discontinued at any time.

LEGAL MATTERS

The validity of the Preferred Stock and Notes and certain other matters will be passed upon for the Company by Davis Polk & Wardwell. Davis Polk & Wardwell from time to time provides legal services to the Company and its affiliates.

EXPERTS

The consolidated financial statements and schedule of the Company as of December 31, 1996 and 1995, and for each of the years in the three-year period ended December 31, 1996, have been included or incorporated by reference herein and in the Registration Statement in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein or incorporated by reference herein upon the authority of said firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information filed by the Company may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and at the Commission's following Regional Offices: Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and New York Regional Office, 7 World Trade Center, New York, New York 10048. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549-1004. The Commission maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. The address of that site is http://www.sec.gov. The Company's Common Stock is listed on the New York Stock Exchange, Inc. and reports and other information concerning the Company can also be inspected at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

The Company has filed with the Commission a Registration Statement on Form S-3 under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance where such contract or other document has been filed as an exhibit to the Registration Statement, reference is made to the exhibit so filed, each such statement being qualified in all respects by such reference. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement and exhibits thereto. The information so omitted, including exhibits, may be obtained from the Commission at its principal office in Washington, D.C. upon the payment of the prescribed fees, or may be inspected without charge at the Public Reference Section of the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549-1004.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Company's Amendment on 10-K/A to its Annual Report on 10-K for the year ended December 31, 1996, dated April 29, 1997, the Company's Reports on Form 8-K dated January 6, 1997, February 27, 1997, March 3, 1997, April 11, 1997, April 21, 1997 and April 25, 1997 and the Company's Report on Form 8-K/A dated February 26, 1997 are hereby incorporated by reference in this Prospectus except as superseded or modified herein. All documents filed with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of this Prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person, including any beneficial owner, to whom this Prospectus is delivered, upon written or oral request of such person, a copy of any and all of the documents that have been or may be incorporated by reference herein (other than exhibits to such documents which are not specifically incorporated by reference into such documents). Such requests should be directed to Attention: Bradford T. Smith, Secretary, Laboratory Corporation of America Holdings, 358 South Main Street, Burlington, North Carolina 27215, (910) 229-1127.

LABORATORY CORPORATION OF AMERICA HOLDINGS

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Laboratory Corporation of America Holdings:

We have audited the consolidated financial statements of Laboratory Corporation of America Holdings and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have 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 Laboratory Corporation of America Holdings and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, 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

Raleigh, North Carolina
February 14, 1997 except for Notes 9
and 10 as to which the date is March 31, 1997.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	December 31	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29.3	$ 16.4
Accounts receivable, net	505.6	426.8
Inventories	44.3	50.1
Prepaid expenses and other	21.8	21.4
Deferred income taxes	66.2	63.3
Income taxes receivable	54.3	21.9
Total current assets	721.5	599.9
Property, plant and equipment, net	282.9	304.8
Intangible assets, net	891.1	916.7
Other assets, net	21.5	15.8
	$1,917.0	$1,837.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 65.7	$ 106.2
Accrued expenses and other	168.4	173.5
Current portion of long-term debt	18.7	70.8
Total current liabilities	252.8	350.5
Loan from affiliate	187.0	--
Revolving credit facility	371.0	218.0
Long-term debt, less current portion	693.8	712.5
Capital lease obligation	9.8	9.6
Other liabilities	144.5	135.0
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; 122,935,080 and 122,908,722 shares issued and outstanding at December 31, 1996 and 1995, respectively	1.2	1.2
Additional paid-in capital	411.0	411.0
Accumulated deficit	(154.1)	(0.6)
Total stockholders' equity	258.1	411.6
	$1,917.0	$1,837.2

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	Years Ended December 31,		
	1996	1995	1994
Net Sales	$1,607.7	$1,432.0	$872.5
Cost of sales	1,183.9	1,024.3	597.0
Gross profit	423.8	407.7	275.5
Selling, general and administrative expenses	305.0	238.5	149.3
Amortization of intangibles and other assets	29.6	27.0	16.3
Restructuring and non-recurring charges	23.0	65.0	--
Provision for settlements and related expenses	185.0	10.0	--
Operating income (loss)	(118.8)	67.2	109.9
Other income (expenses):			
Litigation settlement and related expenses	--	--	(21.0)
Investment income	2.2	1.4	1.0
Interest expense	(71.7)	(65.5)	(34.5)
Earnings (loss) before income taxes and extraordinary loss	(188.3)	3.1	55.4
Provision for income taxes	(34.8)	7.1	25.3
Earnings (loss) before extraordinary loss	(153.5)	(4.0)	30.1
Extraordinary loss from extinguishment of debt, net of early income tax benefit of $5.2	--	(8.3)	--
Net earnings (loss)	$ (153.5)	$ (12.3)	$ 30.1
Earnings (loss) per common share:			
Earnings (loss) per common share before extraordinary item	$ (1.25)	$ (0.03)	$ 0.36
Extraordinary loss per common share	--	(0.08)	--
Net earnings (loss) per common share	$ (1.25)	$ (0.11)	$ 0.36
Dividends per common share	$ --	$ --	$ 0.08

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS 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	Pension Liability Adjustment	Minimum Treasury Stock	Total
Balance, December 31, 1993	$1.0	$226.3	$ 202.0	$(2.4)	$(286.1)	$140.8
Net earnings	--	--	30.1	--	--	30.1
Exercise of stock options	--	0.1	--	--	--	0.1
Dividends to stockholders	--	--	(6.8)	--	--	(6.8)
Retirement of treasury stock	(0.2)	(72.3)	(213.6)	--	286.1	--
Adjustment for minimum pension liability	--	--	--	2.4	--	2.4
Other	--	(0.6)	--	--	--	(0.6)
Balance, December 31, 1994	0.8	153.5	11.7	--	--	166.0
Net loss	--	--	(12.3)	--	--	(12.3)
Exercise of stock options	--	0.2	--	--	--	0.2
Cancellation of stock options	--	6.9	--	--	--	6.9
Distribution to stockholders	0.2	(474.5)	--	--	--	(474.7)
Issuance of common stock	0.6	674.6	--	--	--	675.2
Issuance of warrants	--	51.0	--	--	--	51.0
Other	--	(0.7)	--	--	--	(0.7)
Balance, December 31, 1995	1.2	411.0	(0.6)	--	--	411.6
Net loss	--	--	(153.5)	--	--	(153.5)
Balance, December 31, 1996	$1.2	$411.0	$(154.1)	--	--	$258.1

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	Years Ended December 31,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (153.5)	$ (12.3)	$ 30.1
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Restructuring and non-recurring charges	23.0	65.0	--
Provision for settlements and related expenses	185.0	10.0	21.0
Extraordinary loss, net of income tax benefit	--	8.3	--
Depreciation and amortization, net	84.5	72.4	44.4
Deferred income taxes, net	30.3	(21.6)	11.0
Provision for doubtful accounts, net	22.2	12.4	(1.4)
Change in assets and liabilities, net of effects of acquisitions:			
Increase in accounts receivable	(102.2)	(58.6)	(54.0)
Decrease (increase) in inventories	8.0	5.1	(0.9)
Decrease (increase) in prepaid expenses and other	(3.1)	1.0	5.1
Change in income taxes receivable/payable, net	(32.4)	(11.7)	5.5
Increase (decrease) in accounts payable, accrued expenses and other	(33.4)	27.9	(13.1)
Payments for restructuring and non-recurring charges	(18.8)	(13.4)	--
Payments for settlement and related expenses	(188.9)	(32.1)	(29.8)
Other, net	(7.5)	(5.4)	(3.2)
Net cash provided by (used for) operating activities	(186.8)	47.0	14.7
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(54.1)	(75.4)	(48.9)
Proceeds from sale of subsidiary	--	--	10.1
Acquisitions of businesses	(5.0)	(39.6)	(254.8)
Net cash used for investing activities	(59.1)	(115.0)	(293.6)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facilities	$ 293.0	$ 308.0	$ 308.0
Payments on revolving credit facilities	(140.0)	(303.0)	(373.0)
Proceeds from long-term debt	--	800.0	400.0
Loan from affiliate	187.0	--	--
Payments on long-term debt	(70.8)	(446.7)	(20.0)
Deferred payments on acquisitions	(10.4)	(12.9)	(7.6)
Dividends paid on common stock	--	--	(13.6)
Distribution to stockholders	--	(474.7)	--
Cash received for issuance of common stock	--	135.7	--
Cash received for issuance of warrants	--	51.0	--
Other	--	0.2	(0.4)
Net cash provided by financing activities	258.8	57.6	293.4
Net increase (decrease) in cash and cash equivalents	12.9	(10.4)	14.5
Cash and cash equivalents at beginning of year	16.4	26.8	12.3
Cash and cash equivalents at end of year	$ 29.3	$ 16.4	$ 26.8

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	Years Ended December 31,		
	1996	1995	1994
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$ 65.1	$ 58.6	$ 34.2
Income taxes	(15.2)	27.2	14.8
Disclosure of non-cash financing and investing activities:			
Common stock issued in connection with acquisition	--	539.6	--
Common stock issued in connection with the cancellation of employee stock options	--	6.9	--
In connection with business acquisitions, liabilities were assumed as follows:			
Fair value of assets acquired	$ 23.4	$ 777.7	$ 399.4
Cash paid	(5.0)	(39.6)	(254.8)
Stock issued	--	(539.5)	--
Liabilities assumed	$ 18.4	$ 198.6	$ 144.6

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION:

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1996 net revenues. 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. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states.

The consolidated financial statements include the accounts of Laboratory Corporation of America Holdings and its subsidiaries ("Company") after elimination of all material intercompany accounts and transactions. Prior to April 28, 1995, the Company's name was National Health Laboratories Holdings Inc. ("NHL"). On April 28, 1995, following approval at a special meeting of the stockholders of the Company, the name of the Company was changed to Laboratory Corporation of America Holdings.

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.

FINANCIAL INSTRUMENTS:

Interest rate swap agreements, which are used by the Company in the management of interest rate exposure, are accounted for on an accrual basis. Amounts to be paid or received under such agreements are recognized as interest income or expense in the periods in which they accrue.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are 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	35-40
Machinery and equipment	3-10
Furniture and fixtures	5-10

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 1996, 1995 and 1994 were $34.2, $28.3 and $16.5, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

Statement of Financial Accounting Standards ("SFAS") 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 and accrued expenses are considered to be representative of their respective fair values. The carrying amount of the revolving credit facility and long-term debt are considered to be representative of their respective fair values as their interest rates are based on market rates. The carrying value of the loan from affiliate is considered to be representative of its fair value due to the related party nature of the obligation.

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 1996, 1995 and 1994, approximately 23%, 28% and 35%, respectively, of the Company's revenues were derived from tests performed for beneficiaries of Medicare and Medicaid programs.

INCOME TAXES:

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes" ("Statement 109"). 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.

STOCK OPTION PLANS:

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in

SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

EARNINGS PER COMMON SHARE:

For the years ended December 31, 1996, 1995 and 1994, earnings per common share is calculated based on the weighted average number of shares outstanding during each year (122,919,767, 110,579,096, and 84,754,183 shares, respectively).

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF:

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

Intangible assets, consisting of goodwill, net of amortization, of $696.1 and $700.1 at December 31, 1996 and 1995, respectively, and other intangibles (i.e., customer lists and non-compete agreements), net of amortization, of $195.0 and $216.6 at December 31, 1996 and 1995, respectively, are being amortized on a straight-line basis over a period of 40 years and 3-25 years, respectively. Total accumulated amortization for intangible assets aggregated $116.9 and $87.4 at December 31, 1996 and 1995, respectively.

RECLASSIFICATIONS:

Certain amounts in the prior years' financial statements have been reclassified to conform with the 1996 presentation.

2. MERGER AND ACQUISITIONS

In April 1995, the Company completed a merger (the "Merger") with Roche Biomedical Laboratories, Inc. ("RBL"). In connection with the Merger, the Company issued 61,329,256 shares of Common Stock to HLR Holdings Inc. ("HLR") and Roche Holdings Inc. ("Roche") in exchange for all outstanding shares of RBL and $135.7 in cash. The exchange consideration of approximately $558.0 for the purchase of RBL consisted of the value of the stock issued to HLR and Roche, as well as other cash costs of the Merger,

net of cash received from HLR. In June 1994, the Company acquired Allied Clinical Laboratories, Inc. ("Allied") for approximately $191.5 in cash plus the assumption of $24.0 of Allied indebtedness (the "Allied Acquisition"). The Allied Acquisition and the Merger have been accounted for under the purchase method of accounting; as such, the acquired assets and liabilities were recorded at their estimated fair values on the date of acquisition. RBL's and Allied's results of operations have been included in the Company's results of operations since April 28, 1995 and June 23, 1994, respectively.

During 1996, the Company acquired four small clinical laboratory companies for an aggregate purchase price, including assumption of liabilities, of $23.4. During 1995 and 1994, the Company acquired nine and eleven laboratories, respectively, for an aggregate purchase price, including assumption of liabilities, of $41.7 and $79.3, respectively. The acquisitions were accounted for as purchase transactions. The excess of cost over the fair value of net tangible assets acquired during 1996, 1995 and 1994 was $22.5, $28.2, and $72.1, respectively, which is included under the caption "Intangible assets, net" in the accompanying consolidated balance sheets. The consolidated statements of operations reflect the results of operations of these purchased businesses from dates of acquisition.

3. RESTRUCTURING AND NON-RECURRING CHARGES

In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations. The Company recorded a restructuring charge totaling $13.0 for the shutdown of its La Jolla, California administrative facility and other workforce reductions. This amount includes approximately $8.1 for severance, $3.5 for the future lease obligation of the La Jolla facility and $1.4 for the write down of leasehold improvements and fixed assets that will be abandoned or disposed of. The La Jolla facility was substantially closed by the end of 1996. The remaining workforce reductions took place in other areas of the Company and were substantially completed by the end of 1996. The net work force reduction as a result of these activities was approximately 250 employees. Payments for severance are expected to continue through 1997.

In addition, the Company recorded certain non-recurring charges in the second quarter of 1996 related to further integration after the Merger. The Company decided to abandon certain data processing systems and therefore wrote off approximately $6.7 in capitalized software costs. In addition, the Company relocated its principal drug testing facility to accommodate consolidation of the RBL and Company operations and will incur approximately $1.3 in costs primarily related to the write-off of leasehold improvements and building clean up. Finally, the Company recorded a charge of $2.0 for various other items including the write-off of certain supplies related to changes in testing methodologies to increase efficiency. As a result of these changes, some supplies were not compatible with the new testing methods and were disposed of.

Following the Merger in 1995, 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. As a result, the Company recorded a restructuring charge of $65.0 in the second quarter of 1995. As part of the Company's evaluation of its future obligations under these restructuring activities, certain changes in the estimates were made during the quarter ended June 30, 1996. These resulted in the reclassification of certain accruals in the categories listed below although the total liability did not change. These restructuring activities have been substantially completed as of December 31, 1996 and have resulted in a net reduction of approximately 1,600 employees.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

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, 1994	$ --	$ --	$ --	$ --
Restructuring charges	24.2	21.3	19.5	65.0
Non-cash items	(0.3)	(2.7)	--	(3.0)
Cash payments	(11.1)	--	(0.6)	(11.7)
Balance at December 31, 1995	$ 12.8	$ 18.6	$18.9	$ 50.3
Restructuring charges	8.1	1.4	3.5	13.0
Reclassifications	1.6	0.7	(2.3)	--
Non-cash items	--	(11.3)	--	(11.3)
Cash payments	(14.2)	--	(3.2)	(17.4)
Balance at December 31, 1996	$ 8.3	$ 9.4	$16.9	$ 34.6
Current				$ 25.5
Non-current				9.1
				$ 34.6

4. ACCOUNTS RECEIVABLE, NET

	December 31, 1996	December 31, 1995
Gross accounts receivable	$ 617.2	$517.2
Less contractual allowances and allowance for doubtful accounts	(111.6)	(90.4)
	$ 505.6	$426.8

5. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 1996	December 31, 1995
Land	$ 9.2	$ 7.0
Buildings and building improvements	64.2	54.7
Machinery and equipment	289.3	268.1
Leasehold improvements	58.3	70.3
Furniture and fixtures	27.0	27.3
Buildings under capital leases	9.6	9.6
	457.6	437.0
Less accumulated depreciation and amortization	(174.7)	(132.2)
	$ 282.9	$ 304.8

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

6. ACCRUED EXPENSES AND OTHER

	December 31, 1996	December 31, 1995
Employee compensation and benefits	$ 49.5	$ 50.5
Deferred acquisition related payments	12.9	14.8
Acquisition related reserves	17.2	39.4
Restructuring reserves	25.5	32.3
Accrued taxes	15.4	14.0
Interest payable	12.8	7.4
Other	35.1	15.1
	$168.4	$173.5

7. OTHER LIABILITIES

	December 31, 1996	December 31, 1995
Deferred acquisition related payments	$ 14.8	$ 8.5
Acquisition related reserves	12.3	68.2
Restructuring reserves	9.1	18.0
Deferred income taxes	38.7	5.1
Post-retirement benefit obligation	27.0	25.1
Other	42.6	10.1
	$144.5	$135.0

8. SETTLEMENTS

As previously discussed in the Company's December 31, 1995 10-K, the Office of Inspector General ("OIG") of Health and Human Services and the Department of Justice ("DOJ") had been investigating certain past laboratory practices of the predecessor companies of the Company--NHL, RBL and Allied. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of these predecessor companies (the "1996 Government Settlement"). Consistent with this overall settlement, the Company paid $187.0 to the Federal Government in December 1996 (the "Settlement Payment") with proceeds from a loan from Roche (the "Roche Loan"). As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185.0 in the third quarter of 1996 (the "Settlement Charge") to increase reserves for the 1996 Government Settlement described above, and other related expenses of government and private claims resulting therefrom.

In the second quarter of 1995, the Company took a pre-tax special charge of $10.0 in connection with the estimated costs of settling various claims pending against the Company, substantially all of which were billing disputes with various third party payors relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

In the third quarter of 1994, the Company approved a settlement of previously disclosed shareholder class and derivative litigation. 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 aggregated $55.0 plus expenses.

9. LONG-TERM DEBT

The Company entered into a credit agreement dated as of April 28, 1995 (the "Existing Credit Agreement"), with the banks named therein (the "Banks") and Credit Suisse First Boston, as administrative agent (the "Bank Agent"), under which the Banks made available to the Company a senior term loan facility of $800.0 which expires in April 2001 (the "Term Loan Facility") and a revolving credit facility of $450.0 which expires in April 2000 (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Bank Facility"). The Bank Facility is unconditionally and irrevocably guaranteed by certain of the Company's subsidiaries.

As a result of potential defaults under the Existing Credit Agreement, resulting from, among other things, the Company's performance and higher than projected debt levels, the Settlement Charge and the Roche Loan, the Company has obtained several amendments and waivers to the Existing Credit Agreement. In September 1996, the Company negotiated an amendment (the "Fourth Amendment") to the Existing Credit Agreement. The Fourth Amendment modified the interest coverage and leverage ratios applicable to the quarters ending September 30 and December 31, 1996. The Fourth Amendment also increased the interest rate margin on its revolving credit facility from 0.25% to 0.875% and increased the interest rate margin on its term loan facility from 0.375% to 1.00%. As a result of the Settlement Charge in the third quarter of 1996, as described above, the Company obtained a waiver (the "Third Waiver") which excluded the special charge from covenant calculations for the periods covered by the most recent amendment until 30 days after the 1996 Government Settlement. As a result of the Roche Loan and the 1996 Government Settlement, the Company negotiated a Fifth Amendment and Fourth Waiver (the "Fifth Amendment") to the Existing Credit Agreement. The Fifth Amendment extended the Third Waiver until January 31, 1997 and excluded the Roche Loan from covenant calculations for the quarters ending December 31, 1996 and March 31, 1997. On January 27, 1997, the Company negotiated a waiver (the "Fifth Waiver") which further extended the Third Waiver until March 31, 1997.

In March 1997, the Company entered into the Sixth Amendment and Waiver (the "Sixth Amendment") which eliminates amortization payments on the Term Loan Facility for 1997 and modifies the interest coverage and leverage ratios for the quarterly periods through December 31, 1997. As a result of the Sixth Amendment certain amounts outstanding under the Revolving Credit Facility and Term Loan Facility that were classified as current liabilities in the September 30, 1996 financial statements have been reclassified to long-term debt in the December 31, 1996 financial statements. Pursuant to this amendment, the Company paid an amendment fee of 37.5 basis points on commitments and will pay an additional fee of 62.5 basis points if the Rights Offering, as described in Note 17, is not completed by June 30, 1997. Under the Sixth Amendment, maturities under the Term Loan Facility aggregate $243.8, $162.5, $187.5 and $100.0 in 1998 through 2001, respectively.

In March 1997, the Company also entered into an amended and restated credit agreement (the "Amended Credit Agreement") which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. The Amended Credit Agreement makes available to the Company a term loan facility of $693.8 (the "Amended Term Loan Facility") and a $450.0 revolving

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

credit facility (the "Amended Revolving Credit Facility"). The Amended Revolving Credit Facility will include a $50.0 letter of credit sublimit. The maturities under the Amended Credit Agreement are extended approximately three years for the Amended Term Loan Facility to March 31, 2004 and approximately two years for the Amended Revolving Credit Facility to March 31, 2002.

As in the Existing Credit Agreement, both the Amended Term Loan Facility and the Amended Revolving Credit Facility bear interest, at the option of the Company, at (i) the base rate plus the applicable base rate margin or (ii) the eurodollar rate plus the applicable eurodollar rate margin. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by Roche Holdings and its affiliates (other than the Company and its subsidiaries) below 25%, the applicable interest margins and facility fees on borrowings outstanding under the Amended Credit Agreement will increase. The amount of the increase will depend, in part, on the leverage ratio of the Company at the time of such reduction. In addition, pursuant to the Amended Credit Agreement, the applicable interest margins on borrowings outstanding thereunder are based upon the leverage ratio.

Total amortization of the Amended Term Loan Facility for each twelve-month period following the closing date of the Rights Offering will be reduced significantly for the first three years, and will be made (in quarterly installments) in accordance with the following table:

Year	Amount
1997	$ --
1998	--
1999	50.0
2000	100.0
2001	150.0
2002	150.0
2003	150.0
3/21/2004	93.8

Conditions precedent to effectiveness of the Amended Credit Agreement include, without limitation, gross cash proceeds from the Rights Offering in an aggregate amount equal to at least $250.0, receipt of appropriate certificates and legal opinions, accuracy in all material respects of representations and warranties, including absence of material adverse change in the Company and its subsidiaries (taken as a whole) since December 31, 1996, absence of defaults and material litigation, evidence of authority, and payment of transaction fees.

The Amended Credit Agreement contains customary covenants similar to, and in the case of limitations on acquisitions and incurrence of additional debt more restrictive than, the covenants set forth in the Existing Credit Agreement.

Like the Existing Credit Agreement, the Amended Credit Agreement contains financial covenants with respect to a leverage ratio, an interest coverage ratio and minimum stockholders' equity. The covenant levels are less restrictive than under the Existing Credit Agreement, and will be tested quarterly.

At December 31, 1996, the Company was 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 of its floating rate debt under the Term Loan Facility. The agreements effectively changed 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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

financial institutions paying a floating rate amount. Amounts paid by the Company in 1996 were $2.0. 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 cost at which the Company could terminate these agreements as of December 31, 1996 was approximately $0.9. The fair value was estimated by discounting the expected cash flows using rates currently available for interest rate swaps with similar terms and maturities.

In connection with the repayment of existing revolving credit and term loan facilities in 1995, the Company recorded an extraordinary loss of approximately $13.5 ($8.3 net of tax), consisting of the write-off of deferred financing costs, related to the early extinguishment of debt.

Prior to April 28, 1995, the Company had a credit agreement with a group of banks which provided the Company with a $400.0 term loan facility and a revolving credit facility of $350.0. This credit agreement provided funds for the Allied Acquisition, to refinance certain existing debt of Allied and the Company, and for general corporate purposes. The credit agreement was repaid in full on April 28, 1995. At December 31, 1994, the Company's effective borrowing rate on this credit agreement was 8.16%.

10. LOAN FROM AFFILIATE

In December 1996, the Company financed the Settlement Payment with the proceeds of a $187.0 loan from Roche. The promissory note bears interest at 6.625% per annum and was originally due March 31, 1997. In March 1997, the Company renegotiated the term of the note and it is now due March 31, 1998. The note is unsecured and ranks pari passu with the Company's bank obligations. The Company subsequently made the Settlement Payment in December 1996.

11. STOCKHOLDERS' EQUITY

In connection with a corporate reorganization on June 7, 1994, all of the 14,603,800 treasury shares held by National Health Laboratories Incorporated were canceled. 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.

12. INCOME TAXES

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

	Year Ended December 31,		
	1996	1995	1994
Current:			
Federal	$ (54.4)	$ 10.4	$ 16.2
State	2.3	1.5	3.0
	(52.1)	11.9	19.2
Deferred:			
Federal	15.2	(4.6)	4.9
State	2.1	(0.2)	1.2
	17.3	(4.8)	6.1
	$ (34.8)	$ 7.1	$ 25.3

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

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

	Years Ended December 31,		
	1996	1995	1994
Statutory federal rate	(35.0)%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	(3.0)	28.0	4.9
Non-deductible amortization of intangible assets	3.0	166.0	4.9
Change in valuation allowance	17.0	--	--
Other	(0.5)	7.0	0.9
Effective rate	(18.5)%	236.0%	45.7%

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

	Years Ended December 31,		
	1996	1995	1994
Acquisition related reserves	$ 2.7	$ (17.7)	$ (1.2)
Settlement and related expenses	--	8.8	2.5
Reserve for doubtful accounts	(9.5)	(4.3)	0.9
Insurance accrual	(1.9)	--	--
Change in valuation allowance	32.0	--	--
Other	(6.0)	8.4	3.9
	$17.3	$ (4.8)	$ 6.1

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995 are as follows:

	December 31, 1996	December 31, 1995
Deferred tax assets:		
Settlement and related expenses, principally due to accrual for financial reporting purposes	$ 19.2	$ 1.8
Accounts receivable, principally due to allowance for doubtful accounts	31.1	21.9
Self insurance reserves, principally due to accrual for financial reporting purposes	7.9	4.8
Postretirement benefit obligation, principally due to accrual for financial reporting purposes	10.7	9.9
Compensated absences, principally due to accrual for financial reporting purposes	--	--
Acquisition related reserves, principally due to accrual for financial reporting purposes	43.1	81.0
State net operating loss carryforwards	11.8	7.4
Other	18.1	13.7
	141.9	140.5
Less valuation allowance	(32.0)	--
Net deferred tax asset	109.9	140.5
Deferred tax liabilities:		
Intangible assets, principally due to differences in amortization	(60.2)	(59.5)
Property, plant and equipment, principally due to differences in depreciation	(20.9)	(16.4)
Other	(1.3)	(6.4)
Total gross deferred tax liabilities	(82.4)	(82.3)
Net deferred tax asset	$ 27.5	$ 58.2

There was no valuation allowance for deferred tax assets as of December 31, 1995 and 1994. At December 31, 1996 the valuation allowance for deferred tax assets was $32.0. Realization of the deferred tax assets related to the state net operating loss carryforwards, the postretirement benefit obligation as well as certain other temporary differences is considered uncertain, and therefore a valuation allowance has been established for these items. The Company believes that it is more likely than not that the results of future operations and carryback availability will generate sufficient taxable income to realize the remaining deferred tax assets.

13. STOCK OPTIONS

The Company has adopted the 1997 Employee Stock Purchase Plan (the "1997 Stock Plan") which became effective January 1, 1997. Under the 1997 Stock Plan, eligible employees may purchase shares of the Company's common stock based on compensation through payroll deductions. The purchase price is the lower of 85% of the fair market value of the common stock on the first or last day of the purchase period. There was no activity under the plan in 1996.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

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 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.

In connection with the Merger, all options outstanding as of December 13, 1994 became vested and employees were given the choice to (i) cancel options outstanding as of December 13, 1994 and receive cash and shares of common stock according to a formula included in the merger agreement or (ii) convert such options into new options based on a formula included in the merger agreement. The amount of cash and shares of common stock issued was equal to the product of (i) the number of shares of common stock subject to such options submitted for cancellation and (ii) the excess of (1) $18.50 over (2) the per share exercise price of such options (such product, the "Option Value Amount"). The Option Value Amount was paid as follows: 40% of such amount was paid in cash, and 60% of such amount (the "Option Stock Amount") was paid in the number of shares of common stock obtained by dividing the Option Stock Amount by $15.42. In connection with the cancellation of stock options, the Company paid a total of $5.5 in cash and issued 538,307 shares of common stock to option holders. The value of such amounts were considered transaction costs of the merger and included in the purchase price of the acquired entity. Also, a total of 562,532 options were reissued as a result of option conversions at exercise prices between $11.293 and $16.481.

At December 31, 1996, there were 3,427,316 additional shares available for grant under the Company's Stock Option Plans. There were no options granted in 1996. The per share weighted-average fair value of stock options granted during 1995 was $8.54 per share on the date of grant using the Black Scholes option-pricing model assuming a volatility of 0.4243 and the following weighted-average assumptions: --expected dividend yield 0.0%, risk-free interest rate of 6.86%, and an expected life of ten years.

The Company applies the provisions of APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,	
	1996	1995
Net loss		
As reported	$(153.5)	$(12.3)
Pro forma	(154.7)	(14.5)
Earnings per share		
As reported	$ (1.25)	$(0.11)
Pro forma	(1.26)	(0.13)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

Pro forma net income reflects only options granted in 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options vesting period of two years and compensation cost for options granted prior to January 1, 1995 is not considered.

The following table summarizes grants of non-qualified options made by the Company to officers and key employees under both plans. Stock options are generally granted at an exercise price equal to or greater than the fair market price per share on the date of grant. Also, for each grant, one-third of the options vested on the date of grant and one-third vest on each of the first and second anniversaries of such date, subject to their earlier expiration or termination.

Changes in options outstanding under the plans for the periods indicated were as follows:

	Number of Options	Weighted Average Exercise Price per Option
Outstanding at January 1, 1994	1,564,336	$17.366
Granted	2,042,000	$12.600
Exercised	(11,125)	$ 7.717
Canceled or expired	(92,498)	$16.649
Outstanding at December 31, 1994	3,502,713	$14.637
Granted	1,378,000	$13.000
Merger-related grants	562,532	$15.870
Exercised	(20,542)	$10.297
Merger-related cancellations	(3,459,167)	$14.653
Canceled or expired	(222,291)	$14.816
Outstanding at December 31, 1995	1,741,245	$14.637
Canceled or expired	(443,027)	$14.104
Outstanding at December 31, 1996	1,298,218	$14.637
Exercisable at December 31, 1996	993,429	$13.748

The weighted average remaining life of options outstanding at December 31, 1996 is approximately 8.4 years.

14. 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.

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 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, 1996 and 1995, the Company had provided letters of credit aggregating approximately $17.6 and $8.6, respectively, primarily in connection with certain insurance programs.

During 1991, the Company guaranteed a $9.0, five-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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

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, 1996 and 1995, 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 leases various facilities and equipment under non-cancelable lease arrangements. Future minimum rental commitments for leases with noncancellable terms of one year or more at December 31, 1996 are as follows:

	Operating	Capital
1997	44.9	1.6
1998	36.3	1.7
1999	29.4	1.8
2000	24.2	1.9
2001	16.5	2.0
Thereafter	65.9	13.1
Total minimum lease payments	217.2	22.1
Less amount representing interest	--	12.3
Total minimum operating lease payments and present value of minimum capital lease payments	$217.2	$ 9.8

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $70.6, $60.4 and $34.6 for the years ended December 31, 1996, 1995 and 1994, respectively.

15. PENSION AND POSTRETIREMENT 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 $7.5, $5.8, and $3.6 in 1996, 1995, and 1994, respectively.

In addition, substantially all employees of the Company are covered by a defined benefit retirement plan (the "Company Plan"). The benefits to be paid under the Company Plan are based on years of credited service and average final compensation.

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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

Under the requirements of SFAS 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 Company Plan effective December 31, 1994.

In connection with the Merger, the Company assumed obligations under the RBL defined benefit pension plan ("RBL Plan"). Effective July 1, 1995, the plan was amended to provide benefits similar to the Company Plan, as amended. Certain employees of RBL were grandfathered so that their benefits were not affected by the amendment. On January 1, 1996, the two plans were merged.

