

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 1998

OR

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

For the transition period from _____ to _____
Commission file number 1-11353

LABORATORY CORPORATION OF AMERICA HOLDINGS

(Exact name of registrant as specified in its charter)

DELAWARE

13-3757370

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

358 SOUTH MAIN STREET, BURLINGTON, NORTH CAROLINA 27215

(Address of principal executive offices) (Zip Code)

336-229-1127

(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange
Common Stock Purchase Warrants	Currently not listed
Preferred Stock, \$.10 par value-Series A	New York Stock Exchange
Preferred Stock \$.10 par value-Series B	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

State the aggregate market value of the voting stock held by non-affiliates of the registrant, by reference to the price at which the stock was sold as of a specified date within 60 days prior to the date of filing: \$117,669,240 at February 28, 1999.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 126,250,216 shares at February 28, 1999, of which 61,329,256 shares are held by indirect wholly owned subsidiaries of Roche Holdings Ltd. The number of warrants outstanding to purchase shares of the issuer's common stock is 22,151,308 as of February 28, 1999, of which 8,325,000 are held by an indirect wholly owned subsidiary of Roche Holdings Ltd.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Laboratory Corporation of America Holdings (the "Company"), headquartered in Burlington, North Carolina, is the largest independent clinical laboratory company in the United States based on 1998 net revenues. Through a national network of laboratories, the Company offers more than 2,000 different clinical laboratory tests which are used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. Since its founding in 1971, the Company has grown into a network of 25 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 50 states.

The Company was formerly known as National Health Laboratories Holdings, Inc. ("NHL"). In conjunction with a merger ("Merger") in 1995 with Roche Biomedical Laboratories, Inc. ("RBL"), an indirect subsidiary of Roche Holdings, Inc. ("Roche"), the Company changed its name to Laboratory Corporation of America Holdings.

RECENT DEVELOPMENTS

See "General" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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 1998 approximately 48% of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 13% were derived by physicians in their offices and laboratories and approximately 39% 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 1998 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 over the past three to five years, 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 organizations 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 organizations have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and the managed care organization agree to a per member, 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, 1998 such contracts accounted for approximately \$90.0 million in net sales. The increase in managed care and insurance companies attempts to control utilization of medical services overall has also resulted in declines in the utilization of laboratory testing services.

In addition, Medicare (which principally services patients 65 and older), Medicaid (which principally serves indigent patients) 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, added costs and decreased 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. 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 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 may lead to future 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.

LABORATORY TESTING OPERATIONS AND SERVICES

The Company has 25 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 location. 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 234,000 patient specimens per day in 1998. 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 2,000 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, urinalyses, 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 25 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 Company's research and development group continually seeks new and improved technologies for early diagnosis. For example, the Company's Center for Molecular 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 other viral and

bacterial diseases. Management believes these technologies may represent a significant savings to managed care organizations by increasing the detection of early stage (treatable) diseases. The following are specialty and niche businesses in which the Company offers testing and related services:

Infectious Disease. The Company provides complete viral load testing as well as HIV genotyping and phenotyping. The Company's exclusive rights to this technology, in partnership with Belgian-based Virco, puts it in the forefront of HIV drug resistance testing-one of the most important issues surrounding the treatment of HIV.

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. Management believes it is now the largest provider of identity testing services in the United States.

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.

Occupational Testing Services. 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 drug 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. The Company also provides other analytical testing and a variety of management support services.

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, 1998, 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 frequently reimbursed 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 for each covered member. The tests covered under agreements of this type are negotiated for each contract, but usually include 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, 1998 billings to the Company's respective payors based on the total volume of accessions are as follows:

	Accession Volume as a % of Total 1998	Revenue per Accession
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Private Patients	3 - 5%	\$70 - 80
Medicare, Medicaid and Insurance	20 - 25%	\$20 - 30
Commercial Clients	40 - 45%	\$15 - 25
Managed Care	30 - 35%	\$10 - 40

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 for 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. These alliances can take several different forms including laboratory management contracts,

discussed above, reference agreements and joint ventures. 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 hospitals to achieve their goals. 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 1998, the Company added 58 alliance agreements with hospitals, physician groups and other health care provider organizations representing approximately \$23 million of annual sales.

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, 1998, the Company employed 216 generalists and 52 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, 1998, the Company employed 213 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 specialist 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.

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. During 1998, one of the Company's goals has been 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 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 Company's 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 1998, information systems activities have been focused on consolidation of the Company's multiple laboratory and billing systems to standardized laboratory testing and billing systems. The Company has established regional data centers to more effectively handle 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. Implementation of the billing systems conversion began in 1997 and is expected to be completed over the next two to three years. During 1998, the Company capitalized approximately \$15.8 million in information systems development and implementation costs related directly or indirectly to billing systems. The Company anticipates capitalizing an additional \$5.0 to \$10.0 million in such development and implementation costs during 1999.

See "Impact of the Year 2000 Issue" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations".

BILLING

Billing for laboratory services is a complex 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 intricate 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.

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

Although there can be no assurance of success, the Company has developed a number of initiatives to address the complexity of the billing process and to improve collection rates. These initiatives include: i) installation of personal computer based products in client offices and Company locations to help with the accuracy and completeness of billing information captured on the front-end; ii) establishment of a project group to focus on improvements in order entry; and iii) development and implementation of enhanced eligibility checking to compare information to payor records before billing. Additionally, the Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system. Currently, 55% of the Company's billing is performed on this centralized system. By the end of 1999, the Company plans to have approximately 70% of its billing performed on the centralized system.

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 adherence to the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988 (collectively, as amended, "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.

During 1998, the Company's forensic crime laboratory, located at the Company's Center for Molecular Biology and Pathology in

Research Triangle Park, North Carolina, was accredited by the American Society of Crime Laboratory Directors, Laboratory Accreditation Board ("ASCLD/LAB") in the category of DNA testing. Under the Crime Laboratory Accreditation Program managed by the ASCLD/LAB, a crime laboratory undergoes a comprehensive and in-depth inspection to demonstrate that its management, operations, employees, procedures and instruments, physical plant and security, and personnel safety procedures meet stringent quality standards. The Company is one of 174 ASCLD accredited crime laboratories worldwide, and is one of only three private crime laboratories holding the accreditation. Accreditation is granted for a period of five years provided that a laboratory continues to meet the standards during that period.

COMPETITION

The clinical laboratory business is intensely competitive. The Company believes that in 1998 the entire United States clinical laboratory testing industry had revenues exceeding \$32 billion; approximately 48% of such revenues were attributable to hospital-affiliated laboratories, approximately 39% were attributable to independent clinical laboratories and approximately 13% were attributable to physicians in their offices and laboratories. There are presently three national independent clinical laboratories: the Company; Quest, which had approximately \$1.5 billion in revenues from clinical laboratory testing in 1998; and SmithKline, which had approximately \$1.6 billion in revenues from clinical laboratory testing in 1998.

During February, 1999, Quest announced that it had signed a definitive agreement to acquire the clinical laboratory operations of SmithKline. The transaction is expected to be completed early in the second half of 1999.

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 laboratory 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.

EMPLOYEES

At February 28, 1999, the Company employed approximately 18,800 people. These include approximately 18,300 full-time equivalent employees and approximately 500 part-time employees. A subsidiary of the Company has one collective bargaining agreement which covers approximately 36 employees. The Company believes that its overall relations with its employees are good.

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 (which principally serves patients 65 and older) and Medicaid (which principally serves indigent patients) 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 (waived, 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 twenty-five to thirty routine "waived" 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 1998 and 1997, the Company derived approximately 22% and 20%, 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. In August 1997, Congress passed and the President signed the Balanced Budget Act of 1997 ("BBA"), which included a provision that reduced, effective January 1, 1998, the Medicare national limitations from 76% of the 1984 national median to 74% of the 1984 national median. An additional provision in the BBA freezes the Consumer Price Index update for five years. 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.

On April 1, 1997, the Health Care Financing Administration's ("HCFA") new Automated Chemistry Profile Rules went into effect. The policy, which was developed by HCFA working with the American Medical Association, eliminates the old commonly used "19-22 test" automated chemistry profile, sometimes referred to as a "SMAC" and replaces it with four new panels of "clinically relevant" automated tests (each containing from four to twelve chemistry tests). As a result of these new requirements, all major laboratory companies, including the Company, were required to eliminate the old chemistry profiles from their standard test requisition forms and standard test offerings by July 1, 1998. The Company developed and implemented a new "universal" test requisition and "standard test offerings" which successfully incorporated all required changes by the July 1, 1998 deadline. Estimated out-of-pocket costs associated with these changes are over \$5.0 million. The Company is unable to estimate the indirect costs associated with these changes. However, personnel time and effort to roll-out the new forms to clients has been significant.

These new rules are intended to reduce the number of non-Medicare covered "screening tests" which Medicare believes have in the past been inappropriately billed to Medicare. Due to the variety of new rules (including limited coverage rules) which have been adopted recently to address this issue, the Company does not believe a meaningful estimate of the potential revenue impact of this new rule can be made at this time. The Company's analysis to date does not indicate a currently measurable impact on revenues. The Company will continue to monitor this issue going forward.

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. However, based on currently available information, the Company is unable to predict what type of legislation, if any, will be enacted into law.

Fraud and Abuse Regulations

The Medicare and Medicaid anti-kickback laws prohibit intentionally providing 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 Office of the Inspector General ("OIG") of HHS 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 pick-up and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; providing facsimile machines or computers to physicians 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, the 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-compliance 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 Department of Justice ("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 Clinical Laboratories, Inc. ("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 (the "1996 Government Settlement"). 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 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 acquisition of Allied by NHL. 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 million 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.

Pursuant to the 1996 Government Settlement, the Company paid \$187 million in December 1996 (the "Settlement Payment"). The Settlement Payment was paid from the proceeds of a \$187 million loan made by Roche to the Company in December 1996.

The Company is involved in litigation which purports to be a class action brought on behalf of certain patients, private insurers and benefit plans that paid for laboratory testing services during the time frame covered by the 1996 Government Settlement. The Company has also received certain similar claims brought on behalf of certain other insurance companies, some of which have been resolved for immaterial amounts. These claims for private reimbursement are similar to the government claims settled in 1996. However, no amount of damages has been specified at this time and, with the exception of the above, no settlement discussions have taken place. The Company is carefully evaluating these claims, however, due to the early stage of the claims, the ultimate outcome of these claims cannot presently be predicted.

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 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.

ITEM 2. PROPERTIES

The following table summarizes certain information as to the Company's principal operating and administrative facilities as of December 31, 1998.

Location	Approximate Area (in square feet)	Nature of Occupancy
Operating Facilities:		
Birmingham, Alabama	100,000	Lease expires 2005
Phoenix, Arizona	55,000	Lease expires 2009; two 5 year renewal options
San Diego, California	72,000	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

Location	Approximate Area (in square feet)	Nature of Occupancy
Operating Facilities cont.:		
Reno, Nevada	16,000	Owned
	14,000	Lease expires 2003; 2 year renewal options
Raritan, New Jersey	187,000	Owned
Uniondale, New York	108,000	Lease expires 2007; two 5 year renewal options
Burlington, North Carolina	275,000	Owned
Charlotte, North Carolina	25,000	Lease expires 1999; two 1 year renewal options
Research Triangle Park, North Carolina	71,000	Lease expires 2008, three 5 year renewal options
	111,000	Lease expires 2011; three 5 year renewal options
Winston-Salem, North Carolina	10,000	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	56,000	Lease expires 2004; one 5 year renewal option
Houston, Texas	70,000	Lease expires 2012; two 5 year renewal options
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; three 5 year renewal options
Herndon, Virginia	64,000	Leases expire 1999- 2004; one 5 year renewal option
Richmond, Virginia	57,000	Lease Expires 2001; one 5 year renewal option
Kent, Washington	42,000	Lease expires 2000; two 5 year renewal options
Fairmont, West Virginia	25,000	Lease expires 2005; three 5 year renewal options
Administrative facilities:		
Burlington, North Carolina	237,000	Owned
	208,000	Leases expire 1999- 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.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in litigation which purports to be a class action brought on behalf of certain patients, private insurers and benefit plans that paid for laboratory testing services during the time frame covered by the 1996 Government Settlement. The Company has also received certain similar claims brought on behalf of certain other insurance companies, some of which have been resolved for immaterial amounts. These claims for private reimbursement are similar to the government claims settled in 1996. However, no amount of damages has been specified at this time and, with the exception of the above, no settlement discussions have taken place. The Company is carefully evaluating these claims. However, due to the early stage of the claims, the ultimate outcome of these claims cannot presently be predicted.

The Company is also involved in certain claims and legal actions arising in the ordinary course of business. These matters include, but are not limited to, inquiries from governmental agencies and Medicare or Medicaid carriers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. In the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of these matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Company.

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

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

PART II

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

On May 1, 1995, the Common Stock commenced trading on the New York Stock Exchange ("NYSE") under the symbol "LH". Prior to such date and since April 24, 1991, the Common Stock traded on the NYSE under the symbol "NH." Prior to April 24, 1991, the Common Stock was quoted on the NASDAQ National Market under the symbol "NHLI".

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

	High -----	Low -----
1997		
First Quarter	4	2 1/2
Second Quarter	3 7/8	2 3/8
Third Quarter	2 3/4	2 1/2
Fourth Quarter	2 7/8	1 5/16
	High -----	Low -----
1998		
First Quarter	2 3/16	1 9/16
Second Quarter	2 3/4	1 13/16
Third Quarter	2 7/16	1 1/8
Fourth Quarter	1 7/8	1 3/16
	High -----	Low -----
1999		
First Quarter (through February 28, 1999)	2 5/16	1 1/4

On February 28, 1999 there were 1,055 holders of record of the Common Stock.

In 1994, the Company discontinued its dividend payments for the foreseeable future in order to increase its flexibility with respect to its acquisition strategy. In addition, the Company's credit agreement, as amended, places certain restrictions, as defined in the credit agreement, on the payment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for the years ended December 31, 1998 and December 31, 1997 are derived from consolidated financial statements of the Company, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for each of the years in the three-year period ended December

31, 1996 are derived from consolidated financial statements of the Company, which have been audited by KPMG LLP, independent accountants. This data should be read in conjunction with the accompanying notes, the Company's consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere herein.

	Year Ended December 31,		
	1998	1997	1996
(Dollars in millions, except per share amounts)			
Statement of Operations Data:			
Net sales (c)	\$ 1,612.6	\$ 1,579.9	\$ 1,676.2
Gross profit	563.4	499.4	492.3
Operating income (loss)	127.6	(92.0)(i)	(118.8)(d)
Earnings (loss) before extraordinary loss	68.8	(106.9)	(153.5)
Extraordinary loss	--	--	--
Net earnings (loss)	<u>\$ 68.8</u>	<u>\$ (106.9)</u>	<u>\$ (153.5)</u>
Earnings (loss) per common share before extraordinary loss	\$ 0.20	\$ (1.06)	\$ (1.25)
Extraordinary loss per common share	--	--	--
Net earnings (loss) per common share	<u>\$ 0.20</u>	<u>\$ (1.06)</u>	<u>\$ (1.25)</u>
Dividends per common share	\$ --	\$ --	\$ --
Weighted average common shares outstanding (in thousands)	124,847	123,241	122,920
Ratio of earnings to combined fixed charges and preferred stock dividends (j)	1.11	NA	NA
Balance Sheet Data:			
Cash and cash equivalents	\$ 22.7	\$ 23.3	\$ 29.3
Intangible assets, net	836.2	851.3	891.1
Total assets	1,640.9	1,658.5	1,917.0
Long-term obligations and redeemable preferred stock (g)	1,136.1	1,200.1	1,089.4
Due to affiliates (h)	1.7	2.2	190.5
Total shareholders' equity	154.4	129.1	258.1

YEAR ENDED DECEMBER 31,

	1995 (a)	1994(b)
(Dollars in millions, except per share amounts)		
Statement of Operations Data:		
Net sales (c)	\$ 1,513.5	\$ 929.4
Gross profit	489.2	332.4
Operating income (loss)	67.2(e)	109.9
Earnings (loss) before extraordinary loss	(4.0)	30.1
Extraordinary loss	(8.3)(f)	--
Net earnings (loss)	\$ (12.3)	\$ 30.1
Earnings (loss) per common share before extraordinary loss	\$ (0.03)	\$ 0.36
Extraordinary loss per common share	(0.08)	--
Net earnings (loss) per common share	\$ (0.11)	\$ 0.36
Dividends per common share	\$ --	\$ 0.08
Weighted average common shares outstanding (in thousands)	110,579	84,754
Ratio of earnings to combined fixed charges and preferred stock dividends (j)	1.04	2.20
Balance Sheet Data:		
Cash and cash equivalents	\$ 16.4	\$ 26.8
Intangible assets, net	916.7	551.9
Total assets	1,837.2	1,012.7
Long-term obligations and redeemable preferred stock (g)	948.6	583.0
Due to affiliates (h)	0.9	--
Total shareholders' equity	411.6	166.0

(a) In April 1995, the Company completed a merger with Roche Biomedical Laboratories, Inc. ("RBL"), an indirect subsidiary of Roche Holdings, Inc. (Roche), pursuant to an Agreement and Plan of Merger dated as of December 13, 1994 (the "Merger"). RBL's results of operations have been included in the Company's results of operations since April 28, 1995. In connection with the Merger, the Company changed its name from National Health Laboratories Holdings, Inc. ("NHL") to Laboratory Corporation of America Holdings.

