SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported) February 27, 1997

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

DELAWARE	1-11353	13-3757370
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

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

ITEM 5. OTHER EVENTS

On February 27, 1997, Laboratory Corporation of America Holdings (the "Company") filed a registration statement relating to the rights offering of 10,000,000 shares of convertible preferred stock with an aggregate purchase price of $500 million in two series.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(c) Exhibits

20 Registration Statement of the Company filed on Form S-3 dated February 27, 1997.

20.1 Press Release of the Company dated February 27, 1997.

SIGNATURES

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

LABORATORY CORPORATION OF AMERICA HOLDINGS
(Registrant)

By: /s/Wesley R. Elingburg
Wesley R. Elingburg
Executive Vice President, General Counsel and Secretary

Date: February 27, 1997

EXHIBIT 20

As filed with the Securities and Exchange Commission on February 27, 1997
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Laboratory Corporation of America Holdings
(Exact Name of Registrant as specified in its charter)

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

358 South Main Street
Burlington, North Carolina 27215
(910) 229-1127

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Bradford T. Smith
Executive Vice President, General Counsel,
Corporate Compliance Officer and Secretary
Laboratory Corporation of America Holdings
358 South Main Street
Burlington, North Carolina 27215
(910) 229-1127
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Keith L. Kearney	Mark C. Smith
Davis Polk & Wardwell	Skadden, Arps, Slate, Meagher & Flom LLP
450 Lexington Avenue	919 Third Avenue
New York, New York 10017	New York, New York 10022
(212) 450-4000	(212) 735-3000

Approximate date of commencement of proposed sale to public: As soon as practicable after the Registration Statement becomes effective.

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Subscription Rights	(2)	None
Convertible Preferred Stock ("Preferred Stock").....	$643,750,000(3)	$195,076
Convertible Subordinated Notes.....	$250,000,000(4)	None

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

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this

Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED FEBRUARY 27, 1997

10,000,000 Shares

[LOGO]

Laboratory Corporation of America Holdings

% Series A Convertible Exchangeable Preferred Stock

or

% Series B Convertible Pay-in-Kind Preferred Stock

(mandatorily redeemable , 2012; liquidation preference $50 per share)

Dividends payable , , , and

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

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

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

HLR Holdings Inc. ("HLR") and Roche Holdings, Inc. ("Roche Holdings"), wholly owned subsidiaries of Roche Holding Ltd. ("Roche") and the owners of approximately 49.9% of the Common Stock currently outstanding, have informed the Company that they intend to exercise their Basic Subscription Privilege in full for approximately $250 million in Series B PIK Preferred Stock. HLR and Roche Holdings have not currently indicated whether or not they will exercise their Oversubscription Privilege.

(continued)

For a discussion of certain factors that should be considered in connection with an investment in the Preferred Stock, see "Risk Factors" beginning on page 21.

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

	Subscription Price	Dealer Manager and Solicitation Fees(1)	Proceeds to Company(2)
Per Share...	$	$	$
Total(3)....	$	$	$

(1) The fees payable to Credit Suisse First Boston Corporation ("Credit Suisse First Boston"), the dealer manager for the Rights Offering, will vary depending on the number of Rights exercised by Rights Holders other than HLR and Roche Holdings. Credit Suisse First Boston will also receive a financial advisory fee of $.

(2) Before deducting other expenses of the Rights Offering and the Amended Credit Agreement payable by the Company estimated at $.

(3) Assumes that only HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately 5,000,000 shares of Series B PIK Preferred Stock. If the remaining shares of Preferred Stock offered hereby are sold to Rights Holders other than HLR and Roche Holdings, the total Subscription Price, total Dealer Manager and Solicitation Fees and total Proceeds to Company would be , and , respectively.

The Dealer Manager for the Rights Offering is:
Credit Suisse First Boston
Prospectus dated , 1997.

The annual dividend for each share of Series A Exchangeable Preferred Stock offered hereby is $, payable in cash. The annual dividend for each share of Series B PIK Preferred Stock offered hereby is $, payable in shares of Series B PIK Preferred Stock until , 2000, and payable in cash thereafter. The Preferred Stock is convertible on or after , 1997 in the case of the Series A Exchangeable Preferred Stock, and on or after , 2000 in the case of the Series B PIK Preferred Stock, in each case, at the option of the holder, unless previously redeemed, into shares of Common Stock at a rate (subject to certain events) of shares of Common Stock for each share of Preferred Stock, equivalent to a conversion price of $ for each share of Common Stock. The shares of Series A Exchangeable Preferred Stock will be exchangeable, subject to certain conditions, at the option of the Company, in whole (but not in part), on any dividend payment date on or after , 2000 for the Company's % Convertible Subordinated Notes due 2012 (the "Notes") at a rate of $50 principal amount of Notes for each share of Series A Exchangeable Preferred Stock. The Series B PIK Preferred Stock will not be exchangeable for Notes. Except as described above, the terms of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock are identical in all respects. The Preferred Stock is not redeemable prior to , 2000. On or after such date, the Company may redeem the Preferred Stock, in whole or in part at the prices set forth herein, plus in each case, accrued and unpaid dividends. See "Description of Preferred Stock" and "Description of the Notes." All shares of Preferred Stock issued and outstanding as of , 2012 shall be redeemed by the Company at the redemption price of $50 per share. Dividends on the Preferred Stock are cumulative from the date of issuance and are payable quarterly in arrears commencing , 1997. See "Description of Preferred Stock."

The Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "LH." On February 26, 1997, the last full trading day before announcement of the Rights Offering, the last reported sale of the Common Stock on the NYSE Composite Tape was $3 3/4. On , 1997, the last full day of trading prior to the effective date of the registration statement of which this Prospectus forms a part, the last reported sale price of the Common Stock on the NYSE Composite Tape was $. Application will be made to list the Rights and Preferred Stock on the NYSE. It is expected that the Rights will trade on the NYSE until the close of business on the last trading day prior to the Expiration Date, at which time they will cease to have value.

In connection with the Rights Offering, the Company will enter into an amended and restated credit agreement (the "Amended Credit Agreement") with its existing lenders.

IN CONNECTION WITH THE RIGHTS OFFERING, CREDIT SUISSE FIRST BOSTON MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE RIGHTS, THE SERIES A EXCHANGEABLE PREFERRED STOCK, THE SERIES B PIK PREFERRED STOCK OR THE COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

DURING THE RIGHTS OFFERING, CERTAIN PERSONS AFFILIATED WITH PERSONS PARTICIPATING IN THE DISTRIBUTION MAY ENGAGE IN TRANSACTIONS FOR THEIR OWN ACCOUNTS OR FOR THE ACCOUNTS OF OTHERS IN PREFERRED STOCK OR COMMON STOCK PURSUANT TO EXEMPTIONS FROM RULE 10b-6, 10b-7 AND 10b-8 UNDER THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT").

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PROSPECTUS SUMMARY

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

Corporation of America Holdings and its consolidated subsidiaries following the Merger or NHL and its consolidated subsidiaries prior to the Merger, as applicable.

THE COMPANY

General

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1995 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in the diagnosis, monitoring and treatment of disease and other clinical states. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states. For the twelve months ended September 30, 1996, the Company had net sales of $1,619.9 million and EBITDA before a provision for settlements and related expenses, restructuring charges and non-recurring expenses of $168.6 million.

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

The Clinical Laboratory Testing Industry

Laboratory tests and procedures are used generally by hospitals, physicians, 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 1995 approximately 46 percent of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 15 percent were derived by physicians in their offices and laboratories and approximately 39 percent went to independent clinical laboratories. The Health Care Financing Administration ("HCFA") has estimated that there are approximately 5,700 independent clinical laboratories in the United States.

Business Strategy

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

Low Cost Provider

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

The Company has also developed and implemented sophisticated management information systems to monitor operations and control costs. All financial functions are centralized in Burlington, North Carolina including centralized purchasing and accounting. This provides greater control over

spending and provides increased supervision and monitoring of results of operations.

Client Service

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, the pricing of its services and its ability to employ qualified personnel. The Company believes it is a leading provider in terms of its menu and quality of testing services. As a result of the required focus on the consolidation process related to the Merger, however, the Company believes that its level of client service has been negatively impacted. Therefore, in 1997, with the consolidation process substantially completed, one of the Company's goals is to improve client service. One example is the continued integration of traditional sales and customer support functions into a new position, the Account Manager, which will have responsibility for certain sales, service and daily operational contact with physician-clients. Other important factors in improving client service include the Company's initiatives to improve its billing process. See "Business--Billing."

Account Profitability

Over the last several months the Company has begun an active effort to improve the profitability of new and existing business. To date this effort has focused primarily on reviewing existing contracts, including those with managed care organizations, and selectively repricing or discontinuing business with existing accounts which perform below Company expectations. The Company believes that as a result of this effort, the fourth quarter of 1996 was the second quarter since the Merger that the Company's price per accession did not decline versus the immediately preceding quarter. The Company is also targeting price increases to certain segments which have not seen price increases since the Merger. While such increases may adversely affect volumes, the Company believes that such measures along with other cost reduction programs, will improve its overall profitability. The substantial benefits of this strategic change are not expected until the latter half of 1998. Finally, the Company is reviewing its sales organization and expects to modify its commission structure so that compensation is tied more directly to the profitability of retained and new business instead of the current practice of basing commissions primarily on revenue generated. The Company is also reviewing alternatives relating to regions of the country and segments of business where profitability is not reaching internal goals and may enter into joint ventures, alliances, or asset swaps with interested parties in order to maximize regional operating efficiencies.