The Company's policy is to fund the Company Plan with at least the minimum amount required by applicable regulations. The components of net periodic pension cost for each of the RBL plans are summarized as follows:

	Company Plan			RBL Plan
	Years ended December 31,			Eight months ended December 31,
	1996	1995	1994	1995
Service cost	$ 10.3	$ 3.2	$ 5.5	$ 2.6
Interest cost	7.0	2.7	3.5	2.3
Actual return on plan assets	(11.9)	(7.6)	0.1	(4.3)
Net amortization and deferral	3.3	4.2	(1.4)	1.2
Net periodic pension cost	$ 8.7	$ 2.5	$ 7.7	$ 1.8

The status of the plans are as follows:

	Company Plan		RBL Plan
	December 31,		December 31,
	1996	1995	1995
Actuarial present value of benefit obligations:			
Vested benefits	$ 86.2	$36.2	$38.8
Non-vested benefits	11.2	4.4	6.4
Accumulated benefit obligation	97.4	40.6	45.2
Effect of projected future salary increases	6.3	2.2	1.6
Projected benefit obligation	103.7	42.8	46.8
Fair value of plan assets, principally corporate equity securities and fixed income investments	96.2	40.8	46.6
Unfunded projected benefit obligation	7.5	2.0	0.2
Unrecognized prior service cost	17.4	6.6	12.7
Unrecognized net loss	(14.9)	(7.1)	(9.4)
Accrued pension cost	$ 10.0	$ 1.5	$ 3.5

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

Assumptions used in the accounting for the plans were as follows:

	Company Plan		RBL Plan
	1996	1995	1995
Weighted average discount rate	7.75%	7.5%	7.5%
Weighted average rate of increase in future compensation levels	4.0%	4.0%	5.4%
Weighted average expected long-term rate of return	9.0%	9.0%	9.5%

In addition, the Company assumed obligations under RBL's postretirement medical plan effective with the Merger. Effective July 1, 1995, coverage under the plan was restricted to certain existing RBL employees. This plan is unfunded and the Company's policy is to fund benefits as claims are incurred. The components of postretirement benefit expense are as follows:

	Year Ended December 31, 1996	Eight months ended December 31, 1995
Service cost	$0.9	$1.1
Interest cost	1.4	1.4
Postretirement benefit costs	$2.3	$2.5

The status of the plan is as follows:

	December 31,	
	1996	1995
Accumulated postretirement benefit obligation	$28.6	$27.2
Unrecognized net loss	(1.6)	(2.1)
Accrued postretirement benefit obligation	$ 27.0	$ 25.1

The weighted average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit cost was 7.85% and 7.6%, respectively. The health care cost trend rate was assumed to be 8.5%, declining gradually to 5.0% in the year 2006, remaining level thereafter. The health care cost trend rate has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1996 by approximately $5.2, and the aggregate of the service and interest components of 1996 net periodic postretirement benefit cost by approximately $0.5.

16. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

Year ended December 31, 1996

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net Sales.....	$403.9	$410.0	$ 402.6	$391.2	$1,607.7
Gross Profit.....	100.6	109.5	102.5	111.2	423.3
Net earnings.....	5.9	(14.2)	(146.4)	1.2	(153.5)
Earnings per common share.....	0.05	(0.12)	(1.19)	0.01	(1.25)

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	Year ended December 31, 1995				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$243.8	$367.3	$417.5	$403.4	$1,432.0
Gross profit	79.5	108.9	117.8	101.5	407.7
Earnings (loss) before extraordinary item	12.8	(31.6)	14.4	0.4	(4.0)
Extraordinary item	--	(8.3)	--	--	(8.3)
Net earnings (loss)	12.8	(39.9)	14.4	0.4	(12.3)
Earnings (loss) per common share before extraordinary loss	0.15	(0.28)	0.12	--	(0.03)
Extraordinary loss per common share	--	(0.08)	--	--	(0.08)
Earnings (loss) per common share	0.15	(0.36)	0.12	--	(0.11)

In the third quarter of 1996, the Company recorded a charge of $185.0 to increase reserves related to the 1996 Government Settlement and other related expenses of government and private claims resulting therefrom.

In the second quarter of 1996, the Company recorded a charge of $23.0 relating to the shutdown of its La Jolla administrative facility and other non-recurring charges. In addition, the company recorded an additional $10.0 provision for doubtful accounts which was based on the Company's determination that additional reserves were needed, based on trends that became evident in the second quarter, for lower collection rates primarily from Medicare.

In the fourth quarter of 1995, the Company recorded an additional $15.0 of provision for doubtful accounts which reflects the Company's determination, based on trends that became evident in the fourth quarter, that additional reserves were needed primarily to cover potentially lower collection rates from several third-party payors.

In the second quarter of 1995, the Company took a pre-tax special charge of $65.0 to cover the costs of the restructuring plan related to the Merger. The charge includes approximately $24.2 to reduce the workforce, $21.3 to reduce certain assets to their net realizable values, and $19.5 for lease and other facility obligations. Also in the second quarter of 1995, the Company took a pre-tax special charge of $10.0 in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, in which the Company believes it is probable that settlements will be made by the Company.

In connection with the repayment of existing revolving credit and term loan facilities, the Company recorded an extraordinary loss of approximately $13.5 ($8.3 net of tax) in the second quarter of 1995, consisting of the write-off of deferred financing costs, related to the early extinguishment of debt.

17. SUBSEQUENT EVENT (UNAUDITED)

In February 1997, the Company filed a registration statement with the Securities and Exchange Commission (the "Commission") relating to the proposed offering of an aggregate of $500.0 of convertible preferred stock issuable in two series pursuant to transferable subscription rights to be granted on a pro

rata basis to each stockholder of the Company (the "Rights Offering"). Rights holders who exercise their rights in full will also be entitled to subscribe for additional shares of preferred stock issuable pursuant to any unexercised rights.

The subscription rights will give the holder thereof the option to purchase one of two series of preferred stock, each of which will be convertible at the option of the holder into common stock. One series will pay cash dividends and will be exchangeable at the Company's option for convertible subordinated notes due 2012. The other series will pay dividends in kind and will not be exchangeable for notes. Each series of preferred stock will be mandatorily redeemable in 2012 and will be redeemable at the option of the Company after three years.

The Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims and although there can be no assurance, based upon the information currently available to it, management does not believe that the ultimate outcome of these claims will have a material adverse effect on its financial condition. However, due to the early stage of such claims, management cannot make an estimate of loss or predict whether or not such claims will have a material adverse effect on the Company's results of operations in any particular period.

SCHEDULE II

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(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, 1996:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts....	$904.0	$ 0.0	$148.8	$(127.6)	$111.6
Year ended December 31, 1995:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts....	$ 65.3	$33.2	$147.6	$(155.7)	$ 90.4
Year ended December 31, 1994					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts....	$ 51.0	$18.5	$ 91.5	$ (95.7)	$ 65.3

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE DEALER MANAGER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

TABLE OF CONTENTS

LABORATORY CORPORATION
OF AMERICA HOLDINGS

10,000,000 Shares

% Series A Convertible
Exchangeable
Preferred Stock
or
% Series B Convertible
Pay-in-Kind
Preferred Stock

PROSPECTUS

CREDIT SUISSE FIRST BOSTON

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the fees and expenses payable by the Company in connection with the Rights Offering other than dealer manager and solicitation fees. All of such expenses except the Securities and Exchange Commission registration fee and the NASD filing fee are estimated:

Securities and Exchange Commission registration fee	$ 250,970
NASD filing fee	30,500
NYSE listing fee	47,800
Printing expense	60,000
Accounting fees and expenses	75,000
Legal fees and expenses	1,100,000
Miscellaneous	435,730
Total	$2,000,000

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Reference is made to Section 102(b)(7) of the Delaware General Corporation Law (the "DGCL"), which enables a corporation in its original certificate of incorporation or an amendment thereto to eliminate or limit the personal liability of a director for violations of the director's fiduciary duty, except (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL (providing for liability of directors for the unlawful payment of dividends or unlawful stock purchases or redemptions) or (iv) for any transaction from which a director derived an improper personal benefit.

Section 145 of the DGCL empowers the Company to indemnify, subject to the standards set forth therein, any person in connection with any action, suit or proceeding brought before or threatened by reason of the fact that the person was a director, officer, employee or agent of such company, or is or was serving as such with respect to another entity at the request of such company. The DGCL also provides that the Company may purchase insurance on behalf of any such director, officer, employee or agent.

The Company's Certificate of Incorporation provides in effect for the indemnification by the Company of each director and officer of the Company to the fullest extent permitted by applicable law.

ITEM 16. EXHIBITS

See index to exhibits at E-1.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement;

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 15 above or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-3 AND HAS DULY CAUSED THIS AMENDMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF BURLINGTON, STATE OF NORTH CAROLINA, ON MAY 6, 1997.

LABORATORY CORPORATION OF AMERICA HOLDINGS

/s/ Thomas P. Mac Mahon
By: _____
THOMAS P. MAC MAHON
CHAIRMAN OF THE BOARD, PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ Thomas P. Mac Mahon THOMAS P. MAC MAHON	Chairman of the Board, President, Chief Executive Officer and Director	May 6, 1997
* WESLEY R. ELINGBURG	Executive Vice President, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)	May 6, 1997
* JEAN-LUC BELINGARD	Director	May 6, 1997
* WENDY E. LANE	Director	May 6, 1997
* ROBERT E. MITTELSTAEDT, JR.	Director	May 6, 1997
* JAMES B. POWELL, M.D.	Director	May 6, 1997
* DAVID B. SKINNER, M.D.	Director	May 6, 1997
* ANDREW G. WALLACE, M.D.	Director	May 6, 1997

/s/ Thomas P. Mac Mahon
*By: _____
THOMAS P. MAC MAHON
ATTORNEY-IN-FACT

INDEX TO EXHIBITS

Exhibit No.	Description	Sequentially Numbered Page
1.1	Form of Dealer Manager Agreement	
4.1	Form of Certificate of Designation of the Series A Exchangeable Preferred Stock**	
4.2	Form of Certificate of Designation of the Series B PIK Preferred Stock**	
4.3	Form of Indenture	
4.4	Form of Note (included in Exhibit 4.3 hereto)	
4.5	Form of Rights Certificate**	
4.6	Form of Amendment to Stockholders Agreement dated as of April 28, 1995 among HLR, Roche Holdings, Hoffmann-La Roche Inc. and the Company	
5.1	Opinion of Davis Polk & Wardwell	
8.1	Opinion of Davis Polk & Wardwell (re: tax matters)	
12.1	Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	
23.1	Consent of KPMG Peat Marwick LLP	
23.3	Consent of Davis Polk & Wardwell (contained in the Opinion of Counsel filed as Exhibits 5.1 and 8.1 hereto)	
24.1	Power of Attorney**	
25.1	Statement of Eligibility under the Trust Indenture Act of 1939, as amended of First Union National Bank of North Carolina, as Trustee under the Indenture	
99.1	Form of Subscription Agency Agreement**	
99.2	Form of Information Agency Agreement**	
99.3	Form of Instructions for Use of Rights Certificates**	

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** Previously filed.

EXHIBIT 1.1

DEALER MANAGER AGREEMENT

LABORATORY CORPORATION OF AMERICA HOLDINGS

RIGHTS OFFERING

DEALER MANAGER AGREEMENT

May , 1997

CREDIT SUISSE FIRST BOSTON CORPORATION
Eleven Madison Avenue
New York, New York 10010-3629

Ladies and Gentlemen:

1. The Rights Offering.

(a) Laboratory Corporation of America Holdings, a Delaware corporation (the "Company") proposes to distribute (the "Rights Offering") transferable rights (the "Rights") to subscribe for and purchase, at the election of the holders of the Rights (the "Rights Holders"), up to an aggregate of 10,000,000 shares (the "Underlying Shares") of either its % Series A Convertible Exchangeable Preferred Stock, par value $0.10 per share (the "Series A Exchangeable Preferred Stock"), or its % Series B Convertible Pay-in-Kind Preferred Stock, par value $0.10 per share (the "Series B PIK Preferred Stock" and, together with the Series A Exchangeable Preferred Stock, the "Preferred Stock"), to the holders of record of its common stock, par value $0.01 per share (the "Common Stock"), at a subscription price of $50 per share. Each Right consists of a basic subscription privilege under which the Rights Holders may purchase one share of Preferred Stock for each Right held. In addition, Rights Holders who exercise their basic subscription privilege in full will also be eligible to subscribe for shares of the same series of Preferred Stock not otherwise purchased pursuant to the exercise of Rights, subject to availability and proration. It is anticipated that the Rights will be exercisable for a period of days (the "Subscription Period"), subject to extension by the Company, and that through the next to last day in such period the Rights will be eligible for trading on the New York Stock Exchange (the "NYSE"). Shares of Series A Exchangeable Preferred Stock issued pursuant to the Rights Offering will be convertible into Common Stock at the option of the holder thereof at any time after , 1997, will pay dividends in cash and will be exchangeable at the option of the Company on or after , 2000 for the Company's % Convertible Subordinated Notes due 2012 (the "Notes") to be issued pursuant to an indenture (the "Indenture") between the Company and , as trustee (the "Trustee"), in substantially the form of the indenture filed as an exhibit to the registration statement referred to below. The Notes will be convertible into Common Stock. Shares of Series B PIK Preferred Stock will be convertible into Common Stock at the option of the holder thereof at any time after , 2000 and will pay dividends in kind until , 2003 after which dividends will be paid in cash. Shares of Common Stock issuable upon conversion of shares of Preferred Stock and Notes, in accordance with the terms thereof, are referred to herein as "Conversion Shares." The Rights, the Underlying Shares, the Conversion Shares and the Notes are referred to herein as the "Securities." This Dealer Manager Agreement, as amended, supplemented or modified from time to time is referred to herein as this "Agreement."

(b) In connection with the Rights Offering, the Company filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "Securities Act"), a Registration Statement on Form S-3 (Registration No. 333-22427) containing a prospectus relating to the Rights, the Underlying Shares and the Notes. Such registration statement, as amended as of the date and time when it is declared effective by the Commission (the "Effective Time"), including all materials incorporated by reference therein, all exhibits thereto and any information contained in the form of a final prospectus filed with the Commission as part of the registration statement at the Effective Time, including any form of prospectus or prospectus supplement filed pursuant to Rule 424 under the Securities Act, is hereinafter called the "Registration

Statement"; such final prospectus with respect to the Rights, the Underlying Shares and the Notes, including any form of prospectus or prospectus supplement filed pursuant to Rule 424 under the Securities Act is hereinafter called the "Prospectus".

2. Appointment as Dealer Manager.

(a) The Company has previously engaged you as financial advisor pursuant to a letter agreement dated , 1997 (as such letter agreement may be amended or modified, and, together with the separate indemnification letter, dated , 1997 and delivered in connection therewith, the "Engagement Letter"). The Company hereby appoints you as exclusive Dealer Manager with respect to the Rights Offering (in this capacity, the "Dealer Manager"), and authorizes you to act on its behalf in connection with the Rights Offering as specified herein, all in accordance with, and subject to the terms and conditions of, this Agreement, and the procedures described in the Registration Statement. In such capacity you shall act as an independent contractor, and each of your duties arising out of your engagement pursuant to this Agreement shall be owed solely to the Company.

(b) As Dealer Manager, you agree, in accordance with customary practice, to perform those services in connection with the Rights Offering as are customarily performed by investment banks in connection with acting as a dealer manager of rights offerings of like nature, including, without limitation, using reasonable efforts to solicit the exercise of Rights pursuant to the Rights Offering and communicating generally regarding the Rights Offering with brokers, dealers, commercial banks and trust companies and other persons, including other Rights Holders

(c) In connection with the performance of your duties and obligations hereunder, you agree that you will comply in all material respects with the laws, rules and regulations of the United States and any other relevant jurisdiction, and of any stock exchange, which laws, rules and regulations are applicable to the Rights Offering.

3. The Rights Offering Material.

(a) The Company agrees to furnish you, at its expense, with as many copies as you may reasonably request of (i) each of the documents that is filed with the Commission or any other Federal, state, local or foreign governmental or regulatory authorities or any court (each an "Other Agency" and collectively, the "Other Agencies") in connection with the Rights Offering, including each Registration Statement, preliminary and final prospectus filed with the Commission and all documents incorporated therein by reference, (ii) each offering circular, solicitation statement, disclosure document, or other explanatory statement, or other report, filing, document, release or communication mailed, delivered, published, or filed by or on behalf of the Company in connection with the Rights Offering, including a copy of the form of the Rights Certificate, the Instructions for Rights Certificates and the Notice of Guaranteed Delivery for Rights Certificates, (iii) each document required to be filed with the Commission pursuant to the provisions of the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pertaining to either the Rights Offering or the Company during the term of this Agreement and (iv) each appendix, attachment, modification, amendment or supplement to any of the foregoing and all related documents (each of (i), (ii), (iii) and (iv), together with each document incorporated by reference into any of the foregoing, the "Rights Offering Material"). The Rights Offering Material has been or will be prepared and approved by, and is the sole responsibility of, the Company. At the commencement of the Rights Offering, the Company shall cause to be delivered in a timely manner to each registered holder of any Common Stock legally or contractually entitled thereto, to the extent required by the rules of the NYSE, a press release setting forth the material terms of the Rights Offering, the Prospectus (as defined below), a Rights Certificate or Rights Certificates representing such holder's Rights and the Instructions for Use of Rights Certificates and the attached Notice of Guaranteed Delivery and any other offering materials prepared expressly for use by Rights Holders in connection with the Rights Offering. Thereafter, to the extent practicable, the Company shall use its reasonable best efforts to cause copies of such materials to be mailed to each person who makes a request therefor.

(b) The Company acknowledges and agrees that you may use the Rights Offering Material as specified herein without assuming any responsibility for independent investigation or verification on your part and the Company represents and warrants to you that you may rely on the accuracy and adequacy of any information delivered to you by or on behalf of the Company without assuming any responsibility for independent verification of such information or without performing or receiving any appraisal or evaluation of the Company's assets or liabilities, except with respect to any statements contained in, or any matter omitted from, the Rights Offering Material in reliance upon and in conformity with information furnished or confirmed in writing by you to the Company expressly for use therein.

(c) You hereby agree, as Dealer Manager, that you will not disseminate any written material in connection with the Rights Offering other than the Rights Offering Material, and you agree that you will not make any statements in connection with such solicitation, other than the statements that are set forth in the Rights Offering Material.

(d) The Company agrees that no Rights Offering Material will be used in connection with the Rights Offering or filed with the Commission or any Other Agency with respect to the Rights Offering without first obtaining your prior approval, which approval shall not be unreasonably withheld.

4. Compensation. Your fees, compensation and reimbursement for acting as Dealer Manager hereunder shall be as set forth in the Engagement Letter. Nothing in this Agreement shall affect your rights to receive any fees, compensation or reimbursement set forth in the Engagement Letter in accordance with the terms thereof.

5. Expenses of Dealer Manager and Others. In addition to your compensation for services hereunder pursuant to Section 4 hereof, the Company agrees to pay directly, or reimburse you, as the case may be, for (i) all expenses relating to the preparation, printing, filing, mailing and publishing of the Rights Offering Material, (ii) all fees and expenses of other persons rendering services on the Company's behalf in connection with the Rights Offering, including the Subscription and Information Agent (as defined in the Rights Offering Materials), (iii) all advertising charges in connection with the Rights Offering, including those of any public relations firm or other person or entity rendering services in connection therewith, (iv) all fees, if any, payable to dealers, banks, trust companies and other financial intermediaries as reimbursement for their customary mailing and handling expenses incurred in forwarding the Rights Offering Material to their customers, (v) all fees and expenses payable in connection with the registration or qualification of the Securities under state securities or "blue sky" laws, (vi) all listing fees and any other fees and expenses incurred in connection with the listing on the NYSE of the Preferred Stock and the Conversion Shares, (vii) the filing fee of the National Association of Securities Dealers, Inc. relating to the Rights Offering and (viii) reasonable fees and expenses incurred by you to the extent set forth in the Engagement Letter. All payments to be made by the Company pursuant to this Section 5 shall be made promptly against delivery to the Company of statements therefor. The Company shall be liable for the foregoing payments whether or not the Rights Offering is commenced, withdrawn, terminated or canceled or whether you withdraw pursuant to Section 13 hereof.

6. Rights Holder Lists. The Company will cause you to be provided with cards or lists or other records in such form as you may reasonably request showing the names and addresses of, and the number of Rights held by, the Rights Holders, as of the Record Date (as defined in the Rights Offering Material) and will cause you to be advised from time to time during the period of the Rights Offering as to any transfers of record of Rights.

7. Additional Obligations of the Company.

(a) The Company will furnish to you, without charge, one signed copy of the Registration Statement and any post-effective amendments thereto, including all of the documents incorporated by reference therein and all financial statements and schedules.

(b) To the extent required under the Securities Act, the Company will file the Prospectus with the Commission pursuant to and in accordance with Rule 424(b) thereunder.

(c) Prior to the issuance of the Securities, the Company shall obtain the registration or qualification thereof under the securities or "blue sky" laws of such jurisdictions as may be required for the consummation of the Rights Offering; provided, that in connection therewith the Company shall not be required to qualify as a foreign corporation or as a dealer in securities, to file a general consent to service of process in any jurisdiction or to subject itself to taxation for doing business in such jurisdiction, and shall furnish you with "blue sky" memoranda evidencing such registration and qualification or otherwise inform you in writing of any restrictions on the conduct of the Rights Offering pursuant to such laws.

(d) The Company, acting through its Board of Directors, shall, to the extent it has not already done so, in accordance with applicable law and its Certificate of Incorporation and By-Laws: (i) promptly and duly call, give notice of, convene and hold as soon as practicable following the date hereof a meeting of its stockholders (the "Stockholders' Meeting") for the purpose of voting to approve an amendment to the Company's Certificate of Incorporation to increase (x) the authorized number of shares of Common Stock to permit the full conversion of all shares of Preferred Stock to be outstanding following consummation of the Rights Offering and (y) the authorized number of shares of Preferred Stock to permit the payment of dividends in kind on the Series B PIK Preferred Stock (the "Charter Amendment"); (ii) as promptly as practicable following the date hereof prepare and file with the Commission a preliminary proxy statement relating to the Stockholders' Meeting and the Charter Amendment, respond to any comments of the Commission with respect to such preliminary proxy statement and cause the definitive proxy statement to be mailed to its stockholders, and (iii) recommend approval of the Charter Amendment by the stockholders of the Company and include in the definitive proxy statement such recommendation and take all lawful action to solicit such approval.

(e) The Company will use its best efforts to cause the Registration Statement (if such has not been declared effective as of the date of this Agreement) and any post-effective amendments thereto to become effective as promptly as practicable. The Company will prepare and file, as required, any and all necessary amendments or supplements to any of the Rights Offering Material, will promptly furnish to you true and complete copies of each such amendment and supplement within a reasonable period of time prior to the filing thereof and, as applicable, will use its best efforts to cause the same to become effective as promptly as practicable.

(f) The Company shall advise you promptly of (i) the time when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective, (ii) the occurrence of any event which could cause the Company to withdraw, rescind, terminate or modify the Rights Offering, (iii) the occurrence of any event, or the discovery of any fact, the occurrence or existence of which it believes would require the making of any change in any of the Rights Offering Material then being used in connection with the Rights Offering or would cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect, (iv) the issuance by the Commission or any Other Agency of any comment or order or the taking of any other action concerning the Rights Offering (and, if in writing, the Company will furnish you with a copy thereof), (v) the suspension of qualification of the Rights, the Preferred Stock, the Common Stock or the Notes in any jurisdiction, (vi) any material developments in connection with the Rights Offering, including, without limitation, the commencement of any lawsuit concerning the Rights Offering and (vii) any other information relating to the Rights Offering, the Rights Offering Material or this Agreement which you may from time to time reasonably request.

(g) For so long as any of the Preferred Stock or Notes is outstanding, the Company will deliver to you, promptly upon their becoming available, copies of all financial statements, reports, notices and proxy statements sent by the Company to its security holders, and of all current, regular and periodic reports filed by the Company or any of its subsidiaries with any securities exchange or with the Commission or any governmental authority succeeding to any of the Commission's functions.

(h) Prior to the consummation or termination of the Rights Offering, the Company shall furnish to you, as soon as they have been prepared by the Company, a copy of any consolidated financial statements of the Company and its consolidated subsidiaries for any period subsequent to the period covered by the financial statements appearing in the Registration Statement and the Prospectus.

(i) The Company will use its best efforts to comply in all material respects with the applicable provisions of the Securities Act and the Exchange Act, and other applicable securities laws.

(j) The Company will not exercise its option to exchange the Notes for Series A Exchangeable Preferred Stock unless, as of the date of exercise of such option, (i) the Company has duly authorized the exercise of its option to exchange the Notes for the Preferred Stock; (ii) the Company has corporate power and authority to enter into the Indenture and to perform its obligations under the Indenture and to issue and deliver the Notes; (iii) the Indenture has been executed and delivered and is a valid and legally binding obligation of the Company enforceable in accordance with its terms (assuming due authorization, execution and delivery by the Trustee), except (x) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (y) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity; (iv) no consent or approval of any governmental authority or other United States (State or Federal) person or entity which has not been obtained is required in connection with the issuance of the Notes; (v) the Notes will be, when issued in accordance with the terms of the Series A Certificate of Designation and the Indenture, and approved by the Board of Directors of the Company the valid and legally binding obligations of the Company enforceable in accordance with their terms, except (x) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (y) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity; and (vi) the issuance of the Notes in exchange for Series A Exchangeable Preferred Stock pursuant to the Series A Certificate of Designation and the Indenture will not (x) result in a violation of any of the provisions of the certificate or articles of incorporation or by-laws (or similar organizational documents) of the Company or any of its subsidiaries or (y) result in a breach of any of the material terms or provisions of, or constitute a default (with or without due notice or lapse of time) under, any loan or credit agreement, indenture, deed of trust, mortgage, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets is or may be bound, except for any such conflict, violation, breach or default which would not have a Material Adverse Effect (as defined below) or (z) result in the Company being an "investment company" under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated by the Commission thereunder. The respective forms of the Indenture and the Notes filed as exhibits to the Registration Statement conform in all material respects, and, if and when executed by the Company, the Indenture and the Notes so executed will conform in all material respects, to the respective descriptions thereof contained in the Prospectus.

(k) The Company will use the net proceeds received by it from the sale of the Preferred Stock in the manner specified in the Prospectus under the caption "Use of Proceeds."

(l) To the extent the same has not already been covered through due diligence investigations performed by you or on your behalf through the date hereof, the Company shall cooperate with your reasonable additional due diligence investigations to verify the accuracy and completeness of the disclosure contained in the Registration Statement, any post-effective amendment to the Registration Statement, the Prospectus and the other Rights Offering Materials (as amended or supplemented), and the accuracy and completeness of any of the representations, warranties or statements of the Company, or the fulfillment of any of the conditions herein contained.

(m) As soon as practicable, but not later than the Availability Date (as defined below), the Company will make generally available to its security holders an earnings statement that will satisfy the provisions of

Section 11(a) of the Securities Act covering a period of at least 12 months beginning after the "effective date of the Registration Statement" (as defined in Rule 158 of the General Rules and Regulations of the Securities Act). For purposes of the preceding sentence, "Availability Date" means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes the "effective date of the Registration Statement," except that if such fourth fiscal quarter is the last quarter of the Company's fiscal year "Availability Date" means the 90th day after the end of such fourth fiscal quarter.

(n) The Company will not accept the subscription of any Rights Holder (as defined in the Registration Statement) unless (i) Rights have been exercised to purchase 10,000,000 shares of Preferred Stock or (ii) the Prospectus shall have been amended or supplemented to disclose that less than 10,000,000 shares of Preferred Stock may be issued pursuant to the exercise of Rights and such amendment or supplement shall be reasonably acceptable to you.

(o) Subject to meeting the listing requirements of the NYSE, the Company will use its reasonable best efforts to cause the Preferred Stock to be approved for listing on the NYSE. The Company will also use its reasonable best efforts to cause the Conversion Shares to be approved for listing on the NYSE, subject to official notice of issuance.

8. Additional Representations and Warranties of the Company. The Company represents and warrants to you:

(a) The Company and each of its subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full corporate power and authority to own, lease and operate its respective properties and to conduct its respective business as presently conducted and as described in the Prospectus; and the Company and each of its subsidiaries is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or to be in good standing, considering all such cases in the aggregate, would not be reasonably likely to have a material adverse effect on the business, properties, financial position or result of operations of the Company and its subsidiaries taken as a whole (a "Material Adverse Effect").

(b) The Company has all corporate power and authority necessary to commence and consummate the Rights Offering, to execute and deliver this Agreement, the Engagement Letter and the Indenture and to perform its obligations under this Agreement, the Engagement Letter and the Indenture. The execution and delivery of, and the performance by the Company of its obligations under, this Agreement and the Engagement Letter have been duly and validly authorized by the Company; and each of this Agreement and the Engagement Letter has been duly executed and delivered by the Company and is a legal, valid and binding obligation of the Company enforceable against it in accordance with its terms, except that the enforceability hereof or thereof may be limited by and subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other similar laws now or hereafter in effect relating to rights and remedies of creditors, (ii) the effect of general principles of equity, whether enforcement is considered in a proceeding in equity or at law and (iii) the effect of United States Federal securities or other United States laws or principles of public policy with respect to the indemnification, contribution, exculpation or similar provisions herein or therein. The Indenture, the execution and delivery thereof by the Company, and, subject to action by the Company to authorize the exchange of Notes for Series A Exchangeable Preferred Stock, the execution and delivery by the Company of the Notes, have been duly authorized by the Company. If the Notes are issued in accordance with the Certificate of Designation of the Series A Exchangeable Preferred Stock (the "Series A Certificate of Designation") and the Indenture (when the Indenture has been executed and delivered by the Company and assuming due authorization, execution and delivery thereof by the Trustee) and approved by the Board of Directors, assuming the Notes have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture, the Notes

will be valid and legally binding obligations of the Company enforceable in accordance with their terms, except (x) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (y) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity.

(c) When the Indenture is executed and delivered by the Company and assuming the Indenture has been duly authorized, executed and delivered by the Trustee, the Indenture will constitute a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (ii) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity.

(d) The Registration Statement as of the Effective Time and the Prospectus as of its date complied in all material respects with the applicable requirements of the Securities Act and the rules and regulations thereunder as of such dates did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading; provided, however, that no representation is made with respect to any statements contained in, or any matter omitted from, the Registration Statement or Prospectus in reliance upon and in conformity with information furnished or confirmed in writing by you to the Company expressly for use therein.

(e) The documents incorporated by reference or deemed to be incorporated by reference in the Registration Statement and the Prospectus, at the time they were or hereafter are filed with the Commission, complied or when so filed will comply in all material respects with the requirements of the Exchange Act.

(f) The information in the Prospectus under the captions "Risk Factors--Government Regulation," "Regulation and Reimbursement," "Certain Relationships and Related Transactions," "Description of the Amended Credit Agreement," "Description of Capital Stock," "Description of Rights Offering," "Description of Preferred Stock," "Description of the Notes" and "Certain Federal Income Tax Consequences" to the extent that it constitutes summaries of legal matters or documents referred to therein, has been reviewed by the Company and fairly and accurately summarizes the matters referred to therein.

(g) The Rights Offering, the issuance and sale of shares of Preferred Stock pursuant to the Rights Offering, the issuance of the Notes in exchange for Series A Exchangeable Preferred Stock pursuant to the Series A Certificate of Designation and the Indenture, the issuance of Conversion Shares upon conversion of the Preferred Stock or the Notes and the execution, delivery and performance of this Agreement by the Company comply and will comply in all material respects with all applicable requirements of Federal, state, local and foreign law, including, without limitation, any applicable regulations of the Commission and Other Agencies, and all applicable judgments, orders or decrees; and no consent, authorization, approval, order, exemption, registration, qualification or other action of, or filing with or notice to, the Commission or any Other Agency is required in connection with the execution, delivery and performance of this Agreement by the Company, the commencement or consummation by the Company of the Rights Offering or the issuance of the Notes in exchange for Series A Exchangeable Preferred Stock or the issuance of Conversion Shares, except (i) as described in the Rights Offering Materials, (ii) such as have been obtained or made, and (iii) such as could not reasonably be expected to materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to commence and consummate the Rights Offering in accordance with its terms.

(h) The Rights Offering, the issuance and sale of shares of Preferred Stock pursuant to the Rights Offering, the issuance of Conversion Shares upon conversion of the Preferred Stock or the Notes and the execution, delivery and performance of this Agreement by the Company, do not and will not (i) result in a violation of any of the provisions of the certificate or articles of incorporation or by-laws (or similar organizational documents) of the Company or any of its subsidiaries or (ii) result in a breach of any of the material terms or provisions of, or constitute a default (with or without due notice or lapse of time) under, any loan or credit agreement, indenture, deed of trust, mortgage, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets is or may be bound, except as to such conflict, violation, breach or default (A) which is described in the Rights Offering Materials or (B) which could not be reasonably expected to have a Material Adverse Effect or to materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to commence and consummate the Rights Offering in accordance with its terms.

(i) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose are pending or, to the knowledge of the Company, threatened by the Commission; and any request of the Commission for additional information (to be included in the Registration Statement or in the Prospectus or otherwise) has been complied with or otherwise satisfied.

(j) Since the respective dates as of which information is given or incorporated by reference in the Registration Statement, and except as otherwise stated or contemplated therein, (i) there has been no material adverse change and no development reasonably likely to result in a prospective material adverse change in the condition (financial or otherwise), business, properties, or results of operations of the Company and its subsidiaries taken as a whole (a "Material Adverse Change") whether or not arising in the ordinary course of business; (ii) there have been no transactions entered into by the Company or any of its subsidiaries which are material to the Company and its subsidiaries, taken as a whole, other than those entered into in the ordinary course of business or in connection with the Rights Offering; (iii) except for changes occurring in connection with the Rights Offering or pursuant to the issuance or exercise of options pursuant to the Company's stock option or other employee benefit plans described in the Registration Statement, there has been no material change in the capital stock of the Company or any of its subsidiaries; and (iv) except in connection with the Rights Offering, there has been no dividend or distribution of any kind declared, paid or made by the Company or any of its wholly owned subsidiaries on any class of their capital stock.

(k) Except as disclosed in the Rights Offering Material, there is no action, suit or proceeding which has been served upon the Company or any of its subsidiaries or of which any of their properties or assets is the subject that is now pending or, to the best knowledge of the Company, threatened, against or affecting the Company or any of its subsidiaries or any of their properties or assets, that, if determined adversely to the Company or any of its subsidiaries, is reasonably likely to result in a Material Adverse Change or could reasonably be expected to have a Material Adverse Effect or to materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to commence or consummate the Rights Offering in accordance with its terms.

(l) The authorized, issued and outstanding capital stock of the Company conforms to the description thereof in the Prospectus, and all of the issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable and except as set forth in the Prospectus are not subject to any preemptive or similar rights. Following approval by the stockholders of the Company of the Charter Amendment and the filing thereof with the Secretary of State of the State of Delaware, there will be sufficient authorized shares of Common Stock to permit conversion of the Preferred Stock and Notes in accordance with their terms and, if

and when issued upon such conversion in accordance with the provisions of the terms of the Preferred Stock or the Indenture, as the case may be, the Conversion Shares will be validly issued, fully paid, non-assessable and not subject to any preemptive or similar rights.