(b) In June 1994, the Company completed the acquisition of Allied Clinical Laboratories, Inc., then the sixth largest independent clinical laboratory testing company in the United States. Allied's results of operations have been included in the Company's results of operations since June 23, 1994.

(c) In 1998, the Company reclassified the following amounts to selling, general and administrative expenses from net sales adjustments to be consistent with the 1998 classification: \$61.0, 1997; \$68.5, 1996; \$81.5, 1995, and \$56.9 for 1994. The reclassification had no effect on operating income.

(d) In the second quarter of 1996, the Company recorded certain pre-tax 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 2 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.

(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 pre-tax restructuring charges of \$65.0 million in connection with these plans. See Note 2 of the Notes to Consolidated Financial Statements which sets forth the Company's restructuring activities for the years ended December 31, 1998 and 1997. 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, 1998, the majority of these disputes have been settled.

(f) 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.

(g) Long term obligations include capital lease obligations of \$4.2 million, \$5.8 million, \$9.8 million, \$9.6 million and \$9.8 million at December 31, 1998, 1997, 1996, 1995 and 1994, respectively. Long-

term obligations also include the long-term portion of the expected value of future contractual amounts to be paid to the former 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, 1998, 1997, 1996, 1995 and 1994, such amounts were \$7.7 million, \$9.6 million, \$14.8 million, \$14.7 million and \$8.5 million, respectively. Long term obligations exclude amounts due to affiliates.

(h) In December 1996, Roche loaned \$187.0 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bore interest at a rate of 6.625% per annum and was repaid in June, 1997 with proceeds from the Preferred Stock Offering. The remaining amounts shown represent trade payables to affiliated companies.

(i) During the fourth quarter of 1997 the Company recorded a provision for doubtful accounts of \$182.0 million, which was approximately \$160.0 million greater than the amount recorded in the fourth quarter of 1996 and a \$22.7 million provision for restructuring certain laboratory operations.

(j) 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 years ended December 31, 1997 and 1996, earnings were insufficient to cover fixed charges and preferred stock dividends by \$196.8 million and \$188.3 million, respectively.

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

GENERAL

In 1998, the Company expanded its testing services through various strategic growth initiatives. The Company acquired the clinical laboratory division of Michigan-based Universal Standard Healthcare, Inc. (UHCI), Delaware-based Medlab, and Florida-based Coastal Medical. The acquisition of UHCI makes the Company one of the largest clinical laboratories operating in Michigan (UHCI's laboratory had 1997 revenue of approximately \$37 million). The Company also acquired an equity position in UHCI and has become UHCI's clinical laboratory testing provider under a two-year marketing agreement. The acquisition of Medlab makes the Company the largest provider of clinical laboratory testing services in Delaware (prior to the acquisition, Medlab had annual revenue of approximately \$22 million) and the acquisition of Coastal Medical represents approximately \$3 million in annual preacquisition revenues.

For the 1998 year, the Company estimates these three acquisitions contributed approximately \$18 million to net sales. Going forward, annualized revenues from these acquisitions are projected to be in the range of \$38 to \$40 million.

In the second quarter of 1998, the Company signed a multi-year agreement with Health Options, Inc., Blue Cross and Blue Shield of Florida's health maintenance organization (HMO), to provide laboratory services to more than 700,000 HMO members. Further enhancing its presence in Florida, the Company agreed to provide clinical laboratory testing and other services to more than 800,000 members of Humana Medical Plans, Inc. covered by designated Humana commercial HMO's, insurance plans, and Medicaid and Medicare HMO's beginning July 1, 1998.

Also in the second quarter of 1998, the Company announced an exclusive partnership with Virco, a Belgian-based biotechnology company, to offer important new tests that will provide physicians with data to evaluate resistance of HIV to antiretroviral drugs. The Company is planning to offer Virco's new phenotyping technology in addition to genotyping testing, which identifies genetic mutations that can signify drug resistance. The Company will have exclusive access to the first HIV resistance database that directly relates genotypic analysis to phenotypic interpretation. Developed by Virco, the Company believes the database provides the most useful guide for AIDS-treating physicians to date.

The decision to sell the Company's veterinary testing business to Antech Diagnostics in the first quarter of 1998 was consistent with the Company's strategy to reposition resources to optimize growth and profitability. Under the terms of the sales agreement, the Company retained the animal studies portion of the business for

clinical trials testing, which continues to be one of the Company's targeted opportunities for growth. The veterinary testing business had historically generated annual revenues of approximately \$11 million to \$12 million.

The Company's industry continues to be affected by significant government regulation, price competition and increased influence of managed care organizations. 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 such as increased discounts and the use of capitated payment contracts. These practices negatively impact the Company's operating margins. The increase in managed care has also resulted in declines in the utilization of laboratory testing services. As a result of these challenges, the Company continues to seek new growth opportunities in an effort to increase profitability.

As of April 1, 1997, the Health Care Financing Administration put into effect new policies which affect Medicare payments to clinical laboratories for the most frequently performed automated blood chemistry profiles. These changes established a new coding standard for the content of the automated chemistry profiles. To comply with these changes, the Company developed and implemented a new universal test requisition and standard test offerings which successfully incorporated all required changes by the July 1, 1998 deadline. Estimated direct costs associated with these changes are over \$5.0 million. The Company is unable to estimate the indirect costs associated with these changes. However, personnel time and effort to introduce the new forms to clients and provide training and support has been significant.

These new rules are intended to reduce the number of non-Medicare covered "screening tests" which Medicare believes have in the past been inappropriately billed to Medicare. The Company does not believe it has experienced any significant revenue impact from this new rule. The Company will continue to monitor this issue going forward.

IMPACT OF THE YEAR 2000 ISSUE

The Company has an ongoing work effort to identify and remediate data recognition problems that will be caused in computer systems, software, and lab equipment by the change in date from the year 1999 to the year 2000. The Company is also working to address potential problems in systems and equipment that contain imbedded hardware or software that may have a time element (referred to as "non-IT" systems). The Company's Year 2000 project has five phases: i) inventory of the business critical functional equipment and systems affected by the Year 2000 issue; ii) assessment of the key

elements identified by the inventory including development of strategies to address affected critical equipment and systems; iii) contingency planning; iv) remediation of affected equipment and systems; and v) testing and validation of its systems for Year 2000 date recognition.

Contingency planning is scheduled to be completed during the second quarter of 1999. Completion of all material phases for remediation for business critical equipment is scheduled for June 30, 1999. All material phases for testing and validation for business critical equipment and systems is scheduled to be completed by the end of the third quarter of 1999.

The Company is also working to assess Year 2000 readiness on the part of its significant service providers, vendors, suppliers, customers and governmental entities. There can be no guarantee that the failure by these other companies to successfully and timely achieve Year 2000 compliance would not have an adverse effect on the Company's operations.

The total cost associated with required Year 2000 modifications and related activities is not expected to be material to the Company's financial position and is expected to be funded through capital and operating cash flows. It is currently estimated that the total future expenditures specifically relating to the Year 2000 project will be between \$20 and \$25 with approximately \$3.0 having been spent through December 31, 1998. The amounts required to address Year 2000 readiness do not include significant investments in new systems which have been and are being incurred in the normal course of business and are Year 2000 compliant.

The estimates and conclusions herein contain forward-looking statements and are based on management's best estimates of future events. The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operation, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition.

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, 1998 compared with Year ended December 31, 1997.

Net sales for 1998 were \$1,612.6 million, an increase of approximately 2.0% from \$1,579.9 million reported in the comparable 1997 period. Sales increased 3.2% due to an increase in price per accession, which was a direct result of the Company's effort to negotiate better pricing on new contracts, raising prices on existing contracts that do not meet Company profitability targets and other pricing initiatives discussed in the "General" section above. This increase was offset by a 1.2% decline in sales as a result of lower testing volume, resulting from industry-wide trends as well as the Company's program of selectively eliminating unprofitable accounts and carefully evaluating the acceptability of new business.

Cost of sales, which includes primarily laboratory and distribution costs, was \$1,049.2 million for 1998 compared to \$1,080.5 million in the corresponding 1997 period, a decrease of 2.9%. Cost of sales decreased approximately \$22.4 million due to a decrease in testing supplies, approximately \$12.9 million due to the decrease in volume, and approximately \$4.6 million due to a decrease in consulting fees. These decreases were partially offset by an increase in salaries due to scheduled salary increases as well as the Michigan and Delaware acquisitions. The reduction in testing supplies is the result of ongoing efforts by the Company to consolidate suppliers and inventory item usage. There can be no assurance that the Company can achieve this level of reduction in the future. Cost of sales as a percentage of net sales was 65.1% for 1998 and 68.4% in the corresponding 1997 period. The decrease in the cost of sales percentage of net sales primarily resulted from the cost reduction efforts mentioned above.

Selling, general and administrative expenses decreased to \$405.0 million in 1998 from \$538.1 million in the same period in 1997 representing a decrease of \$133.1 million or 24.7%. Selling, general and administrative expenses were 25.1% and 34.1% as a percentage of net sales in 1998 and 1997, respectively. The decrease in selling, general and administrative expenses is primarily the result of the decrease in the provision for doubtful accounts of \$146.8 million from the amount recorded in 1997. This decrease was partially

offset by increases in 1998 in personnel expenses (\$13.0 million), bad debt expense (\$11.3 million) and telephone (\$2.0 million).

Net interest expense was \$46.1 million in 1998 compared to \$69.3 million in 1997. See "Liquidity and Capital Resources."

Provision for income taxes was a benefit of \$12.7 million in 1998 compared to a tax expense of \$54.4 million in 1997. See "Note 11 to Consolidated Financial Statements" for a further discussion of income taxes.

Year ended December 31, 1997 compared with Year ended December 31, 1996.

Net sales for 1997 were \$1,579.9 million, a decrease of approximately 5.7% from \$1,676.2 million reported in the comparable 1996 period. Sales declined approximately 6.5% as a result of lower testing volume, which was a result of industry-wide trends as well as the Company's program of selectively eliminating unprofitable accounts and carefully evaluating the acceptability of new business. The decline in sales resulting from volume declines was partially offset by an increase in price per accession of approximately 1.0% from the comparable 1996 period. The increase in the price per accession was a direct result of the Company's effort to negotiate better pricing on new contracts, raising prices on existing contracts that do not meet Company profitability targets and other pricing initiatives discussed in the "General" section above.

Cost of sales, which includes primarily laboratory and distribution costs, was \$1,080.5 million for 1997 compared to \$1,183.9 million in the corresponding 1996 period, a decrease of 8.7%. Cost of sales decreased approximately \$76.1 million due to the decrease in volume, approximately \$21.3 million due to a decrease in salaries and benefits and approximately \$13.8 million primarily relating to data processing supplies, request forms and freight expense as a result of the Company's cost reduction programs and lower volume. These decreases were partially offset by an increase in salaries due to scheduled salary increases and supply costs resulting primarily from an increase in volume in the Company's specialty and niche testing areas. Cost of sales as a percentage of net sales was 68.4% for 1997 and 70.6% in the corresponding 1996 period. The decrease in the cost of sales percentage of net sales primarily resulted from the cost reduction efforts mentioned above.

Selling, general and administrative expenses increased to \$538.1 million in 1997 from \$373.5 million in the same period in 1996 representing an increase of \$164.6 million or 44.1%. The increase in 1997 was partially offset by decreases in telephone and insurance categories aggregating approximately \$33.4 million. During the fourth quarter of 1997, the Company recorded a provision for

doubtful accounts of \$182.0 million, which was approximately \$160.0 million greater than the amount recorded in the fourth quarter of 1996. This charge was made to increase the allowance for doubtful accounts to a level that management believes is appropriate to reduce its accounts receivable to the net amount that management believes will ultimately be collected.

Selling, general and administrative expenses were 34.1% and 22.3% as a percentage of net sales in 1997 and 1996, respectively. The increase in the selling, general and administrative percentage primarily resulted from increased employee and consulting expenses related to billing and collection activities and the increases in the provision for doubtful accounts discussed above and, to a lesser extent, from a reduction in net sales due to utilization declines, which provided little corresponding reduction in costs.

The Company has experienced a deterioration in the timeliness of cash collections and a corresponding increase in accounts receivable. The primary causes of this situation are the increased medical necessity and related diagnosis code requirements from third-party payors and the complexities in the billing process (data capture) arising from changing requirements of private insurance companies (managed care). Management previously believed that this deterioration in the timeliness of cash collections would not have any significant impact on the ultimate collectability of the receivables.

In late 1996, to address the deteriorating cash collections, management developed various short-term improvement projects ("initiatives") that it anticipated would improve the timeliness of collections by the end of 1997. Initially, it appeared that these initiatives were having a positive impact, as the growth in the Company's Days' Sales Outstanding (DSO) stabilized in the first and second quarters of 1997. However, during the third quarter of 1997, despite continuing focused efforts on the initiatives, the Company's DSO began increasing again. In response, management intensified its efforts on the aforementioned initiatives and added new initiatives for the purpose of significantly lowering the DSO by December 31, 1997.

In the fourth quarter of 1997, management evaluated the initiatives' overall effect and concluded that, while helpful in improving certain processes, they had not had any significant impact on improving the Company's cash collections on aged receivables. In recognition of the Company's inability to enhance collections on a sustained basis, an increase in the allowance for doubtful accounts was considered necessary by management.

The Company also recorded pre-tax charges in the fourth quarter of 1997 of \$22.7 million, related primarily to the downsizing of its Long Island, New York facility and the future consolidation into its Raritan, New Jersey facility.

In the second quarter of 1996, the Company recorded additional pre-tax 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 designed 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.

Net interest expense was \$69.3 million in 1997 compared to \$69.5 million in 1996. See "Liquidity and Capital Resources."

As a result of the bad debt and restructuring and non-recurring charges taken in 1997 and 1996, the provision for income taxes is not comparable between periods. However, before charges, the Company's effective income tax rate in 1997 increased from 1996 as a result of net loss carry back limitations. See "Note 11 to Consolidated Financial Statements" for a further discussion of income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by (used for) operating activities was \$125.1 million, \$144.4 million and \$(174.5) million, in 1998, 1997 and 1996, respectively. The decrease in cash flow from operations in 1998 primarily resulted from increases in accounts receivable, offset by changes in income taxes.

Capital expenditures were \$58.7 million, \$34.5 million and \$69.9 million for 1998, 1997 and 1996, respectively. The Company expects capital expenditures to be approximately \$72.5 million in 1999. These expenditures are intended to continue to improve billing systems and further automate laboratory processes. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's credit facilities.

The Company's days sales outstanding (DSO) at the end of 1998 was 83 days, compared to 79 days at the end of 1997. The DSO increase is primarily related to anticipated billing delays in connection with the acquisitions in Michigan and Delaware. Obtaining required licenses and private certifications, as well as transitioning accounts onto the Company's systems, caused delays by several months in billing customers. All bills were out to customers by the end of the year.

During the fourth quarter of 1998, the Company increased its bad debt expense in response to a fourth quarter decline in cash collection rates. The decline was related to delays in payment from several large managed care and hospital payors, as well as claim submission issues which are now being rectified. In addition, the Company has two specific locations that have poorer than average performance in the area of cash collections which represent approximately 20% of total outstanding accounts receivable. The Company is taking necessary steps to improve DSO and cash collections in these locations by:

- Converting both locations to a centralized billing system. The New York facility was converted one month ahead of schedule on February 1, 1999 and the northern Virginia facility is scheduled to be converted during 1999;
- Assigning focused, cross functional billing operations teams to implement best practices throughout the company, with particular emphasis on areas with higher DSOs; and
- Identifying solutions to improve payment by slow managed care and hospital payors.

With the completion of the New York facility conversion, approximately 55% of the Company's billings are performed on the Company's centralized system. By the end of the year, Management anticipates that approximately 70% of billings will be performed on that system.

The Company expects that these conversions will lower DSO and have a positive impact on the timing of cash collections. The positive effects of these conversions will most likely be realized some time after the completion of the conversions. There can be no assurance that the planned billing conversions will improve the Company's DSO and cash collections.