(m) The Rights conform in all material respects to the description thereof contained in the Prospectus, have been duly authorized for issuance, and, when issued and delivered in accordance with the terms of the Rights Offering, will be validly issued and no holder thereof is or will be subject to personal liability by reason of being such a holder.

(n) The issuance of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock has been duly and validly authorized and, when issued and delivered against payment therefor in accordance with the terms of the Rights Offering, will be duly and validly issued, fully paid and non-assessable, with no personal liability attaching to the ownership thereof, and will conform in all material respects to the description of the Preferred Stock in the Prospectus. Following approval by the stockholders of the Company of the Charter Amendment and the filing thereof with the Secretary of State of the State of Delaware there will be sufficient authorized shares of preferred stock of the Company to permit payment of dividends on the Series B PIK Preferred Stock.

(o) The financial statements of the Company included or incorporated by reference in the Registration Statement present fairly the financial position of the Company and its subsidiaries as of the dates indicated and the results of their operations for the periods specified; except as otherwise stated therein, said financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis; and any supporting schedules to such financial statements included or incorporated by reference in the Registration Statement present fairly the information required to be included therein.

(p) To the best of the Company's knowledge, the accountants who have certified the financial statements and supporting schedules included or incorporated by reference in the Rights Offering Material are independent public accountants with respect to the Company and its subsidiaries as required by the Securities Act.

(q) The Rights have been approved for trading on the NYSE.

(r) The Company is not, and will not be as a result of the issuance of the Rights or the purchase of Preferred Stock by the holders of the Rights, pursuant to the terms of the Rights Offering, an "investment company" under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated by the Commission thereunder.

(s) Any certificate signed by any officer of the Company and delivered to you or to your counsel shall be deemed a representation of the Company to you as to the matters covered thereby.

9. Conditions to Obligations of the Dealer Manager. Subject to applicable laws, rules and regulations, your obligation to render services pursuant to this Agreement shall at all times be subject, in your discretion, to the following conditions:

(a) The Company at all times shall have performed in all material respects all of its obligations hereunder and under the Engagement Letter theretofore to be performed.

(b) All representations, warranties and other statements of the Company contained in this Agreement are now and at the commencement of, at all times during the continuance of, and upon the consummation of, the Rights Offering shall be, true and correct in all material respects.

(c) The Registration Statement shall have been declared effective by the Commission and no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have

been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction.

(d) You shall have received opinions, dated the date hereof and addressed to you, of Bradford T. Smith, Executive Vice President, General Counsel, Corporate Compliance Officer and Secretary of the Company, and Davis Polk & Wardwell, special counsel to the Company, with respect to the matters set forth in Exhibits A and B, respectively.

(e) You shall have received opinion, dated the date hereof and addressed to you, of Skadden, Arps, Slate, Meagher & Flom LLP, counsel to the Dealer Manager, in form and substance reasonably satisfactory to you.

(f) You shall have received a letter, satisfactory in form to you and your counsel, dated the date hereof and addressed to you, of KPMG Peat Marwick LLP, independent auditors for the Company, subject to your providing the appropriate representation letters to such accountants, containing statements and information of the type ordinarily included in accountants' comfort letters with respect to the financial statements and certain financial information contained in the Prospectus.

(g) You shall have received a certificate, dated the Record Date (as defined in the Prospectus), of a duly authorized officer of the Company, substantially in the form of Exhibit C hereto, and your counsel shall have been furnished with all such other documents and certificates as they may reasonably request in order to evidence the accuracy and completeness of any of the representations, warranties or statements of the Company hereunder, the performance of any of the obligations of the Company hereunder, or the fulfillment of any of the conditions contained herein.

(h) It shall not have become unlawful under any law, rule or regulation, Federal, state or local, for you to render services pursuant to this Agreement, or to continue so to act, as the case may be.

10. Indemnification.

(a) The Company agrees to hold harmless and indemnify you (including any affiliated companies) and any officer, director, partner, employee or agent of you or any such affiliated companies and any entity or person controlling (within the meaning of Section 20(a) of the Exchange Act) you or any affiliated companies (collectively, the "Dealer Manager Indemnified Persons"), from and against any and all losses, claims, damages, liabilities and expenses whatsoever (including, but not limited to, any and all expenses incurred in investigating, preparing or defending against any litigation or proceeding, commenced or threatened, or any claims whatsoever whether or not resulting in any liability) (each a "Loss" and collectively, the "Losses"), (i) arising out of or based upon any untrue statement or alleged untrue statement of material fact contained or incorporated by reference in the Rights Offering Material or in any other material used by the Company, or authorized by the Company for use in connection with the Rights Offering or the transactions contemplated thereby, or arising out of or based upon the omission or alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made not misleading (other than statements or omissions made in reliance upon information furnished by you to the Company expressly for use therein), (ii) arising out of, or based upon, any withdrawal, rescission, amendment or termination by the Company of, or failure by the Company to commence or consummate, the Rights Offering or the transactions contemplated thereby or any other failure to comply with the terms and conditions specified in the Rights Offering Material, (iii) arising out of the breach or alleged breach by the Company of any representation, warranty or covenant set forth in this Agreement, (iv) arising out of, relating to or in connection with any other action taken or omitted to be taken by an indemnified person, or (v) otherwise arising out of, relating to or in connection with the Rights Offering, the other transactions described in the

Rights Offering Material or the services of the Dealer Manager hereunder. The Company shall not, however, be responsible for any Loss pursuant to clauses (iv) or (v) of the preceding sentence of this Section 10 which has been finally judicially determined to have resulted primarily from the bad faith or gross negligence on the part of any indemnified person, other than any Loss arising out of or resulting from actions performed at the request of, with the consent of or in conformity with actions taken or omitted to be taken by, the Company.

(b) The Dealer Manager agrees to hold harmless and indemnify the Company, its officers and employees, each of its directors and such person, if any, who controls the Company (within the meaning of Section 20(a) of the Exchange Act), from and against any and all Losses, to which the Company or any such director, officer or controlling person may become subject, rising out of or based upon any untrue statement or alleged untrue statement of material fact contained in the Rights Offering Materials or the omission or alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made not misleading, but in each case only to the extent that the untrue statement of alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the written information furnished to the Company by the Dealer Manager specifically for inclusion therein.

(c) The Company and you agree that if any indemnification sought by any indemnified person pursuant to this Section 10 is unavailable for any reason or insufficient to hold the indemnified person harmless, then the Company and you shall contribute to the Losses for which such indemnification is held unavailable or insufficient in such proportion as is appropriate to reflect the relative benefits received (or anticipated to be received) by the Company, on the one hand, and actually received by you, on the other hand, in connection with the transactions contemplated by this Agreement or, if such allocation is not permitted by applicable law, not only such relative benefits but also the relative faults of the Company, on the one hand, and you, on the other hand, as well as any other equitable considerations, subject to the limitation that in any event the aggregate contribution by you to all Losses with respect to which contribution is available hereunder shall not exceed the fees actually received by you in connection with your engagement hereunder. It is hereby agreed that the relative benefits to the Company, on the one hand, and you, on the other hand, with respect to the Rights Offering and the transactions contemplated thereby shall be deemed to be in the same proportion as (i) the total net proceeds from the Rights Offering (before deducting expenses) received (or anticipated to be received) by the Company bears to (ii) the fees actually received by you from the Company in connection with your engagement hereunder.

(d) The foregoing rights to indemnity and contribution shall be in addition to any other right which indemnified persons may have at common law or otherwise. If any litigation or proceeding is brought against any indemnified person in respect of which indemnification may be sought pursuant to this Section 10, such indemnified person shall promptly notify the indemnifying person in writing of the commencement of such litigation or proceeding, but the failure so to notify the indemnifying person shall relieve the indemnifying person from any liability which it may have hereunder only if, and to the extent that, such failure results in the forfeiture by the indemnifying person of substantial rights and defenses, and will not in any event relieve the indemnifying person from any other obligation or liability that it may have to any indemnified person other than under this Agreement. In case any such litigation or proceeding shall be brought against any indemnified person and such indemnified person shall notify the indemnifying person in writing of the commencement of such litigation or proceeding, the indemnifying person shall be entitled to participate in such litigation or proceeding, and, after written notice from the indemnifying person to such indemnified person, to assume the defense of such litigation or proceeding with counsel of its choice at its expense, provided, however, that such counsel shall be satisfactory to the indemnified person in the exercise of its reasonable judgment. Notwithstanding the election of the indemnifying person to assume the defense of such litigation or proceeding, such indemnified person shall have the right to employ separate counsel and to participate in the defense of such litigation or proceeding and the indemnifying person shall bear the reasonable fees, costs and expenses of such separate counsel and shall pay such fees, costs and

expenses at least quarterly (provided that with respect to any single litigation or proceeding or with respect to several litigations or proceedings involving substantially similar legal claims, the indemnifying person shall not be required to bear the fees, costs and expenses of more than one such counsel) if (i) in the reasonable judgment of such indemnified person the use of counsel chosen by the indemnifying person to represent such indemnified person would present such counsel with a conflict of interest, (ii) the defendants, or targets of, any such litigation or proceeding include both an indemnified person and the indemnifying person, and such indemnified person shall have reasonably concluded that there may be legal defenses available to it or to other indemnified persons which are different from or additional to those available to the indemnifying person (in which case the indemnifying person shall not have the right to direct the defense of such action on behalf of the indemnified person), (iii) the indemnifying person shall not have employed counsel satisfactory to such indemnified person, in the exercise of the indemnified person's reasonable judgment, to represent such indemnified person within a reasonable time after notice of the institution of such litigation or proceeding or (iv) the indemnifying person shall authorize in writing such indemnified person to employ separate counsel at the expense of the indemnifying person. In any action or proceeding the defense of which the indemnifying person assumes, the indemnified person shall have the right to participate in such litigation and retain its own counsel at such indemnified person's own expense. The Company and you agree to notify the other promptly of the assertion of any claim against it, any of its officers or directors or any entity or person who controls it within the meaning of Section 20(a) of the Exchange Act in connection with the Rights Offering. The foregoing indemnification commitments shall apply whether or not the indemnified person is a formal party to such litigation or proceeding.

(e) The indemnifying person also agrees to reimburse each indemnified person for all expenses (including fees and disbursements of counsel) as they are incurred by such indemnified person in connection with investigating, preparing for, defending or providing evidence (including appearing as a witness) with respect to any action, claim, investigation, inquiry, arbitration or other proceeding referred to in this Section 10 or enforcing this Agreement, whether or not in connection with pending or threatened litigation in which any indemnified person is a party.

(f) The Company agrees that it will not, without the prior written consent of the indemnified party, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding, in respect of which indemnification or contribution may be sought hereunder (whether or not you, any other Dealer Manager Indemnified Person or the Company is an actual or potential party), unless such settlement, compromise or judgment (i) includes an unconditional release of each Dealer Manager Indemnified Person from all liability arising out of such claim, action or proceeding and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any Dealer Manager Indemnified Person. No indemnifying party shall be liable for any settlement of any action or claim for monetary damages which an indemnified party may effect without the consent of the indemnifying person, which consent shall not be unreasonably withheld.

11. Reference to Dealer Manager. The Company agrees that any reference to you in any Rights Offering Material, or any other release, publication or communication to any party outside the Company is subject to your prior approval. If you resign or are terminated prior to the dissemination of any Rights Offering Material or any other release or communication, no reference shall be made therein to you without your prior written permission.

12. Access to Information. In connection with the activities hereunder, the Company agrees to furnish you and your counsel with all information concerning the Company that you reasonably deem appropriate and agrees to provide you with reason-able access to the Company's officers, directors, accountants, counsel, consultants and other appropriate agents and representatives, it being understood that you will be entitled to rely upon such information supplied by the Company and such persons without assuming any responsibility for independent investigation or verification thereof. Any such investigations by you shall not relieve the Company of any responsibility for its representations, warranties or indemnities.

13. Withdrawal. In the event that (i) the Company uses or permits the use of any Rights Offering Material in connection with the Rights Offering or files any such material with the Commission without your prior approval, (ii) the Company shall have breached in any material respect any of its representations, warranties, agreements or covenants herein, (iii) at any time during the Subscription Period, a stop order suspending the effectiveness of the Registration Statement shall have been issued or a proceeding for that purpose shall have been instituted or shall be pending or threatened in writing by the Commission, or a request for additional information on the part of the Commission shall not have been satisfied to your reasonable satisfaction or there shall have been issued, at any time during the Rights Offering, any temporary restraining order or injunction restraining or enjoining you from acting in your capacities as Dealer Manager hereunder and such temporary restraining order or injunction is then in effect and has not been stayed or vacated, or (iv) the Company shall have amended the terms of the Rights Offering without your prior consent, then you shall be entitled to withdraw by written notice as Dealer Manager in connection with the Rights Offering without any liability or penalty to you or any Dealer Manager Indemnified Person for such withdrawal, and without loss of any right to the indemnification provided in Section 10 hereof, the payment of all fees and expenses payable under this Agreement which have accrued to the date of such withdrawal or would otherwise be due to you on such date, or the benefit of any other provisions surviving such withdrawal pursuant to Section 14 hereof. If you withdraw as Dealer Manager pursuant to this paragraph, the fees accrued and reimbursement for your expenses through the date of such withdrawal shall be paid to you on or promptly after such date, unless such fees or expenses are due at some later date in accordance with the express terms of any applicable agreement.

14. Termination. This Agreement shall terminate upon the expiration, termination or withdrawal of the Rights Offering, upon the date you give notice that any of the conditions specified in Section 9 hereof have not been fulfilled or upon your withdrawal as Dealer Manager pursuant to Section 13 hereof, it being understood that Sections 4, 5, 10, 11, 14, 16, 19 and 21 hereof shall survive any termination of this Agreement.

15. Notices. All notices and other communications required or permitted to be given under this Agreement shall be in writing and shall be given (and shall be deemed to have been given upon receipt) by delivery in person, by cable, by telecopy, by telegram, by telex or by registered or certified mail (postage prepaid return receipt requested) to the applicable party at the addresses indicated below:

(a)if to the Dealer Manager:

Credit Suisse First Boston Corporation
Eleven Madison Avenue
New York, New York 10010-3629
Telecopy No: (212) 325-8278
Attention: Investment Banking Department--
Transactions Advisory Group

(b)if to the Company:

Laboratory Corporation of America Holdings
358 South Main Street
Burlington, North Carolina 27215
Telecopy No.: (910) 226-3835
Attention: General Counsel

16. Consent to Jurisdiction; Service of Process. The Company hereby (a) submits to the jurisdiction of any New York State or Federal court sitting in the City of New York, (b) agrees that all claims with respect to such actions or proceedings may be heard and determined in such New York State or Federal court, (c) waives the defense of an inconvenient forum, (d) agrees not to commence any action or

proceeding relating to this Agreement other than in a New York State or Federal court sitting in the City of New York and (e) agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

17. Entire Agreement. This Agreement and the Engagement Letter constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof.

18. Amendment. This Agreement may not be amended except in writing signed by each party to be bound thereby.

19. Governing Law. The validity and interpretation of this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without regard to conflicts of laws principles.

20. Counterparts; Severability. This Agreement may be executed in two or more separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

21. Parties in Interest. This Agreement, including rights to indemnity and contribution hereunder, shall be binding upon and inure solely to the benefit of each party hereto, the Indemnified Persons and their respective successors, heirs and assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Please indicate your willingness to act as Dealer Manager and your acceptance of the foregoing provisions by signing in the space provided below for that purpose and returning to us a copy of this Agreement so signed, whereupon this Agreement and your acceptance shall constitute a binding agreement between us.

Very truly yours,

Laboratory Corporation of America Holdings

By: _____
Name:
Title:

Accepted as of the date first above written:

Credit Suisse First Boston Corporation

By: _____
Name:
Title:

EXHIBIT A

OPINION OF BRADFORD T. SMITH

Matters to be addressed in the opinion of Bradford T. Smith, Executive Vice President, General Counsel, Corporate Compliance Officer and Secretary of the Company:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as described in the Prospectus, and to the best of such counsel's knowledge the Company is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or to be in good standing, considering all such cases in the aggregate, would not have a Material Adverse Effect.

(b) Each of the Company's subsidiaries is duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with corporate power and authority to own, lease and operate its respective properties and to conduct its respective business as presently conducted and as described in the Prospectus, and to the best of such counsel's knowledge each of the Company's subsidiaries is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or the ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or to be in good standing, considering all such cases in the aggregate, would not have a Material Adverse Effect.

(c) The Company has all corporate power and authority necessary to commence and consummate the Rights Offering, to execute and deliver this Agreement, the Engagement Letter and the Indenture and to perform its obligations under this Agreement, the Engagement Letter and the Indenture. This Agreement, the Engagement Letter and the Indenture have been duly authorized, executed and delivered by the Company. Subject to action by the Company to authorize the exchange of Notes for Series A Exchangeable Preferred Stock, the execution and delivery by the Company of the Notes have been duly authorized by the Company.

(d) The Rights Offering, the issuance and sale of shares of Preferred Stock pursuant to the Rights Offering, and the execution, delivery and performance of this Agreement by the Company will not (i) result in a violation of any of the provisions of the certificate of incorporation or by-laws of the Company or any of its subsidiaries or (ii) to the best of such counsel's knowledge result in a breach of any of the material terms or provisions of, or constitute a default (with or without due notice or lapse of time) under, any loan or credit agreement, indenture, deed of trust, mortgage, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets is or may be bound, except as to any such violation, breach or default which would not have a Material Adverse Effect or materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to commence and consummate the Rights Offering in accordance with its terms.

(e) There is no action, suit or proceeding before or by the Commission or any Other Agency, that is now pending, or to the best of such counsel's knowledge, threatened against or affecting the Company or any of its subsidiaries, which is required to be disclosed in the Prospectus which is not disclosed therein, or which would materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to consummate the Rights Offering in accordance with its terms; and there are no contracts or other documents to which the Company or any of its subsidiaries is a party which are required to be filed as exhibits to the Registration Statement which have not been so filed.

(f) The authorized, issued and outstanding capital stock of the Company conforms to the description thereof in the Prospectus, and all of the issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable and, except as described in the Prospectus, are not subject to any preemptive or similar rights.

(g) The information set forth in the Prospectus under the captions "Risk Factors--Government Regulation," "Regulation and Reimbursement" and "Certain Relationships and Related Transactions" insofar as such statements purport to describe the provisions of law or documents referred to therein fairly present the information called for with respect to such laws and documents.

(h) Each document filed pursuant to the Exchange Act and incorporated by reference in the Registration Statement or the Prospectus (except for financial statements, including the notes thereto and schedules thereto, and other financial and statistical data contained or incorporated by reference therein or omitted therefrom as to which such counsel need express no opinion) complied when so filed as to form in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder.

Such counsel shall also advise that he has not himself checked the accuracy or completeness of, or otherwise verified, the information furnished with respect to other matters in the Registration Statement and the Prospectus, but has generally reviewed and discussed with certain officers and other representatives of the Company, its independent public accountants and your representatives and counsel the information furnished, whether or not subject to his check or verification. On the basis of such review and discussion, but without independent check or verification, except as stated, nothing came to his attention that causes him to believe that (except for the financial statements, including the notes thereto and schedules thereto, and other financial and statistical data contained or incorporated by reference therein or omitted therefrom and the Statement of Eligibility (Form T-1) included as an exhibit to the Registration Statement, as to which he need express no opinion) as of its effective date, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, as of the date hereof, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Matters to be addressed in the opinion of Davis Polk & Wardwell, special counsel to the Company:

(a) The Registration Statement is effective under the Securities Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued under the Securities Act and no proceedings for that purpose have been instituted or threatened by the Commission.

(b) This Agreement has been duly authorized, executed and delivered by the Company.

(c) The Indenture has been qualified under the Trust Indenture Act of 1939, as amended.

(d) When the Indenture is executed and delivered by the Company and assuming the Indenture has been duly authorized, executed and delivered by the Trustee, the Indenture will constitute a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (ii) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity.

(e) If and when issued in accordance with the provisions of the Series A Certificate of Designation and the Indenture (when the Indenture is executed and delivered by the Company and assuming it has been duly authorized, executed and delivered by the Trustee) and approved by the Board of Directors of the Company, and assuming the Notes have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture, the Notes will constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except (i) as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights and remedies generally and (ii) as such enforcement may be limited by general principles of equity, regardless of whether enforcement is sought in a proceeding at law or in equity.

(f) The Registration Statement, as of the effective date, and the Prospectus, as of its date (except for financial statements, including the notes thereto and schedules thereto and other financial and statistical data contained or incorporated by reference therein, or omitted therefrom and the Statement of Eligibility (Form T-1) included as an exhibit to the Registration Statement as to which such counsel need express no opinion) complied as to form in all material respects with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder.

(g) The information in the Prospectus under the captions "Description of the Amended Credit Agreement," "Description of Capital Stock," "Description of Rights Offering," "Description of Preferred Stock," "Description of the Notes" and "Certain Federal Income Tax Consequences" insofar as such statements purport to describe the provisions of law or documents referred to therein, fairly present the information called for with respect to such laws and documents.

(h) The Rights Offering, the Preferred Stock, the Common Stock and the Notes conform in all material respects to the descriptions thereof contained in the Registration Statement.

(i) The terms of the Rights Offering, the issuance and sale of shares of Preferred Stock pursuant to the Rights Offering, the issuance of the Notes in exchange for Series A Exchangeable Preferred Stock pursuant to the Series A Certificate of Designation and the Indenture, the issuance of Conversion Shares upon conversion of the Preferred Stock and Notes and the execution, delivery and performance of this Agreement by the Company, comply in all material respects with all applicable requirements of Federal and New York law, including, without limitation, any administrative regulation, and no consent, authorization, approval, order, exemption, registration, qualification or other action of,

or filing with, the Commission or any Other Agency is required in connection with the execution, delivery and performance of this Agreement by the Company or the commencement or consummation by the Company of the Rights Offering, except such as may be required and have been obtained under the Securities Act and the rules and regulations thereunder, under state securities or Blue Sky laws and under the Trust Indenture Act of 1939, as amended, or where the failure to obtain or make such consent, authorization, approval, order, exemption, registration, qualification, or other action or filing or notification would not materially adversely affect the ability of the Company to execute, deliver and perform this Agreement or to commence and consummate the Rights Offering in accordance with its terms.

(j) The issuance of the Preferred Stock has been duly and validly authorized and upon the proper filing with the Secretary of State of the State of Delaware of the Certificate of Designation relating to such series of Preferred Stock when issued and delivered against payment therefor in accordance with the terms of the Rights Offering, the Preferred Stock will be duly and validly issued, fully paid and non-assessable, with no personal liability attaching to the ownership thereof. Following approval by the stockholders of the Company of the Charter Amendment and the filing thereof with the Secretary of State of the State of Delaware there will be sufficient authorized shares of preferred stock of the Company to permit payment of dividends on the Series B PIK Preferred Stock and there will be sufficient authorized shares of Common Stock to permit conversion of the Preferred Stock and the Notes in accordance with their terms. Such Conversion Shares, if and when issued upon such conversion in accordance with the provisions of the Preferred Stock or the Notes, as the case may be, will be validly issued, fully paid, non-assessable and not subject to any statutory preemptive or similar statutory rights.

(k) The Company is not, and following consummation of the Rights Offering will not be, an "investment company" under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated by the Commission thereunder.

Such counsel shall also advise that they have not themselves checked the accuracy or completeness of, or otherwise verified, the information furnished with respect to other matters in the Registration Statement and the Prospectus, but have generally reviewed and discussed with certain officers and other representatives of the Company, its independent public accountants and your representatives and counsel the information furnished, whether or not subject to their check or verification. On the basis of such review and discussion, but without independent check or verification, except as stated, nothing came to their attention that causes them to believe that (except for the financial statements, including the notes thereto and schedules thereto, and other financial and statistical data contained or incorporated by reference therein or omitted therefrom and the Statement of Eligibility (Form T-1) included as an exhibit to the Registration Statement, as to which they need express no opinion) as of its effective date, the Registration Statement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, as of the date hereof, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

EXHIBIT C

FORM OF OFFICER'S CERTIFICATE

A duly authorized officer of the Company shall have furnished to the Dealer Manager a certificate, dated the Record Date, in form and substance reasonably satisfactory to the Dealer Manager to the effect that, to the best of his knowledge after reasonable investigation:

1. The representations and warranties of the Company set forth in the Dealer Manager Agreement are true and correct in all material respects as of the Record Date, and the Company has performed all of its obligations under the Dealer Manager Agreement to be performed at or prior to the Record Date in all material respects.

2. From the date of the Dealer Manager Agreement through the Record Date, there has been no amendment to the Registration Statement other than any amendments as to which you have been notified and provided copies and no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for such purpose has been initiated or threatened by the Commission.

EXHIBIT 4.3

LABORATORY CORPORATION OF AMERICA HOLDINGS
ISSUER,

AND

FIRST UNION NATIONAL BANK OF NORTH CAROLINA
TRUSTEE

INDENTURE

DATED AS OF

$

% CONVERTIBLE SUBORDINATED NOTES DUE 2012

CROSS-REFERENCE TABLE

TIA SECTION		INDENTURE SECTION
310 (a)	(1)	8.10
(a)	(2)	8.10
(a)	(3)	N.A.
(a)	(4)	N.A.
(a)	(5)	8.10
(b)		8.8; 8.10; 12.2
(c)		N.A.
311(a)		8.11
(b)		8.11
(c)		N.A.
312(a)		2.5
(b)		12.3
(c)		12.3
313(a)		8.6
(b)	(1)	8.6
(b)	(2)	8.6
(c)		8.6; 12.2
(d)		8.6
314(a)		5.6; 5.7; 8.6
(b)		N.A.; 11.4
(c)	(1)	2.2; 8.2; 12.4
(c)	(2)	8.2; 12.4
(c)	(3)	N.A.
(d)		N.A.
(e)		12.5
(f)		N.A.
315(a)		8.1(b)
(b)		8.5; 8.6; 12.2
(c)		8.1(a)
(d)		2.8; 7.11; 8.1(b)(c)
(e)		7.13
316(a)	(last sentence)	2.9
(a)	(1)(A)	7.11
(a)	(1)(B)	7.12

TIA SECTION			INDENTURE SECTION
	(a)	(2).....	N.A.
	(b)	.....	7.7; 7.12
	(c)	.....	10.4
317	(a)	(1).....	7.3
	(a)	(2).....	7.4
	(b)	.....	2.4
318	(a)	.....	12.1

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N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be a part of the Indenture.

TABLE OF CONTENTS

INDENTURE, dated as of , by and between Laboratory Corporation of America Holdings, a Delaware corporation (including its successors and permitted assigns, the "Company") and First National Bank of North Carolina, as Trustee (the "Trustee").

Each party hereto agrees as follows for the benefit of each other party and for the equal and ratable benefit of the Holders of the Company's % Convertible Subordinated Notes due 2012:

ARTICLE I

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.1 Definitions.

"Acceleration Notice" shall have the meaning specified in Section 7.2.

"Affiliate" means any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. For purposes of this definition, the term "control" means the power to direct the management and policies of a Person, directly or through one or more intermediaries, whether through the ownership of voting securities, by contract, or otherwise, provided, that no lender party to the Credit Agreement (or any of its affiliates) shall be deemed to be an Affiliate of the Company or any of its Subsidiaries solely by virtue of being party to the Credit Agreement.

"Agent" means any authenticating agent, Registrar, Paying Agent or transfer agent.

"Applicable Price" means (i) in the event of a Non-Stock Fundamental Change in which the holders of the Common Stock receive only cash, the amount of cash received by the holder of one share of Common Stock and (ii) in the event of any other Non-Stock Fundamental Change or any Common Stock Fundamental Change, the average of the Closing Prices for the Common Stock during the ten consecutive Trading Days prior to and including the record date for the determination of the holders of the Common Stock entitled to receive cash, securities, property or other assets in connection with such Non-Stock Fundamental Change or Common Stock Fundamental Change, or, if there is no such record date, the date upon which the holders of the Common Stock shall have the right to receive such cash, securities, property or other assets, in each case, as adjusted in good faith by the Board of Directors or the Company to approximately reflect any of the events referred to in clauses (i) through (v) of Section 4.4.

"Bankruptcy Law" means Title 11, U.S. Code, or any similar Federal, state or foreign law for the relief of debtors.

"Board of Directors" means, with respect to any Person, the Board of Directors of such Person or any committee of the Board of Directors of such Person authorized, with respect to any particular matter, to exercise the power of the Board of Directors of such Person.

"Board Resolution" means, with respect to any Person, a duly adopted resolution of the Board of Directors of such Person.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York, New York or Charlotte, North Carolina are authorized or obligated by law or executive order to close.

"Capital Stock" means, with respect to any corporation, any and all shares, interests, rights to purchase (other than convertible or exchangeable indebtedness), warrants, options, participations or other equivalents of or interests (however designated) in stock issued by that corporation.

"Cash" or "cash" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

"Closing Price" of any security means on any day the last reported sale price regular way on such day or in case no sale takes place on such day, the average of the reported closing bid and asked prices regular way in each case on the New York Stock Exchange, Inc. or, if the security is not quoted on such system, on the principal national securities exchange or quotation system on which such security is listed or admitted to trading or quoted, or, if not listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices in the over-the-counter market on such day as reported by the National Quotation Bureau Incorporated, or a similarly generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange Member firm selected from time to time by the Board of Directors for that purpose.

"Common Stock" initially means the class designated as common stock, par value $.01 per share, of the Company as of the date hereof, subject to adjustment as provided in Article IV.

"Common Stock Fundamental Change" means any Fundamental Change in which more than 50% of the value (as determined in good faith by the Board of Directors of the Company) of the consideration received by holders of Common Stock consists of common stock that for each of the ten consecutive Trading Days referred to with respect to such Fundamental Change in the definition of "Applicable Price" has been admitted for listing or admitted for listing subject to notice of issuance on a national securities exchange or quoted on the Nasdaq National Market, provided, however, that a Fundamental Change shall not be a Common Stock Fundamental Change unless either (i) the Company continues to exist after the occurrence of such Fundamental Change and the outstanding Securities continue to exist as outstanding Securities or (ii) not later than the occurrence of such Fundamental Change, the obligations of the Company with respect to the outstanding Securities are expressly assumed by a corporation succeeding to the business of the Company in accordance with the provisions of Article VI hereof.

"Company Request" means a written request signed in the name of the Company by its Chairman of the Board, its President or a Vice President, and by its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Covenant Defeasance" shall have the meaning specified in Section 9.3.

"Credit Agreement" means the Amended and Restated Credit Agreement dated as of March 31,1997 by and among the Company, certain financial institutions and Credit Suisse First Boston Corporation, as agent, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, as such credit agreement and/or related documents may be amended, restated, supplemented, renewed, replaced or otherwise modified from time to time whether or not with the same agent, trustee, representative lenders or holders, and, subject to the proviso to the next succeeding sentence, irrespective of any changes in the terms and conditions thereof. Without limiting the generality of the foregoing, the term "Credit Agreement" shall include any amendment, amendment and restatement, renewal, extension, restructuring, supplement or modification to any Credit Agreement and all refundings, refinancings and replacements of any Credit Agreement, including any agreement (i) extending the maturity of any indebtedness incurred thereunder or contemplated thereby, (ii) adding or deleting borrowers or guarantors thereunder, so long as borrowers and issuers include one or more of the Company and its Subsidiaries and their respective successors and assigns, (iii) increasing the amount of indebtedness incurred thereunder or available to be borrowed thereunder, or (iv) otherwise altering the terms and conditions thereof in a manner not prohibited by the terms hereof.

"Current Market Price Per Share" shall mean, as to the Common Stock on any date in question, the average of the daily Closing Prices for the five consecutive Trading Days prior to and including the date in question; provided, however, that:

(i) if the Ex Date for any event (other than the issuance or distribution requiring such computation) that required an adjustment to the conversion price pursuant to subparagraphs (i), (ii), (iii), (iv) or (v)

of Section 4.4 ("Other Event") occurs after the fifth Trading Day prior to the day in question and prior to the Ex Date for the issuance or distribution requiring such computation (the "Current Event"), the Closing Price for each Trading Day prior to the Ex Date for such Other Event shall be adjusted by multiplying such Closing Price by the same fraction by which the conversion price is so required to be adjusted as a result of such Other Event,

(ii) if the Ex Date for any Other Event occurs after the Ex Date for the Current Event and on or prior to the date in question, the Closing Price for each Trading Day on and after the Ex Date for such Other Event shall be adjusted by multiplying such Closing Price by the reciprocal of the fraction by which the conversion price is so required to be adjusted as a result of such Other Event,

(iii) if the Ex Date for any Other Event occurs on the Ex Date for the Current Event, one of those events, as determined by the Company, shall be deemed for purposes of clauses (i) and (ii) of this proviso to have an Ex Date occurring prior to the Ex Date for the other of those events, and

(iv) if the Ex Date for the Current Event is on or prior to the date in question, then after taking into account any adjustment required pursuant to clause (ii) of this proviso, the Closing Price for each Trading Day on or after such Ex Date shall be adjusted by adding thereto the amount of any cash and the fair market value on the date in question (as determined in good faith by the Board of Directors in a manner consistent with any determination of such value for purposes of paragraph (iv) or (v) of Section 4.4, whose determination shall be conclusive and described in a resolution of the Board of Directors) of the portion of the rights, warrants, evidences of indebtedness, shares of capital stock or assets being distributed applicable to one share of Common Stock.

"Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

"Default" means any event which is, or after notice or passage of time or both would become, an Event of Default.

"Defaulted Interest" shall have the meaning specified in Section 2.12.

"Definitive Securities" means Securities that are in the form of Security attached hereto as Exhibit A.