Based on current and projected levels of operations, coupled with availability under its revolving credit facility, the Company believes it has sufficient liquidity to meet both its short-term and long-term cash needs. For a discussion of the Company's long-term debt and revolving credit facility, see "Note 9 to Consolidated Financial 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 evidences Congress' determination that the disclosure of forward-looking information is desirable for investors and encourages such disclosure by providing a safe harbor for forward-looking statements by corporate management. This Annual Report, including the Letter to Our Shareholders and the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve risk and uncertainty. In order to

comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

The risks and uncertainties that may affect the operations, performance, development, growth projections and results of the Company's business include, but are not limited to, the growth of the economy, interest rate movements, timely development by the Company of technology enhancements of its operating systems, the impact of competitive services and pricing, customer business requirements, Congressional legislation and similar matters. Readers of this report are cautioned not to place undue reliance on forward-looking statements which are subject to influence by the named risk factors and unanticipated future events. Actual results, accordingly, may differ materially from management expectations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not Applicable.

PART III

The information required by Part III, Items 10 through 13, of Form 10-K is incorporated by reference from the registrant's definitive proxy statement for its 1999 annual meeting of stockholders, which is to be filed pursuant to Regulation 14A not later than April 30, 1999.

PART IV

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

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

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

See Index on page F-1

(2) Financial Statement Schedules:

See Index on page F-1

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

(3) Index to and List of Exhibits

(a) Exhibits:*

Exhibits 10.1 through 10.3 and 10.6 through 10.13 are management contracts or compensatory plans or arrangements.

- 2.1 - Agreement and Plan of Merger among the Company, NHL Sub Acquisition Corp. and NHLI (incorporated herein by reference to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission (the "Commission") on March 14, 1994, File No. 33-52655 (the "1994 S-4")).
- 2.2 - Agreement and Plan of Merger dated as of May 3, 1994 of NHLI and N Acquisition Corp. (incorporated herein by reference to Exhibit (c)(1) of Schedule 14D-1 and Schedule 13D ("Schedule 14D-1 and Schedule 13D") filed with the Commission on May 9, 1994).
- 2.3 - Agreement dated as of June 7, 1994, among N Acquisition Corp., the Company and NHLI (incorporated herein by reference to Exhibit (c)(7) of amendment No. 2 to Schedule 14D-1 and Schedule 13D of NHLI and N Acquisition Corp filed with the Commission on June 8, 1994).

- 2.4 - Agreement and Plan of Merger dated as of December 13, 1994 among the Company, HLR Holdings Inc., Roche Biomedical Laboratories, Inc. and (for the purposes stated therein) Hoffmann-La Roche Inc. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 filed with the Commission on March 3, 1995, File No. 1-11353 (the "1994 10-K")).
- 2.5 - Stock Purchase Agreement dated December 30, 1994 between Reference Pathology Holding Company, Inc. and Allied Clinical Laboratories, Inc. ("Allied") (incorporated herein by reference to the 1994 10-K).
- 3.1 - Certificate of Incorporation of the Company (amended pursuant to a Certificate of Merger filed on April 28, 1995) (incorporated by reference herein to the report on Form 8-K dated April 28, 1995, filed with the Commission on May 12, 1995, File No. 1-11353 (the "April 28, 1995 Form 8-K")).
- 3.2 - Amended and Restated By-Laws of the Company (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 4.1 - Warrant Agreement dated as of April 10, 1995 between the Company and American Stock Transfer & Trust Company (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 4.2 - Specimen of the Company's Warrant Certificate (included in the Exhibit to the Warrant Agreement included therein as Exhibit 4.1 hereto) (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 4.3 - Specimen of the Company's Common Stock Certificate (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 10.1 - National Health Laboratories Incorporated Employees' Savings and Investment Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 filed with the Commission on February 13, 1992, File No. 1-10740** (the "1991 10-K")).
- 10.2 - National Health Laboratories Incorporated Employees' Retirement Plan (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 filed with the Commission on March 26, 1993, File No. 1-10740 (the "1992 10-K")).
- 10.3 - National Health Laboratories Incorporated Pension Equalization Plan (incorporated herein by reference to the 1992 10-K).
- 10.4 - Settlement Agreement dated December 18, 1992 between the Company and the United States of America (incorporated herein by reference to the 1992 10-K).
- 10.5 - Settlement Agreement dated November 21, 1996 between the Company and the United States of America.
- 10.6 - National Health Laboratories 1988 Stock Option Plan, as amended (incorporated herein by reference to the Company's Registration Statement on Form S-1 (No. 33-35782) filed with the Commission on July 9, 1990 (the "1990 S-1")).

- 10.7 - National Health Laboratories 1994 Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on Form S-8 filed with the Commission on August 12, 1994, File No. 33-55065).
- 10.8 - Laboratory Corporation of America Holdings Performance Unit Plan (incorporated by reference to Annex II of the Company's 1995 Annual Proxy Statement filed with the Commission on August 17, 1995 (the "1995 Proxy")).
- 10.9 - Laboratory Corporation of America Holdings Annual Bonus Incentive Plan (incorporated by reference to Annex III of the 1995 Proxy).
- 10.10 - Laboratory Corporation of America Holdings Master Senior Executive Severance Plan (incorporated herein by reference to the report on Form 8-K dated October 24, 1996 (the "October 24, 1996 8-K") filed with the Commission on October 24, 1996, File No. 1-11353).
- 10.11 - Special Severance Agreement dated June 28, 1996 between the Company and Timothy J. Brodник (incorporated herein by reference to the October 24, 1996 8-K).
- 10.12 - Special Severance Agreement dated July 12, 1996 between the Company and John F. Markus (incorporated herein by reference to the October 24, 1996 8-K).
- 10.13 - Special Severance Agreement dated June 28, 1996 between the Company and Robert E. Whalen (incorporated herein by reference to the October 24, 1996 8-K).
- 10.14 - Tax Allocation Agreement dated as of June 26, 1990 between MacAndrews & Forbes Holding Inc., Revlon Group Incorporated, New Revlon Holdings, Inc. and the subsidiaries of Revlon set forth on Schedule A thereto (incorporated herein by reference to the 1990 S-1).
- 10.15 - Loan Agreement dated August 1, 1991 among the Company, Frequency Property Corp. and Swiss Bank Corporation, New York Branch (incorporated herein by reference to the 1991 10-K).
- 10.16 - Sharing and Call Option Agreement dated as of December 13, 1994 among HLR Holdings Inc., Roche Biomedical Laboratories, Inc., Mafco Holdings Inc., National Health Care Group, Inc. and (for the purposes stated therein) the Company (incorporated by reference herein to the 1994 10-K).
- 10.17 - Stockholder Agreement dated as of April 28, 1995 among the Company, HLR Holdings Inc., Hoffmann-La Roche Inc. and Roche Holdings, Inc. (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 10.18 - Exchange Agent Agreement dated as of April 28, 1995 between the Company and American Stock Transfer & Trust Company (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 10.19 - Credit Agreement dated as of April 28, 1995, among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the April 28, 1995 Form 8-K).
- 10.20 - First Amendment to Credit Agreement dated as of September 8, 1995 among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent

(incorporated by reference herein to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 filed with the Commission on November 14, 1995, File No. 1-11353).

- 10.21 - Second Amendment to Credit Agreement dated as of February 16, 1996 among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed with the Commission on March 29, 1996, File No. 1-11353).
- 10.22 - Third Amendment and Second Waiver to Credit Agreement dated as of July 10, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch) as Administrative Agent (incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1996 filed with the Commission on August 14, 1996, File No. 1-11353).
- 10.23 - Fourth Amendment to the Credit Agreement dated as of September 23, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the report in Form 8-K dated September 23, 1996, filed with the Commission on September 30, 1996, File No. 1-11353).
- 10.24 - Third Waiver to the Credit Agreement dated as of November 4, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1996 filed with the Commission on November 14, 1996, File No. 1-11353).
- 10.25 - Fifth Amendment and Fourth Waiver to the Credit Agreement dated as of December 23, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the report on Form 8-K filed with the Commission on January 6, 1997, File No.1-11353(the "January 6, 1997 8-K")).
- 10.26 - Fifth Waiver to the Credit Agreement dated as of January 27, 1997 among the Company, the banks named therein and Credit Suisse (New York Branch) as Administrative Agent.
- 10.27 - Sixth Amendment and Waiver to the Credit Agreement dated as of March 31, 1997 among the Company, the banks named therein and Credit Suisse First Boston as Administrative Agent.
- 10.28 - Amended and Restated Credit Agreement dated as of March 31, 1997 among the Company, the banks named therein and Credit Suisse First Boston as Administrative Agent.
- 10.29* - Second Amendment to the Amended and Restated Credit Agreement dated as of February 25, 1998 among the Company, the banks named therein and Credit Suisse First Boston as Administrative Agent.
- 10.30 - Laboratory Corporation of America Holdings 1995 Stock Plan for Non-Employee Directors (incorporated by reference herein to the report of Form S-8 dated September 26, 1995, filed with the Commission on September 26, 1995).

- 10.31 - Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated by reference herein to Annex I of the Company's 1996 Annual Proxy Statement filed with the Commission on October 25, 1996).
- 10.32 - Promissory note dated December 30, 1996 between the Company and Roche Holdings Inc. (incorporated herein by reference to the January 6, 1997 8-K).
- 10.33 - First Amendment to promissory note given by the Company to Roche Holdings Inc.
- 10.34* - Support Agreement between Roche Biomedical Laboratories, Inc. and Hoffmann-La Roche Inc., dated as of April 27, 1995.
- 10.35* - First Amendment to Support Agreement between Roche Biomedical Laboratories, Inc. and Hoffmann-La Roche Inc., dated as of July 26, 1995.
- 10.36* - Second Amendment to Support Agreement between Laboratory Corporation of America Holdings, Hoffmann-La Roche Inc., Roche Molecular Systems, Inc. and Roche Diagnostic Systems, Inc., dated as of January 1, 1997.
- 10.37* - Third Amendment to Support Agreement between Laboratory Corporation of America Holdings, Hoffmann-La Roche Inc., Roche Molecular Systems, Inc. and Roche Diagnostic Systems, Inc., dated as of October 1, 1997.
- 10.38* - Consulting Agreement between Laboratory Corporation of America Holdings and its subsidiaries and affiliates and Larry L. Leonard, dated as of September 1, 1998.
- 12.1* - Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

- 21.1 - List of Subsidiaries of the Company

- 23.1* - Consent of PricewaterhouseCoopers LLP
- 23.2* - Consent of KPMG LLP

- 24.1* - Power of Attorney of Jean-Luc Belingard
- 24.2* - Power of Attorney of Wendy E. Lane
- 24.3* - Power of Attorney of Robert E. Mittelstaedt, Jr.
- 24.4* - Power of Attorney of James B. Powell, M.D.
- 24.5* - Power of Attorney of David B. Skinner
- 24.6* - Power of Attorney of Andrew G. Wallace, M.D.

- 27.1 - Financial Data Schedule (electronically filed version only).
- 27.2 - Restated Financial Data Schedule for September 30, 1998 (electronically filed version only).
- 27.3 - Restated Financial Data Schedule for June 30, 1998 (electronically filed version only).
- 27.4 - Restated Financial Data Schedule for March 31, 1998 (electronically filed version only).
- 27.5 - Restated Financial Data Schedule for December 31, 1997 (electronically filed version only).
- 27.6 - Restated Financial Data Schedule for September 30, 1997 (electronically filed version only).
- 27.7 - Restated Financial Data Schedule for June 30, 1997 (electronically filed version only).
- 27.8 - Restated Financial Data Schedule for March 31, 1997 (electronically filed version only).
- 27.9 - Restated Financial Data Schedule for December 31, 1996 (electronically filed version only).

(b) Reports on Form 8-K

- (1) A current report on Form 8-K dated October 27, 1998 was filed on November 23, 1998, by the registrant, in connection with the press release dated October 27, 1998 announcing operating results of the Company for the quarter and nine months ended September 30, 1998.
- (2) A current report on Form 8-K dated December 16, 1998 was filed on December 30, 1998, by the registrant, in connection with the press release dated December 16, 1998, announcing that its Board of Directors has declared dividends on the Company's 8 1/2% Series A Convertible Exchangeable Preferred Stock and the Company's 8 1/2% Series B Convertible Pay-in-Kind Preferred Stock.

* Filed herewith.

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

SIGNATURES

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

LABORATORY CORPORATION OF AMERICA HOLDINGS

Registrant

By: /s/ THOMAS P. MAC MAHON

Thomas P. Mac Mahon
Chairman of the Board, President
and Chief Executive Officer

Dated: March 8, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on March 8, 1999 in the capacities indicated.

Signature -----	Title -----
/s/ THOMAS P. MAC MAHON ----- Thomas P. Mac Mahon	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ WESLEY R. ELINGBURG ----- Wesley R. Elingburg	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)
/s/ JEAN-LUC BELINGARD* ----- Jean-Luc Belingard	Director
/s/ WENDY E. LANE* ----- Wendy E. Lane	Director
/s/ ROBERT E. MITTELSTAEDT, JR.* ----- Robert E. Mittelstaedt, Jr.	Director
/s/ JAMES B. POWELL, M.D.* ----- James B. Powell, M.D.	Director
/s/ DAVID B. SKINNER, M.D.* ----- David B. Skinner, M.D.	Director
/s/ ANDREW G. WALLACE, M.D.* ----- Andrew G. Wallace, M.D.	Director

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

By:/s/ BRADFORD T. SMITH

Bradford T. Smith
Attorney-in-fact

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Laboratory Corporation of America Holdings

In our opinion, the consolidated financial statements presented in the accompanying index present fairly, in all material respects, the consolidated financial position of Laboratory Corporation of America Holdings and its subsidiaries (the Company) at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule, included in the index, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information required to be included therein. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Charlotte, North Carolina
February 12, 1999

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated statement of operations, changes in shareholders' equity and cash flows of Laboratory Corporation of America Holdings and subsidiaries for the period ended December 31, 1996. In connection with our audit of the consolidated financial statements, we also have audited the accompanying financial statement schedule for the period ended December 31, 1996. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Laboratory Corporation of America Holdings and subsidiaries for the year ended December 31, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule for the year ended December 31, 1996, 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 LLP

Raleigh, North Carolina
February 14, 1997 except for
Note 9 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,	
	1998	1997
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22.7	\$ 23.3
Accounts receivable, net	375.4	330.6
Inventories	30.7	36.0
Prepaid expenses and other	12.3	16.9
Deferred income taxes	78.0	112.0
Income taxes receivable	--	8.8
	-----	-----
Total current assets	519.1	527.6
Property, plant and equipment, net	259.1	254.9
Intangible assets, net	836.2	851.3
Other assets, net	26.5	24.7
	-----	-----
	\$ 1,640.9	\$ 1,658.5
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 50.2	\$ 55.9
Accrued expenses and other	128.7	140.7
Current portion of long-term debt	72.5	--
	-----	-----
Total current liabilities	251.4	196.6
Revolving credit facility	--	40.0
Long-term debt, less current portion	571.3	643.8
Capital lease obligation	4.2	5.8
Other liabilities	132.8	142.3
Commitments and contingent liabilities	--	--
Mandatorily redeemable preferred stock (30,000,000 shares authorized):		
Series A 8 1/2% Convertible Exchangeable Preferred Stock, \$0.10 par value, 4,363,178 and 4,363,202 shares issued and outstanding at December 31, 1998 and 1997, respectively (aggregate preference value of \$218.2 at December 31, 1998 and 1997)	213.0	212.6
Series B 8 1/2% Convertible Pay-in-Kind Preferred Stock, \$0.10 par value, 6,409,548 and 5,892,495 shares issued and outstanding at December 31, 1998 and 1997, respectively (aggregate preference value of \$320.5 and \$294.6 at December 31, 1998 and 1997, respectively)	313.8	288.3
Shareholders' equity:		
Common stock, \$0.01 par value; 520,000,000 shares authorized; 125,280,346 and 123,542,614 shares issued and outstanding at December 31, 1998 and 1997, respectively	1.2	1.2
Additional paid-in capital	415.7	412.8
Accumulated deficit	(260.5)	(284.9)
Accumulated other comprehensive income	(2.0)	--
	-----	-----
Total shareholders' equity	154.4	129.1
	-----	-----
	\$ 1,640.9	\$ 1,658.5
	=====	=====

The accompanying notes are an integral part of these 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,		
	1998	1997	1996
Net sales	\$ 1,612.6	\$ 1,579.9	\$ 1,676.2
Cost of sales	1,049.2	1,080.5	1,183.9
Gross profit	563.4	499.4	492.3
Selling, general and administrative expenses	405.0	538.1	373.5
Amortization of intangibles and other assets	30.8	30.6	29.6
Restructuring and non-recurring charges	--	22.7	23.0
Provision for settlements and related expenses	--	--	185.0
Operating income (loss)	127.6	(92.0)	(118.8)
Other income (expenses):			
Investment income	2.6	2.4	2.2
Interest expense	(48.7)	(71.7)	(71.7)
Earnings (loss) before income taxes	81.5	(161.3)	(188.3)
Provision for income taxes	12.7	(54.4)	(34.8)
Net income (loss)	68.8	(106.9)	(153.5)
Less preferred stock dividends	(43.6)	(23.4)	--
Less accretion of mandatorily redeemable preferred stock	(0.8)	(0.5)	--
Net income (loss) attributable to common shareholders	\$ 24.4	\$ (130.8)	\$ (153.5)
	=====	=====	=====
Basic and diluted income (loss) per common share:	\$ 0.20	\$ (1.06)	\$ (1.25)
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