"Depositary" means, with respect to any Securities issuable or issued in whole or in part in the form of one or more Global Securities, the clearing agency registered under the Securities Exchange Act of 1934 and any other applicable statute or regulation specified for that purpose, with respect to such Securities. If at any time there is more than one such Person, "Depositary" shall mean, with respect to any Securities, the qualifying entity which has been appointed with respect to such Securities.

"Event of Default" shall have the meaning specified in Section 7.1.

"Ex Date" shall mean (i) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the Closing Price was obtained without the right to receive such issuance or distribution and (ii) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC thereunder.

"Fundamental Change" means the occurrence of any transaction or event in connection with a plan pursuant to which all or substantially all of the Common Stock shall be exchanged for, converted into, acquired for or constitute solely the right to receive cash, securities, property or other assets (whether by

means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) provided, in the case of a plan involving more than one such transaction or event, for purposes of adjustment of the conversion price, such Fundamental Change shall be deemed to have occurred when substantially all of the Common Stock of the Company shall be exchanged for, converted into, or acquired for or constitute solely the right to receive cash, securities, property or other assets, but the adjustment shall be based upon the highest weighted average per share consideration which a holder of Common Stock could have received in such transactions or events as a result of which more than 50% of the Common Stock of the Company shall have been exchanged for, converted into, or acquired for or constitute solely the right to receive cash, securities, property or other assets.

"GAAP" means United States generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession as in effect on the Issue Date.

"Global Security" means a Security bearing the legend required by Section 2.14 evidencing all or part of the Securities, issued to the Depositary or its nominee and registered in the name of such Depositary or nominee.

"Holder" or "Securityholder" means the Person in whose name a Security is registered on the Registrar's books.

"Indenture" means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof.

"Interest Payment Date" means the stated due date of an installment of interest on the Securities.

"Issue Date" means the date of first issuance of the Securities under this Indenture.

"Legal Defeasance" shall have the meaning specified in Section 9.2.

"Lien" means, with respect to any real or personal property of a Person, any mortgage, deed of trust, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

"Material Subsidiary" of a Person means, at any date of determination, any Subsidiary of such Person that, together with its Subsidiaries, (i) for the most recent fiscal year of such Person accounted for more than 10% of the consolidated revenues of such Person or (ii) as of the end of such fiscal year, was the owner of more than 10% of the consolidated assets of such Person, all as set forth on the most recently available consolidated financial statements of such Person and its consolidated Subsidiaries for such fiscal year prepared in conformity with GAAP.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Maturity Date" means, when used with respect to any Security, the date specified on such Security as the fixed date on which the final installment of principal of such Security is due and payable (in the absence of any acceleration thereof pursuant to the provisions of this Indenture).

"Non-Stock Fundamental Change" means any Fundamental Change other than a Common Stock Fundamental Change.

"Officer" means, with respect to the Company, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, the Controller, or the Secretary of the Company.

"Officers' Certificate" means, with respect to the Company, a certificate signed by two Officers or by an Officer and an Assistant Secretary of the Company and otherwise complying with the requirements of Sections 12.4 and 12.5, and delivered to the Trustee or an Agent, as applicable.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee (which may include counsel to the Trustee or the Company including an employee of the Company) or an Agent, as applicable, complying with the requirements of Sections 12.4 and 12.5, and delivered to the Trustee or an Agent, as applicable.

"Outstanding" as used with reference to the Securities shall have the meaning specified in Section 2.8 hereof.

"Paying Agent" has the meaning specified in Section 2.3.

"Person" or "person" means an individual, partnership, corporation, unincorporated trust or joint venture, or a governmental agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security, and, for the purposes of this definition, any Security authenticated and delivered under Section 2.7 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Property" means any right or interest in or to property or assets of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Purchaser Stock Price" means, with respect to any Common Stock Fundamental Change, the average of the Closing Prices for the common stock received in such Common Stock Fundamental Change for the ten consecutive Trading Days prior to and including the record date for the determination of the holders of Common Stock entitled to receive such common stock, or if there is no such record date, the date upon which the holders of the Common Stock shall have the right to receive such common stock, in each case, as adjusted in good faith by the Board of Directors to appropriately reflect any of the events referred to in clauses (i) through (v) of Section 4.4, provided, however, that if no such Closing Prices exist, the Purchaser Stock Price shall be set at a price determined in good faith by the Board of Directors of the Company.

"Record Date" means a Record Date specified in the Securities whether or not such Record Date is a Business Day.

"Redemption Date," when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to Article III of this Indenture and Paragraph 5 in the form of Security.

"Redemption Price," when used with respect to any Security to be redeemed, means the redemption price for such redemption pursuant to Paragraph 5 in the form of Security, which shall include, without duplication, in each case, accrued and unpaid interest to the Redemption Date (subject to the provisions of Section 3.5).

"Reference Market Price" shall mean $ (which is an amount equal to 66 2/3% of the reported last sale price for the Common Stock on the New York Stock Exchange on , 1997) and in the event

of any adjustment to the conversion price other than as a result of a Fundamental Change, the Reference Market Price shall also be adjusted so that the ratio of the Reference Market Price to the conversion price after giving effect to any such adjustment shall always be the same ratio of $ to the initial conversion price of the Company's % Series A Convertible Exchangeable Preferred Stock set forth in the Registration Statement on Form S-3 (File No. 333-22427), dated , 1997 relating thereto.

"Registrar" shall have the meaning specified in Section 2.3.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities means the , , or (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"SEC" means the Securities and Exchange Commission.

"Securities" means, collectively, the Securities issued pursuant to this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

"Security Register" shall have the meaning specified in Section 2.3.

"Securityholder" or "Holder" means any Person in whose name a Security is registered on the Registrar's books.

"Senior Indebtedness" means the principal of (premium, if any) and unpaid interest on, and all other sums, whether direct or contingent including, without limitation, costs and expenses of collection and enforcement (including the reasonable fees and expenses of legal counsel engaged for such purpose) payable by the Company relating to, the following (whether outstanding at the date hereof or thereafter incurred or created): (a) indebtedness of the Company for money borrowed (including purchase-money obligations) evidenced by notes or other written obligations including, without limitation, letters of credit and bankers acceptances, (b) indebtedness of the Company evidenced by notes, debentures, bonds or other securities issued under the provisions of an indenture or similar instrument, (c) obligations of the Company as lessee under capitalized leases and under leases of property made as part of any sale and leaseback transactions, (d) indebtedness of others of any of the kinds described in the preceding clauses (a) through (c) assumed or guaranteed by the Company and (e) renewals, extensions and refundings of, and indebtedness and obligations of a successor Person issued in exchange for or in replacement of, indebtedness or obligations of the kinds described in the preceding clauses (a) through (d); provided, however, that the following shall not constitute Senior Indebtedness: (1) any indebtedness or obligation as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that such indebtedness or obligation is subordinate in right of payment to all other indebtedness of the Company not expressly subordinated to such indebtedness or obligation, (2) any indebtedness or obligation which by its terms refers explicitly to the Securities issued hereunder and states that such indebtedness or obligation shall not be senior in right of payment thereto, (3) any indebtedness or obligation of the Company in respect of the Securities and (4) any indebtedness or obligation of the Company to any Subsidiary.

"Special Record Date" for payment of any Defaulted Interest means a date fixed by the Paying Agent pursuant to Section 2.12.

"Stated Maturity," when used with respect to any of the Securities or any installment of principal or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable.

"Subsidiary" with respect to any Person, means (i) a corporation a majority of whose Capital Stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by such Person, by such Person and one or more Subsidiaries of such Person or by one or more Subsidiaries of such Person, (ii) any other Person (other than a corporation) in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has at least majority ownership interest, or (iii) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner.

"TIA" means the Trust Indenture Act of 1939, as amended, (15 U.S. Code (S)(S) 77aaa-77bbbb), except as provided in Section 10.3, as in effect on the date of the execution of this Indenture.

"Trading Day" means a day on which securities traded on the national securities exchange or quotation system or in the over-the-counter market used to determine the Closing Price.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and thereafter means such successor.

"Trust Officer" means any officer within the corporate trust division (or any successor group) of the Trustee or any other officer of the Trustee customarily performing functions similar to those performed by the Persons who at that time shall be such officers, and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such trust matter is referred because of his knowledge of and familiarity with the particular subject.

"U.S. Government Obligations" means direct non-callable obligations of, or noncallable obligations guaranteed by, the United States of America for the payment of which obligation or guarantee the full faith and credit of the United States of America is pledged.

SECTION 1.2 Incorporation by Reference of TIA.

Whenever this Indenture refers to a provision of the TIA, such provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture securityholder" means a Holder or a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company and any other obligor on the Securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule and not otherwise defined herein have the meanings assigned to them thereby.

SECTION 1.3 Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) provisions apply to successive events and transactions;

(6) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(7) references to Sections or Articles means reference to such Section or Article in this Indenture, unless stated otherwise.

ARTICLE II

THE SECURITIES

SECTION 2.1 Form and Dating.

The Securities and the Trustee's certificate of authentication, in respect thereof, shall be substantially in the form of Exhibit A hereto, which Exhibit is part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rules and regulations and agreements to which the Company is subject or usage. The Company shall approve the form of the Securities and any notation, legend or endorsement on them. Each Security shall be dated the date of its authentication.

The terms and provisions contained in the forms of Securities shall constitute, and are hereby expressly made, a part of this Indenture and, to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

SECTION 2.2 Execution and Authentication.

Two Officers shall sign, or one Officer shall sign and one Officer shall attest to, the Security for the Company by manual or facsimile signature.

If an Officer whose signature is on a Security was an Officer at the time of such execution but no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless and the Company shall nevertheless be bound by the terms of the Securities and this Indenture.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security but such signature shall be conclusive evidence that the Security has been authenticated pursuant to the terms of this Indenture.

The Trustee shall authenticate or cause to be authenticated Securities for original issue in the aggregate principal amount of up to $. The aggregate principal amount of Securities outstanding at any time may not exceed $, except as provided in Section 2.7. Upon the written order of the Company in the form of an Officers' Certificate, the Trustee shall authenticate Securities in substitution of Securities originally issued to reflect any name change of the Company.

The Trustee shall have the right to decline to authenticate and deliver any Securities under this Section 2.2 if the Trustee, being advised by counsel, determines that such action may not lawfully be taken or if the Trustee in good faith shall determine that such action would expose the Trustee to personal liability to existing Holders.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. Unless otherwise provided in the appointment, an authenticating agent may authenticate

Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company, any Affiliate of the Company, or any of their respective Subsidiaries.

Securities shall be issuable only in fully registered form, without coupons, in denominations of $50 and integral multiples thereof.

SECTION 2.3 Registrar and Paying Agent; Method of Payment.

The Company shall maintain an office or agency in the Borough of Manhattan, The City of New York, where Securities may be presented for registration of transfer or exchange (the "Registrar") and an office or agency of the Company where Securities may be presented for payment (the "Paying Agent") and where notices and demands to or upon the Company in respect of the Securities may be served. The Company may act as Registrar or Paying Agent, except that for the purposes of Articles III and IX and as otherwise specified in this Indenture, neither the Company nor any Affiliate of the Company shall act as Paying Agent. The Registrar shall keep a register (the "Security Register") of the Securities and of their transfer and exchange. The Company may have one or more co-Registrars and one or more additional Paying Agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional Paying Agent.

The Company shall enter into an appropriate written agency agreement with any Agent (including the Paying Agent) not a party to this Indenture, which agreement shall implement the provisions of this Indenture that relate to such Agent, and shall furnish a copy of each such agreement to the Trustee. The Company shall promptly notify the Trustee in writing of the name and address of any such Agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such.

The Company initially appoints the Trustee as Registrar, Paying Agent and agent for service of notices and demands in connection with the Securities.

The Company initially appoints The Depository Trust Company ("DTC") to act as Depositary with respect to the Global Securities.

Upon the occurrence of an Event of Default described in Section 7.1(4) or (5), the Trustee shall, or upon the occurrence of any other Event of Default by notice to the Company, the Registrar and the Paying Agent, the Trustee may, assume the duties and obligations of the Registrar and the Paying Agent hereunder.

The Company shall pay interest on the Securities (except defaulted interest) to the Persons who are the registered Holders at the close of business on the , , or immediately preceding the Interest Payment Date. Holders must surrender Securities to a Paying Agent to collect principal payments. Except as provided below, the Company shall pay principal and interest in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts ("Cash"). The Securities will be payable as to principal, premium and interest at the office or agency of the Company maintained for such purpose within the Borough of Manhattan, the City and State of New York or, at the option of the Company, payment of interest may be made by check mailed to the Holders at their addresses set forth in the register of Holders.

SECTION 2.4 Paying Agent to Hold Assets in Trust.

The Company shall require each Paying Agent other than the Trustee to agree in writing that such Paying Agent shall hold in trust for the benefit of Holders or the Trustee all assets held by the Paying Agent for the payment of principal of, premium, if any, or interest on, the Securities, and shall notify the Trustee in writing of any Default in making any such payment. If either of the Company or a Subsidiary of the Company acts as Paying Agent, it shall segregate such assets and hold them as a separate trust fund for the benefit of the Holders or the Trustee. The Company at any time may require a Paying Agent to

distribute all assets held by it to the Trustee and account for any assets disbursed and the Trustee may at any time during the continuance of any payment Default or any Event of Default, upon written request to a Paying Agent, require such Paying Agent to distribute all assets held by it to the Trustee and to account for any assets distributed. Upon distribution to the Trustee of all assets that shall have been delivered by the Company to the Paying Agent, the Paying Agent (if other than the Company) shall have no further liability for such assets.

SECTION 2.5 Securityholder Lists.

The Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders and shall otherwise comply with TIA (S) 312(a). If the Trustee or any Paying Agent is not the Registrar, the Company shall furnish to the Trustee on or before the third Business Day preceding each Interest Payment Date and at such other times as the Trustee or any such Paying Agent may request in writing a list in such form and as of such date as the Trustee or any such Paying Agent reasonably may require of the names and addresses of Holders and the Company shall otherwise comply with TIA (S) 312(a).

SECTION 2.6 Transfer and Exchange.

When Securities are presented to the Registrar or a co-registrar with a request to register, transfer or exchange them for an equal principal amount of Securities of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met, provided, however, that any Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar and the Trustee duly executed by the Securityholder thereof or by his attorney duly authorized in writing. To permit registrations of transfer and exchanges, the Company shall issue and the Trustee shall authenticate Securities at the Registrar's request, subject to such rules as the Trustee may reasonably require.

Neither the Company nor the Registrar shall be required (i) to issue, register the transfer of or exchange Securities during a period beginning at the opening of business on a Business Day 15 days before the day of any selection of Securities for redemption under Section 3.1 and ending at the close of business on the day of selection, (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part or (iii) to register the transfer or exchange of a Security between a Record Date and the next succeeding Interest Payment Date.

No service charge shall be made to any Securityholder for any registration of transfer or exchange (except as otherwise expressly permitted herein), but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than such transfer tax or similar governmental charge payable upon exchanges pursuant to Sections 2.10, 3.7 or 10.5 hereof, which shall be paid by the Company).

Prior to due presentment for registration of transfer of any Security, the Trustee, any Agent and the Company may deem and treat the person in whose name any Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and neither the Trustee, any Agent nor the Company shall be affected by notice to the contrary.

Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

Any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

If at any time the Depositary for the Securities notifies the Company that it is unwilling or unable to continue as Depositary for the Securities or if at any time the Depositary for the Securities shall no longer be qualified to serve as the Depositary, the Company shall appoint a successor Depositary with respect to the Securities. If a successor Depositary for the Securities is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such ineligibility, the Company will execute, and the Trustee, upon receipt of a Company Request for the authentication and delivery of definitive Securities, will authenticate and deliver Securities of like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of the Global Security or Securities in exchange for such Global Security or Securities.

The Company may at any time and in its sole discretion determine that Securities issued in the form of one or more Global Securities shall no longer be represented by such Global Securities. In such event, the Company will execute, and the Trustee, upon receipt of a Company Request for the authentication and delivery of definitive Securities, will authenticate and deliver Securities of like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of the Global Security or Securities in exchange for such Global Security or Securities in exchange for such Global Security or Securities.

Notwithstanding any other provision in this Indenture, no Global Security may be transferred to, or registered or exchanged for Securities registered in the name of, any Person other than the Depositary for such Global Security or any nominee or successor thereof, and no such transfer may be registered, unless (1) such Depositary (A) notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or (B) ceases to be qualified to serve as Depositary, (2) the Company executes and delivers to the Trustee a Company Request that such Global Security shall be so transferable, registrable and exchangeable, and such transfers shall be registrable, or (3) there shall have occurred and be continuing an Event of Default. Notwithstanding any other provision in this Indenture, a Global Security to which the restriction set forth in the preceding sentence shall have ceased to apply may be transferred only to, and may be registered and exchanged for Securities registered only in the name or names of, such Person or Persons as the Depositary for such Global Security shall have directed and no transfer thereof other than such a transfer may be registered.

Every Security authenticated and delivered upon registration of transfer, or in exchange for or in lieu, of a Global Security to which the restriction set forth in the first sentence of the preceding paragraph shall apply, whether pursuant to this Section, Sections 2.7, 2.10 or 3.7 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

No Person entitled to any beneficial interest in any Global Security held on its behalf by a Depositary or its nominee shall, as such, be entitled to have any of the individual Securities represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of such Securities in definitive form, or be considered Holders thereof under this Indenture. None of the Company, the Trustee, any authenticating agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

SECTION 2.7 Replacement Securities.

If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims and submits an affidavit or other evidence, satisfactory to the Registrar, to the Registrar to the effect that the Security has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee or any

authenticating agent of the Trustee shall authenticate a replacement Security if the Registrar's requirements are met. If required by the Trustee, the Registrar or the Company, such Holder must provide an indemnity bond or other indemnity, sufficient in the judgment of both the Company and the Registrar, to protect the Company, the Trustee or any Agent from any loss which any of them may suffer if a Security is replaced. The Company may charge such Holder for its reasonable, out-of-pocket expenses in replacing a Security.

Every replacement Security is an additional obligation of the Company.

SECTION 2.8 Outstanding Securities.

Securities "Outstanding" at any time are all the Securities that have been authenticated by the Trustee except those cancelled by the Registrar, those delivered to the Registrar for cancellation, and those described in this Section 2.8 as not Outstanding. A Security does not cease to be Outstanding because the Company or an Affiliate of the Company holds the Security, except as provided in Section 2.9.

If a Security is replaced pursuant to Section 2.7 (other than a mutilated Security surrendered for replacement), it ceases to be Outstanding unless the Registrar receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser. A mutilated Security ceases to be Outstanding upon surrender of such Security and replacement thereof pursuant to Section 2.7.

If on a Redemption Date or the Maturity Date the Paying Agent (other than the Company or an Affiliate of the Company) holds Cash or U.S. Government Obligations sufficient to pay all of the principal and interest and premium, if any, due on the Securities payable on that date and payment of the Securities called for redemption is not otherwise prohibited, then on and after that date such Securities cease to be Outstanding and interest on them ceases to accrue.

SECTION 2.9 Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have concurred in any direction, amendment, supplement, waiver or consent, Securities owned by the Company or Affiliates of the Company shall be disregarded, except that, for the purposes of determining whether the Trustee shall be protected in relying on any such direction, amendment, supplement, waiver or consent, only Securities that a Trust Officer of the Trustee knows are so owned shall be disregarded.

SECTION 2.10 Temporary Securities.

Until Definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of Definitive Securities but may have variations that the Company reasonably and in good faith considers appropriate for temporary Securities. Except in the case of temporary Securities in global form, which can be issued in accordance with the provisions thereof, if temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 5.2, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.11 Cancellation.

The Company at any time may deliver Securities to the Registrar for cancellation. The Trustee and the Paying Agent shall forward to the Registrar any Securities surrendered to them for registration of transfer, exchange or payment. The Registrar, or at the direction of the Registrar, the Trustee or the Paying Agent (other than the Company or an Affiliate of the Company), and no one else, shall cancel all Securities

surrendered for registration of transfer, exchange, payment or cancellation. Subject to Section 2.7, the Company may not issue new Securities to replace Securities that have been paid or delivered to the Registrar for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section 2.11, except as expressly permitted in the form of Securities and as permitted by this Indenture.

SECTION 2.12 Defaulted Interest.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date plus, to the extent lawful, any interest payable on the defaulted interest (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered Holder on the relevant Record Date, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee and the Paying Agent in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Paying Agent an amount of Cash equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Paying Agent for such deposit prior to the date of the proposed payment, such Cash when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as provided in this clause (1). Thereupon the Paying Agent shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Paying Agent of the notice of the proposed payment. The Paying Agent shall promptly notify the Company and the Trustee of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security Register not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Securities are registered on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee and the Paying Agent of the proposed payment pursuant to this clause, such manner shall be deemed practicable by the Trustee and the Paying Agent.

Subject to the foregoing provisions of this Section 2.12, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

In the case of any Security which is converted after any Regular Record Date and on or prior to the next succeeding Interest Payment Date (other than any Security whose Maturity is prior to such Interest Payment Date), interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion, and such interest (whether or not punctually paid or duly provided for) shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on such Regular Record Date. Except as otherwise expressly provided in the immediately preceding sentence, in the case of any Security which is converted, interest whose Stated Maturity is after the date of conversion of such Security shall not be payable.

SECTION 2.13 CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

SECTION 2.14. Form of Legend for Global Securities.

Every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form:

> This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee of a Depositary. This Security is exchangeable for Securities registered in the name of a Person other than the Depositary or its nominee only in the limited circumstances described in the Indenture and no transfer of this Security (other than a transfer of this Security as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary) may be registered except in such limited circumstances.

ARTICLE III

REDEMPTION

SECTION 3.1 Right of Redemption.

Redemption of Securities, as permitted by any provision of this Indenture, shall be made in accordance with such provision and this Article III. The Company will not have the right to redeem any Securities prior to , 2000. On or after , 2000, the Company will have the right to redeem all or any part of the Securities, subject to the limitations, if any, imposed by applicable law, at the Redemption Prices specified in the form of Security attached as Exhibit A set forth therein under the caption "Optional Redemption," in each case (subject to the right of Holders of record on a Record Date to receive interest due on an Interest Payment Date that is on or prior to such Redemption Date, and subject to the provisions set forth in Section 3.5).

SECTION 3.2 Notices to Trustee.

If the Company elects to redeem Securities pursuant to Paragraph 5 of the Securities, it shall notify the Trustee and the Paying Agent in writing of the Redemption Date and the principal amount of Securities to be redeemed and whether it wants the Paying Agent to give notice of redemption to the Holders.

If the Company elects to reduce the principal amount of Securities to be redeemed pursuant to Paragraph 5 of the Securities by crediting against any such redemption Securities it has not previously delivered to the Trustee and the Paying Agent for cancellation, it shall so notify the Trustee and the Paying Agent of the amount of the reduction and deliver such Securities with such notice.

The Company shall give each notice to the Trustee and the Paying Agent provided for in this Section 3.2 at least 30 days before the Redemption Date (unless a shorter notice shall be satisfactory to the Trustee and the Paying Agent). Any such notice may be cancelled at any time prior to notice of such redemption being mailed to any Holder and shall thereby be void and of no effect.

SECTION 3.3 Selection of Securities to Be Redeemed.

If less than all of the Securities are to be redeemed pursuant to Paragraph 5 of the Securities, the Trustee shall select the Securities to be redeemed by lot or by such other method as the Trustee shall determine to be fair and appropriate.

The Trustee shall make the selection from the Securities outstanding and not previously called for redemption and shall promptly notify the Company and Paying Agent in writing of the Securities selected for redemption and, in the case of any Security selected for partial redemption, the principal amount thereof to be redeemed. Securities in denominations of $50 may be redeemed only in whole. The Trustee may select for redemption portions (equal to $50 or any integral multiple thereof) of the principal of Securities that have denominations larger than $50. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as Outstanding for the purpose of such selection.

SECTION 3.4 Notice of Redemption.

At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder whose Securities are to be redeemed. At the Company's request, the Paying Agent shall give the notice of redemption in the Company's name and at the Company's expense. Each notice for redemption shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price, including the amount thereof which is accrued and unpaid interest to be paid upon such redemption;

(3) the name, address and telephone number of the Paying Agent;

(4) that Securities called for redemption must be surrendered to the Paying Agent at the address specified in such notice to collect the Redemption Price;

(5) that, unless the Company defaults in its obligation to deposit Cash or U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, Cash in an amount to fund the Redemption Price with the Paying Agent in accordance with Section 3.6 hereof or such redemption payment is otherwise prohibited, interest on Securities called for redemption ceases to accrue on and after the Redemption Date and the only remaining right of the Holders of such Securities is to receive payment of the Redemption Price, upon surrender to the Paying Agent of the Securities called for redemption and to be redeemed;

(6) if any Security is being redeemed in part, the portion of the principal amount, equal to $50 or any integral multiple thereof, of such Security to be redeemed and that, after the Redemption Date, and upon surrender of such Security, a new Security or Securities in aggregate principal amount equal to the unredeemed portion thereof will be issued;

(7) if less than all the Securities are to be redeemed, the identification of the particular Securities (or portion thereof) to be redeemed, as well as the aggregate principal amount of such Securities to be redeemed and the aggregate principal amount of Securities to be outstanding after such partial redemption;

(8) the conversion rate, the date on which the right to convert the principal of the Securities to be redeemed will terminate and the place or places where such Securities may be surrendered for conversion;

(9) the CUSIP number of the Securities to be redeemed; and

(10) that the notice is being sent pursuant to this Section 3.4 and pursuant to the optional redemption provisions of Paragraph 5 of the Securities.

SECTION 3.5 Effect of Notice of Redemption.

Once notice of redemption is mailed in accordance with Section 3.4, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price. Upon surrender to the Paying Agent, such Securities called for redemption shall be paid at the Redemption Price; provided that if the Redemption Date is after a Record Date and on or prior to the Interest Payment Date to which such Record Date relates, the accrued interest shall be payable to the Holder of the redeemed Securities registered on the relevant Record Date; and provided, further, that if a Redemption Date is a non-Business Day, payment shall be made on the next succeeding Business Day and no interest shall accrue for the period from such Redemption Date to such succeeding Business Day.

SECTION 3.6 Deposit of Redemption Price.

On or prior to the Redemption Date, the Company shall deposit with the Paying Agent (other than the Company or an Affiliate of the Company) Cash or U.S. Government Obligations sufficient to pay the Redemption Price of all Securities to be redeemed on such Redemption Date (other than Securities or portions thereof called for redemption on that date that (i) have been delivered by the Company to the Registrar for cancellation or (ii) have been converted prior to the date of such deposit). The Paying Agent shall promptly return to the Company any Cash or U.S. Government Obligations so deposited which is not required for that purpose upon the written request of the Company.

If any Security called for redemption is converted, any money deposited with the Paying Agent shall (subject to the right of the Holder of such Security or any Predecessor Security to receive interest as provided in the last paragraph of Section 2.12) be paid to the Company upon Company Request.

If the Company complies with the preceding paragraphs of this Section 3.6 and the other provisions of this Article III and payment of the Securities called for redemption is not otherwise prohibited, interest on the Securities to be redeemed will cease to accrue on the applicable Redemption Date, whether or not such Securities are presented for payment. Notwithstanding anything herein to the contrary, if any Security surrendered for redemption in the manner provided in the Securities shall not be so paid upon surrender for redemption because of the failure of the Company to comply with the preceding paragraphs of this Section 3.6, interest shall continue to accrue and be paid from the Redemption Date until such payment is made on the unpaid principal, and, to the extent lawful, on any interest not paid on such unpaid principal, in each case at the rate and in the manner provided in Section 5.1 and the Security.

SECTION 3.7 Securities Redeemed in Part.

Upon surrender of a Security that is to be redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder, without service charge to the Holder, a new Security or Securities equal in principal amount to the unredeemed portion of the Security surrendered.

ARTICLE IV

CONVERSION OF SECURITIES

SECTION 4.1 Right of Conversion.

The Holder of any Security or Securities shall have the right any time prior to close of business on the Maturity Date, at his option, to convert, subject to the terms and provisions of this Article IV, the principal of any such Security or Securities (or any portion of the principal thereof which is $50 or an integral multiple of $50) into fully paid and nonassessable shares of Common Stock of the Company at the rate of (/1/) shares of Common Stock for each $50 principal amount of Securities or, in case an adjustment therein has taken place pursuant to the provisions of Section 4.4, or the special conversion right under Section 4.12 is applicable and the Holder elects to exercise such special conversion right, then at the rate as so adjusted (except that with respect to any Security or Securities, or any such portion, which shall be called for redemption, such right shall terminate, except as provided in the last paragraph of Section 4.2, at 5 p.m., New York City time, on the Business Day prior to the Redemption Date for such Security or Securities or portion and if not exercised prior to such time, such conversion right will be lost, unless the Company defaults in making the payment due upon redemption; provided, however, with respect to any redemption occurring on or one Business Day thereafter, the conversion right will terminate at 5:00 p.m. New York City time on the Redemption Date). Such right shall be exercised by the surrender of the Security or Securities, the principal of which is so to be converted, to the Company at any time during usual business hours at any office or agency to be maintained by it in accordance with the provisions of Section 5.2, accompanied by written notice that the Holder elects to convert such Security or Securities or any portion thereof and specifying the name or names (with address) in which a certificate or certificates evidencing Common Stock are to be issued and (if so required by the Company or the Trustee) by an instrument or instruments of transfer in form satisfactory to the Company and the Trustee, duly executed by the Holder or his attorney, duly authorized in writing and transfer tax stamps or funds therefor, if required pursuant to Section 4.10. For convenience, the conversion of all or a portion, as the case may be, of the principal of any Security into Common Stock of the Company is hereinafter sometimes referred to as the conversion of such Security. All Securities surrendered for conversion shall, if surrendered to the Company, the Trustee or any conversion agent, be delivered to the Registrar for cancellation and cancelled by it and, subject to the next succeeding sentence, no Securities shall be issued in lieu thereof. In the case of any Security which is converted in part only, upon such conversion the Company shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations in an aggregate principal amount equal to the unconverted portion of the principal amount of such Security.

SECTION 4.2 Issuance of Common Stock; Time of Conversion.

As promptly as practicable after the surrender, as herein provided, of any Security or Securities for conversion, the Company shall deliver or cause to be delivered at any office or agency to be maintained by it in accordance with the provisions of Section 5.2 to or upon the written order of the Holder of the Security or Securities so surrendered a certificate or certificates evidencing the number of fully paid and nonassessable shares of Common Stock of the Company into which such Security or Securities (or portion thereof) may be converted in accordance with the provisions of this Article IV. Subject to the following provisions of this paragraph and of Sections 4.4 and 4.12, such conversion shall be deemed to have been made immediately prior to the close of business on the date that such Security or Securities shall have been surrendered in satisfactory form for conversion, so that the rights of the Holder as a Holder shall cease with respect to such Security or Securities (or the portion thereof being converted) at such time,

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(1) Insert the conversion rate applicable to the Series A Convertible Exchangeable Preferred Stock at the Exchange Date.

and the Person or Persons entitled to receive the shares of Common Stock deliverable upon conversion of such Security or Securities shall be treated for all purposes as having become the record holder or holders of such shares of Common Stock at such time, and such conversion shall be at the conversion rate in effect at such time; provided, however, that no such surrender on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the Person or Persons entitled to receive the shares of Common Stock deliverable upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the Person or Persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes immediately prior to the close of business on the next succeeding day on which such stock transfer books are open, and such conversion shall be deemed to have been made at, and shall be made at the conversion rate in effect at, such time on such next succeeding day.

If the last day for the exercise of the conversion right shall not be a Business Day, then such conversion right may be exercised on the next succeeding Business Day.

SECTION 4.3 No Adjustments in Respect of Interest or Dividends.

Securities surrendered for conversion during the period from the close of business on any Regular Record Date to the opening of business on the next succeeding Interest Payment Date shall (except in the case of Securities or portions thereof which have been called for redemption on a Redemption Date during such period) be accompanied by payment in New York Clearing House funds or other funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of Securities being surrendered for conversion. Except as provided in the preceding sentence and subject to the last paragraph of Section 2.12, no payment or adjustment shall be made upon any conversion on account of any interest accrued on the Securities surrendered for conversion or on account of any dividends on the shares of Common Stock issued upon conversion.

SECTION 4.4 Adjustment of Conversion Rate.

The conversion price at which the Securities are convertible into Common Stock shall be subject to adjustment from time to time as follows:

(i) In case the Company shall pay or make a dividend or other distribution on its Common Stock exclusively in Common Stock or shall pay or make a dividend or other distribution on any other class or series of capital stock of the Company which dividend or distribution includes Common Stock, the conversion price in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution shall be reduced by multiplying such conversion price by: A/(A+B), where:

A = the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination; and

B = the total number of shares of Common Stock constituting such dividend or other distribution,

such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For purposes of this subparagraph (i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company. The Company shall not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(ii) In case the Company shall pay or make a dividend or other distribution on its Common Stock consisting exclusively of, or shall otherwise issue to all holders of its Common Stock, rights or warrants entitling the holders thereof to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price Per Share of the Common Stock on the date fixed for

the determination of shareholders entitled to receive such rights or warrants, the conversion price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such conversion price by: (A+B)/(A+C), where:

A = the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination,

B = the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price Per Share, and

C = the number of additional shares of Common Stock so offered for subscription or purchase,

such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination.

In case any rights or warrants referred to in this subparagraph (ii) in respect of which an adjustment shall have been made shall expire unexercised after the shares of Common Stock issued in respect thereof shall have been distributed or issued by the Company the conversion price shall be readjusted at the time of such expiration to the conversion price that would have been in effect if no adjustment had been made on account of the distribution or issuance of such expired rights or warrants, provided, that no such readjustment upon expiration of such rights or warrants shall affect the number of shares of Common Stock issued upon any conversion of Securities prior to such readjustment.