For the three-year period ended December 31, 1998

	Common Stock	Additional Paid-in Capital	Accumulated Deficit
	-----	-----	-----
BALANCE, JANUARY 1, 1996	\$ 1.2	\$ 411.0	\$ (0.6)
Comprehensive loss	--	--	(153.5)
	-----	-----	-----
BALANCE, DECEMBER 31, 1996	\$ 1.2	\$ 411.0	\$ (154.1)
Comprehensive loss	--	--	(106.9)
Issuance of common stock	--	1.8	--
Preferred stock dividends	--	--	(23.4)
Accretion of mandatorily redeemable preferred stock	--	--	(0.5)
	-----	-----	-----
BALANCE, DECEMBER 31, 1997	\$ 1.2	\$ 412.8	\$ (284.9)
Comprehensive income:			
Net income	--	--	68.8
Other comprehensive income:			
Unrealized loss on securities, net of tax	--	--	--

Comprehensive income			68.8
Issuance of common stock	--	2.9	--
Preferred stock dividends	--	--	(43.6)
Accretion of mandatorily redeemable preferred stock	--	--	(0.8)
	-----	-----	-----
BALANCE, DECEMBER 31, 1998	\$ 1.2	\$ 415.7	\$ (260.5)
	=====	=====	=====

For the three-year period ended December 31, 1998

	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	-----	-----
BALANCE, JANUARY 1, 1996	\$ --	\$ 411.6
Comprehensive loss	--	(153.5)
	-----	-----
BALANCE, DECEMBER 31, 1996	\$ --	\$ 258.1
Comprehensive loss	--	(106.9)
Issuance of common stock	--	1.8
Preferred stock dividends	--	(23.4)
Accretion of mandatorily redeemable preferred stock	--	(0.5)
	-----	-----
BALANCE, DECEMBER 31, 1997	\$ --	\$ 129.1
Comprehensive income:		
Net income	--	68.8
Other comprehensive income:		
Unrealized loss on securities, net of tax	(2.0)	(2.0)
	-----	-----
Comprehensive income	(2.0)	66.8
Issuance of common stock	--	2.9
Preferred stock dividends	--	(43.6)
Accretion of mandatorily redeemable preferred stock	--	(0.8)
	-----	-----
BALANCE, DECEMBER 31, 1998	\$ (2.0)	\$ 154.4
	=====	=====

The accompanying notes are an integral part of these 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,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 68.8	\$ (106.9)	\$ (153.5)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Provision for settlements and related expenses	--	--	185.0
Net gain on disposals	(1.3)	(0.3)	--
Depreciation and amortization	84.2	86.8	97.5
Deferred income taxes, net	30.6	(43.0)	30.3
Payments for settlement and related expenses	--	--	(188.9)
Change in assets and liabilities, net of effects of acquisitions:			
Net change in restructuring reserves	(5.6)	5.6	4.2
Decrease(increase)in accounts receivable, net	(46.6)	175.0	(78.8)
Decrease in inventories	5.2	8.3	8.0
Decrease(increase)in prepaid expenses and other	4.7	4.5	(3.1)
Change in income taxes receivable/payable, net	(2.4)	45.5	(32.4)
Decrease in accounts payable	(5.7)	(9.9)	(40.4)
Increase (decrease)in accrued expenses and other	(5.0)	(20.4)	6.3
Other, net	(1.8)	(0.8)	(8.7)
Net cash provided by (used for) operating activities	125.1	144.4	(174.5)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(58.7)	(34.5)	(69.9)
Proceeds from sale of assets	12.6	1.6	3.5
Acquisitions of businesses	(23.7)	--	(5.0)
Refund of lease guaranty	8.0	--	--
Net cash used for investing activities	(61.8)	(32.9)	(71.4)

(continued)

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facilities	\$ 40.0	\$ 35.0	\$ 293.0
Payments on revolving credit facilities	(80.0)	(366.0)	(140.0)
Payment on affiliate loan	--	(187.0)	--
Loan from affiliate	--	--	187.0
Payments on long-term debt	--	(68.7)	(70.8)
Payments on long-term lease obligations	(1.5)	--	--
Deferred financing fees	--	(4.6)	--
Deferred payments on acquisitions	(6.8)	(5.2)	(10.4)
Sale of redeemable preferred stock, net of issuance costs	--	486.9	--
Payment of preferred stock dividends	(18.5)	(9.7)	--
Cash received for issuance of common stock	2.9	1.8	--
Net cash provided by (used for) financing activities	(63.9)	(117.5)	258.8
Net increase (decrease) in cash and cash equivalents	(0.6)	(6.0)	12.9
Cash and cash equivalents at beginning of year	23.3	29.3	16.4
Cash and cash equivalents at end of year	\$ 22.7	\$ 23.3	\$ 29.3

Supplemental schedule of cash flow information:

Cash paid (received) during the year for:

Interest	\$ 47.5	\$ 69.2	\$ 65.1
Income taxes, net of refunds	(12.2)	(55.0)	(15.2)

Disclosure of non-cash financing and investing activities:

Preferred stock dividends	25.1	13.7	--
Accretion of mandatorily redeemable preferred stock	0.8	0.5	--
Acquisition liabilities assumed	1.3	--	18.4
Unrealized loss on securities available-for-sale (net of tax)	2.0	--	--
Obligations incurred under capital leases	--	4.6	--

The accompanying notes are an integral part of these 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 and its subsidiaries ("Company") is the largest independent clinical laboratory company in the United States based on 1998 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 25 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 50 states.

The consolidated financial statements include the accounts of Laboratory Corporation of America Holdings and its subsidiaries after elimination of all material intercompany accounts and transactions.

CASH EQUIVALENTS:

Cash equivalents (primarily investments in money market funds, time deposits, commercial paper and eurodollars 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 purchased 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.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

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
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 are charged to operations as incurred. Retirements, sales and other disposals of assets are recorded by removing the cost and accumulated depreciation from the related accounts with any resulting gain or loss reflected in income.

CAPITALIZED SOFTWARE COSTS:

The Company capitalizes purchased software which is ready for service and capitalizes software development costs incurred on significant projects starting from the time management commits to funding a project until the project is substantially complete and the software is ready for its intended use. Research and development costs and other computer software maintenance costs related to software development are expensed as incurred. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system, generally five years.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents, accounts receivable, income taxes receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The carrying amounts 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.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

CONCENTRATION OF CREDIT RISK:

Substantially all of the Company's accounts receivable are with companies and individuals in the health care industry. However, concentrations of credit risk are limited due to the number 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 contractual discounts and 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 as a charge to revenue. In 1998, 1997 and 1996, approximately 22%, 20% and 23%, 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 utilizing the asset and liability method. Under this method 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 and for tax loss carryforwards. 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. 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. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits are more likely than not.

STOCK COMPENSATION PLANS:

The Company accounts for its employee stock option plans using the intrinsic method under APB Opinion No. 25 and related Interpretations. The Company's employee stock purchase plan is also accounted for under APB Opinion No. 25 and is treated as non-compensatory. The Company provides supplementary disclosures using the fair value method under SFAS No. 123.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

EARNINGS PER SHARE:

Basic earnings per share is computed by dividing net income (loss), less preferred stock dividends, by the weighted average number of common shares outstanding. Dilutive earnings per share is computed by dividing net income (loss), by the weighted average number of common shares outstanding plus potentially dilutive shares, as if they had been issued at the beginning of the period presented. Potentially dilutive common shares result primarily from the Company's Mandatorily Redeemable Preferred Stock and outstanding stock options and warrants. However, the effect of conversion of the Company's redeemable preferred stock, or exercise of the Company's stock options or warrants was not included in the computation of diluted earnings per common share as it would have been anti-dilutive for all periods presented, except for the fourth quarter of 1998.

For the years ended December 31, 1998, 1997 and 1996, basic and diluted earnings per common share is calculated based on the weighted average number of shares outstanding during each year (124,846,812, 123,241,222, and 122,919,767 shares, respectively).

INVESTMENTS:

Investments in equity securities are reported at fair value with unrealized gains or losses, net of tax, recorded as a separate component of shareholders' equity. At December 31, 1998, the Company recorded an unrealized loss on equity investments of \$2.0, net of related deferred tax benefit of \$1.3.

REPORTING COMPREHENSIVE INCOME:

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" was issued and establishes standards for reporting and displaying comprehensive income and its components. SFAS No. 130 requires comprehensive income and its components, as recognized under accounting standards, to be displayed in a financial statement with the same prominence as other financial statements. The disclosure requirements of SFAS No. 130 have been included in the Company's Consolidated Statements of Shareholders' Equity.

SEGMENT REPORTING:

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information", also issued in June 1997, establishes new standards for reporting information about operating segments in annual and interim financial statements. The standard also requires descriptive information about the way the operating segments are determined, the products and services provided

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

by the segments and the nature of differences between reportable segment measurements and those used for the consolidated enterprise. This standard is effective for fiscal years beginning after December 15, 1997. As of December 31, 1998, the Company's organization has no identifiable reportable operating segments.

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. Significant estimates include the allowances for doubtful accounts and deferred tax assets, amortization lives for intangible assets and accruals for self-insurance reserves. Actual results could differ from those estimates.

LONG-LIVED ASSETS:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of assets to be held and used is determined by the Company at the entity level by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Impairment, if any, 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.

INTANGIBLE ASSETS:

Intangible assets, consisting of goodwill and other intangibles (i.e., customer lists and non-compete agreements), are amortized on a straight-line basis over the expected periods to be benefited, generally ranging from 25 to 40 years for goodwill, 10 to 25 years for customer lists and approximately 5 years for non-compete agreements.

RECLASSIFICATIONS:

In 1998, the Company reclassified \$61.0 and \$68.5 for the years ended December 31, 1997 and 1996, respectively to selling, general and administrative expenses from net sales adjustments to be consistent with the 1998 classification. The reclassification had no effect on operating income.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

2. RESTRUCTURING AND NON-RECURRING CHARGES

During the fourth quarter of 1997, the Company recorded pre-tax charges of \$22.7, related primarily to the downsizing of its Long Island, New York facility and the future consolidation into its Raritan, New Jersey facility. This amount includes approximately \$5.2 for severance and \$12.5 for the future lease obligation and other facilities related charges. The net workforce reduction as a result of this activity is expected to be approximately 260 employees, primarily in the laboratory's operations.

In the second quarter of 1997, the Company determined that approximately \$12.6 of existing reserves were excessive due largely to proceeds from subleases and asset disposals. Also, in the second quarter of 1997, the Company decided to downsize the Winston-Salem, North Carolina laboratory and redirect specimen volumes to other company facilities in order to realize operational efficiencies. Restructuring charges related to the closing of the Winston-Salem laboratory totaled \$12.6.

In the second quarter of 1996, 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 included 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 workforce reduction as a result of these activities was approximately 250 employees. Payments for severance were substantially complete by the end of 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 incurred 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 which were not compatible with new testing methods designed to increase efficiency.

There were estimate revisions made in 1997 and 1996 between classifications of the restructuring charge amounts, which were reclassified in quarters in which it was determined the reclassification was appropriate.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(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				
January 1, 1996	\$ 12.8	\$ 18.6	\$ 18.9	\$ 50.3
Restructuring charges	8.1	1.4	3.5	13.0
Reclassifications and non-cash items	1.6	(10.6)	(2.3)	(11.3)
Cash payments	(14.2)	--	(3.2)	(17.4)
	-----	-----	-----	-----
Balance at				
December 31, 1996	8.3	9.4	16.9	34.6
Long Island downsizing	5.2	5.0	12.5	22.7
Winston-Salem closure	2.7	2.6	7.3	12.6
Adjustments	(1.7)	(5.6)	(5.3)	(12.6)
Reclassifications and non-cash items	3.2	(6.7)	1.9	(1.6)
Cash payments	(14.0)	(0.7)	(2.4)	(17.1)
	-----	-----	-----	-----
Balance at				
December 31, 1997	3.7	4.0	30.9	38.6
Cash payments	(1.2)	(0.5)	(3.9)	(5.6)
	-----	-----	-----	-----
Balance at				
December 31, 1998	\$ 2.5	\$ 3.5	\$ 27.0	\$ 33.0
	=====	=====	=====	=====
Current				\$ 17.5
Non-current				15.5

				\$ 33.0
				=====

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

3. ACCOUNTS RECEIVABLE, NET

	December 31, 1998	December 31, 1997
Gross accounts receivable	\$ 569.4	\$ 526.0
Less allowance for doubtful accounts	(194.0)	(195.4)
	-----	-----
	\$ 375.4	\$ 330.6
	=====	=====

The provision for doubtful accounts was \$164.7, \$311.5 and \$150.0 in 1998, 1997 and 1996, respectively.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
 (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

4. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 1998	December 31, 1997
	-----	-----
Land	\$ 9.7	\$ 9.4
Buildings and building improvements	64.6	62.9
Machinery and equipment	306.6	277.4
Leasehold improvements	57.3	53.3
Furniture and fixtures	26.1	25.9
Construction in progress	32.7	20.9
Buildings under capital leases	5.4	5.4
Equipment under capital leases	4.6	4.6
	-----	-----
	507.0	459.8
Less accumulated depreciation and amortization of capital lease assets	(247.9)	(204.9)
	-----	-----
	\$ 259.1	\$ 254.9
	=====	=====

5. INTANGIBLE ASSETS, NET

	December 31, 1998	December 31, 1997
	-----	-----
Goodwill	\$ 782.9	\$ 774.0
Other intangibles, principally customer lists and non-compete agreements	231.2	224.7
	-----	-----
	1,014.1	998.7
Less accumulated amortization	(177.9)	(147.4)
	-----	-----
	\$ 836.2	\$ 851.3
	=====	=====

Amortization of intangible assets was \$30.8, \$30.6 and \$29.6 in 1998, 1997 and 1996, respectively.

6. ACCRUED EXPENSES AND OTHER

	December 31, 1998	December 31, 1997
	-----	-----
Employee compensation and benefits	\$ 45.9	\$ 50.4
Acquisition related accruals	16.7	20.6
Restructuring reserves	17.5	21.8
Accrued taxes	11.2	13.1
Self-insurance reserves	22.6	24.1
Interest payable	5.7	6.0
Other	9.1	4.7
	-----	-----
	\$ 128.7	\$ 140.7
	=====	=====

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
 (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

7. OTHER LIABILITIES

	December 31, 1998	December 31, 1997
	-----	-----
Acquisition related accruals	\$ 16.8	\$ 20.2
Restructuring reserves	15.5	16.8
Deferred income taxes	29.4	34.3
Post-retirement benefit obligation	32.5	29.4
Self-insurance reserves	37.8	41.1
Other	0.8	0.5
	-----	-----
	\$ 132.8	\$ 142.3
	=====	=====

8. SETTLEMENTS

As previously discussed in the Company's public filings, the Office of Inspector General ("OIG") of the Department 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. 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 Holdings, Inc. ("Roche"). 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.

9. LONG-TERM DEBT

The Company entered into an Amended and Restated Credit Agreement dated as of March 31, 1997 (the "Amended 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 \$693.8 (the "Amended Term Loan Facility") and a revolving credit facility of \$450.0 (the "Amended Revolving Credit Facility" and, together with the Term Loan Facility, the "Bank Facility") which includes a \$50.0 letter of credit sublimit. The Bank Facility is unconditionally and irrevocably guaranteed by certain of the Company's subsidiaries.

Under the Amended Credit Agreement, maturities under the Amended Term Loan Facility were extended in aggregate to \$46.4 in 1999 (to be paid in quarterly installments of \$11.6), \$92.8 in 2000, \$139.2 in 2001 through 2003 and \$87.0 in 2004 (paid in quarterly installments).

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The maturities of the Amended Revolving Credit Facility were also extended approximately two years to March 31, 2002. The Company will also make a special payment on its Amended Term Loan Facility during the second quarter of 1999 of approximately \$26.1, based on a contractual formula contained on the Amended 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 (the higher of the Bank Agent's base commercial loan rate or 50 basis points above the Federal Funds 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 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. In addition, pursuant to the Amended Credit Agreement, the applicable interest margins on borrowings outstanding thereunder are based upon the leverage ratio.

In February 1998, the Company negotiated an amendment to the Amended Credit Agreement, covering both long-term and revolving credit, of certain covenants contained in the agreement. The amendment excludes certain actual expenses incurred during the fourth quarter of 1997 from interest coverage and leverage ratio calculations applicable to the quarters ended December 31, 1997 through September 30, 1998. The amendment also excludes these expenses from certain other covenant calculations applicable to the quarter ending December 31, 1997 and the quarterly periods thereafter.

At December 31, 1998 and 1997 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 \$500.0 and \$600.0, respectively, of its floating rate debt. This effectively fixed the interest rate exposure on the floating rate debt to a weighted-average fixed interest rate of 6.20% and 6.95%, respectively. These swaps require that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. The amounts paid by the Company in 1998 and 1997 were \$.3 and \$1.7, respectively. 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. The current agreements mature in September 2002 and January 2003. The estimated cost at which the Company could have terminated these agreements as of December 31, 1998 and 1997 was approximately \$6.9 and \$0.4, respectively. This fair value was estimated by discounting the expected cash flows using rates currently available for interest rate swaps with similar terms and maturities. Interest rates in

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effect for both the long-term and revolving credit agreement as of December 31, 1998 and 1997 were 5.8% and 6.9%, respectively.

10. ISSUANCE OF MANDATORILY REDEEMABLE PREFERRED STOCK

On May 19, 1997 the Board of Directors of the Company declared a dividend of 10,000,000 transferable subscription rights which were then issued pro rata to holders of its common stock on May 29, 1997 entitling them to purchase up to an aggregate of \$500.0 of redeemable convertible preferred stock issuable in two series at a subscription price of \$50 per share (the "Preferred Stock Offering"). The subscription period ended on June 16, 1997. On that date, rights were exercised to purchase 4,363,202 shares of Series A 8 1/2% Convertible Exchangeable Preferred Stock ("Series A") and 5,636,798 shares of Series B 8 1/2% Convertible Pay-in-Kind Preferred Stock ("Series B"), each at a subscription price of \$50 per share. Roche exercised its basic subscription privilege in full for 4,988,751 shares of Series B and other rights holders purchased the remaining 5,011,249 shares.

The Series A is convertible at the option of the holder after September 30, 1997 into common stock, will pay cash dividends and will be exchangeable on or after June 30, 2000 at the Company's option for 8 1/2% Convertible Subordinated Notes due June 30, 2012. The Series B will be convertible at the option of the holder after June 30, 2000 into common stock, will pay dividends in-kind until June 30, 2003, and in cash thereafter, and will not be exchangeable for notes. The conversion rate for both series of preferred stock is 18.1818 shares of common stock per share of preferred stock. Each series of preferred stock will be mandatorily redeemable after June 30, 2012 at \$50 per share and will be redeemable at the option of the Company after July 7, 2000 at prices declining from \$52.83 to \$50.00 in 2006 and thereafter. Neither series of preferred stock entitles the holder to any voting rights in the Company. Net proceeds from the Preferred Stock Offering were \$486.9 and were used to repay a loan from Roche, including accrued interest, and to reduce amounts outstanding under the Company's term loan and revolving credit facilities.

Offering costs of \$13.1 were recorded against the aggregate preference value of the preferred stock and will be accreted up to the date of mandatory redemption. Accretion for the year ended December 31, 1998 was \$0.8.

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11. INCOME TAXES

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

	Years Ended December 31,		
	1998	1997	1996
Current:			
Federal	\$ (17.6)	\$ (12.3)	\$ (54.4)
State	1.0	0.9	2.3
	-----	-----	-----
	(16.6)	(11.4)	(52.1)
	-----	-----	-----
Deferred:			
Federal	45.2	(35.5)	15.2
State	(15.9)	(7.5)	2.1
	-----	-----	-----
	29.3	(43.0)	17.3
	-----	-----	-----
	\$ 12.7	\$ (54.4)	\$ (34.8)
	=====	=====	=====

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

	Years Ended December 31,		
	1998	1997	1996
Statutory federal rate	35.0%	(35.0)%	(35.0)%
State and local income taxes, net of federal income tax effect	8.5	(2.4)	(3.0)
Non deductible amortization of intangible assets	8.6	4.3	3.0
Change in valuation allowance	(33.8)	6.2	17.0
Adjustments of deferred tax balances	--	(6.2)	--
Other	(2.7)	(0.6)	(0.5)
	-----	-----	-----
Effective rate	15.6%	(33.7)%	(18.5)%
	=====	=====	=====

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 1998	December 31, 1997
	-----	-----
Deferred tax assets:		
Settlement and related expenses	\$ 13.0	\$ 13.0
Accounts receivable	23.0	86.9
Self insurance reserves	6.0	4.6
Postretirement benefit obligation	13.7	10.6
Acquisition and restructuring reserves	37.2	34.3
State net operating loss carryforwards	15.7	11.8
Other	22.7	23.8
	-----	-----
	131.3	185.0
Less valuation allowance	(14.5)	(42.0)
	-----	-----
Net deferred tax assets	116.8	143.0
	-----	-----
Deferred tax liabilities:		
Intangible assets	(54.3)	(51.2)
Property, plant and equipment	(12.2)	(13.0)
Other	(1.7)	(1.1)
	-----	-----
Total gross deferred tax liabilities	(68.2)	(65.3)
	-----	-----
Net deferred tax assets	\$ 48.6	\$ 77.7
	=====	=====

In 1996, a valuation allowance of \$32.0 was established because at the time the realization of the deferred tax asset related to the state net operating loss carryforwards, the postretirement benefit obligation as well as certain other temporary differences was considered less likely than not. The increase in the valuation allowance of \$10.0 from December 31, 1996 to December 31, 1997 was due to the uncertain realization of the state tax effect of certain temporary differences. Based on improved current and projected operating results, the Company reduced its valuation allowance applied against its deferred tax assets relating to state net operating loss carryforwards and certain acquisition and restructuring reserves by approximately \$27.5 million during the fourth quarter of 1998. This was reflected as a reduction in the provision for income taxes. This adjustment brings the Company's net deferred tax assets to a level where management believes that it is more likely than not the tax benefits will be realized.

During 1998, the Company received a Revenue Agents Report (RAR) from the Internal Revenue Service, concluding audits of the tax years ended 1993, 1994, and 1995. Concurrent with the audits of these years, the Company has filed amended Federal income tax returns for the years 1993-1997, recalculating deductible amounts relating to

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the allowance for doubtful accounts under Internal Revenue Code Section 475. The amended returns, coupled with adjustments agreed-upon from the RAR, produced a net tax refund receivable of approximately \$13.6 which has been recorded in the accompanying Consolidated Balance Sheet as of December 31, 1998. As a result of these amended returns and generation of taxable income during 1998, the Company reduced the amount of its net deferred tax assets related to accounts receivable and net operating loss carryforwards by approximately \$51.0.

The RAR also contained certain adjustments for additional taxes of \$14.6 plus interest. The Company disagrees with these adjustments and believes it has sound legal defenses to those items. It is the opinion of management that the ultimate outcome of the case will not result in a material impact on the Company's consolidated results of operation or financial position.

The Company has state tax loss carryforwards of approximately \$307.3 which expire, starting in 2001, through 2018.

12. STOCK COMPENSATION PLANS

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. 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 therefore were not treated as compensation expense. Also, a total of 562,532 options were reissued as a result of option conversions at exercise prices between \$11.293 and \$16.481.

In 1997, the Company adopted the 1997 Stock Option Plan, reserving 6,000,000 shares of common stock for issuance pursuant to

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options and stock appreciation rights that may be granted under the plan. During 1998, there were 5,249,880 options granted to officers and key employees of the company. Exercise prices for these options ranged from \$1.94 to \$2.50.

At December 31, 1998, there were 629,083 additional shares available for grant under the Company's Stock Option Plans. The per share weighted-average fair value of stock options granted during 1998 was \$1.10 per share on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: - expected dividend yield 0.0%, volatility of 0.5, risk-free interest rate of 4.4%, and an expected life of five years.

In 1997, the Company adopted the 1997 Employee Stock Purchase Plan (the "Plan"), reserving 3,500,000 shares of common stock for issuance. Substantially all employees of the Company are eligible to participate in the Plan through periodic payroll withholdings. For each six-month period, eligible employees will receive options to purchase shares at 85% of the lesser of the fair market value of a share of common stock at the beginning or end of the withholding period. In July of 1998, the Company issued 732,255 shares of common stock to participating employees with payroll withholdings of \$1.1. In January of 1999, the Company issued 961,122 shares of common stock to participating employees with payroll withholdings of \$1.1.

The per share weighted-average grant date fair value of the benefits granted under the Employee Stock Purchase Plan for the first six months and second six months of 1998 was \$0.50 and \$0.78, respectively, using the Black-Scholes option pricing model with the following weighted-average assumptions: first six months-expected dividend yield 0.0%, volatility of 0.6, risk-free interest rate of 5.3%, expected life of 181 days; second six months-expected dividend yield 0.0%, volatility of 0.8, risk-free interest rate of 5.1%, expected life of 184 days.

The Company applies the provisions of APB Opinion No. 25 in accounting for its plans and, accordingly, no compensation cost has been recognized for its stock compensation plans in the financial statements. Had the Company determined compensation cost based on the fair value method as defined in SFAS No. 123, the impact on the Company's net income (loss) on a pro forma basis is indicated below:

		Years ended December 31,		
		1998	1997	1996
		-----	-----	-----
Net income (loss)	As reported	\$ 68.8	\$ (106.9)	\$ (153.5)
	Pro forma	66.1	(108.8)	(154.7)
Net income (loss) per common share	As reported	\$ 0.20	\$ (1.06)	\$ (1.25)
	Pro forma	0.17	(1.07)	(1.26)

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Pro forma net income (loss) reflects only options granted in 1998, 1997 and 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma amounts presented above because compensation cost is reflected over the options' vesting period of two to three years and compensation cost for options granted prior to January 1, 1996 is not considered.

The following table summarizes grants of non-qualified options made by the Company to officers and key employees under all 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, options vest ratably over a period of two to three years on the anniversaries of the grant 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, 1996	1,741,245	\$14.637
Canceled	(443,027) -----	\$14.104
Outstanding at December 31, 1996 (993,429 exercisable)	1,298,218	\$14.637
Granted	4,080,000	\$ 2.900
Canceled	(589,500) -----	\$ 9.508
Outstanding at December 31, 1997 (1,769,893 exercisable)	4,788,718	\$ 4.963
Granted	5,249,880	\$ 1.939
Canceled	(323,891) -----	\$ 7.149
Outstanding at December 31, 1998	9,714,707 =====	\$ 3.256
Exercisable at December 31, 1998	2,825,940 =====	\$ 5.934

The weighted average remaining life of options outstanding at December 31, 1998 is approximately 9.0 years.

The following table summarizes information concerning currently outstanding and exercisable options.

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OPTIONS OUTSTANDING

OPTIONS EXERCISABLE

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.938 - 3.125	8,912,648	8.9	2.337	2,023,881	2.947
\$11.293 - 16.481	802,059	6.5	13.472	802,059	13.472
	----- 9,714,707 =====			----- 2,825,940 =====	

13. RELATED PARTY TRANSACTIONS

At December 31, 1998 and 1997, 61,329,256 shares of the Company's outstanding common stock, or approximately 49.0% at December 31, 1998 and 49.6% at December 31, 1997, were owned by Roche. In addition, Roche owned 5,672,399 shares of the Company's redeemable convertible preferred stock at December 31, 1998, or approximately 52.7%. No voting rights are associated with the redeemable preferred shares.

The Company purchases certain items, primarily laboratory testing supplies from various affiliates of Roche. Total purchases from these affiliates, which are recorded in cost of sales, were \$33.0, \$25.2 and \$19.6 in 1998, 1997 and 1996, respectively. In addition, the Company made royalty payments to Roche in the amounts of \$2.9 in 1998, \$3.7 in 1997 and \$1.4 in 1996. Revenue received from Roche for laboratory services was \$0.5 in 1998, \$1.6 in 1997 and \$2.0 in 1996. Amounts owed to affiliates at December 31, 1998 and 1997 were \$1.7 and \$2.2, respectively.

A member of the Company's Board of Directors is President, Chief Executive Officer and Chairman of Autocyte, Inc. and has a beneficial ownership of 15.5% of Autocyte's common stock. The Company's Chief Executive Officer serves on the Board of Autocyte and has a beneficial ownership of less than 1% of Autocyte's common stock.

The Company has certain on-going arrangements with Autocyte for the purchase by the Company of certain products with an aggregate value of approximately \$0.7 in 1998, less than \$0.1 in 1997 and \$2.2 in 1996.

As of December 31, 1998 and 1997, the number of warrants outstanding to purchase the Company's common stock was 22,151,308, of which 8,325,000 warrants were held by an affiliate of Roche. These warrants are exercisable at a price of \$22.00 per share and expire on April 28, 2000.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in litigation which purports to be a class action brought on behalf of certain patients, private insurers and benefit plans that paid for laboratory testing services during the time frame covered by the 1996 Government Settlement. The Company

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has also received certain similar claims brought on behalf of certain other insurance companies, some of which have been resolved for immaterial amounts. These claims for private reimbursement are similar to the government claims settled in 1996. However, no amount of damages has been specified at this time and, with the exception of the above, no settlement discussions have taken place. The Company is carefully evaluating these claims. However, due to the early stage of the claims, the ultimate outcome of these claims cannot presently be predicted.

The Company is also involved in certain claims and legal actions arising in the ordinary course of business. These matters include, but are not limited to, inquiries from governmental agencies and Medicare or Medicaid carriers requesting comment on allegations of billing irregularities that have been brought to their attention through billing audits or third parties. In the opinion of management, based upon the advice of counsel and consideration of all facts available at this time, the ultimate disposition of these matters will not have a material adverse effect on the financial position, results of operations or liquidity 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, certain medical costs and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 1998 and 1997, the Company had provided letters of credit aggregating approximately \$23.0 and \$26.1, respectively, primarily in connection with certain insurance programs.

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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, 1998 are as follows:

	Operating -----	Capital -----
1999	45.6	3.7
2000	35.2	2.8
2001	24.5	2.6
2002	19.5	2.4
2003	15.6	2.5
Thereafter	56.7	9.8
	-----	-----
Total minimum lease payments	197.1	23.8
Less:		
Amounts included in restructuring accruals	--	13.9
Amount representing interest	--	4.1
	-----	-----
Total minimum operating lease payments and present value of minimum capital lease payments	\$ 197.1	\$ 5.8
	=====	=====
Current		\$ 1.6
Non-current		4.2

		\$ 5.8
		=====

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to \$67.5, \$67.9 and \$70.6 for the years ended December 31, 1998, 1997 and 1996, 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 \$7.1, \$6.9 and \$7.5 in 1998, 1997 and 1996, 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. The Company's policy is to fund the Company Plan with at least the minimum amount required by applicable regulations.

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The Company has a second defined benefit plan which covers its senior management group that provides for the payment of the difference, if any, between the amount of any maximum limitation on annual benefit payments under the Employee Retirement Income Security Act of 1974 and the annual benefit that would be payable under the Company Plan but for such limitation. This plan is an unfunded plan.

The components of net periodic pension cost for both of the defined benefit plans are summarized as follows:

	Company Plan		

	Years ended December 31,		
	1998	1997	1996

COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	\$ 10.5	\$ 10.4	\$ 10.3
Interest cost	8.6	8.3	7.0
Expected return on plan assets	(11.0)	(8.7)	(7.8)
Net amortization and deferral	(1.6)	(1.1)	(0.8)

Net periodic pension cost	\$ 6.5	\$ 8.8	\$ 8.7
	=====		

	Company Plan	

	December 31,	
	1998	1997

CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	\$134.1	\$108.0
Service costs	10.5	10.4
Interest cost	8.6	8.3
Actuarial (gain)/loss	(4.0)	14.8
Benefits paid	(8.9)	(7.4)

Benefit obligation at end of year	140.3	134.1

CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	118.5	96.2
Actual return on plan assets	9.9	20.2
Employer contributions	16.4	9.5
Benefits paid	(8.9)	(7.4)

Fair value of plan assets at end of year	135.9	118.5

Funded status, end of year	4.4	15.6
Unrecognized net actuarial loss	(14.3)	(20.6)
Unrecognized prior service cost	10.6	15.5

Accrued pension liability	\$ 0.7	\$ 10.6
	=====	

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

	Company Plan	
	1998	1997
Weighted average discount rate	6.75%	7.00%
Weighted average rate of increase in future compensation levels	4.0%	4.0%
Weighted average expected long- term rate of return	9.0%	9.0%

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, 1998	Year ended December 31, 1997
Service cost	\$ 1.0	\$ 1.0
Interest cost	2.7	2.4
Net amortization and deferral	0.1	--
Postretirement benefit costs	<u>\$ 3.8</u>	<u>\$ 3.4</u>

A summary of the components of the accumulated postretirement benefit obligation follows:

	December 31, 1998	December 31, 1997
Retirees	\$ 9.3	\$ 6.2
Fully eligible active plan participants	11.5	14.4
Other active plan participants	18.0	20.0
	<u>\$ 38.8</u>	<u>\$ 40.6</u>

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RECONCILIATION OF THE FUNDED STATUS OF THE
POSTRETIREMENT BENEFIT PLAN AND ACCRUED LIABILITY:

Accumulated postretirement benefit obligation, beginning of year	\$ 40.6	\$ 32.1
Changes in benefit obligation due to:		
Service cost	1.0	1.0
Interest cost	2.7	2.4
Plan participants contributions	0.1	0.9
Actuarial (gain) loss	(3.7)	5.1
Amendments	(1.1)	--
Benefits paid	(0.8)	(0.9)
	-----	-----
Accumulated post retirement benefit obligation, end of year	38.8	40.6
Unrecognized net actuarial loss	(10.5)	(14.8)
Unrecognized prior service cost	4.2	3.6
	-----	-----
Accrued postretirement benefit obligation	\$ 32.5	\$ 29.4
	=====	=====

The weighted-average discount rates used in the calculation of the accumulated postretirement benefit obligation were 6.8% and 7.1%, respectively, as of December 31, 1998 and 1997. The health care cost trend rate was assumed to be 7.5% and 8.0%, respectively, declining gradually to 5.0% in the year 2006 and thereafter. The health care cost trend rate has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by a percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1998 by \$7.0 million. The impact of a percentage point increase on the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost results in an increase of \$0.7.

16. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year ended December 31, 1998				
	1st	2nd	3rd	4th	Full
	Quarter	Quarter	Quarter	Quarter	Year
	-----	-----	-----	-----	-----
Net sales	\$ 387.7	\$ 402.4	\$ 414.7	\$ 407.8	\$1,612.6
Gross profit	132.0	144.6	144.4	142.4	563.4
Net earnings (loss)	9.3	12.8	11.4	35.3	68.8
Less preferred dividends	11.0	11.3	11.1	10.2	43.6
less accretion of mandatorily redeemable preferred stock	0.2	0.2	0.2	0.2	0.8
Net earnings (loss) attributable to common shareholders	(1.9)	1.3	0.1	24.9	24.4
Basic earnings (loss) per common share	(0.01)	0.01	0.00	0.20	0.20
Diluted earnings (loss) per common share	(0.01)	0.01	0.00	0.11	0.20

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	Year ended December 31, 1997				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	\$ 406.5	\$ 405.3	\$ 391.4	\$ 376.7	\$1,579.9
Gross profit	129.3	133.6	128.7	107.8	499.4
Net earnings (loss)	2.4	4.1	5.4	(118.8)	(106.9)
Less preferred dividends	--	1.1	12.0	10.3	23.4
Less accretion of mandatorily redeemable preferred stock	--	--	0.2	0.3	0.5
Net earnings (loss) attributable to common shareholders	2.4	3.0	(6.8)	(129.4)	(130.8)
Basic and diluted earnings (loss) per common share	0.02	0.02	(0.05)	(1.05)	(1.06)

In the fourth quarter of 1998, the Company reclassified certain amounts for the three quarters ended September 30, 1998, and the four quarters ended December 31, 1997, to selling, general and administrative expenses from net sales adjustments to be consistent with the 1998 classification. The reclassified amounts are as follows: \$14.7, first quarter of 1998; \$16.3, second quarter of 1998; \$16.4, third quarter of 1998; \$15.0, first quarter of 1997; \$15.8, second quarter of 1997; \$14.9, third quarter of 1997; \$15.3, fourth quarter of 1997; \$61.0, full year of 1997.

For the fourth quarter of 1998, basic and diluted earnings per common share is calculated based on the weighted average number of shares outstanding for the quarter (125,269,903 and 318,739,501, respectively).

During the fourth quarter of 1997, the Company recorded a provision for doubtful accounts of \$182.0, which was approximately \$160.0 greater than the amount recorded in the fourth quarter of 1996. This pre-tax charge was made to increase the allowance for doubtful accounts to a level that management believes is appropriate to reduce its accounts receivable to the net amount that management believes will ultimately be collected.

In the fourth quarter of 1997, the Company recorded a pre-tax charge of \$22.7, related primarily to a restructuring charge associated with the downsizing of its Long Island, New York facility and the future consolidation into its Raritan, New Jersey facility.

In the second quarter of 1997 the Company determined that approximately \$12.6 of existing restructuring reserves were excessive due largely to expected proceeds from subleases and asset disposals. Also, in the second quarter of 1997 the Company decided to downsize the Winston-Salem, North Carolina laboratory and redirect specimen volumes to other company facilities in order to realize operational efficiencies. Restructuring charges related to the closing of the Winston-Salem laboratory totaled \$12.6.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

17. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. This Statement is effective for fiscal years beginning after June 15, 1999, and standardizes the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities and measure them at fair value. Adoption is not expected to have a material impact on the Company's financial position or results of operations.

SCHEDULE II

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 Years Ended December 31, 1998, 1997 and 1996
 (Dollars in Millions)

	Balance at beginning of year	Charged to Costs and Expenses	Other (Deduct- ions Additions

Year ended December 31, 1998:			
Applied against asset accounts:			
Allowance for doubtful accounts	\$ 195.4 =====	\$ 164.7 =====	\$ (166.1) =====
Valuation allowance-deferred tax assets	\$ 42.0 =====	\$ (27.5) =====	\$ -- =====
Year ended December 31, 1997:			
Applied against asset accounts:			
Allowance for doubtful accounts	\$ 111.6 =====	\$ 311.5 =====	\$ (227.7) =====
Valuation allowance-deferred tax assets	\$ 32.0 =====	\$ 10.0 =====	\$ -- =====
Year ended December 31, 1996			
Applied against asset accounts:			
Allowance for doubtful accounts	\$ 90.4 =====	\$ 150.0 =====	\$ (128.8) =====
Valuation allowance-deferred tax assets	\$ -- =====	\$ 32.0 =====	\$ -- =====

Balance
at end
of year

Year ended December 31, 1998:

Applied against asset
accounts:

Allowance for
doubtful accounts \$ 194.0
=====

Valuation allowance-
deferred tax assets \$ 14.5
=====

Year ended December 31, 1997:

Applied against asset
accounts:

Allowance for
doubtful accounts \$ 195.4
=====

Valuation allowance-
deferred tax assets \$ 42.0
=====

Year ended December 31, 1996:

Applied against asset
accounts:

Allowance for
doubtful accounts \$ 111.6
=====

Valuation allowance-
deferred tax assets \$ 32.0
=====

SUPPORT AGREEMENT

AGREEMENT made this 27th day of April, 1995, by and between Roche Biomedical Laboratories, Inc. a New Jersey Corporation ("RBL") and Hoffmann-La Roche Inc., a New Jersey Corporation ("Roche").

WITNESSETH:

WHEREAS, RBL, National Health Laboratories Holdings Inc. ("NHL"), HLR Holdings Inc. ("HLR") and (for the purposes specified therein) Roche have entered into an Agreement and Plan of Merger dated as of December 13, 1994 (the "Merger Agreement") providing for, among other things, the merger of RBL with and into NHL (the "Merger"); and

WHEREAS, NHL has mailed to its stockholders a Proxy Statement/Prospectus in connection with the solicitation of proxies by the Board of Directors of NHL for use at the special meeting of stockholders of NHL to be held on April 28, 1995 (the "NHL Meeting") to consider and vote upon, among other things, the approval and adoption of the Merger Agreement; and

WHEREAS, upon the approval by the NHL stockholders of the Merger Agreement, the Merger is anticipated to be consummated on or about April 28, 1995 (the "Effective Time"); and

WHEREAS, Roche, as an indirect parent of RBL, has been providing certain general and administrative support services to RBL and the parties hereto wish to enter into this Support Agreement pursuant to which Roche shall continue to provide certain of these support services to RBL (the "Support Services") following the Effective Time of the Merger; and

WHEREAS, the purpose of this Support Agreement is to further define the terms and conditions under which such Support Services shall be provided.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants, and agreements contained herein, and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. General Obligations

- A. Roche. Roche agrees to use reasonable efforts to provide the services set forth below with the same degree of care and diligence that it applies to meet its own internal needs for similar services and at the same general level of support as is currently being provided to RBL. Roche is not in the business of providing such services to third parties and Roche's only obligations hereunder shall be to use reasonable efforts to meet RBL's needs in the same manner and with the same priority as it uses its reasonable efforts to meet its own internal needs.
- B. RBL. RBL agrees to pay Roche the applicable amounts set forth below for the various Support Services provided under this Support Agreement. RBL agrees further that it shall be solely responsible for its operations and that by agreeing to provide support assistance Roche shall not assume any responsibility to RBL or any third party for any claims or damages arising, or alleged to arise, in connection with such operations except if such claims or damages are caused by Roche's breach or negligent failure to fulfill its obligations hereunder. Provided, however, in no event shall Roche be responsible for consequential or special damages. Roche's exposure in connection with a breach or alleged breach of this agreement to RBL and/or any third party shall be limited to the amounts paid under this Agreement to Roche by RBL.

C. Other Obligations of Roche. Pursuant to the Merger Agreement and other agreements related thereto, Roche has agreed to provide, directly or indirectly, certain assistance and support to RBL following the Effective Time of the Merger. Such support includes, but is not limited to, cooperation on tax matters. The parties hereto agree that this Support Agreement is in addition to such matters and is not intended to restrict or otherwise affect any such obligations of Roche.

2. Interim Trust Fund and Pension and Savings Plan Administration

- A. Roche. Roche agrees to provide interim trust fund and pension and savings plan administration services for RBL from the Effective Time of the Merger until such time as RBL has the capability to assume such services. It is currently anticipated that RBL shall be able to assume such services no later than the fourth quarter of 1995. These services shall include, but not be limited to, (i) administering the RBL pension trust fund, (ii) administering the RBL pension and savings plan, and (iii) training RBL personnel in all aspects of the trust fund and pension and savings plan administrative services currently being performed by Roche. Roche and RBL agree that when the assets in the RBL pension trust fund are transferred, the value of the assets transferred shall be as of the Effective Time of the Merger, plus contributions and any gain and minus disbursements and any loss, from the Effective Time of the Merger until the transfer.
- B. Charges. The charges for the services set forth in Section 2(A) above shall be as set forth in Section 7(N). Any contributions required by law to be made to the pension trust fund on RBL's behalf shall be prefunded by wire transfer by RBL.

3. Interim Executive Compensation, Payroll Administration, and Human Resource System Administration

- A. Roche. Roche agrees to provide interim executive compensation and payroll administration services for RBL from the Effective Time of the Merger until such time as RBL has the capability to assume such services or until such time as NHL is able to assume such services. These services shall include, but not be limited to, (i) processing payrolls, commissions and other bonus runs, including tax and other employee withholdings, and direct deposit and check distributions (all of which shall be prefunded by RBL by way of wire transfer), (ii) administering the 401(K) Plan transmissions and discrimination testing, (iii) processing 1995 W-2's, (iv) administering United Way contributions, (v) reconciling payroll bank accounts, (vi) maintaining and administering the RBL human resource system, as well as assisting RBL in converting its human resource system to the NHL human resource system, and (vii) other such services currently being provided. It is currently anticipated that RBL or NHL shall be able to assume such services as of RBL's first pay period of 1996.
- B. Charges. The charges for the services set forth in Section 3(A) above shall be follows: (i) One half of the actual finance systems support charges for 1995 payroll processing, assuming standard maintenance of these systems in a shared mode with no enhancements or new development; (ii) A unit charge of \$.85 for each check/EFT stub processed; (iii) A unit charge of \$.85 for each W-2 processed; (iv) Actual charges incurred for check stock, signature plates, forms (e.g. W-2's, SUI's) and bank fees. In addition, if requested by RBL, Roche will provide the following services to RBL at the hourly labor charge set forth in Section 7(N): (i) Registering NHL or its successor in all current RBL tax reporting jurisdictions; and (ii) formally notifying jurisdictions of the Merger and that tax deposits made by the

predecessor need to be transferred to the accounts of the successor. Additional fees, if any, for executive compensation administration services shall be agreed to between the parties.

4. Interim Risk Management Services

A. Roche. Roche agrees to provide interim risk management services for RBL from the Effective Time of the Merger until the earlier of the expiration of such insurance policies or the termination of such policies by RBL, but no later than December 31, 1995. These services shall include, but not be limited to, (i) processing claims reported after the Effective Date, but based upon acts, omissions, or events which occurred prior to the Effective Date and which are covered under the Roche occurrence based policies, (ii) assisting RBL in obtaining and reviewing extended "tail" coverages for prior Roche claims-made policies, and (iii) assisting RBL in processing any claims which are reported and covered under the above "tail" coverages.

B. Charges. The charges for the services set forth in Section 4(A) above shall be as set forth in Section 7(N), except that those services provided by the current Roche Risk Services Manager shall be reimbursed at \$100 an hour.

5. Taxes, Treasury, and Cash and Banking Services

A. Roche. Roche agrees to provide interim taxes, treasury and cash and banking services for RBL after the Effective Time of the Merger upon the request of RBL. These services shall include, but not be limited to, (i) providing support in connection with any Federal tax audits regarding periods up to the Effective Time, (ii) assisting RBL with its 1994 and short period 1995 Federal tax return filings and related payments, and (iii) providing certain bank sweep and funding services in the event that such services become necessary. It is currently anticipated that RBL shall be able to assume the services set forth in Subsection (iii) above no later than May 10, 1995.

B. Charges. The charges for the cash and banking services set forth in Subsection (iii) above shall be as set forth in Subsection 7(N). The charges for the tax services listed in Subsections (i) and (ii) above shall be as set forth in Subsection 7(N), except that the hourly rates for Roche Staff shall be \$45 per person, per hour.

6. General Transitional Support Services

A. Environmental Transitional Support Services. With regard to any licenses or permits which are currently held in the name of Roche for the benefit of RBL, Roche agrees to assist RBL in obtaining any necessary new licenses or permits or the transfer thereof, including any environmental or underground tank licenses or permits. RBL agrees to use due diligence to obtain or transfer the above-referenced licenses and be responsible for any related fees, and to locate and use facilities other than Roche's facilities for any hazardous waste disposal.

B. Lab Delivery Service of New York City, Inc. ("LDS"). Roche agrees to provide those services which it currently provides as are necessary to maintain and support LDS in a manner that will reasonably ensure that RBL can use LDS and its employees for RBL's specimen transportation services. However, RBL shall remain solely responsible for all LDS operations, and RBL agrees to continue to reimburse Roche for the above-referenced services provided to LDS by Roche, including prefunding by wire transfer any LDS employee payroll taxes or payments made by Roche. In addition, RBL agrees to indemnify and hold Roche harmless for any liabilities to Roche which may arise under the Collective Bargaining Agreement dated December 4, 1992, by

and between LDS and Local 917, an affiliate of the International Brotherhood of Teamsters, AFL-CIO (the "Union Agreement") and any liabilities which may arise from claims by LDS, its employees, RBL or third parties, related to LDS, its employees or its operations. The parties hereby agree to cooperate in good faith with one another to address any issues which may exist concerning LDS and the Union Agreement.

- C. Additional Services. In addition to those Support Services set forth above, Roche agrees to provide additional support and consultation services to RBL at RBL's reasonable request in order to ensure a smooth transition of such services from Roche to RBL or NHL. It is hereby agreed that such additional support shall include, but not be limited to, providing RBL with such records and information as is necessary for it to assume such services. The charges for the services above shall be as set forth in Section 7(N). For any legal services provided by the Roche Law Department, a rate for such services shall be agreed to in advance.

7. General Conditions

- A. Additional Costs/Fees. It is the intent of the parties that additional third party costs, including outside consultants retained by Roche, related to the Support Services provided hereunder by Roche shall be borne by RBL. In the event a cost or fee of any third party is required to support RBL's needs following the Effective Time of the Merger it shall be RBL's obligation to pay such costs or fees after notice from Roche (if reasonably practicable) and an opportunity to approve such costs or fees, unless Roche has expressly agreed in writing herein to bear such costs.
- B. Warranty/Limitation of Liability. The parties understand and agree that all Support Services provided hereunder are "as is" and Roche makes no warranty, express or implied, with respect to such services, the results of such services, or that any errors or program problems will be corrected. Roche is not in the business of providing the Support Services to be provided hereunder on a commercial basis and the fees charged are intended to reimburse Roche for its actual cost and do not incorporate a charge to cover warranties, guarantees, or claims of RBL or third party claims. In the event of a third party action relating to work performed, if Roche is added as a third party, assuming such action is not caused by or related or incident to, or the result of Roche's default or negligent failure to meet its obligations hereunder, RBL agrees to indemnify and hold Roche and its agents and employees harmless from and against all such liability, including the cost of defense by counsel reasonably acceptable to Roche and RBL.
- C. Prefunding. In the event Roche prefunds any monies on behalf of RBL under this Support Agreement, after notice from Roche (if reasonably practicable) and an opportunity by RBL to approve such prefunding, RBL shall reimburse Roche based on LIBOR plus 37.5 basis points.
- D. Travel and Living Expense. RBL agrees to pay all reasonable travel and living expenses incurred in accordance with Roche's current policy. Once on site, Roche personnel charges shall accrue for actual hours worked only.
- E. Protection of Proprietary and Confidential Information. While this Support Agreement is in effect and thereafter, each party shall keep in confidence all confidential or proprietary information disclosed to it by the other party ("Information") and shall protect the same from: (1) Any use except as authorized; or (2) Disclosure to third parties except as required by law, judicial or governmental authority. Each party shall inform any affected employees of the confidential nature of the Information and of the obligations of such party and such employees under this Support Agreement. Upon the

discontinuance, termination or cancellation of this Support Agreement, the Information shall be returned to the disclosing party at such party's prior written request or shall be destroyed and such party shall certify as to such destruction.