(iii) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(iv) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of any class or series of capital stock, cash or assets (including securities, but excluding any rights or warrants referred to in subparagraph (ii) of this Section 4.4, any dividend or distribution paid exclusively in cash and any dividend or distribution referred to in subparagraph (i) of this Section 4.4), the conversion price shall be reduced so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the effectiveness of the conversion price reduction contemplated by this subparagraph (iv) by: (A-B)/A, where:

A = the Current Market Price Per Share of the Common Stock immediately prior to the close of business on the date fixed for determination of stockholders entitled to receive such distribution (the "Reference Date") and

B = the fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a resolution of the Board of Directors), on the Reference Date, of the portion of the evidence of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock, such reduction to become effective immediately prior to the opening of business on the day following the Reference Date, provided, however, that for purposes of this subparagraph (iv), any dividend or distribution that includes shares of Common Stock or rights or warrants to subscribe for or purchase shares of Common Stock shall be deemed instead to be (A) a dividend or distribution of the evidences of

indebtedness, cash, assets or shares of capital stock other than such shares of Common Stock or rights or warrants (making any further conversion price reduction required by this subparagraph (iv)) immediately followed by (B) a dividend or distribution of such shares of Common Stock or such rights or warrants (making any further conversion price reduction required by subparagraph (i) or (ii) of this Section 4.4, except (1) the Reference Date of such dividend or distribution as defined in this subparagraph (iv) shall be substituted as "the date fixed for the determination of shareholders entitled to receive such dividend or other distribution", "the date fixed for the determination of shareholders entitled to receive such rights or warrants" and "the date fixed for such determination" within the meaning of subparagraph (i) and (ii) of this Section 4.4 and (2) any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of subparagraph (i) of this Section 4.4. If the Board of Directors determines the fair market value of any distribution for purposes of this subparagraph (iv) by reference to the actual or when issued trading market for any securities comprising such distribution, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price Per Share of Common Stock.

(v) In case the Company shall pay or make a dividend or other distribution on its Common Stock exclusively in cash (excluding (A) cash that is part of the distribution referred to in (iv) above and, (B) in the case of any quarterly cash dividend on the Common Stock, the portion thereof that does not exceed the per share amount of the next preceding quarterly cash dividend on the Common Stock (as adjusted to appropriately reflect any of the events referred to in subparagraph (i), (ii), (iii) and (iv) of this Section 4.4), or all of such quarterly cash dividend if the amount thereof per share of Common Stock multiplied by four does not exceed [%] of the Current Market Price Per Share of the Common Stock on the Trading Day next preceding the date of declaration of such dividend), the conversion price shall be reduced so that the same shall equal the conversion price in effect immediately prior to the effectiveness of the conversion price reduction contemplated by this subparagraph (v) by: (A-B)/A, where:

A = the Current Market Price Per Share of the Common Stock immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution, and

B = the amount of cash so distributed and not excluded as provided above applicable to one share of Common Stock,

such reduction to become effective immediately prior to the opening of business on the day following the date fixed for the payment of such distribution.

(vi) No adjustment in the conversion price shall be required unless such adjustment would require an increase or decrease of at least 1% in the conversion price; provided, however, that any adjustments which by reason of this subparagraph (vi) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(vii) Whenever the conversion price is adjusted as herein provided: (A) the Company shall compute the adjusted conversion price and shall prepare a certificate signed by the Chief Financial Officer of the Company setting forth the adjusted conversion price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the transfer agent for the Securities; and (B) a notice stating that the conversion price has been adjusted and setting forth the adjusted conversion price shall forthwith be required, and as soon as practicable after it is required, such notice shall be mailed by the Company to all record holders of Securities at their last addresses as they shall appear upon the stock transfer books of the Company.

(viii) The Company from time to time may reduce the conversion price by any amount for any period of time if the period is at least twenty days, the reduction is irrevocable during the period and

the Board of Directors of the Company shall have made a determination that such reduction would be in the best interest of the Company, which determination shall be conclusive. Whenever the conversion price is reduced pursuant to the preceding sentence, the Company shall mail to holders of record of the Securities a notice of the reduction at least fifteen days prior to the date the reduced conversion price takes effect, and such notice shall state the reduced conversion price and the period it will be in effect.

SECTION 4.5 No Fractional Shares.

No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Security or Securities (or specified portions thereof), the Company shall pay a cash adjustment in respect of such fractional share in an amount equal to the same fraction of the market price per share of Common Stock (as determined by the Board of Directors or in any manner prescribed by the Board of Directors, which, if available, shall be the Closing Price for the shares of Common Stock) on the day of conversion.

SECTION 4.6 Reclassification, Consolidation, Merger or Sale of Assets.

In the event that the Company shall be a party to any transaction (including without limitation any recapitalization or reclassification of the Common Stock) other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination of the Common Stock, any consolidation of the Company with, or merger of the Company into, any other person, any merger of another person into the Company (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company), any sale or transfer of all or substantially all of the assets of the Company or any share exchange) pursuant to which the Common Stock is converted into the right to receive other securities, cash or other property, then lawful provisions shall be made as part of the terms of such transaction whereby the holder of each Security then outstanding shall have the right thereafter to convert such Security only into (i) in the case of any such transaction other than a Common Stock Fundamental Change and subject to funds being legally available for such purpose under applicable law at the time of such conversion, the kind and amount of securities, cash and other property receivable upon such transaction by a holder of the number of shares of Common Stock into which such Security might have been converted immediately prior to such transaction, after giving effect, in the case of any Non-Stock Fundamental Change, to any adjustment in the conversion price required by the provisions of Section 4.12, and (ii) in the case of a Common Stock Fundamental Change, common stock of the kind received by holders of Common Stock as a result of such Common Stock Fundamental Change in an amount determined pursuant to the provisions of Section 4.12. The Company or the Person formed by such consolidation or resulting from such merger or which acquires such assets or which acquires the Company's shares, as the case may be, shall make provisions in its certificate or articles of incorporation or other constituent document to establish such right. Such certificate or articles of incorporation or other constituent document shall provide for adjustments which, for events subsequent to the effective date of such certificate or articles of incorporation or other constituent document, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article IV. The above provisions shall similarly apply to successive transactions of the foregoing type.

SECTION 4.7 Prior Notice of Certain Events. In case:

(a) the Company shall (1) declare any dividend (or any other distribution) on Common Stock other than (A) a dividend payable in shares of Common Stock or (B) a dividend payable in cash out

of its retained earnings other than any special or nonrecurring or other extraordinary dividend or (2) declare or authorize a redemption or repurchase of in excess of 10% of the then outstanding shares of Common Stock; or

(b) the Company shall authorize the granting to all the holders of Common Stock of rights or warrants to subscribe for or purchase any shares of stock of any class or series or of any other rights or warrants (other than any rights which are not separable from the Common Stock except upon the occurrence of a contingency); or

(c) of any reclassification of the Common Stock (other than a subdivision or combination of outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company or of any share exchange whereby the Common Stock is converted into other securities, cash or other property; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall cause to be filed with the Trustee and to be mailed to each Holder of Securities at his last address appearing on the Security Register, as promptly as possible but in any event at least 15 days prior to the applicable record or effective date hereinafter specified, a notice stating (1) the date on which a record, if any, is to be taken for the purpose of such dividend, distribution, redemption, repurchase or granting of rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, redemption, repurchase, rights or warrants are to be determined or (2) the date on which such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, share exchange, dissolution, liquidation or winding up (but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the corporate action required to specified in such notice).

SECTION 4.8 Shares to be Reserved; Accounting Treatment of Consideration.

The Company covenants that it will at all times reserve and keep available out of its authorized and unissued Common Stock, free from preemptive rights solely for the purpose of issue upon conversion of Securities as herein provided, such number of shares of Common Stock as shall then be issuable upon the conversion of all outstanding Securities. The Company covenants that all shares of Common Stock which shall be so issuable shall, when issued, be duly and validly issued and fully paid and nonassessable.

The Company covenants that, upon conversion of Securities as herein provided, there will be credited to the Common Stock capital account from the consideration for which the shares of Common Stock issuable upon such conversion are issued an amount per share of Common Stock so issued as determined by the Board of Directors, which amount shall not be less than the amount required by law and by the Company's certificate of incorporation as in effect on the date of such conversion. For the purposes of this covenant the principal amount of the Securities converted, less any cash paid in respect of fractional share interests upon such conversion, shall be deemed to be the amount of consideration for which the shares of Common Stock issuable upon such conversion are issued.

SECTION 4.9 Registration and Listing of Shares.

The Company covenants that if any shares of Common Stock required to be reserved for purposes of conversion of Securities hereunder require registration with or approval of any governmental authority under any federal or state law before such shares may be issued upon conversion, the Company will in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered or

approved, as the case may be. The Company further covenants that so long as the Common Stock is listed on the New York Stock Exchange or any other national securities exchange or traded through the Nasdaq National Market, the Company will, if permitted by the rules of such exchange or market, list and keep listed on such exchange or make and keep eligible for trading on such market, as the case may be, upon official notice of issuance, all shares of Common Stock issuable upon conversion of Securities; provided, however, that such shares of Common Stock may be delisted from such exchange or may cease to be eligible for trading through such market (as the case may be) if, prior to or concurrent with such delisting or cessation of eligibility for trading, the Company causes such shares of Common Stock to be listed on or eligible for trading through any other national securities exchange or on the Nasdaq National Market.

SECTION 4.10 Taxes and Charges.

The issuance of certificates evidencing shares of Common Stock upon the conversion of Securities shall be made without charge to the converting Holder of Securities for such certificates or for any tax in respect of the issuance of such certificates or the securities evidenced thereby, and such certificates shall be issued in the respective names of, or in such names as may be directed by, the Holders of the Securities converted; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificate in a name other than that of the Holder of the Security converted, and the Company shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

SECTION 4.11 Trustee and Conversion Agents Not Liable.

Neither the Trustee nor any conversion agent shall at any time be under any duty or responsibility to any Holder of Securities to determine whether any facts exist which may require any adjustment of the conversion rate, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. Neither the Trustee nor any conversion agent shall be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock or of any securities or cash or other property which may at any time be issued or delivered upon the conversion of any Security, or makes any representation with respect thereto. Neither the Trustee nor any conversion agent shall be responsible for any failure of the Company to make any cash payment or to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property upon the surrender of any Security for the purpose of conversion or, subject to Section 8.1, to comply with any of the covenants of the Company contained in this Article IV.

SECTION 4.12 Special Conversion Rights.

Notwithstanding any other provision in this Article IV to the contrary, if any Fundamental Change occurs, then the conversion price in effect will be adjusted immediately after such Fundamental Change as described below. In addition, in the event of a Common Stock Fundamental Change, each Security shall be convertible solely into common stock of the kind received by holders of Common Stock as the result of such Common Stock Fundamental Change:

For purposes of calculating any adjustment to be made pursuant to this Section 4.12 in the event of a Fundamental Change, immediately after such Fundamental Change.

(i) In the case of a Non-Stock Fundamental Change, the conversion price of the Securities shall thereupon become the lower of (A) the conversion price in effect immediately prior to such Non-Stock Fundamental Change, but after giving effect to any other prior adjustments effected pursuant to this Article IV, and (B) the result of A x $50/B, where:

A = the greater of the Applicable Price or the then applicable Reference Market Price, and

B = the then-current Optional Redemption Price per Security; and

(ii) In the case of a Common Stock Fundamental Change, the conversion price of the Securities in effect immediately prior to such Common Stock Fundamental Change, but after giving effect to any other prior adjustments effected pursuant to this Article IV, shall thereupon be adjusted by multiplying such conversion price by a fraction of which the numerator shall be the Purchaser Stock Price and the denominator shall be the Applicable Price; provided, however, that in the event of a Common Stock Fundamental Change in which (A) 100% by value of the consideration received by a holder of Common Stock is common stock of the successor, acquiror or other third party (and cash, if any, is paid with respect to any fractional interests in such common stock resulting from such Common Stock Fundamental Change) and (B) all of the Common Stock shall have been exchanged for, converted into or acquired for common stock (and cash with respect to fractional interests) of the successor, acquiror or other third party, the conversion price of the Securities in effect immediately prior to such Common Stock Fundamental Change shall thereupon be adjusted by dividing such conversion price by the number of shares of common stock of the successor, acquiror, or other third party received by a holder of one share of Common Stock as a result of such Common Stock Fundamental Change.

SECTION 4.13 Limitations on Adjustment of Conversion Price.

Notwithstanding any other provisions in this Article IV, the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in shares of Common Stock under any such plan, and the issuance of any shares of Common Stock or options or rights to purchase such shares pursuant to any employee benefit plan or program of the Company or pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of , 1997 shall not be deemed to constitute an issuance of Common Stock or exercisable, exchangeable or convertible securities by the Company to which any of the adjustment provisions described above applies. There shall also be no adjustment of the conversion price in case of the issuance of any stock (or securities convertible into or exchangeable for stock) of the Company except as specifically described in this Article IV. If any action would require adjustment of the conversion price pursuant to more than one of the provisions described above, only one adjustment shall be made and such adjustment shall be the amount of adjustment which has the highest absolute value to holders of Securities.

ARTICLE V

COVENANTS

SECTION 5.1 Payment of Securities.

The Company shall pay the principal of and interest and premium, if applicable on the Securities on the dates and in the manner provided herein and in the Securities. An installment of principal of or interest and premium, if applicable on the Securities shall be considered paid on the date it is due if the Trustee or Paying Agent (other than the Company, a Subsidiary of the Company or an Affiliate of the Company) holds for the benefit of the Holders, on or before 1:00 p.m. New York City time on that date, Cash deposited and designated for and sufficient to pay the installment.

The Company shall pay interest on overdue principal and on overdue installments of interest at the rate specified in the Securities compounded quarterly, to the extent lawful.

SECTION 5.2 Maintenance of Office or Agency.

The Company shall maintain in the Borough of Manhattan, The City of New York, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange, where Securities may be surrendered for conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company shall give prompt written notice to the Trustee and the Paying Agent of the location,

and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee and the Paying Agent with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 12.2.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes. The Company shall give prompt written notice to the Trustee and the Paying Agent of any such designation or rescission and of any change in the location of any such other office or agency. The Company hereby initially designates the corporate trust office of the Paying Agent as such office.

SECTION 5.3 Corporate Existence.

Subject to Article VI, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence in accordance with its organizational documents (as the same may be amended from time to time) and the rights (charter and statutory) of the Company.

SECTION 5.4 Compliance Certificate; Notice of Default.

(a) The Company shall deliver to the Trustee annually, within 120 days after the end of its fiscal year commencing with the fiscal year ending December 31, 1997 an Officers' Certificate complying with (S) 314(a)(4) of the TIA and stating that a review of its activities and the activities of its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture and further stating, as to each such Officer signing such certificate, whether or not the signer knows of any failure by the Company to comply with any conditions or covenants in this Indenture and, if such signer does know of such a failure to comply, the certificate shall describe such failure with particularity. The Officers' Certificate shall also notify the Trustee should the relevant fiscal year end on any date other than the current fiscal year end date.

(b) The Company shall, so long as any of the Securities are outstanding, deliver to the Trustee, promptly upon becoming aware of any Default or any Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto. The Trustee shall not be deemed to have knowledge of any Default or any Event of Default unless one of its Trust Officers receives written notice thereof from the Company or any of the Holders.

SECTION 5.5 Reports.

Whether or not the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall deliver to the Trustee and to each Holder, within 15 days after it files or would have been required to file such with the SEC, annual and quarterly financial statements substantially equivalent to financial statements that would have been included in reports filed with the SEC, if the Company were subject to the requirements of Section 13 or 15(d) of the Exchange Act, including, with respect to annual information only, a report thereon by the Company's certified independent public accountants as such would be required in such reports to the SEC, and, in each case, together with a management's discussion and analysis of financial condition and results of operations which would be so required. Whether or not required by the rules and regulations of the SEC, the Company will file a copy of all such information and reports with the SEC for public availability. Notwithstanding the foregoing, the Company shall not be required to file any such reports if the SEC does not permit such filings. Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's

receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 5.6 Limitation on Status as Investment Company.

Neither the Company nor any Subsidiary of the Company shall become an "investment company" (as that term is defined in the Investment Company Act of 1940, as amended), or otherwise become subject to regulation under the Investment Company Act.

SECTION 5.7 Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of, premium of, or interest on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee or any Paying Agent, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

SUCCESSOR CORPORATION

SECTION 6.1 Limitation on Merger, Sale or Consolidation.

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company unless:

(a) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any state thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all of the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed by it and shall have provided for conversion rights in accordance with Section 4.6 and, if applicable, Section 4.12.

(b) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(c) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 6.2 Successor Corporation Substituted.

Upon any consolidation or merger or any sale, lease, conveyance or transfer of all or substantially all of the assets of the Company in accordance with Section 6.1 hereof, the successor Person formed by such consolidation or into which the Company is merged or to which such sale, lease, conveyance or transfer is made, shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named herein as the Company, and when a successor Person duly assumes all of the obligations of the Company pursuant hereto and pursuant to the Securities, the Company shall be released from such obligations and may be liquidated and dissolved.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.1 Events of Default.

"Event of Default," wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be caused voluntarily or involuntarily or effected, without limitation, by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) failure to pay any installment of interest upon the Securities as and when the same becomes due and payable, and the continuance of such default for a period of 30 days;

(2) failure to pay all or any part of the principal of or premium, if any, on the Securities when and as the same becomes due and payable at maturity, redemption, by acceleration, or otherwise;

(3) failure by the Company to observe or perform any covenant or agreement contained in the Securities or this Indenture (other than a default in the performance of any covenant or agreement which is specifically dealt with elsewhere in this Section 7.1), and continuance of such failure for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by Holders of at least 25% in aggregate principal amount of the outstanding Securities, a written notice specifying such default or breach, requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(4) a decree, judgment, or order by a court of competent jurisdiction shall have been entered adjudicating the Company or any of its Material Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company or any of its Material Subsidiaries under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 consecutive days; or a decree or order of a court of competent jurisdiction, judgment appointing a receiver, liquidator, trustee, or assignee in bankruptcy or insolvency for the Company, any of its Material Subsidiaries, or any substantial part of the property of any such Person, or for the winding up or liquidation of the affairs of any such Person, shall have been entered, and such decree, judgment, or order shall have remained in force undischarged and unstayed for a period of 60 days;

(5) the Company or any of its Material Subsidiaries shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a Custodian, receiver, liquidator, trustee, or assignee in bankruptcy or insolvency of it or any substantial part of its assets or property, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall, within the meaning of any Bankruptcy Law, become insolvent, fail generally to pay its debts as they become due, or take any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing;

SECTION 7.2 Acceleration of Maturity Date; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 7.1(4) or (5) relating to the Company) occurs and is continuing, then, in every such case, unless the principal of all of the Securities shall have already become due and payable, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Securities then outstanding, by a notice in writing to the Company (and to the Trustee if given by Holders) (an "Acceleration Notice"), may declare all of the principal of the Securities, determined as set forth below, and accrued interest thereon, to be due and payable immediately (plus, in the case of an Event of Default which is the result of an action of the Company intended to avoid paying a redemption premium on the Securities contained herein, an amount of premium that would have been applicable under the Securities). If an Event of Default specified in Section 7.1(4) or (5) relating to the Company occurs, all principal and accrued interest thereon will be immediately due and payable on all outstanding Securities without any declaration or other act on the part of Trustee or the Holders.

At any time after such a declaration of acceleration being made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article VII, the Holders of not less than a majority in aggregate principal amount of then outstanding Securities, by written notice to the Company and the Trustee, may rescind, on behalf of all Holders, any such declaration of acceleration if:

(1) the Company has paid or deposited with the Trustee Cash sufficient to pay

(A) all overdue interest on all Securities,

(B) the principal of (and premium, if any, applicable to) any Securities which would become due other than by reason of such declaration of acceleration, and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Securities,

(D) all sums paid or advanced by the Trustee hereunder and the compensation, expenses, disbursements and advances of the Trustee and its agents and counsel, and any other amounts due the Trustee under Section 8.7, and

(2) all Events of Default, other than the non-payment of the principal of, premium, if any, and interest on Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 7.12.

SECTION 7.3 Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if an Event of Default in payment of principal, premium, or interest specified in clause (1) or (2) of Section 7.1 occurs and is continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal, premium (if any) and interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any) and on any overdue interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including compensation to, and expenses, disbursements and advances of the Trustee and its agents and counsel and all other amounts due the Trustee under Section 8.7.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust in favor of the Holders, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 7.4 Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal and premium, if any, or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise to take any and all actions under the TIA, including

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agent and counsel and all other amounts due the Trustee under Section 8.7) and of the Holders allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel, and any other amounts due the Trustee under Section 8.7.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 7.5 Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust in favor of the Holders, and any recovery of judgment shall, after provision for the payment of compensation to, and expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under Section 8.7, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 7.6 Priorities.

Any money collected by the Trustee pursuant to this Article VII shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal, premium (if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the Trustee in payment of all amounts due pursuant to Section 8.7;

SECOND: To the Holders in payment of the amounts then due and unpaid for principal of, premium (if any) and interest on, the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium (if any) and interest, respectively; and

THIRD: To the Company or such other Person as may be lawfully entitled thereto, the remainder, if any.

The Trustee may, but shall not be obligated to, fix a record date and payment date for any payment to the Holders under this Section 7.6.

SECTION 7.7 Limitation on Suits.

No Holder of any Security shall have any right to order or direct the Trustee to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(A) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(B) the Holders of not less than 25% in aggregate principal amount of then outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(C) such Holder or Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred or reasonably probable to be incurred in compliance with such request;

(D) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(E) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the outstanding Securities;

it being understood and intended that no one or more Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 7.8 Unconditional Right of Holders to Receive Principal, Premium and Interest.

Subject to the provisions of Article II, notwithstanding any other provision of this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of, and premium (if any) and (subject to Section 2.12) interest on, such Security on the Maturity Dates of such payments as expressed in such Security (in the case of redemption, the Redemption Price on the applicable Redemption Date) and to convert such Security in accordance with Article IV and to institute suit for the enforcement of any such payment and right to convert, and such rights shall not be impaired without the consent of such Holder.

SECTION 7.9 Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in Section 2.7, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 7.10 Delay or Omission Not Waiver.

No delay or omission by the Trustee or by any Holder of any Security to exercise any right or remedy arising upon any Event of Default shall impair the exercise of any such right or remedy or constitute a waiver of any such Event of Default. Every right and remedy given by this Article VII or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 7.11 Control by Holders.

The Holder or Holders of a majority in aggregate principal amount of then outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, provided, that

(1) such direction shall not be in conflict with any rule of law or with this Indenture or involve the Trustee in personal liability,

(2) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Holders not taking part in such direction, and

(3) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 7.12 Waiver of Past Default.

Subject to Section 7.8, the Holder or Holders of not less than a majority in aggregate principal amount of the outstanding Securities may, on behalf of all Holders, waive any past default hereunder and its consequences, except a default

(A) in the payment of the principal of, premium, if any, or interest on, any Security as specified in clauses (1) and (2) of Section 7.1 and not yet cured, or

(B) in respect of a covenant or provision hereof which, under Article X, cannot be modified or amended without the consent of the Holder of each outstanding Security affected, unless all such affected Holders agree, in writing, to waive such Event of Default or other event.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair the exercise of any right arising therefrom.

SECTION 7.13 Undertaking for Costs.

The parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted to be taken by it as Trustee, any court may in its discretion require the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 7.13 shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in aggregate principal amount of the outstanding Securities, or to any suit instituted by any Holder for enforcement of the payment of principal of, or premium (if any) or interest on, any Security on or after the respective Maturity Date expressed in such Security (including, in the case of redemption, on or after the Redemption Date) or for the enforcement of the right to convert any security in accordance with Article IV.

SECTION 7.14 Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

ARTICLE VIII

TRUSTEE

The Trustee hereby accepts the trust imposed upon it by this Indenture and covenants and agrees to perform the same, as herein expressed, subject to the terms hereof.

SECTION 8.1 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(1) The Trustee need perform only those duties as are specifically set forth in this Indenture and no others, and no covenants or obligations shall be implied in or read into this Indenture which are adverse to the Trustee, and

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph (b) of this Section 8.1,

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts, and

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 7.11.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or to take or omit to take any action under this Indenture or at the request, order or direction of the Holders or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c), (d) and (f) of this Section 8.1.

(f) The Trustee shall not be liable for interest on any assets received by it except as the Trustee may agree in writing with the Company. Assets held in trust by the Trustee need not be segregated from other assets except to the extent required by law.

SECTION 8.2 Rights of Trustee.

Subject to Section 8.1:

(a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may consult with counsel of its selection and may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Sections 12.4 and 12.5. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such certificate or advice of counsel. The advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred upon it by this Indenture, nor for any action permitted to be taken or omitted hereunder by any Agent.

(e) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(g) Unless otherwise specifically provided for in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(h) The Trustee shall have no duty to inquire as to the performance of the Company's covenants in Article V hereof or as to the performance by any Agent of its duties hereunder. In addition, the Trustee shall not be deemed to have knowledge of any Default or Event of Default except any Default or Event of Default of which the Trustee shall have received written notification or with respect to which a Trust Officer shall have actual knowledge.

(i) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate.

(j) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 8.3 Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company, any of its Subsidiaries, or their respective Affiliates with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee must comply with Sections 8.10 and 8.11.

SECTION 8.4 Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities and it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities, other than the Trustee's certificate of authentication (if executed by the Trustee), or the use or application of any funds received by a Paying Agent other than the Trustee.

SECTION 8.5 Notice of Default.

If a Default or an Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the uncured Default or Event of Default within 90 days after such Default or Event of Default occurs. Except in the case of a Default in the repayment of principal or interest on any Security, the Trustee may withhold the notice if and so long as a Trust Officer in good faith determines that withholding the notice is in the interest of the Securityholders.

SECTION 8.6 Reports by Trustee to Holders.

Within 60 days after each beginning with the following the date of this Indenture, the Trustee shall, if required by law, mail to each Securityholder a brief report dated as of such that complies with TIA (S) 313(a). The Trustee also shall comply with TIA (S)(S) 313(b) and 313(c).

The Company shall promptly notify the Trustee in writing if the Securities become listed on any stock exchange or automatic quotation system.

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed.

SECTION 8.7 Compensation and Indemnity.

The Company agrees to pay to the Trustee such compensation as the Company and the Trustee shall from time to time agree in writing for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it in accordance with this Indenture. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents, accountants, experts and counsel.

The Company agrees to indemnify the Trustee or any predecessor Trustee (in its capacity as Trustee) and each of its officers and each of them, directors, attorneys-in-fact and agents for, and hold it harmless against, any claim, demand, expense (including but not limited to taxes (other than taxes based upon, measured by or determined by the income of the Trustee) and reasonable compensation, disbursements and expenses of the Trustee's agents and counsel), loss or liability incurred by it without negligence or bad faith on the part of the Trustee, arising out of or in connection with the administration of this trust and its rights or duties hereunder including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company shall defend the claim and the Trustee shall provide reasonable cooperation at the Company's expense in the defense. The Trustee may have separate counsel and the Company shall

pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its written consent. The Company need not reimburse any expense or indemnify against any loss or liability to the extent incurred by the Trustee through its negligence, bad faith or willful misconduct.

To secure the Company's payment obligations in this Section 8.7, the Trustee shall have a lien on all assets held or collected by the Trustee, in its capacity as Trustee, except assets held in trust to pay principal and premium, if any, of or interest on particular Securities.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 7.1(4) or (5) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

The Company's obligations under this Section 8.7 and any Lien arising hereunder shall survive the resignation or removal of the Trustee, the discharge of the Company's obligations pursuant to Article IX of this Indenture and any rejection or termination of this Indenture under any Bankruptcy Law.

SECTION 8.8 Replacement of Trustee.

The Trustee may resign by so notifying the Company in writing. The Holder or Holders of a majority in aggregate principal amount of the outstanding Securities may remove the Trustee by so notifying the Company and the Trustee in writing and may appoint a successor trustee with the Company's consent. The Company may remove the Trustee if:

(a) the Trustee fails to comply with Section 8.10;

(b) the Trustee is adjudged bankrupt or insolvent;

(c) a receiver, Custodian, or other public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holder or Holders of a majority in aggregate principal amount of the Securities may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that and provided that all sums owing to the retiring Trustee provided for in Section 8.7 have been paid, the retiring Trustee shall transfer all property held by it as trustee to the successor Trustee, subject to the lien provided in Section 8.7, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Holder.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holder or Holders of at least 10% in aggregate principal amount of the outstanding Securities may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 8.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding replacement of the Trustee pursuant to this Section 8.8, the Company's obligations under Section 8.7 shall continue for the benefit of the retiring Trustee.

SECTION 8.9 Successor Trustee by Merger, Etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the resulting, surviving or transferee corporation without any further act shall, if such resulting, surviving or transferee corporation is otherwise eligible hereunder, be the successor Trustee.

SECTION 8.10 Eligibility; Disqualification.

The Trustee shall at all times satisfy the requirements of TIA (S) 310(a)(1), (2) and (5). The Trustee shall have a combined capital and surplus of at least $25 million as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA (S) 310(b).

SECTION 8.11 Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA (S) 311(a), excluding any creditor relationship listed in TIA (S) 311(b). A Trustee who has resigned or been removed shall be subject to TIA (S) 311(a) to the extent indicated.

SECTION 8.12 Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

ARTICLE IX

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

SECTION 9.1 Option to Effect Legal Defeasance or Covenant Defeasance.

The Company may, at its option at any time elect to have Section 9.2 or may, at any time, elect to have Section 9.3 applied to all outstanding Securities upon compliance with the conditions set forth below in this Article IX.

SECTION 9.2 Legal Defeasance and Discharge.

Upon the Company's exercise under Section 9.1 of the option applicable to this Section 9.2, the Company shall be deemed to have been discharged from its obligations with respect to all outstanding Securities on the date the conditions set forth below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Securities, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 9.5 and the other Sections of this Indenture referred to in (a) and (b) below, and to have satisfied all its other obligations under such Securities and this Indenture (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Securities to receive solely from the trust fund described in Section 9.4, and as more fully set forth in such section, payments in respect of the principal of, premium, if any, and interest on such Securities when such payments are due, (b) the Company's obligations with respect to such Securities under Sections 2.4, 2.6, 2.7, 2.10 and 5.2, (c) the rights, powers, trusts, duties and immunities of the Trustee hereunder and the Company's obligation in connection therewith and (d) this Article IX. Subject to compliance with this Article IX, the Company may exercise its option under this Section 9.2 notwithstanding the prior exercise of its option under Section 9.3 with respect to the Securities.

SECTION 9.3 Covenant Defeasance.

Upon the Company's exercise under Section 9.1 of the option applicable to this Section 9.3, the Company shall be released from its obligations under the covenants contained in Sections 5.4, 5.5, 5.6, and Article VI with respect to the outstanding Securities on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Securities shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder. For this purpose, such Covenant Defeasance means that, with respect to the outstanding Securities, the Company need not comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document (and Section 7.1(3) shall not apply to any such covenant), but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby. In addition, upon the Company's exercise under Section 9.1 of the option applicable to this Section 9.3, Sections 7.1(3) through 7.1(5) shall not constitute Events of Default.

SECTION 9.4 Conditions to Legal or Covenant Defeasance.

The following shall be the conditions to the application of either Section 9.2 or Section 9.3 to the outstanding Securities:

(a) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee satisfactory to the Trustee satisfying the requirements of Section 8.10 who shall agree to comply with the provisions of this Article IX applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (a) Cash in an amount, or (b) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, Cash in an amount, or (c) a combination thereof, in such amounts, as in each case will be sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge and which shall be applied by the Paying Agent (or other qualifying trustee) to pay and discharge the principal of, premium, if any, and interest on the outstanding Securities on the stated maturity or on the applicable redemption date, as the case may be, of such principal or installment of principal, premium, if any, or interest; provided that the Paying Agent shall have been irrevocably instructed to apply such Cash and the proceeds of such U.S. Government Obligations to said payments with respect to the Securities. The Paying Agent shall promptly advise the Trustee in writing of any Cash or securities deposited pursuant to this Section 9.4.

(b) In the case of an election under Section 9.2, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date hereof, there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such Legal Defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) In the case of an election under Section 9.3, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States to the effect that the Holders of the outstanding Securities will not recognize income, gain or loss for Federal income tax purposes as a result of such Covenant Defeasance and will be subject to Federal income tax in the same amount, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) No Default or Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit or, in so far as Section 7.1(4) or Section 7.1(5) is concerned, at any time in the period ending on the 91st day after the date of such deposit (it being understood that this condition is a condition subsequent which shall not be deemed satisfied until the expiration of such period, but in the case of Covenant Defeasance, the covenants which are defeased under Section 9.3 will cease to be in effect unless an Event of Default under Section 7.1(4) or Section 7.1(5) occurs during such period);

(e) Such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them is bound;

(f) In the case of an election under either Section 9.2 or 9.3, the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit made by the Company pursuant to its election under Section 9.2 or 9.3 was not made by the Company with the intent of preferring the Holders over other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and

(g) The Company shall have delivered to the Trustee an Officers' Certificate stating that the conditions precedent provided for have been complied with.

SECTION 9.5 Deposited Cash and U.S. Government Obligations to be Held in Trust; Other Miscellaneous Provisions.

Subject to Section 9.6, all Cash and U.S. Government Obligations (including the proceeds thereof) deposited with the Paying Agent (or other qualifying trustee, collectively for purposes of this Section 9.5, the "Paying Agent") pursuant to Section 9.4 in respect of the outstanding Securities shall be held in trust and applied by the Paying Agent, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any other Paying Agent as the Trustee may determine, to the Holders of such Securities of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

SECTION 9.6 Repayment to the Company.