- F. Indemnification. Subject to the limitations set forth within this Support Agreement, RBL agrees to defend, indemnify, and hold Roche, its parent, subsidiaries, affiliated and related companies, directors, officers, employees, and agents wholly harmless from and against all third party claims, losses, lawsuits, settlements, demands, causes, judgments, expenses, and costs (including reasonable attorney fees) arising under or in connection with this Agreement to the extent that such costs and liabilities are proximately caused by the negligence or willful misconduct of RBL.

Subject to the limitations set forth within this Support Agreement, Roche agrees to defend, indemnify, and hold RBL, its parent, subsidiaries, affiliated and related companies, directors, officers, employees, and agents wholly harmless from and against all third party claims, losses, lawsuits, settlements, demands, causes, judgments, expenses, and costs (including reasonable attorney fees) arising under or in connection with this Agreement to the extent that such costs and liabilities are proximately caused by the negligence or willful misconduct of Roche.

IN NO EVENT SHALL EITHER PARTY BE RESPONSIBLE FOR PUNITIVE DAMAGES, OR CONSEQUENTIAL, INCIDENTAL, OR SPECIAL DAMAGES (INCLUDING LOST PROFITS OR REVENUE).

- G. Force Majeure. Roche's performance hereunder shall be excused to the extent it is hindered or prevented due to the following causes:
- (1) Acts of God, including earthquakes, fire or flood;
 - (2) Acts of any governmental authority;
 - (3) Acts of war, rebellion, sabotage, riot, civil disorders or explosions; or
 - (4) Strikes or labor disputes.
- H. Choice of Law. This Agreement shall be construed in accordance with the Laws of the State of New Jersey applicable to contracts made and to be performed wholly within such State.
- I. Assignment. Neither party may assign, delegate, or transfer its rights or obligations hereunder without the written consent of the other party.
- J. Effectiveness; Merger. The effectiveness of this Support Agreement is contingent upon the occurrence of the Merger as of the Effective Time. If the Merger does not occur as of the Effective Time, this Support Agreement shall be void and of no force and effect. The terms and conditions herein constitute the entire agreement between the parties, other than the Merger Agreement or related documents between the parties with respect to the matters herein, and supersede all previous communications, whether written or oral, between the parties with respect to the subject matter hereof. No waiver, modification or addition to this Support Agreement shall be valid unless in writing and signed by an authorized representative of the party to be charged. In the event of a conflict between this Support Agreement and the Merger Agreement, the Merger Agreement shall control.
- K. Change in Law or Regulation. The terms of this Support Agreement are intended to be in compliance with all federal, state and local statutes, regulations or ordinances applicable on the date the Support Agreement takes effect. Should legal counsel for either party reasonably conclude that any portion of this Support

Agreement is or may be in violation of such requirements, or subsequent enactments by federal, state or local authorities, or if any such interpretation, change or proposed change materially alters the amount or method of compensating Roche for performing the Support Services for RBL, or materially increases the cost of Roche's performance hereunder, this Support Agreement shall terminate upon thirty (30) day's notice thereof to the other party, unless within said thirty (30) day period the parties agree to such modifications of the Support Agreement as may be necessary to establish compliance with such authorities or to reflect such change in compensation or cost, if possible. The parties shall in good faith attempt to reach an agreement to modify this Support Agreement to establish compliance with such authorities or to reflect such change in compensation or cost.

- L. Billing. All charges shall be paid by RBL within thirty (30) days of the receipt of each monthly invoice from Roche, except for any funds to be wired pursuant to this Support Agreement.
- M. Notices. Any notice required to be given pursuant to the terms and provision hereof shall be in writing and shall be sent by certified or registered mail or overnight deliver to RBL at:

Roche Biomedical Laboratories, Inc.
231 Maple Avenue
Burlington, North Carolina 27215
Attention: President

With a copy to:

Roche Biomedical Laboratories, Inc.
231 Maple Avenue
Burlington, North Carolina 27215
Attention: Division Counsel

And to Roche at:

Hoffmann-La Roche Inc.
340 Kingsland Street
Nutley, New Jersey 07110
Attention: Treasurer

With a copy to:

Hoffmann-La Roche Inc.
340 Kingsland Street
Nutley, New Jersey 07110
Attention: General Counsel

- N. General Charges. Unless otherwise specified herein or unless otherwise agreed to by the parties, RBL shall reimburse Roche for time incurred in providing the Support Services as follows: (a) Roche Clerical (all non-exempt) - \$30 per person, per hour; (b) Roche Staff (Grades 9 through 16) - \$55 per person, per hour; (c) Roche Manager (Grades 17 through 23) - \$75 per person, per hour; and (d) Roche Director/Vice President (Grades 24 and higher) - \$100 per person, per hour.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their names as their official acts by their respective executive officers, each of whom is duly authorized to execute the same, all as of the date first written above.

ROCHE BIOMEDICAL LABORATORIES, INC.

Witness: _____ By: _____

HOFFMANN-LA ROCHE INC.

Witness: _____ By: _____

FIRST AMENDMENT TO SUPPORT AGREEMENT

FIRST AMENDMENT TO SUPPORT AGREEMENT ("Amendment"), made this 26th day of July, 1995 by and between Laboratory Corporation of America Holdings ("LabCorp") and Hoffmann-La Roche Inc. ("Roche").

WITNESSETH

WHEREAS, LabCorp is the successor to Roche Biomedical Laboratories, Inc.; and

WHEREAS, LabCorp and Roche desire to amend the Support Agreement dated April 27, 1995, by and between Roche Biomedical Laboratories, Inc. and Roche (the "Support Agreement"); and

WHEREAS, subject to the terms hereinafter set forth, the Support Agreement is amended as set forth herein.

NOW THEREFORE, in consideration of the mutual representations, warranties, covenants, and agreements contained herein, and other good and valuable consideration the receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. Any reference in the Support Agreement to Roche Biomedical Laboratories, Inc. is modified to LabCorp.

2. The third sentence of Paragraph 6B of the Support Agreement is modified to delete the following language: "Agreement dated December 4, 1992" and inserting in lieu thereof the following language: "Agreements dated December 4, 1992 and December 4, 1994." LabCorp and Roche further agree that any reference to the Union Agreement shall refer to both collective bargaining agreements.

3. Except as modified herein, the terms and conditions of the Support Agreement are hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their names as their official acts by their respective executive officers, each of whom is duly authorized to execute the same, all as of the date first written above.

LABORATORY CORPORATION OF AMERICA HOLDINGS

By: _____

HOFFMAN-LA ROCHE, INC.

By: _____

AMENDMENT TO SUPPORT AGREEMENT

THIS AMENDMENT TO SUPPORT AGREEMENT ("Agreement") made as of this 1st day of January, 1997 by and between Laboratory Corporation of America Holdings, successor to Roche Biomedical Laboratories, Inc. ("LabCorp"), Hoffmann-La Roche Inc. ("Roche"), Roche Molecular Systems, Inc. ("RMS") and Roche Diagnostic Systems, Inc. ("RDS").

WITNESSETH:

WHEREAS, LabCorp and Roche previously entered into a Support Agreement dated April 27, 1995 (the "Support Agreement"); and

WHEREAS, subject to the terms and conditions contained herein, the parties wish to amend the Support Agreement and add RDS and RMS as parties to the Support Agreement.

NOW THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. The parties agree that RDS and RMS are added as a parties to the Support Agreement and that the words, "RMS and RDS" shall be added after the word "Roche" wherever such word appears in the paragraphs 1A., 1B., and 7 (in its entirety). Notwithstanding anything contained in the Support Agreement to the contrary, LabCorp agrees that Roche, RMS and RDS shall not be jointly liable in the event of any breach or other claim, but each shall be severally liable for solely their own respective acts or omissions, if any. The parties further agree that the word "RBL" shall be replaced with the word "LabCorp" throughout the Support Agreement. Any notices sent to RDS shall be sent to Roche Diagnostic Systems, Inc. 1080 US Highway 202, Branchburg, N.J. 08876-1080 Attn: President with a copy to the General Counsel, 340 Kingsland Street, Nutley, N.J. 07110. Any notices sent to RMS shall be sent to Roche Molecular Systems, Inc. 1080 US Highway 202, Branchburg, N.J. 08876-1080 Attn: President with a copy to the General Counsel, 340 Kingsland Street, Nutley, N.J. 07110.

2. The parties agree that the first sentence of subparagraph A of paragraph 3 shall be deleted in its entirety and in lieu thereof the following sentence shall be added: "The parties agree that Roche shall provide payroll services solely for Lab Delivery Services of New York City, Inc. on behalf of LabCorp until such time as the parties mutually agree."

2. LabCorp agrees that Roche, RMS and RDS will be providing certain services, including but not limited to the use of office space, office staff, telephone, photocopying, limousine and aircraft services, if any, for Thomas P. Mac Mahon, LabCorp's Chief Executive Officer. LabCorp agrees to pay Roche, RMS and RDS for any and all reasonable charges which Roche, RMS and RDS shall each determine for such services, which in no event shall exceed the fair market value of such services. Such charges shall be paid on a quarterly basis. RMS, RDS and Roche shall submit invoices to LabCorp for such charges.

3. The parties further agree that paragraphs 2,4,5,6 B shall be deleted in their entirety from the Support Agreement.

Except as modified herein, the remaining terms and provisions of the Support Agreement are hereby ratified, confirmed and remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

HOFFMANN - LA ROCHE INC.

LABORATORY CORPORATION
OF AMERICA HOLDINGS

By: _____

By: _____

ROCHE DIAGNOSTIC SYSTEMS,
INC.

By: _____

ROCHE MOLECULAR SYSTEMS,
INC.

By: _____

AMENDMENT TO SUPPORT AGREEMENT

THIS AMENDMENT TO SUPPORT AGREEMENT ("Agreement") made as of this 1st day of October, 1997 by and between Laboratory Corporation of America Holdings, successor to Roche Biomedical Laboratories, Inc. ("LabCorp") Hoffman-La Roche Inc. ("Roche"), Roche Molecular Systems, Inc. ("RMS") and Roche Diagnostic Systems, Inc. ("RDS").

WITNESSETH:

WHEREAS, LabCorp and Roche previously entered into a Support Agreement dated April 27, 1995, as amended (the "Support Agreement") and

WHEREAS, subject to the terms and conditions contained herein, the parties wish to amend the Support Agreement.

NOW THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. RMS agrees to provide the services of David Ellis to LabCorp as requested by LabCorp. LabCorp agrees to pay RMS any salary, compensation, travel and living expense, expatriate expense, benefit and pension costs, and any other expense pertaining to David Ellis on a quarterly basis commencing October 1, 1997.

2. LabCorp agrees to defend, indemnify, and hold Roche, RMS, RDS, their respective parent, subsidiaries, affiliated and related companies, directors, officers, employees, and agents wholly harmless from and against all third party claims, losses, lawsuits, settlements, demands, causes, judgments, expenses, and costs (including reasonable attorney fees) arising from or in connection with any services provided to LabCorp by David Ellis. LabCorp further releases and discharges any claim, whether past, present or future, against Roche, RMS, RDS, their respective parents, subsidiaries, affiliated and related companies, directors, officers, employees, and agents arising from or in connection with David Ellis and his services to the extent such services are provided at the request of LabCorp.

Except as modified herein, the remaining terms and provisions of the Support Agreement are hereby ratified, confirmed and remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective duly authorized representatives as of the date first written above.

HOFFMANN - LA ROCHE INC.

LABORATORY CORPORATION
OF AMERICA HOLDINGS

By: _____

By: _____

ROCHE DIAGNOSTIC SYSTEMS,
INC.

BY: _____

ROCHE MOLECULAR SYSTEMS.
INC.

BY: _____

September 1, 1998

Larry Leonard, Ph.D.
3304 Dartmouth
Dallas, Texas 75205

Dear Larry:

This will confirm our recent conversations in connection with your decision to leave LabCorp to pursue other interests. As we discussed, we are anxious to maintain a vehicle to take advantage of the special experience and knowledge that you possess after you leave LabCorp and are pleased that you have expressed an interest in entering into a Consulting Agreement with us beginning on the last day of your employment with LabCorp. This letter agreement ("Agreement") sets forth the terms and conditions of the consultantship which shall be as follows:

1. The field of the consultantship shall cover your providing advice and assistance to Laboratory Corporation of America Holdings and its subsidiaries and affiliates ("LabCorp") at the request of the Chief Executive Officer ("CEO") in the following areas:
 - a) Acting as the Company's liaison with Medical City of Dallas;
 - b) pricing programs;
 - c) operational implementation of regulatory compliance programs;
 - d) managed care programs;
 - e) cost control programs;
 - f) mergers and acquisitions;
 - g) Western Regional Consolidation;

- h) new test analysis;
- i) serving as LabCorp's Representative on corporate boards as requested (subject to coverage in each case acceptable to you under a policy covering Directors and Officers Liability); and
- j) such other projects as may be requested by the CEO from time to time.

In undertaking any such project, you will be provided with an objective or a set of objectives to achieve, and you will be required to use your best professional judgment as to the manner and means of achieving the stated objectives.

- 2. This Agreement shall be effective for a period of two (2) years ("Term") effective on the day following your retirement from LabCorp, January 1, 1999. You agree to make reasonable efforts during the Term to be available for consultation by phone or in person for an average of eighty hours per month during the Term (approximately two to three days per week on average, or between one-hundred ten (110) to one-hundred twenty-five (125) days during each year of the Term).
- 3. As compensation for the services to be rendered hereunder, LabCorp agrees to pay you the following:
 - (a) A total of \$350,000 per year, payable in equal monthly installments on or before the fifteenth day of each month during the Term;
 - (b) Following each year of the Term, at the sole discretion of the CEO, you will be eligible to be considered for a "Consultancy Success Bonus" based upon the performance of the Company and your contribution to the Company's performance;
 - (c) Reasonable travel and other out-of-pocket expenses incurred in connection with the services provided under this Agreement at the request of LabCorp, subject to the travel and expense policy applicable to employees then in effect at LabCorp.
- 4. You will be entitled to retain the 554,130 options previously granted to you in connection with the Company's Employee Stock Option Plan(s) ("Plan(s)") until the termination of this Agreement at which time you will have the option of exercising vested options in accordance with the terms of the Plan(s). In addition, you will be entitled to be paid any Management Incentive Bonus earned during 1998 at the time such bonus would be otherwise paid in 1999. The Company will also pay the cost of coverage under COBRA if you elect to continue coverage under COBRA, for the eighteen months thereof, and pay you an amount

equal to the cost of six months COBRA coverage at the beginning of the eighteenth month of the Term, provided that you supply evidence reasonably acceptable to LabCorp that such amount is used to obtain alternative medical and/or dental coverage for yourself and/or any dependents. The Company will also use its best efforts to have you covered by its disability, life insurance, and excess personal liability plans to the same extent as its Executive Officers. However, if LabCorp is unable to obtain any such coverage, the Company shall pay you each year during the Term an amount equal to its annual cost for such unavailable coverage for you at the time that such payments would otherwise be made to obtain such coverage, plus (in the case of life insurance) an additional cash amount equal to .613 times LabCorp's annual cost of life insurance coverage for coverage in excess of \$50,000 on your life for the year preceding the Term, plus (in the cases of excess personal liability insurance) an additional cash amount equal to .613 times LabCorp's annual cost of excess personal liability insurance coverage for you for the year preceding the Term. In addition, when calculating your benefit under the Company's Pension Equalization Plan, the compensation paid and time spent in connection with this Consulting Agreement, shall be added to the income earned and years of service calculation. For example, if you serve as a Consultant for two (2) years and are compensated at the rate of \$350,000, two (2) years would be added to your years of service and income of \$350,000 for 1999 and 2000 would be used to calculate your PEP benefit.