Anything in this Article IX to the contrary notwithstanding, the Trustee or the Paying Agent, as applicable, shall deliver or pay to the Company from time to time upon the request of the Company any Cash or U.S. Government Obligations held by it as provided in Section 9.4 hereof which in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 9.4(a) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Any Cash and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest on any Security and remaining unclaimed for two years after such principal, and premium, if any, or interest has become due and payable shall be paid to the Company on its request; and the Holder of such Security shall thereafter look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in the New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 9.7 Reinstatement.

If the Trustee or Paying Agent is unable to apply any Cash or U.S. Government Obligations in accordance with Section 9.2 or 9.3, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 9.2 or 9.3 until such time as the Trustee or Paying Agent is permitted to apply such money in accordance with Section 9.2 and 9.3, as the case may be; provided, however, that, if the Company makes any payment of principal of, premium, if any, or interest on any Security following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the Cash and U.S. Government Obligations held by the Trustee or Paying Agent.

ARTICLE X

AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 10.1 Supplemental Indentures Without Consent of Holders.

Without the consent of or notice to any Holder, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may amend or supplement this Indenture or the Securities for any of the following purposes:

(1) to cure any ambiguity, defect, or inconsistency;

(2) to add to the covenants of the Company for the benefit of the Holders, or to surrender any right or power herein conferred upon the Company;

(3) to make provision with respect to the conversion rights of Holders pursuant to the requirements of Section 4.6 or 4.12;

(4) to evidence the succession of another Person to the Company and the assumption by any such successor of the obligations of the Company herein and in the Securities in accordance with Article VI;

(5) to comply with the TIA;

(6) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities; or

(7) to make any change that does not adversely affect the legal rights of any Holder in any material respect.

SECTION 10.2 Amendments, Supplemental Indentures and Waivers with Consent of Holders.

Subject to Section 7.8, with the consent of the Holders of not less than a majority in aggregate principal amount of then outstanding Securities, by written act of said Holders delivered to the Company and the Trustee, the Company, when authorized by Board Resolutions, and the Trustee may amend or supplement this Indenture or the Securities or enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or the Securities or of modifying in any manner the rights of the Holders under this Indenture or the Securities. Subject to Section 7.8, the Holder or Holders of not less than a majority in aggregate principal amount of then outstanding Securities may waive compliance by the Company with any provision of this Indenture or the Securities. Notwithstanding any of the above, however, no such amendment, supplemental indenture or waiver shall without the consent of the Holder of each outstanding Security affected thereby:

(1) reduce the percentage of principal amount of Securities whose Holders must consent to an amendment, supplement or waiver of any provision of this Indenture or the Securities;

(2) reduce the rate or extend the time for payment of interest on any Security;

(3) reduce the principal or premium amount of any Security, or reduce the Redemption Price;

(4) change the Stated Maturity;

(5) alter the redemption provisions of Article III in a manner adverse to any Holder;

(6) make any changes in Section 7.8, 7.12 (except to increase the aggregate principal amount of Securities necessary to waive any past Default or to include in other provisions of this Indenture, a Default in respect of which may not be governed by Section 7.12) or this third sentence of this Section 10.2;

(7) make the principal of, or the interest or premium on, any Security payable with anything or in any manner other than as provided for in this Indenture (including changing the place of payment where, or the coin or currency in which, any Security or any premium or the interest thereon is payable) and the Securities as in effect on the date hereof;

(8) adversely affect the right to convert any security as provided in Article IV;

(9) modify the subordination provisions in a manner adverse to the Holders of the Securities.

It shall not be necessary for the consent of the Holders under this Section 10.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 10.2 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture or waiver.

After an amendment, supplement or waiver under this Section 10.2 or Section 10.4 becomes effective, it shall bind each Holder.

In connection with any amendment, supplement or waiver under this Article X, the Company may, but shall not be obligated to, offer to any Holder who consents to such amendment, supplement or waiver, or to all Holders, consideration for such Holder's consent to such amendment, supplement or waiver.

SECTION 10.3 Compliance with TIA.

Every amendment, waiver or supplement of this Indenture or the Securities shall comply with the TIA as then in effect.

SECTION 10.4 Revocation and Effect of Consents.

Until an amendment, waiver or supplement becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of his Security by written notice to the Company or the Person designated by the Company as the Person to whom consents should be sent if such revocation is received by the Company or such Person before the date on which the Trustee receives an Officers' Certificate certifying that the Holders of the requisite principal amount of Securities have consented (and not theretofore revoked such consent) to the amendment, supplement or waiver.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any amendment, supplement or waiver, which record date shall be the date

so fixed by the Company notwithstanding the provisions of the TIA. If a record date is fixed, then notwithstanding the last sentence of the immediately preceding paragraph, those Persons who were Holders at such record date, and only those Persons (or their duly designated proxies), shall be entitled to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

After an amendment, supplement or waiver becomes effective, it shall bind every Securityholder, unless it makes a change described in any of clauses (1) through (9) of Section 10.2, in which case, the amendment, supplement or waiver shall bind only each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security; provided, that any such waiver shall not impair or affect the right of any Holder to receive payment of principal and premium of and interest on a Security, on or after the respective dates set for such amounts to become due and payable expressed in such Security, or to bring suit for the enforcement of any such payment on or after such respective dates.

SECTION 10.5 Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Registrar or require the Holder to put an appropriate notation on the Security. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms. Any failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment, supplement or waiver.

SECTION 10.6 Trustee to Sign Amendments, Etc.

The Trustee shall execute any amendment, supplement or waiver authorized pursuant to this Article X; provided, that the Trustee may, but shall not be obligated to, execute any such amendment, supplement or waiver which affects the Trustee's own rights, duties or immunities under this Indenture. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of any amendment, supplement or waiver authorized pursuant to this Article X is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the trustee's own rights, duties or immunities under this Indenture or otherwise.

ARTICLE XI

SUBORDINATION OF SECURITIES

SECTION 11.1 Securities Subordinate to Senior Indebtedness.

The Company covenants and agrees, and each Holder of a Security by his acceptance thereof likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article XI, the indebtedness represented by the Securities and the payment of the principal of (and premium, if any) and interest on each and all of the Securities are hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness.

SECTION 11.2 Payment Over of Proceeds Upon Dissolution, Etc.

Upon any distribution of assets of the Company in the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in

connection therewith, relative to the Company or to its creditors, as such, or to its assets or (b) any liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy or (c) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Company, then and in any such event the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness (including, without limitation, interest thereon accruing after the commencement of any such case, proceeding or action but only to the extent that such holders of Senior Indebtedness shall have been determined to be entitled to receive such interest from the Company), or provisions shall be made for such payment in money or money's worth, before the Holders of the Securities are entitled to receive any payment on account of principal of (or premium, if any) or interest on the Securities, and to that end the holders of Senior Indebtedness shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, which may be payable or deliverable in respect of the Securities in any such case, proceeding or action. In the event that (1) any case, proceeding or action described in clauses (a) through (c) above shall have occurred and (2) a proper claim or proof of debt shall not have been filed on behalf of the Holders of the Securities at least 10 days prior to the expiration of the time to file such claim or proof of debt, any holder of Senior Indebtedness, on behalf of all holders of Senior Indebtedness then outstanding, shall be entitled to file, on behalf of the Holders of the Securities, an appropriate claim or proof of debt for the unpaid balance of the Securities or other amounts owing in respect of the Securities in the form required in such case, proceeding or action and to cause such claim to be approved.

In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or the Holder of any Security shall have received any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, before all Senior Indebtedness is paid in full or payment thereof provided for, and if such fact shall then have been made known to the Trustee, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Company for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness.

For purposes of this Article only, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinated at least to the extent provided in this Article XI with respect to the Securities to the payment of all Senior Indebtedness which may at the time be outstanding; provided, however, that (a) such Senior Indebtedness is assumed by the new corporation, if any, resulting from any such reorganization or readjustment and (b) the rights of the holders of the Senior Indebtedness are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another Person or the liquidation or dissolution of the Company following the conveyance or transfer of its properties and assets substantially as an entirety to another Person (in each case, upon the terms and conditions set forth in Article VI and in full compliance with any document pursuant to which Senior Indebtedness shall then be outstanding) shall not be deemed a dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of the Company for the purposes of this Section if the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in Article VI.

SECTION 11.3 Prior Payment to Senior Indebtedness Upon Acceleration of Securities.

In the event that any Securities are declared due and payable before their Stated Maturity, then and in such event the holders of Senior Indebtedness outstanding at the time such Securities so become due and payable shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all such Senior Indebtedness, or provision shall be made for such payment in money or money's worth, before the Holders of the Securities are entitled to receive any payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) by the Company on account of the principal of (or premium, if any) or interest on the Securities or on account of the purchase or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Securities prohibited by the foregoing provisions of this Section, and if such facts shall then have been made known to the Trustee, then and in such event such payment shall be paid over and delivered forthwith to the Company for the benefit of the holders of Senior Indebtedness.

The provisions of this Section shall not apply to any payment with respect to which Section 11.2 would be applicable.

SECTION 11.4 No Payment When Senior Indebtedness in Default.

(a) In the event and during the continuation of any default in the payment of principal (or premium, if any) or interest on any Senior Indebtedness beyond any applicable grace period with respect thereto, or in the event that any event of default with respect to any Senior Indebtedness shall have occurred and be continuing permitting the holders of such Senior Indebtedness (or a trustee on behalf of the holders thereof) to declare such Senior Indebtedness due and payable prior to the date on which it would otherwise have become due and payable, unless and until such event of default shall have been cured or waived or shall have ceased to exist and such acceleration shall have been rescinded or annulled or (b) in the event any judicial proceeding shall be pending with respect to any such default in payment or event of default; then no payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) shall be made by the Company on account of principal of (or premium, if any) or interest on the Securities or on account of the purchase or other acquisition of Securities.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall then have been made known to the Trustee, then and in such event such payment shall be paid over and delivered forthwith to the Company for the benefit of the holders of Senior Indebtedness.

The provisions of this Section shall not apply to any payment with respect to which Section 11.2 would be applicable.

SECTION 11.5 Payment Permitted if No Default.

Nothing contained in this Article XI or elsewhere in this Indenture or in any of the Securities shall prevent (a) the Company, at any time except during the pendency of any insolvency or bankruptcy case or proceeding, dissolution, liquidation or other winding up, assignment for the benefit of creditors or other marshalling of assets and liabilities of the Company referred to in Section 11.2 or under the conditions described in Section 11.3 or 11.4, from making payments at any time of principal of (and premium, if any) or interest on the Securities or (b) the application by the Trustee or the retention thereof by the Holders of any money deposited with the Trustee hereunder to the payment of or on account of the principal of (and premium, if any) or interest on the Securities if, at the time of such application, a Trust Officer had not received written notice of any event that would have prohibited such payment under the provisions of this Article XI.

SECTION 11.6 Restrictions on Acceleration and Exercise of Remedies.

Notwithstanding the provisions of Sections 7.2, 7.3, 7.4, 7.5 and 7.6, unless the holders of Senior Indebtedness shall have accelerated the maturity of all Senior Indebtedness or any case, proceeding or action described in clauses (a) through (c) of Section 11.2 shall have occurred, the holders of the Securities shall be prohibited from taking any action involving the collection of the Securities including, without limitation, directly or indirectly, accelerating the maturity of the Securities or suing for or exercising any right of setoff for the collection of any amounts due in respect of the Securities (a) during any period commencing upon the occurrence of any condition described in Section 11.4 and continuing until (and including) the earlier to occur of (1) the date such condition shall have been eliminated or (2) the one hundred twentieth day from the date of the occurrence of such condition (such period being hereinafter referred to as a "Blockage Period"), (b) based upon a failure to make any payment in respect of the Securities (other than payments that became due before the Company shall have become prohibited from making such payment under this Article XI) which the Company shall have become prohibited from making under the provisions of this Article XI unless such payment remains unpaid on the ninety-first day following the termination of such prohibition or (c) based upon an Event of Default which is cured prior to the expiration of such prohibition.

Notwithstanding anything to the contrary contained in this Section 11.6, in no event shall two Blockage Periods occur consecutively; instead, at least one Business Day shall elapse following the expiration of a Blockage Period before a new Blockage Period may be invoked under this Section.

SECTION 11.7 Subrogation to Rights of Holders of Senior Indebtedness.

Subject to the payment in full of all Senior Indebtedness, the Holders of the Securities shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Indebtedness pursuant to the provisions of this Article XI to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities applicable to the Senior Indebtedness until the principal of (and premium, if any) and interest on the Securities shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Indebtedness of any cash, property or securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article XI, and no payments over pursuant to the provisions of this Article XI to the Company or to the holders of Senior Indebtedness by Holders of the Securities or the Trustee shall, as between the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, be deemed to a payment or distribution by the Company to or on account of the Securities.

SECTION 11.8 Provisions Solely to Define Relative Rights.

The provisions of this Article XI are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities, on the one hand, and the holders of Senior Indebtedness, on the other hand. Nothing contained in this Article XI or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Company, its creditors and the Holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms and which, subject to the rights under this Article XI of the holders of Senior Indebtedness, is intended to rank equally with all general obligations of the Company, or is intended to or shall affect the relative rights against the Company of the Holders of the Securities and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article XI of the holders of Senior Indebtedness to receive cash, property or securities otherwise payable or deliverable to the Trustee or such Holder.

SECTION 11.9 Trustee to Effectuate Subordination.

Each Holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article XI and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 11.10 No Waiver of Subordination Provisions.

No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act in good faith by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders of the Securities, without incurring responsibility to the Holders of the Securities and without impairing or releasing the subordination provided in this Article XI or the obligations hereunder of the Holders of the Securities to the holders of Senior Indebtedness, do any one or more of the following: (a) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Indebtedness, or otherwise amend or supplement in any manner Senior Indebtedness or any instrument evidencing the same or any agreement under which Senior Indebtedness is outstanding; (b) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Indebtedness; (c) release any Person liable in any manner for the collection of Senior Indebtedness; and (d) exercise or refrain from exercising any rights against the Company and any other Person.

SECTION 11.11 Notice to Trustee.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities. Failure to give such notice shall not affect the subordination of the Securities to Senior Indebtedness. Notwithstanding the provisions of this Article XI or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Securities, unless and until a Trust Officer shall have received written notice thereof from the Company or a holder of Senior Indebtedness or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, except during the continuance of an Event of Default, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received, at least three Business Days prior to the date upon which by the terms hereof any such money may become payable for any purpose (including without limitation, the payment of the principal of, and premium, if any, or interest on any Security), the notice with respect to such money provided for in this Section, then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within three Business Days prior to such date.

Except during the continuance of an Event of Default, the Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Indebtedness (or a trustee on behalf of any such holder). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article XI, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such

payment or distribution and any other facts pertinent to the rights of such Person under this Article XI, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 11.12 Reliance on Judicial Order or Certificate of Liquidating Agent.

Upon any payment or distribution of assets of the Company referred to in this Article XI, the Trustee, except during the continuance of an Event of Default, and the Holders of the Securities shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Trustee or to the Holders of Securities, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pursuant thereto to this Article XI.

SECTION 11.13 Trustee Not Fiduciary for Holders of Senior Indebtedness.

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness.

SECTION 11.14 Rights of Trustee as Holder of Senior Indebtedness; Preservation of Trustee's Rights.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XI with respect to any Senior Indebtedness which may at any time be held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article XI shall apply to claims of, or payments to, the Trustee or any predecessor Trustee under or pursuant to Section 8.7.

SECTION 11.15 Article Applicable to Paying Agent.

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article XI shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article XI in addition to or in place of the Trustee; provided, however, that (a) all notices received by, and the knowledge of, the Trustee shall, for purposes of the application of this Section 11.15, be attributed to any such Paying Agent for all purposes such that to invoke the provisions of this Article XI any holder of Senior Indebtedness shall only be required to notify the Trustee and shall not be required to verify any Paying Agent and (b) Section 11.14 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

SECTION 11.16 Reinstatement of Senior Indebtedness.

To the extent that any payment of Senior Indebtedness (whether by or on behalf of the Company, as proceeds of security or enforcement of any right of set off or otherwise) is declared to be fraudulent or preferential, set aside or required to be paid over to a trustee, receiver or other similar party under any applicable bankruptcy or insolvency law, then, if such payment is received by, or paid over to, such trustee, receiver or other similar party, the Senior Indebtedness or part thereof originally intended to be satisfied shall be deemed to be reinstated and outstanding as if such payment had not occurred.

ARTICLE XII

MISCELLANEOUS

SECTION 12.1 TIA Controls.

If any provision of this Indenture limits, qualifies, or conflicts with the duties imposed by operation of the TIA, the imposed duties, upon qualification of this Indenture under the TIA, shall control.

SECTION 12.2 Notices.

Any notices or other communications to the Company, Paying Agent, Registrar, transfer agent or the Trustee required or permitted hereunder shall be in writing, and shall be sufficiently given if made by hand delivery, by telex, by telecopier or registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

if to the Company:

Laboratory Corporation of America Holdings
358 South Main Street
Burlington, North Carolina 27215
Telephone: (910) 229-1127
Telecopy: (910) 222-1755
Attention: Bradford T. Smith
Executive Vice President, General Counsel,
Corporate Compliance Officer and Secretary

if to the Trustee, Paying Agent or Registrar:

First Union National Bank of North Carolina
First Union Customer Information Center
Corporate Trust Operations
1525 West W.T. Harris Blvd.,
3C3
Charlotte, North Carolina 28288-1153
Telephone: (704) 374-2670
Telecopy: (704) 383-7316
Attention: Corporate Trust Administration
drop address:
First Union National Bank
40 Broad Street
5th Floor, Suite 550
New York, New York 10004

Any party by notice to each other party may designate additional or different addresses as shall be furnished in writing by such party. Any notice or communication to any party shall be deemed to have been given or made as of the date so delivered, if personally delivered; when answered back, if telexed; when receipt is acknowledged, if telecopied; and five Business Days after mailing if sent by registered or certified mail, postage prepaid (except that a notice of change of address shall not be deemed to have been given until actually received by the addressee).

Any notice or communication mailed to a Securityholder shall be mailed to him by first class mail or other equivalent means at his address as it appears on the registration books of the Registrar and shall be sufficiently given to him if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 12.3 Communications by Holders with Other Holders.

Securityholders may communicate pursuant to TIA (S) 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other Person shall have the protection of TIA (S) 312(c).

SECTION 12.4 Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, such Person shall furnish to the Trustee:

(1) an Officers' Certificate (in form and substance reasonably satisfactory to the Trustee) stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been met; and

(2) an Opinion of Counsel (in form and substance reasonably satisfactory to the Trustee), stating that, in the opinion of such counsel, all such conditions precedent have been met;

provided, however, that in the case of any such request or application as to which the furnishing of particular documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished under this Section 12.4.

SECTION 12.5 Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the Person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been met; and

(4) a statement as to whether or not, in the opinion of each such Person, such condition or covenant has been met; provided, however, that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

SECTION 12.6 Rules by Trustee, Paying Agent, Registrar.

The Trustee may make reasonable rules for action by or at a meeting of Securityholders. The Paying Agent or Registrar may make reasonable rules for its functions.

SECTION 12.7 Non-Business Days.

If a payment date is not a Business Day at such place, payment may be made at such place on the next succeeding day that is a Business Day, and no interest shall accrue for the intervening period.

SECTION 12.8 Governing Law.

THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK.

SECTION 12.9 No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or any of its Subsidiaries. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 12.10 No Recourse against Others.

No direct or indirect stockholder, partner, employee, officer or director, as such, past, present or future of the Company or any successor entity, shall have any personal liability in respect of the obligations of the Company under the Securities or this Indenture by reason of his or its status as such stockholder, partner, employee, officer or director. Each Securityholder by accepting a Security waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Securities.

SECTION 12.11 Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.12 Duplicate Originals.

All parties may sign any number of copies or counterparts of this Indenture. Each signed copy or counterpart shall be an original, but all of them together shall represent the same agreement.

SECTION 12.13 Severability.

In case any one or more of the provisions in this Indenture or in the Securities shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the full extent permitted by law.

SECTION 12.14 Table of Contents, Headings, Etc.

The Table of Contents, Cross-Reference Table and headings of the Articles and the Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

Laboratory Corporation of America Holdings

[Seal]

By: _____
Name:
Title:

Attest: _____
Secretary

First Union National Bank of North Carolina, as Trustee

[Seal]

By: _____
Name:
Title:

Attest: _____

EXHIBIT A

FORM OF SECURITY

LABORATORY CORPORATION OF AMERICA HOLDINGS

% CONVERTIBLE SUBORDINATED NOTES DUE 2012

CUSIP No.

No. $

Laboratory Corporation of America Holdings, a Delaware corporation (hereinafter called the "Company," which term includes any successors under the Indenture hereinafter referred to), for value received, hereby promises to pay to , or registered assigns, the principal sum of Dollars, on , 2012.

Interest Payment Dates: , , and , commencing .

Record Dates: , , and .

Reference is made to the further provisions of this Security on the reverse side, which will, for all purposes, have the same effect as if set forth at this place.

IN WITNESS WHEREOF, the Company has caused this Instrument to be duly executed under its corporate seal.

Dated:

Laboratory Corporation of America Holdings, a Delaware corporation

[Seal]

By: _____
Name:
Title:

Attest: _____
Secretary

FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities described in the within-mentioned Indenture.

Dated:

_____	By: _____
as Trustee	as Authenticating Agent
By: _____	By: _____
Authorized Signatory	Authorized Signatory

LABORATORY CORPORATION OF AMERICA HOLDINGS

% CONVERTIBLE SUBORDINATED NOTES DUE 2012

[Unless and until it is exchanged in whole or in part for Securities in definitive form, this Security may not be transferred except as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. Unless this certificate is presented by an authorized representative of The Depository Trust Company (55 Water Street, New York, New York) ("DTC"), to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC (and any payment is made to Cede & Co. or such other entity as may be requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.](2)

1. Interest.

Laboratory Corporation of America Holdings, a Delaware corporation (hereinafter called the "Company," which term includes any successors under the Indenture hereinafter referred to), promises to pay interest on the principal amount of this Security at the rate of % per annum from , until maturity. To the extent it is lawful, the Company promises to pay interest on any interest payment due but unpaid on such principal amount at a rate of % per annum compounded quarterly.

The Company will pay interest quarterly on , , and of each year or, if any such day is not a Business Day, on the next succeeding Business Day (each, an "Interest Payment Date"), commencing . Interest on the Securities will accrue from the most recent date to which interest has been paid or, if no interest has been paid on the Securities, from the date of issuance. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

2. Method of Payment.

The Company shall pay interest on the Securities (except defaulted interest) to the Persons who are the registered Holders at the close of business on the , , or immediately preceding the Interest Payment Date. Holders must surrender Securities to a Paying Agent to collect principal payments. Except as provided below, the Company shall pay principal and interest in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts ("Cash"). The Securities will be payable as to principal, premium and interest at the office or agency of the Company maintained for such purpose within the Borough of Manhattan, the City and State of New York or, at the option of the Company, payment of interest may be made by check mailed to the Holders at their addresses set forth in the register of Holders, or at the option of the Holder, in immediately available funds.

3. Paying Agent and Registrar.

The Company may appoint and change any Paying Agent, Registrar or co-Registrar without notice to the Holders. The Company or any of its Subsidiaries may, subject to certain exceptions, act as Paying Agent, Registrar or co-Registrar.

4. Indenture.

The Company issued the Securities under an Indenture, dated as of , 1997 (the "Indenture"), between the Company and First Union National Bank of North Carolina (the "Trustee," which term includes any successor Trustee under the Indenture). Capitalized terms herein are used as defined in the

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(2) This Paragraph should be included only if the Note is issued in global form.

Indenture unless otherwise defined herein. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act, as in effect on the date of the Indenture. The Securities are subject to all such terms, and Holders of Securities are referred to the Indenture and said Act for a statement of them.

The indebtedness evidenced by the Securities is limited in aggregate principal amount to $ and is, to the extent and in the manner provided in the Indenture, expressly subordinate and subject in right of payment to the prior payment in full of any Senior Indebtedness of the Company or provision for such payment, whether outstanding at the date of the Indenture or thereafter incurred, and each Holder of this Security, by his acceptance hereof, agrees to, and shall be bound by, such provisions of the Indenture and authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate such subordination and appoints the Trustee his attorney-in-fact for any and all such purposes.

5. Optional Redemption.

The Securities are not redeemable at the Company's option prior to , 2000. Thereafter the Securities will be redeemable at the option of the Company, in whole or in part, subject to the limitations, if any, imposed by applicable law, at any time and from time to time, upon not less than 30 nor more than 60 days' notice to each Holder of Securities to be redeemed, at the following redemption prices (expressed as percentages of the principal amount) if redeemed during the 12-month period commencing of the years indicated below, in each case (subject to the right of Holders of record on a Record Date to receive interest due on an Interest Payment Date that is on or prior to such Redemption Date) together with accrued and unpaid interest thereon to the Redemption Date:

YEAR	PERCENTAGE
2000.....	
2001.....	
2002.....	
2003.....	
2004.....	
2005.....	
2006 and thereafter.....	

Any such redemption will comply with Article III of the Indenture.

6. Notice of Redemption.

Notice of redemption will be sent by first class mail, at least 30 days and not more than 60 days prior to the Redemption Date to the Holder of each Security to be redeemed at such Holder's last address as then shown upon the registry books of the Registrar. Securities may be redeemed in part in multiples of $50 only.

Except as set forth in the Indenture, from and after any Redemption Date, if monies for the redemption of the Securities called for redemption shall have been deposited with the Paying Agent on such Redemption Date and payment of the Securities called for redemption is not otherwise prohibited, the Securities called for redemption will cease to bear interest and the only right of the Holders of such Securities will be to receive payment of the Redemption Price.

7. Conversion at the Option of the Holder.

Subject to the provisions of the Indenture, the Holder hereof has the right, at his option, at any time prior to maturity, to convert the principal amount of this Security (or any portion of the principal amount hereof which is an integral multiple of $50) into fully paid and nonassessable shares of Common Stock of

the Company at the conversion rate of shares of Common Stock for each $ principal amount of Securities (equivalent to a conversion price of per share, subject to such adjustment, if any, of the conversion rate (and conversion price) and the securities or other property issuable upon conversion as may be required by the provisions of the Indenture (except that in case this Security (or any portion hereof) shall be called for redemption before maturity, such right shall terminate on 5 p.m., New York City time, the Business Day prior to the Redemption Date for this Security (or such portion hereof), unless in any such case the Company shall default in payment due upon such redemption), but only upon surrender of this Security for the purpose of such conversion to the Company at the designated office or agency of the Company in New York, New York or any other office or agency designated by the Company for such purpose pursuant to the provisions of the Indenture, accompanied by written notice that the Holder elects to convert this Security or any portion thereof and specifying the name or names (with address or addresses) in which a certificate or certificates evidencing shares of Common Stock are to be issued and (if so required by the Company or the Trustee) by an instrument or instruments of transfer in form satisfactory to the Company and the Trustee duly executed by the registered Holder or his duly authorized legal representative and transfer tax stamps or funds therefor, if required pursuant to the provisions of the Indenture and, in case such surrender shall be made during the period from the close of business on any Regular Record Date to the opening of business on the next succeeding Interest Payment Date (unless this Security or the portion thereof being converted has been called for redemption on a Redemption Date during such period), also accompanied by payment in funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Security then being converted.

Subject to the aforesaid requirement with respect to payment in the event of conversion after the close of business on a Regular Record Date, no adjustment is to be made on conversion for interest accrued hereon or for dividends on shares of Common Stock issued on conversion. No fractional shares are issuable upon any conversion, but in lieu thereof the Company shall pay therefor in cash as provided in the Indenture.

8. Denominations; Transfer; Exchange.

The Securities are in registered form, without coupons, in denominations of $50 and integral multiples of $50. A Holder may register the transfer of, or exchange Securities in accordance with, the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. As provided in the Indenture, the Registrar need not register the transfer of or exchange any Securities selected for redemption.

9. Persons Deemed Owners.

The registered Holder of a Security may be treated as the owner of it for all purposes.

10. Unclaimed Money.

If money for the payment of principal or interest remains unclaimed for two years, the Trustee and the Paying Agent(s) will pay the money back to the Company at its written request. After that, all liability of the Trustee and such Paying Agent(s) with respect to such money shall cease.

11. Discharge Prior to Redemption or Maturity.

Except as set forth in the Indenture, if the Company irrevocably deposits with the Trustee, in trust, for the benefit of the Holders, Cash, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Securities to redemption or maturity and comply with the other provisions of the Indenture relating thereto, the Company will be discharged from certain provisions of the Indenture and the Securities.

12. Amendment; Supplement; Waiver.

Subject to certain exceptions, the Indenture or the Securities may be amended or supplemented with the written consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding, and any existing Default or Event of Default or compliance with any provision may be waived with the consent of the Holders of a majority in aggregate principal amount of the Securities then outstanding. Without notice to or consent of any Holder, the parties thereto may under certain circumstances amend or supplement the Indenture or the Securities to, among other things, cure any ambiguity, defect or inconsistency, or make any other change that does not adversely affect the rights of any Holder of a Security in any material respect.

13. Successors.

When a successor assumes all the obligations of its predecessor under the Securities and the Indenture, the predecessor will be released from those obligations.

14. Defaults and Remedies.

If an Event of Default occurs and is continuing (other than an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company), then in every such case, unless the principal of all of the securities shall have already become due and payable, either the Trustee or the Holders of 25% in aggregate principal amount of Securities then outstanding may declare all the Securities to be due and payable immediately in the manner and with the effect provided in the Indenture. Holders of Securities may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Securities. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Securities then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of Securities notice of any continuing Default or Event of Default (except a Default in payment of principal or interest), if it determines that withholding notice is in their interest.

15. Trustee or Agent Dealings with Company.

The Trustee and each Agent under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates as if it were not the Trustee and such Agent.

16. No Recourse Against Others.

No direct or indirect stockholder, partner, employee, officer or director, as such, past, present or future, of the Company or any successor entity shall have any personal liability in respect of the obligations of the Company under the Securities or the Indenture by reason of his or its status as such stockholder, partner, employee, officer or director. Each Holder of a Security by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Securities.

17. Authentication.

This Security shall not be valid until the Trustee or authenticating agent signs the certificate of authentication on the other side of this Security.

18. Abbreviations and Defined Terms.

Customary abbreviations may be used in the name of a Holder of a Security or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

All terms which are used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

19. CUSIP Numbers.

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company will cause CUSIP numbers to be printed on the Securities as a convenience to the Holders of the Securities. No representation is made as to the accuracy of such numbers as printed on the Securities and reliance may be placed only on the other identification numbers printed hereon.

20. Governing Law.

THE INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK.

[FORM OF] ASSIGNMENT

I or we assign this Security to

- ---

- ---

- ---

(Print or type name, address and zip code of assignee)

Please insert Social Security or other identifying number of assignee

- ---

and irrevocably appoint agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Dated: Signed:

- ---

(Sign exactly as name appears on the other side of this Security)

Signature Guarantee*

- ---

* NOTICE: The Signature must be guaranteed by an Institution which is a member of one of the following recognized Signature Guaranty Programs: (i) The Securities Transfer Agent Medallion Program (Stamp); (ii) The New York Stock Exchange Medallion Program (MSP); or (iii) in such other guarantee program acceptable to the Trustee.

EXHIBIT 4.6

AMENDMENT TO STOCKHOLDER AGREEMENT

AMENDMENT TO STOCKHOLDER AGREEMENT, dated as of , 1997 between Roche Holdings, Inc. (the "Investor") and Laboratory Corporation of America Holdings (the "Company").

WHEREAS, the parties hereto, HLR Holdings Inc. and Hoffmann-La Roche Inc. have entered into a Stockholder Agreement (the "Stockholder Agreement") dated as of April 28, 1995;

WHEREAS, the parties hereto desire that the definition of "Registrable Securities" in Section 1.1 of the Stockholder Agreement include the Company's common stock, par value $0.01 per share, issuable upon conversion of the Company's % Series B Convertible Pay-in-Kind Preferred Stock held by the Investor;

WHEREAS, the parties hereto desire to amend the Stockholder Agreement pursuant to Section 9.2 thereof to give effect to the foregoing;

NOW, THEREFORE, in consideration of the mutual agreements and undertakings of the Investor and the Company set forth herein, the Investor and the Company agree as follows:

1. Amendment. (a) The definition of "Registrable Securities" contained in Section 1.1 of the Stockholder Agreement is hereby deleted and replaced in its entirety by the following:

"Registrable Securities" means (a) Equity Securities (including any Common Stock or other Voting Stock issuable upon any conversion or exercise of any Equity Securities which are convertible securities) held by the Investor Group which are Restricted Securities until (i) a registration statement covering such securities has been declared effective by the SEC and such securities have been disposed of pursuant to such effective registration statement, (ii) such securities are sold under circumstances in which all of the applicable conditions of Rule 144 (or any similar provisions then in force) are met, or such securities may be sold pursuant to Rule 144(k) or (iii) such securities are otherwise transferred, the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a legend restricting transfer of such securities and such securities may be resold without subsequent registration under the Securities Act; and (b) any Common Stock issued upon conversion of the Company's % Series B Convertible Pay-in-Kind Preferred Stock, par value $0.10 per share.

(b) The Stockholder Agreement, as hereby amended, shall remain in full force and effect.

(c) All references in the Stockholder Agreement to the definition of "Registrable Securities" shall be deemed to mean the definition of "Registrable Securities" as set forth above.

2. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of Delaware applicable to contracts executed and to be fully performed in that State. All actions and proceedings arising out of or relating to this Amendment shall be brought by the parties and heard and determined only in a Delaware state court or a federal court sitting in that State and the parties hereto consent to jurisdiction before and waive any objections of venue to the Delaware Chancery Court.

3. Counterparts; Effectiveness. This Amendment 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 Amendment shall become effective when the Company shall have executed counterparts hereof and received counterparts hereof signed by all of the parties hereto.

IN WITNESS, WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

Roche Holdings, Inc.

By:

Name:
Title:

Laboratory Corporation of America Holdings

By:

Name:
Title:

EXHIBIT 5.1

[DAVIS POLK & WARDWELL LETTERHEAD]

212-450-4000

May 6, 1997

Laboratory Corporation of America Holdings
358 South Main Street
Burlington, North Carolina 27215

Ladies and Gentlemen:

We have acted as counsel to Laboratory Corporation of America Holdings, a Delaware corporation (the "Company") in connection with the Company's Registration Statement on Form S-3 (the "Registration Statement") filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, for the registration of the Company's (i) transferable subscription rights (the "Rights"); (ii) Series A Convertible Exchangeable Preferred Stock, par value $0.10 per share (the "Series A Exchangeable Preferred Stock") and Series B Convertible Pay-in-Kind Preferred Stock, par value $0.10 per share, with an aggregate liquidation preference of $828,200,000 (the "Series B PIK Preferred Stock" and, together with the Series A Exchangeable Preferred Stock, the "Preferred Stock"); (iii) $250,562,450 aggregate principal amount of convertible subordinated notes due 2012 (the "Notes") which may be issued in exchange for the Preferred Stock; and (iv) such currently indeterminate number of shares of Common Stock, par value $0.01 per share (the "Common Stock") as may be issuable upon conversion of the Preferred Stock and the Notes. The Notes are to be issued pursuant to an Indenture (the "Indenture") between the Company and First Union National Bank of North Carolina, as Trustee (the "Trustee").

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary or advisable for the purposes of rendering this opinion.

On the basis of the foregoing, we are of the opinion that:

(i) The Rights when duly authorized and issued in accordance with the terms of the Rights Offering (as defined in the Registration Statement) will be validly issued;

(ii) Upon the designation of the relative rights, preferences and limitations of the Preferred Stock by the Board of Directors and the proper filing with the Secretary of State of the State of Delaware of the Certificate of Designation relating to each series of the Preferred Stock, when the Preferred Stock has been duly authorized, issued and paid for in accordance with the terms of the Rights Offering or issued in respect of the dividend requirements of the Series B PIK Preferred Stock, as the case may be, the Preferred Stock will be validly issued, fully-paid and non-assessable, and the issuance of such Preferred Stock will not be subject to any preemptive rights;

(iii) When the Indenture to be entered into in connection with the issuance of the Notes has been duly authorized, executed and delivered by the Trustee and the Company and the Notes have been duly authorized, executed, authenticated, issued and delivered in exchange for the Series A Exchangeable Preferred Stock in accordance with the terms of the Series A Exchangeable Preferred Stock and the Indenture, the Notes will constitute valid and binding obligations of the Company enforceable in accordance with their terms, except as (a) the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or similar laws now or hereinafter in effect relating to or affecting the enforcement of creditors' rights generally and (b) the availability of equitable remedies may be limited by equitable principles of general applicability (regardless of whether considered in a proceeding at law or in equity); and

(iv) When any shares of Common Stock are issued upon conversion of any shares of Preferred Stock or any Notes, as the case may be, such shares of Common Stock will be duly authorized, validly issued, fully-paid and non-assessable and the issuance of such Common Stock will not be subject to any preemptive rights.

In connection with the opinions expressed above, we have assumed that, at or prior to the time of the delivery of any such security, (i) the Board of Directors shall have duly established the terms of such security and duly authorized the issuance and sale of such security and such authorization shall not have been modified or rescinded and that prior to the issuance of Series B PIK Preferred Stock in the form of dividends, the Board of Directors and stockholders of the Company shall have approved an increase in the authorized share capital of the Company sufficient to authorize such issuance and all required filings with the Secretary of State of Delaware in connection therewith shall have been made; (ii) in the case of the Common Stock, the Board of Directors and stockholders of the Company shall have approved an increase in the authorized share capital of the Company sufficient to enable all Preferred Stock and/or Notes to be converted and all required filings with the Secretary of State of Delaware in connection therewith shall have been made; and (iii) there shall not have occurred any change in law affecting the validity or enforceability of such security. We have also assumed that neither the issuance and delivery of any security to be issued and delivered subsequent to the date hereof, nor the compliance by the Company with the terms of such security will violate any applicable law or will result in a violation of any provision of any instrument or agreement then binding upon the Company, or any restriction imposed by any court or governmental body having jurisdiction over the Company.

We are members of the Bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. In addition, we consent to the reference to us under the caption "Legal Matters" in the prospectus.

This opinion is rendered to you solely in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent.

Very truly yours,

/s/ Davis Polk & Wardwell

EXHIBIT 8.1

[DAVIS POLK & WARDWELL LETTERHEAD]

212-450-4606

May 6, 1997

Laboratory Corporation of America Holdings

358 South Main Street

Burlington, N.C. 27215

Dear Ladies and Gentlemen:

We are acting as counsel for Laboratory Corporation of America Holdings, a Delaware corporation, (the "Company"), in connection with the Registration Statement on Form S-3, registration no. 333-22427, (including any amendments thereto, the "Registration Statement"), filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, for the registration of the Company's (i) transferable subscription rights (the "Rights"); (ii) Series A Convertible Exchangeable Preferred Stock, par value $0.10 per share (the "Series A Exchangeable Preferred Stock") and Series B Convertible Pay-in-Kind Preferred Stock, par value $0.10 per share, with an aggregate liquidation preference of $828,200,000 (the "Series B PIK Preferred Stock" and, together with the Series A Exchangeable Preferred Stock, the "Preferred Stock"); (iii) $250,562,450 aggregate principal amount of convertible subordinated notes due 2012 (the "Notes") which may be issued in exchange for the Preferred Stock; and (iv) such currently indeterminate number of shares of Common Stock, par value $0.01 per share (the "Common Stock") as may be issuable upon conversion of the Preferred Stock and the Notes.

We have examined drafts of the Registration Statement, as well as originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary or advisable for purposes of this opinion.

We hereby confirm our opinion contained under the heading "Certain Federal Income Tax Consequences" in the Prospectus contained in the Registration Statement.

We are members of the Bar of the State of New York and the opinion set forth therein is limited to the laws of the State of New York and the federal laws of the United States of America.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. We also consent to the reference to us in the Prospectus contained in the Registration Statement.

Very truly yours,

/s/ Davis Polk & Wardwell

EXHIBIT 12.1

LABORATORY CORPORATION OF AMERICA HOLDINGS

STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS (LOSS)

TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

(DOLLARS IN MILLIONS)

	YEAR ENDED DECEMBER 31,					PROFORMA YEAR ENDED DECEMBER 31,
	1992	1993	1994	1995	1996	1996
Earnings (loss):						
Earnings (loss before provision for income taxes and extraordinary item	$62.1	$191.1	$ 55.4	$ 3.1	$(188.3)	$(176.0)
Add: Fixed Charges						
Interest expense (gross)	4.2	10.9	34.5	65.5	71.7	59.4
Interest factor in rents	9.0	10.0	11.5	20.1	23.5	23.5
Earnings (loss) as adjusted	$75.3	$212.0	$101.4	$88.7	$ (93.1)	$ (93.1)
Preferred dividend requirements	$ --	$ --	$ --	$ --	$ --	$ 103.4
Ratio of earnings (loss) before provision for income taxes to net earnings (loss)	--	--	--	--	--	120%
Preferred dividend factor on a pre-tax basis	--	--	--	--	--	124.5
Fixed Charges						
Interest expense (gross)	4.2	10.9	34.5	65.5	71.7	59.4
Interest factor in rents	9.0	10.0	11.5	20.1	23.5	23.5
Combined fixed charges and preferred dividends	13.2	20.9	46.0	85.6	95.2	207.4
Ratio of earnings to combined fixed charges and preferred dividends	5.71	10.16	2.20	1.04	NM	NM
Amount by which earnings are insufficient to cover combined fixed charges and preferred dividends					$(188.3)	$(300.5)

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Laboratory Corporation of America Holdings:

We consent to the use of our reports included herein and incorporated herein by reference and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG Peat Marwick LLP

Raleigh, North Carolina
May 2, 1997

EXHIBIT 25.1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY AND QUALIFICATION
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

FIRST UNION NATIONAL BANK OF NORTH CAROLINA
(EXACT NAME OF TRUSTEE AS SPECIFIED IN ITS CHARTER)

UNITED STATES NATIONAL BANK	57-0405803
(STATE OF INCORPORATION IF NOT A NATIONAL BANK)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
TWO FIRST UNION CENTER CHARLOTTE, NORTH CAROLINA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	28288 (ZIP CODE)

FIRST UNION NATIONAL BANK OF NORTH CAROLINA
(NAME, ADDRESS AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF TRUSTEE'S AGENT FOR SERVICE)

LABORATORY CORPORATION OF AMERICA HOLDINGS
(EXACT NAME OF OBLIGORS AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

13-3757370
(I.R.S. EMPLOYER IDENTIFICATION NO.)

BRADFORD T. SMITH
EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL,
CORPORATE COMPLIANCE OFFICER AND SECRETARY
LABORATORY CORPORATION OF AMERICA HOLDINGS
358 SOUTH MAIN STREET
BURLINGTON, NORTH CAROLINA 27215
(910) 229-1127
(ADDRESS, INCLUDING ZIP CODE, OF PRINCIPAL EXECUTIVE OFFICES)

10,000,000 Shares
Laboratory Corporation of America Holdings
% Series A Convertible Exchangeable Preferred Stock
or
% Series B Convertible Pay-in-Kind Preferred Stock
(TITLE OF THE INDENTURE SECURITIES)

1. GENERAL INFORMATION. FURNISH THE FOLLOWING INFORMATION AS TO THE TRUSTEE:

(A) NAME AND ADDRESS OF EACH EXAMINING OR SUPERVISING AUTHORITY TO WHICH IT IS SUBJECT

NAME	ADDRESS
Board of Governors of the Federal Reserve System	
Comptroller of the Currency	Washington, D.C.
Securities and Exchange Commission	Washington, D.C.
Division of Market Regulations	Washington, D.C.
Federal Deposit Insurance Corporation	550 17th Street, N.W. Washington, D.C. 20549

(B) WHETHER IT IS AUTHORIZED TO EXERCISE CORPORATE TRUST POWERS.

The trustee is authorized to exercise corporate trust powers.

2. AFFILIATIONS WITH OBLIGOR AND UNDERWRITERS. IF THE OBLIGOR OR ANY UNDERWRITER FOR THE OBLIGOR IS AN AFFILIATE OF THE TRUSTEE, DESCRIBE EACH SUCH AFFILIATION.

None.

(See Note 1 on Page 9.)

3. VOTING SECURITIES OF THE TRUSTEE. FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF VOTING SECURITIES OF THE TRUSTEE:

AS OF MARCH 31, 1997

COL. A	COL. B
TITLE OF CLASS	AMOUNT OUTSTANDING
Common Stock, par value $3.33 1/3	280,000,000 shares

4. TRUSTEESHIPS UNDER OTHER INDENTURES. IF THE TRUSTEE IS A TRUSTEE UNDER ANOTHER INDENTURE UNDER WHICH ANY OTHER SECURITIES, OR CERTIFICATES OF INTEREST OR PARTICIPATION IN ANY OTHER SECURITIES, OF THE OBLIGOR ARE OUTSTANDING, FURNISH THE FOLLOWING INFORMATION:

(A) TITLE OF THE SECURITIES OUTSTANDING UNDER EACH SUCH OTHER INDENTURE.

Not applicable.

(B) A BRIEF STATEMENT OF THE FACTS RELIED UPON AS A BASIS FOR THE CLAIM THAT NO CONFLICTING INTEREST WITHIN THE MEANING OF SECTION 310(B)(1) OF THE TRUST INDENTURE ACT OF 1939, AS AMENDED, ARISES AS A RESULT OF THE TRUSTEESHIP UNDER ANY SUCH OTHER INDENTURE, INCLUDING A STATEMENT AS TO HOW THE INDENTURE SECURITIES WILL RANK AS COMPARED WITH THE SECURITIES ISSUED UNDER SUCH OTHER INDENTURE.

Not applicable.

5. INTERLOCKING DIRECTORATES AND SIMILAR RELATIONSHIPS WITH THE OBLIGOR OR UNDERWRITERS. IF THE TRUSTEE OR ANY OF THE DIRECTORS OR EXECUTIVE OFFICERS OF THE TRUSTEE IS A DIRECTOR, OFFICER, PARTNER, EMPLOYEE, APPOINTEE, OR REPRESENTATIVE OF THE OBLIGOR OR OF ANY UNDERWRITER FOR THE OBLIGOR, IDENTIFY EACH SUCH PERSON HAVING ANY SUCH CONNECTION AND STATE THE NATURE OF EACH SUCH CONNECTION:

None.

6. VOTING SECURITIES OF THE TRUSTEE OWNED BY THE OBLIGOR OR ITS OFFICIALS. FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF THE TRUSTEE OWNED BENEFICIALLY BY THE OBLIGOR AND EACH DIRECTOR, PARTNER AND EXECUTIVE OFFICER OF THE OBLIGOR:

AS OF MARCH 31, 1997

COL. A	COL. B	COL. C	COL. D
NAME OF OWNER	TITLE OF CLASS	AMOUNT OWNED BENEFICIALLY	PERCENTAGE OF VOTING SECURITIES REPRESENTED BY AMOUNT GIVEN IN COL. C

The amount of voting securities of First Union Corporation, the parent of the trustee, owned beneficially by the obligor and its directors and executive officers, taken as a group, does not exceed 1 percent of the outstanding voting securities of First Union Corporation.

(See Note 1 on Page 9.)

7. VOTING SECURITIES OF THE TRUSTEE OWNED BY UNDERWRITERS OR THEIR OFFICIALS. FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF THE TRUSTEE OWNED BENEFICIALLY BY EACH UNDERWRITER FOR THE OBLIGOR AND EACH DIRECTOR, PARTNER, AND EXECUTIVE OFFICER OF EACH SUCH UNDERWRITER:

AS OF MARCH 31, 1997

COL. A	COL. B	COL. C	COL. D
NAME OF OWNER	TITLE OF CLASS	AMOUNT OWNED BENEFICIALLY	PERCENTAGE OF VOTING SECURITIES REPRESENTED BY AMOUNT GIVEN IN COL. C

The amount of voting securities of First Union Corporation, the parent of the trustee, owned beneficially by any underwriter for the obligor and its directors, partners, and executive officers, taken as a group, does not exceed 1 percent of the outstanding voting securities of First Union Corporation.

(See Note 1 on Page 9.)

8. SECURITIES OF THE OBLIGOR OWNED OR HELD BY THE TRUSTEE. FURNISH THE FOLLOWING INFORMATION AS TO SECURITIES OF THE OBLIGOR OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY THE TRUSTEE:

AS OF MARCH 31, 1997

COL. A	COL. B	COL. C	COL. D
TITLE OF CLASS	WHETHER THE SECURITIES ARE VOTING OR NON-VOTING SECURITIES	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C

The trustee does not own beneficially or hold as collateral security for obligations in default any securities of any class of the obligor in excess of 1 percent of the outstanding securities of such class.

(See Note 1 on Page 9.)

9. SECURITIES OF UNDERWRITERS OWNED OR HELD BY THE TRUSTEE. IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT ANY SECURITIES OF AN UNDERWRITER FOR THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF SECURITIES OF SUCH UNDERWRITER ANY OF WHICH ARE SO OWNED OR HELD BY THE TRUSTEE:

AS OF MARCH 31, 1997

COL. A	COL. B	COL. C	COL. D
NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C

The trustee does not own beneficially or hold as collateral security for obligations in default any securities of any class of an underwriter for the obligor in excess of 1 percent of the outstanding securities of such class.

(See Note 1 on Page 9.)

10. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF VOTING SECURITIES OF CERTAIN AFFILIATES OR SECURITY HOLDERS OF THE OBLIGOR. IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT VOTING SECURITIES OF A PERSON WHO, TO THE KNOWLEDGE OF THE TRUSTEE (1) OWNS 10 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR OR (2) IS AN AFFILIATE, OTHER THAN A SUBSIDIARY, OF THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF SUCH PERSON:

AS OF

COL. A	COL. B	COL. C	COL. D
NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C

The trustee does not own beneficially or hold as collateral security for obligations in default any voting securities of any class of a person who, to the knowledge of the trustee (1) owns 10 percent or more of the voting securities of the obligor or (2) is an affiliate, other than a subsidiary, of the obligor, in excess of 1 percent of the outstanding voting securities of such class.

(See Note 1 on Page 9.)

11. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF ANY SECURITIES OF A PERSON OWNING 50 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR. IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT ANY SECURITIES OF A PERSON WHO, TO THE KNOWLEDGE OF THE TRUSTEE, OWNS 50 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF SECURITIES OF SUCH PERSON ANY OF WHICH ARE SO OWNED OR HELD BY THE TRUSTEE.

AS OF MARCH 31, 1997

COL. A	COL. B	COL. C	COL. D

NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C

The trustee does not own beneficially or hold as collateral security for obligations in default any securities of any class of a person who, to the knowledge of the trustee, owns 50 percent or more of the voting securities of the obligor, in excess of 1 percent of the outstanding securities of such class.

(See Note 1 on Page 9.)

12. INDEBTEDNESS OF THE OBLIGOR TO THE TRUSTEE.

Except as noted in the instructions, if the obligor is indebted to the trustee, furnish the following information:

13. DEFAULTS BY THE OBLIGOR.

(A) STATE WHETHER THERE IS OR HAS BEEN A DEFAULT WITH RESPECT TO THE SECURITIES UNDER THIS INDENTURE. EXPLAIN THE NATURE OF ANY SUCH DEFAULT.

There has been no default with respect to the securities under this Indenture.

(B) IF THE TRUSTEE IS A TRUSTEE UNDER ANOTHER INDENTURE UNDER WHICH ANY OTHER SECURITIES, OR CERTIFICATES OF INTEREST OR PARTICIPATION IN ANY OTHER SECURITIES, OF THE OBLIGOR ARE OUTSTANDING, OR IS TRUSTEE FOR MORE THAN ONE OUTSTANDING SERIES OF SECURITIES UNDER THE INDENTURE, STATE WHETHER THERE HAS BEEN A DEFAULT UNDER ANY SUCH INDENTURE OR SERIES, IDENTIFY THE INDENTURE OR SERIES AFFECTED, AND EXPLAIN THE NATURE OF ANY SUCH DEFAULT.

The trustee is not a trustee under another indenture for the obligor.

14. AFFILIATIONS WITH THE UNDERWRITERS. IF ANY UNDERWRITER IS AN AFFILIATE OF THE TRUSTEE, DESCRIBE EACH SUCH AFFILIATION.

Not Applicable.

15. FOREIGN TRUSTEE. IDENTIFY THE ORDER OR RULE PURSUANT TO WHICH THE FOREIGN TRUSTEE IS AUTHORIZED TO ACT AS SOLE TRUSTEE UNDER INDENTURES QUALIFIED OR TO BE QUALIFIED UNDER THE ACT.

Trustee is a national banking association.

16. LIST OF EXHIBITS.

ALL EXHIBITS IDENTIFIED BELOW ARE FILED AS A PART OF THIS STATEMENT OF ELIGIBILITY.

1. A copy of the articles of association of First Union National Bank of North Carolina as now in effect, which contain the authority to commence business and a grant of powers to exercise corporate trust powers.

2. A copy of the certificate of authority of the trustee to commence business, if not contained in the articles of association.

3. A copy of the authorization of the trustee to exercise corporate trust powers, if such authorization is not contained in the documents specified in exhibits (1) or (2) above.

4. A copy of the existing By-laws of the trustee, or instruments corresponding thereto.

5. None.

6. The consent of the trustee required by Section 321(b) of the Act. (See page 10 of this form.)

7. A copy of the latest report of condition of the trustee published pursuant to law or to the requirements of its supervising or examining authority.

8.Not applicable.

9.Not applicable.

NOTE

NOTE 1: Since the trustee is a member of First Union Corporation, a bank holding company, all of the voting securities of the trustee are held by First Union Corporation. The securities of First Union Corporation are described in Item 3.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the trustee, First Union National Bank of North Carolina, a national banking organization, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Charlotte, and State of North Carolina, on the 2nd day of May, 1997.

FIRST UNION NATIONAL BANK
OF NORTH CAROLINA
(trustee)

By:
/s/ Karen E. Atkinson

Its:
Assistant Vice President

CONSENT OF THE TRUSTEE

Pursuant to the requirements of Section 321(b) of the Trust Indenture Act of 1939 in connection with the proposed issuance by Laboratory Corporation of America Holdings of its % Series A Convertible Exchangeable Preferred Stock or % Series B Convertible Pay-in-Kind Preferred Stock, we hereby consent that reports of examinations by Federal, State, Territorial, or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefor.

FIRST UNION NATIONAL BANK
OF NORTH CAROLINA

By: /s/ Karen E. Atkinson

Its: Assistant Vice President

Dated: May 2, 1997

1924C CHARTER NO. 15650

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

ARTICLES OF ASSOCIATION

For the purpose of organizing an Association to carry on the business of banking under the laws of the United States, the undersigned do enter into the following Articles of Association:

FIRST. The title of this Association shall be FIRST UNION NATIONAL BANK OF NORTH CAROLINA.

SECOND. The main office of the Association shall be in Charlotte, County of Mecklenburg, State of North Carolina. The general business of the Association shall be conducted at its main office and its branches.

THIRD. The Board of Directors of this Association shall consist of not less than five nor more than twenty-five directors, the exact number of directors within such minimum and maximum limits to be fixed and determined from time to time by resolution of a majority of the full Board of Directors or by resolution of the shareholders at any annual or special meeting thereof. Unless otherwise provided by the laws of the United States, any vacancy in the Board of Directors for any reason, including an increase in the number thereof, may be filled by action of the Board of Directors.

FOURTH. The annual meeting of the shareholders for the election of directors and the transaction of whatever other business may be brought before said meeting shall be held at the main office or such other place as the Board of Directors may designate, on the day of each year specified therefor in the By-Laws, but if no election is held on that day, it may be held on any subsequent day according to the provisions of law; and all elections shall be held according to such lawful regulations as may be prescribed by the Board of Directors.

Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the bank entitled to vote for election of directors. Nominations, other than those made by or on behalf of the existing management of the bank, shall be made in writing and shall be delivered or mailed to the President of the bank and to the Comptroller of the Currency, Washington, D.C., not less than 14 days nor more than 50 days prior to any meeting of stockholders called for the election of directors, provided, however, that if less than 21 days' notice of the meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Bank and to the Comptroller of the Currency not later than the close of business on the seventh day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the bank that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the bank owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the Chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

FIFTH. The authorized amount of capital stock of this Association shall be 7,500,000 shares of common stock of the par value of Fifteen Dollars ($15.00) each, but said capital stock may be increased or decreased from time to time in accordance with the provisions of the laws of the United States.

If the capital stock is increased by the sale of additional shares thereof, each shareholder shall be entitled to subscribe for such additional shares in proportion to the number of shares of said capital stock owned by him at the time the increase is authorized by the shareholders, unless another time subsequent to the date of the shareholder's meeting is specified in a resolution adopted by the shareholders at the time the increase is

authorized. The Board of Directors shall have the power to prescribe a reasonable period of time within which the preemptive rights to subscribe to the new shares of capital stock must be exercised.

The Association, at any time and from time to time, may authorize and issue debt obligations, whether or not subordinated, without the approval of the shareholders.

SIXTH. The Board of Directors shall appoint one of its members President of this Association, who shall be Chairman of the Board, unless the Board appoints another director to be the Chairman. The Board of Directors shall have the power to appoint one or more Vice Presidents; and to appoint a cashier or such other officers and employees as may be required to transact the business of this Association.

The Board of Directors shall have the power to define the duties of the officers and employees of the Association, to fix the salaries to be paid to them; to dismiss them, to require bonds from them and to fix the penalty thereof; to regulate the manner in which any increase of the capital of the Association shall be made; to manage and administer the business and affairs of the Association; to make all By-Laws that it may be lawful for them to make; and generally to do and perform all acts that it may be legal for a Board of Directors to do and perform.

SEVENTH. The Board of Directors shall have the power to change the location of the main office to any other place within the limits of Charlotte, North Carolina, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency; and shall have the power to establish or change the location of any branch or branches of the Association to any other location, without the approval of the shareholders but subject to the approval of the Comptroller of the Currency.

EIGHTH. The corporate existence of this Association shall continue until terminated in accordance with the laws of the United States.

NINTH. The Board of Directors of this Association, or any three or more shareholders owning, in the aggregate, not less than 10 percent of the stock of this Association, may call a special meeting of shareholders at any time. Unless otherwise provided by the laws of the United States, a notice of the time, place, and purpose of every annual and special meeting of the shareholders shall be given by first-class mail, postage pre-paid, mailed at least ten days prior to the date of such meeting to each shareholder of record at his address as shown upon the books of this Association.

TENTH. Each director and executive officer of this association shall be indemnified by the association against liability in any proceeding (including without limitation a proceeding brought by or on behalf of the association itself) arising out of his status as such or his activities in either of the foregoing capacities, except for any liability incurred on account of activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of the association. Liabilities incurred by a director or executive officer of the association in defending a proceeding shall be paid by the association in advance of the final disposition of such proceeding upon receipt of an undertaking by the director or executive officer to repay such amount if it shall be determined, as provided in the last paragraph of this Article Tenth, that he is not entitled to be indemnified by the association against such liabilities.

The indemnity against liability in the preceding paragraph of this Article Tenth, including liabilities incurred in defending a proceeding, shall be automatic and self-operative.

Any director, officer or employee of this association who serves at the request of the association as a director, officer, employee or agent of a charitable, not-for-profit, religious, educational or hospital corporation, partnership, joint venture, trust or other enterprise, or a trade association, or as a trustee or administrator under an employee benefit plan, or who serves at the request of the association as a director, officer or employee of a business corporation in connection with the administration of an estate or trust by the association, shall have the right to be indemnified by the association, subject to the provisions set forth in the following paragraph of this Article Tenth, against liabilities in any manner arising out of or attributable to such status or activities in any such capacity, except for any liability incurred on account of activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of the association, or of the corporation, partnership, joint venture, trust, enterprise, association or plan being served by such person.

In the case of all persons except the directors and executive officers of the association, the determination of whether a person is entitled to indemnification under the preceding paragraph of this Article Tenth shall be made by and in the sole discretion of the Chief Executive Officer of the association. In the case of the directors and executive officers of the association, the indemnity against liability in the preceding paragraph of this Article Tenth shall be automatic and self-operative.

For purposes of this Article Tenth of these Articles of Association only, the following terms shall have the meanings indicated:

(a) "Association" means First Union National Bank of North Carolina and its direct and indirect wholly-owned subsidiaries.

(b) "Director" means an individual who is or was a director of the association.

(c) "Executive officer" means an officer of the association who by resolution of the Board of Directors of the association has been determined to be an executive officer of the association for purposes of Regulation O of the Federal Reserve Board.

(d) "Liability" means the obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses, including counsel fees and expenses, incurred with respect to a proceeding.

(e) "Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

(f) "Proceeding" means any threatened, pending, or completed claim, action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal.

The association shall have no obligation to indemnify any person for an amount paid in settlement of a proceeding unless the association consents in writing to such settlement.

The right to indemnification herein provided for shall apply to persons who are directors, officers, or employees of banks or other entities that are hereafter merged or otherwise combined with the association only after the effective date of such merger or other combination and only as to their status and activities after such date.

The right to indemnification herein provided for shall inure to the benefit of the heirs and legal representatives of any person entitled to such right.

No revocation of, change in, or adoption of any resolution or provision in the Articles of Association or By-laws of the association inconsistent with, this Article Tenth shall adversely affect the rights of any director, officer, or employee of the association with respect to (i) any proceeding commenced or threatened prior to such revocation, change, or adoption, or (ii) any proceeding arising out of any act or omission occurring prior to such revocation, change, or adoption, in either case, without the written consent of such director, officer, or employee.

The rights hereunder shall be in addition to and not exclusive of any other rights to which a director, officer, or employee of the association may be entitled under any statute, agreement, insurance policy, or otherwise.

The association shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, or employee of the association, or is or was serving at the request of the association as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, trade association, employee benefit plan, or other enterprise, against any liability asserted against such director, officer, or employee in any such capacity, or arising out of their status as such, whether or not the association would have the power to indemnify such director, officer, or employee against such liability, excluding insurance coverage for a formal order assessing civil money penalties against an association director or employee.

Notwithstanding anything to the contrary provided herein, no person shall have a right to indemnification with respect to any liability (i) incurred in an administrative proceeding or action instituted by an appropriate bank regulatory agency which proceeding or action results in a final order assessing civil money penalties or requiring affirmative action by an individual or individuals in the form of payments to the association, (ii) to the extent such person is entitled to receive payment therefor under any insurance policy or from any corporation, partnership, joint venture, trust, trade association, employee benefit plan, or other enterprise other than the association, or (iii) to the extent that a court of competent jurisdiction determines that such indemnification is void or prohibited under state or federal law.

ELEVENTH. These Articles of Association may be amended at any regular or special meeting of the shareholders by the affirmative vote of the holders of a majority of the stock of this Association, unless the vote of holders of a greater amount of stock is required by law, and in that case, by the vote of the holders of such greater amount.

ITEM #2

COMPTROLLER OF THE CURRENCY

TREASURY DEPARTMENT OF THE UNITED STATES

WASHINGTON, D.C.

CERTIFICATION OF FIDUCIARY POWERS

I, Billy L. Dowdle, Director for Trust Activities, do hereby certify that the records in this Office evidence that FIRST UNION NATIONAL BANK OF NORTH CAROLINA, CHARLOTTE, NORTH CAROLINA, was granted, under the hand and seal of the Comptroller. The right to act in all fiduciary capacities authorized under the provisions of the Act of Congress approved September 28, 1962, 76 Stat, 668, 12 USC 22a. I further certify that the authority so granted remains in full force and effect.

[SEAL]

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and caused the Seal of Office of the Comptroller of the Currency to be affixed to these presents at the Treasury Department, in the City of Washington and District of Columbia this Thirteenth day of January, 1988.

/s/ Billy L. Dowdle

BILLY L. DOWDLE
DIRECTOR FOR TRUST ACTIVITIES

CHARTER NO. 15650

BY-LAWS OF

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

ARTICLE I

MEETINGS OF SHAREHOLDERS

SECTION 1.1 ANNUAL MEETING. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on the third Tuesday of April in each year, commencing with the year 1987, except that the Board of Directors may, from time to time and upon passage of a resolution specifically setting forth their reasons, set such other date for such meeting during the month of April as the Board of Directors may deem necessary or appropriate; provided, however, that if an annual meeting shall fall on a legal holiday, then such annual meeting shall be held on the second business day following such legal holiday. The holders of a majority of those outstanding shares entitled to vote which are represented at any meeting of the shareholders may choose persons to act as Chairman and as Secretary of the meeting.

SECTION 1.2 SPECIAL MEETINGS. Except as otherwise specifically provided by statute, special meetings of the shareholders may be called for any purpose at any time by the Board of Directors or by any three or more shareholders owning, in the aggregate, not less than ten percent of the stock of the Association. Every such special meeting, unless otherwise provided by law, shall be called by mailing, postage prepaid, not less than ten days prior to the date fixed for such meeting, to each shareholder at his address appearing on the books of the Association, a notice stating the purpose of the meeting.

SECTION 1.3 NOMINATIONS FOR DIRECTORS. Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the bank entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the bank, shall be made in writing and shall be delivered or mailed to the President of the Bank and to the Comptroller of the Currency, Washington, D.C., not less than 14 days nor more than 50 days prior to any meeting of stockholders called for the election of directors, provided however, that if less than 21 days' notice of such meeting is given to shareholders, such nomination shall be mailed or delivered to the President of the Bank and to the Comptroller of the Currency not later than the close of business on the seventh day following the day on which the notice of meeting was mailed. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the bank that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the bank owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

SECTION 1.4 JUDGES OF ELECTION. The Board may at any time appoint from among the shareholders three or more persons to serve as Judges of election at any meeting of shareholders; to act as judges and tellers with respect to all votes by ballot at such meeting and to file with the Secretary of the meeting a Certificate under their hands, certifying the result thereof.

SECTION 1.5 PROXIES. Shareholders may vote at any meeting of the shareholders by proxies duly authorized in writing, but no officer or employee of this Association shall act as proxy. Proxies shall be valid only for one meeting, to be specified therein, and any adjournments of such meeting. Proxies shall be dated and shall be filed with the records of the meeting.

SECTION 1.6 QUORUM. A majority of the outstanding capital stock, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders, unless otherwise provided by law; but less than a

quorum may adjourn any meeting, from time to time, and the meeting may be held, as adjourned, without further notice. A majority of the votes cast shall decide every question or matter submitted to the shareholders at any meeting, unless otherwise provided by law or by the Articles of Association.

ARTICLE II

DIRECTORS

SECTION 2.1 BOARD OF DIRECTORS. The Board of Directors (hereinafter referred to as the "Board"), shall have power to manage and administer the business and affairs of the Association. Except as expressly limited by law, all corporate powers of the Association shall be vested in and may be exercised by said Board.

SECTION 2.2 NUMBER. The Board shall consist of not less than five nor more than twenty-five directors, the exact number within such minimum and maximum limits to be fixed and determined from time to time by resolution of a majority of the full Board or by resolution of the shareholders at any meeting thereof; provided, however, that a majority of the full Board of Directors may not increase the number of directors to a number which, (1) exceeds by more than two the number of directors last elected by shareholders where such number was fifteen or less, and (2) to a number which exceeds by more than four the number of directors last elected by shareholders where such number was sixteen or more, but in no event shall the number of directors exceed twenty-five.