5. Except as provided otherwise in this Agreement, or in the terms of any documents governing any employee benefit plan maintained by LabCorp, (i.e. retirement plans), you will cease to be a participant in and will no longer have any coverage or entitlement to benefits, accruals, or contributions under any of LabCorp's employee benefit plans effective upon the termination of your employment. You agree that the payments made to you pursuant to this Agreement do not constitute compensation for purposes of calculating the amount of any benefits that you may be entitled to under the terms of any pension plan or for the purposes of accruing any benefit, receiving any allocation of any contribution, or having the right to defer any income in any profit-sharing or other employee pension benefit plan, including any cash or deferred plan.
6. It is understood that the payments and other benefits referred to or to be made by LabCorp pursuant to this Agreement take into account any accrued vacation, severance, and other benefits to which you might otherwise be entitled. Therefore, upon your termination and retirement from LabCorp, you shall not be entitled to any accrued vacation, bonuses, severance benefits, or other amounts, except as otherwise specified herein.
7. You agree that during the Term you will not, directly or indirectly, in any capacity, become associated with or assist, any entity or person engaged in the same or a similar competitive business with LabCorp or its affiliates in the geographic areas in which LabCorp or its affiliates operates. You also agree that during the Term you will not solicit sales from any trade or business that was a customer of LabCorp or its affiliates during your employment with LabCorp, nor will you assist, directly or indirectly any person or entity to do so. This duty of nonsolicitation is intended to be cumulative with

your duty not to compete and neither shall be interpreted as a limitation on the other. In addition, you agree that during the Term you will not (and will not attempt, directly or indirectly, to) encourage, solicit, or otherwise induce any LabCorp employee, officer, or director to terminate their employment with LabCorp or any affiliates or subsidiaries. In addition, you agree not to communicate to anyone by word or deed, directly or indirectly, whether characterized as fact or opinion, or by suggestion or innuendo, any statement that could reasonably be expected to cause any person to whom it is communicated to have a lower opinion of LabCorp, its services, or credit worthiness.

8. You agree to maintain in confidence and to keep secret indefinitely, even beyond the termination of this Agreement and not to use for any purpose, any unpublished, proprietary or confidential information ("Information") disclosed to you by or on behalf of LabCorp, or developed by you directly in connection with this Agreement. All reports, drawings, data, information, and property given to you by LabCorp hereunder or any similar materials of any kind shall be held in confidence by you and you agree not to use, reproduce, or transmit such material to any other party without the prior written approval of LabCorp. Said material shall remain the sole property, and be immediately returnable to LabCorp, upon request by LabCorp.
9. Nothing contained in this Agreement shall be deemed to create an employer/employee, principal/agent, or joint venture relationship between the parties. Rather, you agree that the services shall be performed pursuant to this Agreement as an independent contractor.
10. Nothing in this Agreement shall prohibit you from performing other consulting services not in conflict with the commitments you have made in this Agreement or the restrictive covenants that it contains.
11. During the Term, you agree that you will comply with all applicable laws and governmental regulations pertaining to services to be performed pursuant to this Agreement, and with all Corporate Compliance Policies of LabCorp as in effect at the beginning of the Term and as amended from time to time by any amendment of which you have actual notice or with respect to which you have been mailed a notice or a copy, by first class mail, postage pre-paid, addressed to you at 3304 Dartmouth, Dallas, TX 75205, or at such other address as you may designate in a writing delivered to the General Counsel of LabCorp.
12. LabCorp agrees to indemnify you and save you harmless from any claims, demands, actions, suits, and liabilities with respect to your services on LabCorp's behalf hereunder to the same extent, and subject to the same conditions, as LabCorp indemnifies and saves harmless senior executive employees engaged in providing comparable services to LabCorp. As a further inducement to LabCorp to enter into this agreement you agree:
 - a) never to sue, or file any administrative action against, LabCorp, its subsidiaries, parent corporation or any other affiliates, their present or former directors,

officers, employees and agents, and any and all employee benefit plans maintained by LabCorp and any and all committees and agents thereunder, or any of them with respect to any matter relating to or arising out of your employment by LabCorp or its affiliates or termination thereof;

- b) to agree to the Release, which is incorporated in this Agreement as Paragraph 13; and
- c) never to commit an act that is detrimental or injurious to the reputation of LabCorp, its subsidiaries or affiliates, or any of their present or former officers, directors, employees, or agents.

It is understood and agreed, however, that this Paragraph 12 and the Release included in Paragraph 13 are not intended as a release by you of any rights you may have as a present or former officer or employee of LabCorp to indemnification by LabCorp under its by-laws or Delaware Corporate law, or pursuant to this Paragraph 12.

- 13. In consideration for LabCorp's agreement to provide you with the payments and benefits listed in this Agreement, you, your heirs, your legal representatives and assigns, fully release, discharge, and covenant not to make any claims or demands or to commence any type of legal action against LabCorp (including administrative charges or lawsuits) regarding any matters arising from your employment with or separation from LabCorp, including, but not be limited to, all claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000e et seq.; the ADEA, as amended, 29 U.S.C. Section 621-34; ERISA; COBRA; the Americans with Disabilities Act of 1990, 42 U.S.C. Section 12101 et seq.; and any and all other claims of which you now know or should know that may be stated under federal or applicable state statutory, decisional, or administrative law, including (without limitation) claims under wage payment laws, or claims of wrongful termination, breach of employment contract, intentional or negligent infliction of emotional distress, outrage, and any and all other causes of action. This Agreement is not intended to waive any claims that may arise after the date the Agreement is executed.
- 14. You agree that this Agreement does not constitute an admission by LabCorp of any wrongdoing or liability. LabCorp expressly denies any wrongdoing or liability.
- 15. If you breach any provision of this Agreement, LabCorp shall have the right to discontinue permanently all further payments hereunder (except as otherwise required by applicable law).
- 16. The remedy provided by Paragraph 15 shall not be deemed to be the exclusive remedy for your breach of this Agreement, but shall be in addition to all other remedies available at law or equity to LabCorp. You understand and agree that any breach by you of any of the covenants contained in this Agreement shall entitle LabCorp to bring an action for

failure to comply with the terms of this Agreement and, further, LabCorp shall be entitled to reasonable attorney's fees and costs as part of such action. In addition, you agree that no adequate remedy exists at law for breach of this Agreement and that LabCorp shall be entitled to injunctive relief.

17. You agree that if, in any judicial proceedings, a court should refuse to enforce or give effect to any covenant set forth in this Agreement because of its term, scope or subject matter, then, for the purpose of such proceedings, such unenforceable covenant shall be deemed to be modified or eliminated to permit, to the maximum extent permitted by law, its enforcement or the enforcement of any covenant not held to be unenforceable.
18. You may not assign this Agreement or any of your rights hereunder. Subject to the foregoing, this Agreement shall inure to the benefit of LabCorp, its successors and assigns, and shall be binding upon you, your heirs, successors, and legal representatives. Nothing herein shall be construed to prohibit you from retaining the services of any person, at your expense, to assist you in rendering any services under this agreement, or from assigning to any such person any work to be performed in connection with rendering any services under this agreement.
19. No modifications or amendments hereof shall be effective unless made in writing and signed by you and an authorized representative of LabCorp.
20. This Agreement shall be governed by and construed in accordance with the internal laws of the State of North Carolina.
21. The terms and conditions contained herein constitute the entire understanding and agreement of you and LabCorp with respect to your termination and special Consultancy/Severance Agreement.
22. You are advised to consult an attorney before signing this Agreement and the Release referred to in Paragraph 13. You have twenty-one (21) days after your receipt of this Agreement to consider the terms before signing.
23. Your signature below indicates that you have read and understand all of the provisions of this Agreement and Release referred to in Paragraph 13, and you have executed them voluntarily and with full knowledge of the significance of all provisions.
24. If you agree with the foregoing, please sign below and return the originals to me. You should retain the enclosed copy of this Agreement for your records.
25. You may revoke this Agreement within seven (7) days following the date it is signed by you (the "Revocation Period") by notifying my office by telephone and mailing written confirmation of your revocation to the attention of the General Counsel of LabCorp, during the Revocation Period. Subject to Paragraph 26, unless revoked, this Agreement

shall become effective on the day immediately following expiration of the Revocation Period.

26. LabCorp shall have no obligations under this Agreement if you do not execute or if you revoke in accordance with Paragraph 25, this Agreement and the Release referred to in Paragraph 13.

On behalf of LabCorp, I thank you for your outstanding years of service. My best wishes to you in your future endeavors.

Very truly yours,

Laboratory Corporation of America Holdings

By: _____
Thomas P. Mac Mahon
Chief Executive Officer

AGREED TO AND ACCEPTED BY:

Larry Leonard, Ph.D.

DATE: _____

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
 STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS (LOSS)
 TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS
 (DOLLARS IN MILLIONS)

	12/31/98 -----	12/31/97 -----	12/31/96 -----
Earnings (loss) before provision for income taxes and extraordinary item	\$ 81.5	\$(161.3)	\$(188.3)
Add: Fixed Charges			
Interest expense (gross)	48.7	71.7	71.7
Interest factor in rents	22.5	22.6	23.5
Earnings (loss) as adjusted	\$ 152.7	\$ (67.0)	\$ (93.1)
Preferred dividend requirements	43.6	23.4	
Divided by pre-tax factor	66.0%	66.0%	--
Preferred dividend factor on a pre-tax basis	66.1	35.5	
Fixed charges:			
Interest expense (gross)	48.7	71.7	71.7
Interest factor in rents	22.5	22.6	23.5
Combined fixed charges and preferred dividends	137.3	129.8	95.2
Ratio of earnings to combined fixed charges and preferred dividends	1.11	N/A	N/A
Amount by which earnings are insufficient to cover combined fixed charges and preferred dividends		\$(196.8)	\$(188.3)

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
 STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS (LOSS)
 TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS
 (DOLLARS IN MILLIONS)

	12/31/95 -----	12/31/94 -----
Earnings (loss) before provision for income taxes and extraordinary item	\$ 3.1	\$ 55.4
Add: Fixed Charges		
Interest expense (gross)	65.5	34.5
Interest factor in rents	20.1	11.5
Earnings (loss) as adjusted	\$ 88.7	\$ 101.4
Preferred dividend requirements divided by pre-tax factor	--	--
Preferred dividend factor on a pre-tax basis		
Fixed charges:		
Interest expense (gross)	65.5	34.5
Interest factor in rents	20.1	11.5
Combined fixed charges and preferred dividends	85.6	46.0
Ratio of earnings to combined fixed charges and preferred dividends	1.04	2.20
Amount by which earnings are insufficient to cover combined fixed charges and preferred dividends		

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Laboratory Corporation of America Holdings on Forms S-8 (No. 33-43006, No. 33-55065, No. 33-62913, No. 333-17793, No. 333-39731 and No. 333-39735) and Form S-3 (No. 33-22427) and of National Health Laboratories Holdings, Inc. on Forms S-3/S-4 (No. 33-58307 and No. 33-58775) of our report dated February 12, 1999, on our audits of the consolidated financial statements and financial statement schedule of Laboratory Corporation of America Holdings as of December 31, 1998 and 1997, and for the years then ended, which report is included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Charlotte, North Carolina
March 8, 1999

INDEPENDENT AUDITORS' CONSENT

We consent to incorporation by reference in the registration statements (No. 33-43006, No. 33-55065, No. 33-62913, No. 333-17793, No. 333-39731 and No. 333-39735) on Forms S-8 and registration statements (No. 33-58307 and No. 33-58775) on Forms S-3/S-4 and registration statement (No. 333-22427) on Form S-3 of Laboratory Corporation of America Holdings of our report dated February 14, 1997, except for note 9 as to which the date is March 31, 1997, relating to the consolidated statements of operations, shareholders' equity, and cash flows of Laboratory Corporation of America Holdings and subsidiaries for the year ended December 31, 1996, and the related schedule, which report appears in the December 31, 1998 annual report on Form 10-K of Laboratory Corporation of America Holdings. We also consent to the reference to our firm under the heading "Selected Financial Data" in the December 31, 1998 annual report on Form 10-K of Laboratory Corporation of America Holdings.

KPMG LLP

Raleigh, North Carolina
March 8, 1999

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By:/s/ JEAN-LUC BELINGARD

Jean-Luc Belingard

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By:/s/ WENDY E. LANE

Wendy E. Lane

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By: /s/ ROBERT E. MITTELSTAEDT

Robert E. Mittelstaedt

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By: /s/ JAMES B. POWELL, MD

James B. Powell, MD

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By:/s/ DAVID B. SKINNER, MD

David B. Skinner, MD

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1998 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 8th day of March, 1999.

By: /s/ ANDREW G. WALLACE, MD

Andrew G. Wallace, MD

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AND STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000920148

LABORATORY CORPORATION OF AMERICA HOLDINGS

1000

YEAR		
	DEC-31-1998	
	DEC-31-1998	
		22,700
		0
		569,400
		194,000
		30,700
	519,100	
		507,000
		247,900
	1,640,900	
	251,400	
		571,300
	526,800	
		0
		1,200
		153,200
1,640,900		
		1,612,600
	1,612,600	
		1,049,200
		1,049,200
		435,800
		0
	48,700	
		81,500
		(12,700)
	68,800	
		0
		0
		0
		68,800
		0.20
		0.20

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

	9-MOS	
	DEC-31-1998	
	JAN-01-1998	
	SEP-30-1998	
		11,600
		0
		568,800
		196,600
		28,800
		470,400
		489,800
		236,800
		1,595,100
	215,200	
		609,000
	521,000	
		0
		1,300
		128,400
1,595,100		
		1,204,800
	1,204,800	
		783,800
		783,800
		319,900
		0
		37,200
		66,600
		33,100
	33,500	
		0
		0
		0
		33,500
		(0.00)
		(0.00)

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

6-MOS	
	DEC-31-1998
	JAN-01-1998
	JUN-30-1998
	15,500
	0
	552,700
	196,500
	29,900
	456,500
	484,500
	229,800
	1,569,300
220,000	
	620,600
514,300	
	0
	1,200
	128,900
1,569,300	
	790,100
790,100	
	513,500
	513,500
	209,900
	0
	25,000
	44,200
	22,100
22,100	
	0
	0
	0
	22,100
	(0.00)
	(0.00)

3-MOS
DEC-31-1998
MAR-31-1998
18,700
0
540,300
198,100
30,200
522,900
475,100
217,300
1,634,600
208,600
642,200
507,400
0
1,200
127,600
1,634,600
387,700
387,700
255,700
255,700
102,600
0
12,900
18,800
9,500
9,300
0
0
0
9,300
(0.01)
(0.01)

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

YEAR		
	DEC-31-1997	
	DEC-31-1997	
		23,300
		0
		526,000
		195,400
		36,000
		527,600
		459,800
		204,900
		1,658,500
	196,600	
		683,800
	500,900	
		0
		1,200
		127,900
1,658,500		
		1,519,000
	1,519,000	
		1,080,500
		1,080,500
		530,500
		0
		71,700
		(161,300)
		54,400
	(106,900)	
		0
		0
		0
		(106,900)
		(1.06)
		(1.06)

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

	9-MOS	
	DEC-31-1997	
	JAN-01-1997	
	SEP-30-1997	
		21,100
		0
		620,900
		107,500
		38,600
		655,200
		449,600
		195,700
		1,802,100
	193,800	
		703,700
	495,200	
		0
		1,200
		257,100
1,802,100		
		1,203,200
	1,203,200	
		811,600
		811,600
		306,300
		0
		57,700
		29,500
		17,700
	11,800	
		0
		0
		0
		11,800
		(0.01)
		(0.01)

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

	6-MOS	
	DEC-31-1997	
	JAN-01-1997	
	JUN-30-1997	
		30,800
		0
		636,100
		118,000
		40,900
		673,700
		450,200
		187,700
		1,834,000
	212,300	
		718,800
	487,800	
		0
		1,200
		263,800
1,834,000		
		811,800
	811,800	
		548,900
		548,900
		204,300
		0
	43,900	
		16,100
		9,700
	6,400	
		0
		0
		0
		6,400
		0.04
		0.04

3-MOS
DEC-31-1997
MAR-31-1997
29,500
0
631,100
111,900
43,100
732,000
453,700
181,700
1,911,900
552,300
1,264,800
0
0
1,200
259,200
1,911,900
406,500
406,500
277,200
277,200
101,500
0
22,700
5,900
3,500
2,400
0
0
0
2,400
0.02
0.02

0000920148
 LABORATORY CORPORATION OF AMERICA HOLDINGS
 1000

YEAR	DEC-31-1996	DEC-31-1996
		29,300
		0
	617,200	
	111,600	
	44,300	
	721,500	
		457,600
	174,700	
	1,917,000	
252,800		1,270,500
	0	
		0
		1,200
		256,900
1,917,000		
		1,676,200
	1,676,200	
		1,183,800
	1,183,800	
	611,100	
	0	
	71,700	
	(188,278)	
	34,800	
(153,500)		
	0	
	0	
		0
	(153,500)	
	(1.25)	
	(1.25)	