SECTION 2.3 ORGANIZATION MEETING. The Secretary of the meeting upon receiving the certificate of the judges, of the result of any election, shall notify the directors-elect of their election and of the time at which they are required to meet at the Main Office of the Association for the purpose of organizing the new Board and electing the appointing officers of the Association for the succeeding year. Such meeting shall be held as soon thereafter as practicable. If, at the time fixed for such meeting, there shall not be a quorum present, the directors present may adjourn the meeting from time to time, until a quorum is obtained.

SECTION 2.4 REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at such place and time as may be designated by resolution of the Board of Directors. Upon adoption of such resolution, no further notice of such meeting dates or the place and time thereof shall be required. Upon the failure of the Board of Directors to adopt such a resolution, regular meetings of the Board of Directors shall be held, without notice, on the Wednesday following the third Tuesday in February, April, June, August, October and December beginning in 1987, at the main office or at such other place and time as may be designated by the Board of Directors. When any regular meeting of the Board falls upon a holiday, whether such regular meeting is established by resolution or falls on the Wednesday following the third Tuesday of the month as a result of the Board not having established regular meeting dates by resolution, the meeting shall be held on the next banking business day unless the Board shall designate some other day.

SECTION 2.5 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the President of the Association, or at the request of three (3) or more directors. Each member of the Board of Directors shall be given notice stating the time and place, by telegram, letter, or in person, of each such special meeting.

SECTION 2.6 QUORUM. A majority of the directors shall constitute a quorum at any meeting, except when otherwise provided by law; but a less number may adjourn any meeting, from time to time, and the meeting may be held, as adjourned, without further notice.

SECTION 2.7 VACANCIES. When any vacancy occurs among the directors, the remaining members of the Board, in accordance with the laws of the United States, may appoint a director to fill such vacancy at any regular meeting of the Board, or at a special meeting called for that purpose.

SECTION 2.8 ADVISORY BOARDS. The Board of Directors may appoint an Advisory Board or Boards in such place or places as the Board of Directors may determine. Each such Advisory Board shall consist of as

many persons as the Board of Directors may determine. The duties of each Advisory Board shall be to consult and advise with the Board of Directors and senior officers of the Bank with regard to the best interests of the Association and to perform such other duties as the Board of Directors may lawfully delegate.

ARTICLE III

COMMITTEES OF THE BOARD

SECTION 3.1 The Board of Directors, by resolution adopted by a majority of the number of directors fixed by these By-Laws, may designate three or more directors to constitute an Executive Committee and other committees, each of which, to the extent authorized by law and provided in such resolution, shall have and may exercise all of the authority of the Board of Directors and the management of the Association. The designation of any committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility or liability imposed upon it or any member of the Board of Directors by law. The Board of Directors reserves to itself alone the power to act on (1) dissolution, merger or consolidation, or disposition of substantially all corporate property, (2) designation of committees or filling vacancies on the Board of Directors or on a committee of the Board (except as hereinafter provided), (3) adoption, amendment or repeal of By-laws, (4) amendment or repeal of any resolution of the Board which by its terms is not so amendable or repealable, and (5) declaration of dividends, issuance of stock, or recommendations to stockholders of any action requiring stockholder approval.

The Board of Directors or the Chairman of the Board of Directors of the Association may change the membership of any committee at any time, fill vacancies therein, discharge any committee or member thereof either with or without cause at any time, and change at any time the authority and responsibility of any such committee.

A majority of the members of any committee of the Board of Directors may fix such committee's rules of procedure. All action by any committee shall be reported to the Board of Directors at a meeting succeeding such action, except such actions as the Board may not require to be reported to it in the resolution creating any such committee. Any action by any committee shall be subject to revision, alteration, and approval by the Board of Directors, except to the extent otherwise provided in the resolution creating such committee; provided, however, that no rights or acts of third parties shall be affected by any such revision or alteration.

ARTICLE IV

OFFICERS AND EMPLOYEES

SECTION 4.1 OFFICERS. The officers of this Association may be a Chairman of the Board, one or more Vice Chairman (who shall not be required to be a director of the Association), a President, one or more Vice Presidents, a Secretary, and such other officers as may be appointed by the Board of Directors. The Chairman of the Board and the President shall be a member of the Board of Directors. Any two offices or more may be held by one person, but no officer shall sign or execute any document in more than one capacity.

SECTION 4.2 ELECTION, TERM OF OFFICE AND QUALIFICATION. Each officer shall be chosen by the Board of Directors and shall hold office until the annual meeting of the Board of Directors held next after his election or until his successor shall have been duly chosen and qualified, or until his death, or until he shall resign, or shall have been disqualified, or shall have been removed from office.

SECTION 4.2(A) OFFICERS ACTING AS ASSISTANT SECRETARY. Notwithstanding Section 1 of these By-laws, any Senior Vice President, Vice President, or Assistant Vice President shall have, by virtue of his office, and by authority of the By-laws, the authority from time to time to act as an Assistant Secretary of the Bank, and to such extent, said officers are appointed to the office of Assistant Secretary.

SECTION 4.3 CHIEF EXECUTIVE OFFICER. The Board of Directors shall designate one of its members to be the President of this Association, and the officer so designated shall be an ex officio member of all committees of the Association except the Examining Committee, and its Chief Executive Officer unless some other officer is so designated by the Board of Directors.

SECTION 4.4 DUTIES OF OFFICERS. The Duties of all officers shall be prescribed by the Board of Directors. Nevertheless, the Board of Directors may delegate to the Chief Executive Officer the authority to prescribe the duties of other officers of the corporation not inconsistent with law, the charter, and these By-laws, and to appoint other employees, prescribe their duties, and to dismiss them. Notwithstanding such delegation of authority, any officer or employee also may be dismissed at any time by the Board of Directors.

SECTION 4.5 OTHER EMPLOYEES. The Board of Directors may appoint from time to time such tellers, vault custodians, bookkeepers, and other clerks, agents, and employees as it may deem advisable for the prompt and orderly transaction of the business of the Association, define their duties, fix the salary to be paid them, and dismiss them. Subject to the authority of the Board of Directors, the Chief Executive Officer or any other officer of the Association authorized by him, may appoint and dismiss all such tellers, vault custodians, bookkeepers and other clerks, agents, and employees, prescribe their duties and the conditions of their employment, and from time to time fix their compensation.

SECTION 4.6 REMOVAL AND RESIGNATION. Any officer or employee of the Association may be removed either with or without cause by the Board of Directors. Any employee other than an officer elected by the Board of Directors may be dismissed in accordance with the provisions of the preceding Section 4.5. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chief Executive Officer of the Association. Any such resignation shall become effective upon its being accepted by the Board of Directors, or the Chief Executive Officer.

ARTICLE V

FIDUCIARY POWERS

SECTION 5.1 CAPITAL MANAGEMENT GROUP. There shall be an area of this Association known as the Capital Management Group which shall be responsible for the exercise of the fiduciary powers of this Association. The Capital Management Group shall consist of four service areas: Fiduciary Services, Retail Services, Investments and Marketing. The Fiduciary Services unit shall consist of personal trust, employee benefits, corporate trust and operations. The General Office for the Fiduciary Services unit shall be located in Charlotte, N.C. with City Trust Offices located in such cities within the State of North Carolina as designated by the Board of Directors.

SECTION 5.2 TRUST OFFICERS. There shall be a General Trust Officer of this Association whose duties shall be to manage, supervise, and direct all the activities of the Capital Management Group. Further, there shall be one or more Senior Trust Officers designated to assist the General Trust Officer in the performance of his duties. They shall do or cause to be done all things necessary or proper in carrying out the business of the Capital Management Group in accordance with provisions of applicable law and regulation.

SECTION 5.3 CAPITAL MANAGEMENT/GENERAL TRUST COMMITTEE. There shall be a Capital Management/General Trust Committee composed of not less than four (4) members of the Board of Directors of this Association who shall be appointed annually or from time to time by its membership. The General Trust Officer shall serve as an ex-officio member of the Committee. Each member shall serve until his successor is appointed. The Board of Directors or the Chairman of the Board may change the membership of the Capital Management/General Trust Committee at any time, fill vacancies therein, or discharge any member thereof with or without cause at any time. The Committee shall counsel and advise on all matters relating to the business or

affairs of the Capital Management Group and shall adopt overall policies for the conduct of the business of the Capital Management Group including but not limited to: general administration, investment policies, new business development, and review for approval of major assignments of functional responsibilities. The Committee shall meet at least quarterly or as called for by its Chairman or any three (3) members of the Committee. A quorum shall consist of three (3) members. In carrying out its responsibilities, the Capital Management/General Trust Committee shall review the actions of all officers, employees and committees utilized by this Association in connection with the activities of the Capital Management Group and may assign the administration and performance of any fiduciary powers or duties to any of such officers or employees or to the Investment Policy Committee, Personal Trust Administration Committee, Account Review Committee, Corporate and Institutional Accounts Committee, or any other committees it shall designate. One of the methods to be used in the review process will be the thorough scrutiny of the Report of Examination by the Office of the Comptroller of the Currency and the reports of the Audit Division of First Union Corporation, as they relate to the activities of the Capital Management Group. These reviews shall be in addition to reviews of such reports by the Audit Committee of the Board of Directors. The Chairman of the Capital Management/General Trust Committee shall be appointed by the Chairman of the Board of Directors. He shall cause to be recorded in appropriate minutes all actions taken by the Committee. The minutes shall be signed by its Secretary and approved by its Chairman. Further, the Committee shall summarize all actions taken by it and shall submit a report of its proceedings to the Board of Directors at its next regularly scheduled meeting following a meeting of the Capital Management/General Trust Committee. As required by Section 9.7 of Regulation 9 of the Comptroller of the Currency, the Board of Directors retains responsibility for the proper exercise of the fiduciary powers of this Association.

The Fiduciary Services unit of the Capital Management Group will maintain a list of securities approved for investment in fiduciary accounts and will from time to time provide the Capital Management/General Trust Committee with current information relative to such list and also with respect to transactions in other securities not on such list. It is the policy of this Association that members of the Capital Management/General Trust Committee should not buy, sell or trade in securities which are on such approved list or in any other securities in which the Fiduciary Services unit has taken, or intends to take, a position in fiduciary accounts in any circumstances in which any such transaction could be viewed as a possible conflict of interest or could constitute a violation of applicable law or regulation. Accordingly, if any such securities are owned by any member of the Capital Management/General Trust Committee at the time of appointment to such Committee, the Capital Management Group shall be promptly so informed in writing. If any member of the Capital Management/General Trust Committee intends to buy, sell, or trade in any such securities while serving as a member of the Committee, he should first notify the Capital Management Group in order to make certain that any proposed transaction will not constitute a violation of this policy or of applicable law or regulation.

SECTION 5.4 INVESTMENT POLICY COMMITTEE. There shall be an Investment Policy Committee composed of not less than seven (7) officers and/or employees of this Association who shall be appointed annually or from time to time by the Board of Directors. Each member shall serve until his successor is appointed. Meetings shall be called by the Chairman or any two (2) members of the Committee. A quorum shall consist of five (5) members. The Investment Policy Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the Capital Management/General Trust Committee. All actions taken by the Investment Policy Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman and submitted to the Capital Management/General Trust Committee at its next ensuing regular meeting for its review and approval.

SECTION 5.5 PERSONAL TRUST ADMINISTRATION COMMITTEE. There shall be a Personal Trust Administration Committee composed of not less than five (5) officers, who shall be appointed annually or from time to time by the Board of Directors. Each member shall serve until his successor is appointed. Meetings shall be called by the Chairman or any three (3) members of the Committee. A quorum shall consist of three (3) members. The Personal Trust Administration Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the Capital Management/General Trust Committee. All action taken by the

Personal Trust Administration Committee shall be recorded in appropriate minutes signed by the Secretary thereof, approved by its Chairman, and submitted to the Capital Management/General Trust Committee at its next ensuing regular meeting for its review and approval.

SECTION 5.6 ACCOUNT REVIEW COMMITTEE. There shall be an Account Review Committee composed of not less than four (4) officers and/or employees of this Association, who shall be appointed annually or from time to time by the Board of Directors. Each member shall serve until his successor is appointed. Meetings shall be called by the Chairman or any two (2) members of the Committee. A quorum shall consist of three (3) members. The Account Review Committee shall exercise such fiduciary powers and perform such duties as may be assigned to it by the Capital Management/General Trust Committee. All actions taken by the Account Review Committee shall be recorded in appropriate minutes, signed by the Secretary thereof, approved by its Chairman and submitted to the Capital Management/General Trust Committee at its next ensuing regular meeting for its review and approval.

SECTION 5.7 CORPORATE AND INSTITUTIONAL ACCOUNTS COMMITTEE. There shall be a Corporate and Institutional Accounts Committee composed of not less than seven (7) officers and/or employees of this Association, including the General Trust Officer, the Manager of the Fiduciary Services unit, the Manager of the Retail Services unit, the Manager of the Investments unit, the Manager of the Marketing unit, the Manager of the Pension Trust Department, the Manager of the Corporate Trust Department and the Manager of the Administrative Services Department, plus any other officers and/or employees, who shall be appointed annually, or from time to time, by the Capital Management/General Trust Committee of the Board of Directors and approved by the Board of Directors. Meetings may be called by the Chairman of any Vice Chairman or any two (2) members of the Committee. A quorum shall consist of four (4) members. The Corporate and Institutional Accounts Committee shall exercise such fiduciary powers and duties assigned to it by the Corporate Management/General Trust Committee, including, but not limited to, the review and acceptance of all new appointments of this Association in a fiduciary capacity for corporate and institutional accounts, review and approval of all closing out of such accounts, interpretation of provisions of various instruments under which this Association is appointed and serves in a fiduciary capacity for such accounts, establishing policies and procedures for the administration of corporate and institutional accounts, review and approval of all published fee schedules applicable to such accounts and all such fees that are non-published and used in competitive bidding situations, review of audits and examinations of the various departments carrying out the administration of corporate and institutional accounts, and any and all other duties and responsibilities as may be assigned from time to time by the Capital Management/General Trust Committee. The Committee shall have a Chairman who shall preside at regular and called meetings, one or more Vice Chairmen, and a Secretary and one or more Assistant Secretaries, who shall record in appropriate minutes all actions taken by the Committee. The Chairman, Vice Chairmen and Secretary and any Assistant Secretaries shall be elected by members of the Committee. Minutes of the Committee shall be submitted to the Capital Management/General Trust Committee at its next ensuing regular meeting for its review and approval.

ARTICLE VI

STOCK AND STOCK CERTIFICATES

SECTION 6.1 TRANSFERS. Shares of stock shall be transferable on the books of the Association, and a transfer book shall be kept in which all transfers of stock shall be recorded. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all rights and liabilities of the prior holder of such shares.

SECTION 6.2 STOCK CERTIFICATES. Certificates of stock shall bear the signature of the Chairman, the Vice Chairman, the President, or a Vice President (which may be engraved, printed, or impressed), and shall be signed manually or by facsimile process by the Secretary, Assistant Secretary, Cashier, Assistant Cashier, or any other officer appointed by the Board of Directors for that purpose, to be known as an Authorized Officer, and the seal of the Association shall be engraved thereon. Each certificate shall recite on its face that the stock represented thereby is transferable only upon the books of the Association properly endorsed.

ARTICLE VII

CORPORATE SEAL

SECTION 7.1 The President, the Cashier, the Secretary, or any Assistant Cashier, or Assistant Secretary, or other officer thereunto designated by the Board of Directors shall have authority to affix the corporate seal to any document requiring such seal, and to attest the same. Such seal shall be substantially in the following form.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 8.1 FISCAL YEAR. The fiscal year of the Association shall be the calendar year.

SECTION 8.2 EXECUTION OF INSTRUMENTS. All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, satisfactions, settlements, petitions, schedules, accounts, affidavits, bonds, undertakings, proxies, and other instruments or documents may be signed, executed, acknowledged, verified, delivered or accepted in behalf of the Association by the Chairman of the Board, or the President, or any Vice Chairman of the Board, any Vice President or Assistant Vice President, or the Secretary or Assistant Secretary, Cashier, or Assistant Cashier, or, if in connection with the exercise of fiduciary powers of the Association, by any of said officers or by any Trust Officer or Assistant Trust Officer; provided, however, that where required, any such instrument shall be attested by one of said officers other than the officer executing such instrument. Any such instruments may also be executed, acknowledged, verified, delivered, or accepted in behalf of the Association in such other manner and by such other officers as the Board of Directors may from time to time direct. The provisions of this Section 8.2 are supplementary to any other provision of these By-laws.

SECTION 8.3 RECORDS. The Articles of Association, the By-laws, and the proceedings of all meetings of the shareholders, the Board of Directors, standing committees of the Board, shall be recorded in appropriate minute books provided for the purpose. The minutes of each meeting shall be signed by the Secretary, Cashier, or other officer appointed to act as Secretary of the meeting.

ARTICLE IX

BY-LAWS

SECTION 9.1 INSPECTION. A copy of the By-laws, with all amendments thereto, shall at all times be kept in a convenient place at the Head Office of the Association, and shall be open for inspection to all shareholders, during banking hours.

SECTION 9.2 AMENDMENTS. The By-laws may be amended, altered or repealed, at any regular or special meeting of the Board of Directors, by a vote of a majority of the whole number of Directors.

EXHIBIT A

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

ARTICLE X

EMERGENCY BY-LAWS

In the event of an emergency declared by the President of the United States or the person performing his functions, the officers and employees of this Association will continue to conduct the affairs of the Association under such guidance from the directors or the Executive Committee as may be available except as to matters which by statute require specific approval of the Board of Directors and subject to conformance with any applicable governmental directives during the emergency.

OFFICERS PRO TEMPORE AND DISASTER

SECTION 1. The surviving members of the Board of Directors or the Executive Committee shall have the power, in the absence or disability of any officer, or upon the refusal of any officer to act, to delegate and prescribe such officer's powers and duties to any other officer, or to any director, for the time being.

SECTION 2. In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of this Association by its directors and officers as contemplated by these By-laws, any two or more available members of the then incumbent Executive Committee shall constitute a quorum of that Committee for the full conduct and management of the affairs and business of the Association in accordance with the provisions of Article II of these By-laws; and in addition, such Committee shall be empowered to exercise all of the powers reserved to the General Trust Committee under Section 5.3 of Article V hereof. In the event of the unavailability, at such time, of a minimum of two members of the then incumbent Executive Committee, any three available directors shall constitute the Executive Committee for the full conduct and management of the affairs and business of the Association in accordance with the foregoing provisions of this section. This By-law shall be subject to implementation by resolutions of the Board of Directors passed from time to time for that purpose, and any provisions of these By-laws (other than this section) and any resolutions which are contrary to the provisions of this section or to the provisions of any such implementary resolutions shall be suspended until it shall be determined by an interim Executive Committee acting under this section that it shall be to the advantage of this Association to resume the conduct and management of its affairs and business under all of the other provisions of these By-laws.

OFFICER SUCCESSION

BE IT RESOLVED, that if consequent upon war or warlike damage or disaster, the Chief Executive Officer of this Association cannot be located by the then acting Head Officer or is unable to assume or to continue normal executive duties, then the authority and duties of the Chief Executive Officer shall, without further action of the Board of Directors, be automatically assumed by one of the following persons in the order designated:

Chairman
President
Division Head/Area Administrator--Within this officer class, officers shall take seniority on the basis of length of service in such office or, in the event of equality, length of service as an officer of the Association.

Any one of the above persons who in accordance with this resolution assumes the authority and duties of the Chief Executive Officer shall continue to serve until he resigns or until five-sixths of the other officers who are attached to the then acting Head Office decide in writing he is unable to perform said duties or until the

elected Chief Executive Officer of this Association, or a person higher on the above list, shall become available to perform the duties of Chief Executive Officer of the Association.

BE IT FURTHER RESOLVED, that anyone dealing with this Association may accept a certification by any three officers that a specified individual is acting as Chief Executive Officer in accordance with this resolution; and that anyone accepting such certification may continue to consider it in force until notified in writing of a change, said notice of change to carry the signatures of three officers of the Association.

ALTERNATE LOCATIONS

The offices of the Association at which its business shall be conducted shall be the main office thereof in each city which is designated as a City Office (and branches, if any), and any other legally authorized location which may be leased or acquired by this Association to carry on its business. During an emergency resulting in any authorized place of business of this Association being unable to function, the business ordinarily conducted at such location shall be relocated elsewhere in suitable quarters, in addition to or in lieu of the locations heretofore mentioned, as may be designated by the Board of Directors or by the Executive Committee or by such persons as are then, in accordance with resolutions adopted from time to time by the Board of Directors dealing with the exercise of authority in the time of such emergency, conducting the affairs of this Association. Any temporarily relocated place of business of this Association shall be returned to its legally authorized location as soon as practicable and such temporary place of business shall then be discontinued.

ACTING HEAD OFFICERS

BE IT RESOLVED, that in case of and provided because of war or warlike damage or disaster, the General Office of this Association, located in Charlotte, North Carolina, is unable temporarily to continue its functions, the Raleigh office, located in Raleigh, North Carolina, shall automatically and without further action of this Board of Directors, become the "Acting Head Office of this Association";

BE IT FURTHER RESOLVED, that if by reason of said war or warlike damage or disaster, both the General Office of this Association and the said Raleigh Office of this Association are unable to carry on their functions, then and in such case, the Asheville Office of this Association, located in Asheville, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association"; and if neither the Raleigh Office nor the Asheville Office can carry on their functions, then the Greensboro Office of this Association, located in Greensboro, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association"; and if neither the Raleigh Office, the Asheville Office, nor the Greensboro Office can carry on their functions, then the Lumberton Office of this Association, located in Lumberton, North Carolina, shall, without further action of this Board of Directors, become the "Acting Head Office of this Association". The Head Office shall resume its functions at its legally authorized location as soon as practicable.

ITEM #7

Thursday
April 10, 1997

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FIRST UNION'S EARNING INCREASE TO A RECORD $1.67 PER SHARE, UP 11%

Charlotte, N.C.--First Union Corporation's earnings were $471 million in the first quarter of 1997, a 12 percent increase from operating earnings of $420 million before merger-related restructuring charges in the first quarter of 1996. On a per common share basis, earnings were $1.67, an 11 percent increase from operating earnings of $1.50 in the first quarter of 1996.

The first quarter 1997 earnings represented a return on common equity of 19.58 percent and a return on assets of 1.42 percent.

"Our fee-based businesses continue to provide excellent growth," said Edward E. Crutchfield, chairman and chief executive officer. "We are especially pleased with 67 percent fee income growth from last year in our Capital Markets Group, which provides a variety of sophisticated financing products and services primarily to our middle-market customer base. Our Capital Management Group, which increased fee income 61 percent from last year, also continues to expand with broad and balanced products for customers throughout the needs and stages of their lives. Considering demographic trends, our entry into new markets and the fact that we are now widely advertising our products, we expect strong sales momentum going forward."

Key factors in the first quarter of 1997 compared with the first quarter of 1996 included:

- [_] 5 percent growth in tax-equivalent net interest income;
- [_] 47 percent growth in noninterest, or fee, income (excluding securities transactions); and
- [_] Good expense control, with an efficiency ratio of 56.81 percent, compared with 57.36 percent (excluding merger-related restructuring charges) in the first quarter of 1996.

Also included in the first quarter of 1997 were three purchase acquisitions that closed in the fourth quarter of 1996.

Tax-equivalent net interest income in the first quarter of 1997 was $1.3 billion, compared with $1.2 billion in the first quarter of 1996.

First Union's strategic decision to allocate more resources to lines of business that produce fee income-earnings streams was apparent in the increase in noninterest, or fee, income of $753 million in the first quarter of 1997 compared with $526 million in the first quarter of 1996.

Average net loans increased 6 percent to $94.6 billion, compared with $89.3 billion in the first quarter of 1996. Loan growth came primarily from First Union's Specialized Industry Group in Capital Markets and from the purchase acquisitions.

Nonperforming assets were $778 million, or 0.81 percent of net loans and foreclosed properties, compared with $842 million, or 0.93 percent of net loans and foreclosed properties, at March 31, 1996. Annualized net charge-offs were 0.61 percent in the first quarter of 1997, compared with 0.66 percent in the first quarter of 1996. Net charge-offs, excluding credit card-related charge-offs, were 0.20 percent in the first quarter of 1997, compared with 0.45 percent in the first quarter of 1996.

At the end of the first quarter of 1997, First Union had 280 million shares of common stock outstanding, compared with 287 million shares at year-end 1996. First Union repurchased 9.9 million shares of common stock in the first quarter of 1997.

At March 31, 1997, First Union (NYSE: FTU) had assets of $137 billion. Total stockholders' equity was $9.5 billion. The company operates full-service banking offices in Connecticut, Delaware, Florida, Georgia, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Virginia, South Carolina, Tennessee and Washington, D.C.

FIRST UNION CORPORATION

EARNINGS DATA
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		1Q 1997 VS.
	1997	1996	1Q 1996
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)		
FINANCIAL HIGHLIGHTS			
Net income	$ 471	$ 243	94%
Dividends on preferred stock	--	4	(100)
Net income applicable to common stockholders after merger-related restructuring charges	471	239	97
After-tax restructuring charges	--	181	(100)
Net income applicable to common stockholders before merger-related restructuring charges	$ 471	$ 420	12%
PER COMMON SHARE DATA			
Net income after merger-related restructuring charges	$ 1.67	$ 0.85	96%
Net income before merger-related restructuring charges	1.67	1.50	11
Cash dividends	0.58	0.52	12
Book value	$ 33.86	$ 31.80	6
Period-end price	81.125	60.375	34
Average common shares (In thousands)	282,553	280,374	1
Actual common shares (In thousands)	279,832	281,064	--
Dividend payout ratios (based on operating earnings)	34.73%	34.67%	-- %
PERFORMANCE HIGHLIGHTS			
Before merger-related restructuring charges			
Return on average assets (a) (b)	1.42%	1.30%	--
Return on average common equity (a) (c)	19.58	18.67	--
Overhead efficiency ratio (d)	56.81	57.36	--
Net charge-offs as a percentage of Average loans, net (a)	0.61	0.66	--
Average loans, net, excluding Bankcard (a)	0.20	0.45	--
Nonperforming assets to loans, net and foreclosed properties	0.81	0.93	--
Net interest margin (a)	4.37%	4.19%	--
CASH EARNINGS (EXCLUDING OTHER INTANGIBLE AMORTIZATION)			
Before merger-related restructuring charges			
Net income applicable to common stockholders	$ 524	$ 472	11%
Net income per common share	$ 1.86	$ 1.68	11
Return on average tangible assets (a)	1.61%	1.49%	--
Return on average tangible common equity (a) (c)	30.74	27.85	--
Overhead efficiency ratio	53.60%	53.83%	-- %

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(a) Quarterly amounts annualized.
(b) Based on net income.
(c) Based on net income applicable to common stockholders and average common stockholders' equity excluding average net unrealized gains or losses on debt and equity securities.
(d) The overhead efficiency ratio is equal to noninterest expense divided by net operating revenue. Net operating revenue is equal to the sum of tax-equivalent net interest income and noninterest income, including securities transactions.

FIRST UNION CORPORATION

EARNINGS DATA
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		1Q 1997 VS
	1997	1996	1Q 1996
	(IN MILLIONS)		
EARNINGS SUMMARY			
Net interest income (a)	$ 1,303	$ 1,237	5%
Provision for loan losses	145	70	107
Net interest income after provision for loan losses (a)	1,158	1,167	(1)
Securities available for sale transactions	4	15	(73)
Investment security transactions	--	1	(100)
Noninterest income	749	510	47
Merger-related restructuring charges	--	281	(100)
Noninterest expense	1,169	1,011	16
Income before income taxes (a)	742	401	85
Income taxes	255	133	92
Tax-equivalent adjustment	16	25	(36)
Net income	471	243	94
Dividends on preferred stock	--	4	(100)
Net income applicable to common stockholders after merger-related restructuring charges	$ 471	$ 239	97%
AVERAGE BALANCE SHEET DATA			
Loans, net of unearned income	$ 94,618	$ 89,274	6%
Earning assets	119,703	118,233	1
Total assets	134,894	130,737	3
Noninterest-bearing deposits	16,925	16,286	4
Interest-bearing deposits	75,771	74,850	1
Common stockholders' equity (b)	9,761	8,930	9
Total stockholders' equity (b)	$ 9,761	$ 9,110	7%

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(a)Tax-equivalent.
(b)Excludes average net unrealized gains or losses on debt and equity securities.

FIRST UNION CORPORATION

QUARTERLY FINANCIAL HIGHLIGHTS
(UNAUDITED)

	1997 FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	1996 FIRST QUARTER
	(DOLLARS IN MILLIONS, EXCEPT COMMON STOCK PRICES)				
SELECTED LINES OF BUSINESS DATA (a)					
Capital Markets					
Tax-equivalent net interest income	$ 88	$ 81	$ 83	$ 82	$ 77
Fee and other income	$ 149	$ 169	$ 121	$ 85	$ 89
Capital Management					
Trust fees	$ 81	$ 79	$ 77	$ 73	$ 71
Mutual fund fees	58	24	21	20	19
Total	139	103	98	93	90
Less internal management reporting adjustments (b)	(7)	(7)	(6)	(5)	(4)
Total	132	96	92	88	86
Brokerage commissions	36	29	26	26	22
Insurance commissions	24	22	19	17	10
Other retail fees	11	10	8	7	8
Total Capital Management income	$ 203	$ 157	$ 145	$ 138	$ 126
COMMON STOCK PRICE					
High	$95.625	$77.000	$67.875	$64.625	$62.875
Low	73.375	67.000	61.125	57.500	51.500
Period-end	$81.125	$74.000	$66.750	$60.875	$60.375

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(a) Certain information is prepared from internal management reports.
(b) Internal management reporting adjustments represent the elimination of inter-affiliate fee income, the results of which are included in the consolidated statements of income.

FIRST UNION CORPORATION

QUARTERLY FINANCIAL HIGHLIGHTS
(UNAUDITED)

	1997 FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	1996 FIRST QUARTER
	(DOLLARS IN MILLIONS)				
PERIOD-END BALANCE SHEET DATA					
Securities available for sale....	$ 14,411	14,182	13,729	21,835	17,178
Investment securities.....	2,408	2,501	2,566	2,681	2,927
Loans, net of unearned income....	95,487	95,858	92,520	91,339	89,990
Earning assets.....	121,134	123,815	119,294	126,918	117,870
Total assets.....	136,730	140,127	133,882	139,886	130,581
Noninterest-bearing deposits.....	18,275	18,632	18,008	16,831	16,726
Interest-bearing deposits.....	74,128	76,183	73,436	74,622	73,792
Long-term debt.....	7,604	7,660	7,332	7,807	7,538
Guaranteed preferred beneficial interests.....	990	495	--	--	--
Common stockholders' equity.....	9,474	10,008	8,641	9,153	8,939
Total stockholders' equity.....	$ 9,474	10,008	8,689	9,316	9,110
CAPITAL RATIOS					
Tier 1 capital (a).....	7.38%	7.33	6.38	7.11	7.00
Total capital (a).....	12.10	12.33	10.94	11.94	11.91
Leverage (a).....	6.13	6.13	5.23	5.60	5.56
Stockholders' equity to assets					
Quarter-end.....	6.93	7.14	6.49	6.66	6.98
Average.....	7.20%	6.85	6.63	6.76	7.04

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(a) The first quarter of 1997 is based on estimates.

FIRST UNION CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	1997 FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	1996 FIRST QUARTER
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
INTEREST INCOME					
Interest and fees on loans	$ 2,019	1,986	1,953	1,896	1,889
Interest and dividends on securities available for sale	230	236	258	336	274
Interest and dividends on investment securities					
Taxable income	30	32	31	33	34
Nontaxable income	15	15	16	19	20
Trading account interest	49	72	87	67	44
Other interest income	75	94	78	80	78
Total interest income	2,418	2,435	2,423	2,431	2,339
INTEREST EXPENSE					
Interest on deposits	743	751	734	729	746
Interest on short-term borrowings	264	308	301	320	268
Interest on long-term debt	124	121	123	118	113
Total interest expense	1,131	1,180	1,158	1,167	1,127
Net interest income	1,287	1,255	1,265	1,264	1,212
Provision for loan losses	145	120	105	80	70
Net interest income after provision for loan losses	1,142	1,135	1,160	1,184	1,142
NONINTEREST INCOME					
Trading account profits	26	50	23	8	21
Service charges on deposit accounts	193	174	165	166	161
Mortgage banking income	50	40	38	40	37
Capital management income	203	157	145	138	126
Securities available for sale transactions	4	11	2	3	15
Investment security transactions	--	1	--	2	1
Fees for other banking services	41	39	41	44	33
Sundry income	236	213	186	145	132
Total noninterest income	753	685	600	546	526
NONINTEREST EXPENSE					
Salaries	480	490	454	425	412
Other benefits	125	102	99	101	113
Personnel expense	605	592	553	526	525
Occupancy	91	93	82	83	93
Equipment	121	118	108	98	93
Advertising	22	10	10	10	11
Telecommunications	27	25	27	25	25
Travel	21	20	23	27	22
Postage, printing and supplies	41	37	43	40	42
FDIC assessment	5	--	15	14	12
Professional fees	20	30	23	29	6
External data processing	15	16	24	38	36
Other intangibles amortization	67	60	60	61	62
Merger-related restructuring charges	--	--	--	--	281
SAIF special assessment	--	--	133	--	--
Sundry expense	134	112	110	101	84
Total noninterest expense	1,169	1,113	1,211	1,052	1,292
Income before income taxes	726	707	549	678	376
Income taxes	255	247	192	239	133
Net income	471	460	357	439	243
Dividends on preferred stock	--	1	1	3	4
Net income applicable to common stockholders	$ 471	459	356	436	239
PER COMMON SHARE DATA					
Net income	$ 1.67	1.66	1.29	1.55	0.85
Cash dividends	$ 0.58	0.58	0.58	0.52	0.52
AVERAGE COMMON SHARES (In thousands)	282,553	278,298	274,001	282,576	280,374