Focused Growth Initiatives

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

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

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

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

agreements is that patient eligibility will be determined at the time of testing through interface with the PCS information system which will expedite processing of the claim for reimbursement.

Recent Developments

As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the Office of the Inspector General ("OIG") of the Department of Health and Human Services ("HHS") and the Department of Justice (the "DOJ"), have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies (the "1996 Government Settlement"). The government's investigations covered billings for certain tests performed as part of the chemistry profiles of 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. Under the terms of the settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale-a liability the Company later succeeded to, following the Allied Acquisition and Merger. Consistent with this overall settlement, the Company paid $187 million to the Federal government (the "Settlement Payment") in December 1996 with proceeds from a loan from Roche Holdings (the "Roche Loan"). See "--Relationship with Roche". As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185 million in the third quarter of 1996 (the "Settlement Charge") to increase reserves for the 1996 Government Settlement described above and other related expenses of government and private claims resulting therefrom.

As a result of the Company's performance, higher than projected debt levels and potential defaults under its existing credit facility (the "Existing Credit Agreement"), the Company has obtained waivers of certain covenants thereunder through March 31, 1997. As a result of the limited period covered by the waivers, approximately $998 million of the Company's debt that would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. Such classification has created a material deficiency in short-term liquidity. The Company expects to seek an additional waiver and amendment to the Existing Credit Agreement to be effective through the completion of the Rights Offering. There can be no assurance that such a waiver or amendment can be obtained. In addition, the Roche Loan matures March 31, 1997. While the Company expects to seek an extension thereof through the completion of the Rights Offering, there can be no assurance such an extension can be obtained. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." In connection with the Rights Offering, the Company will enter into the Amended Credit Agreement with its existing lenders. See "Description of Amended Credit Agreement."

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

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

Fourth Quarter Results

Net sales for the three months ended December 31, 1996, were $391.2 million, versus $403.4 million in the fourth quarter of 1995. In the fourth quarter of 1996, the Company posted operating income of $21.7 million, net income of $1.2 million, and earnings per share of $0.01. This compares with operating income of $32.6 million, net income of $8.5 million, and earnings per share of $0.07 in the same period in 1995, before a charge of $15.0 million to increase the provision for doubtful accounts. After the charge in the fourth quarter of 1995, the Company posted operating income of $17.6 million and net income of $0.4 million.

While volume declined in the fourth quarter, pricing remained stable, resulting in the second consecutive quarter of price stability. In addition, although fourth quarter sales were lower than the third quarter by

approximately 3%, fourth quarter operating income improved over third quarter operating income before special charges by 10.7%. Management believes this performance reflects the results of its new business strategy aimed at reducing costs and increasing account profitability. Management expects to see further benefit from these initiatives in 1997.

Full Year Results

For the year ended December 31, 1996, net sales were $1,607.7 million. Before special charges, operating income was $99.2 million, net income was $13.4 million, and earnings per share was $0.11. After the special charges in 1996, the Company posted a twelve month operating loss of $118.8 million, net loss of $153.5 million, and a net loss per share of $1.25. The special charges in 1996 were (i) second quarter charges of $23.0 million related to additional restructuring and nonrecurring charges related to the Merger and $10.0 million to increase the allowance for doubtful accounts, and (ii) the third quarter Settlement Charge.

Net sales for the year ended December 31, 1995, were $1,432.0 million. Before special charges and extraordinary loss, operating income was $157.2 million, net earnings was $50.9 million, and net earnings per share was $0.46. After the special charges and extraordinary item, operating income was $67.2 million, net loss was $12.3 million, and net loss per share was $0.11. In connection with the Merger, the Company took a second quarter 1995 pretax special charge of $75.0 million relating to restructuring and other provisions and had an extraordinary loss of $8.3 million, net of taxes, related to the early extinguishment of debt. In addition, in the fourth quarter of 1995 the Company took a charge of $15.0 million to increase the provision for doubtful accounts. The 1995 results reflect the Merger and, therefore, are not directly comparable to results for the year ended December 31, 1996.

RELATIONSHIP WITH ROCHE

In connection with the Merger, HLR, and its designee, Roche Holdings, received 49.9% of the total outstanding Common Stock of the Company. In connection with the Merger, the Company, HLR, Roche Holdings and Roche entered into a Stockholder Agreement dated as of April 28, 1995 (the "Stockholder Agreement"). As a result of its ownership interest and its rights under the Stockholder Agreement, Roche is able to exercise significant influence on the governance of the Company and on the composition of its board of directors. See "Certain Relationships and Related Transactions--The Stockholder Agreement." HLR and Roche Holdings have indicated that they intend to exercise their Basic Subscription Privilege in the Rights Offering in full for approximately $250 million in Series B PIK Preferred Stock. HLR and Roche Holdings have not currently indicated whether or not they will exercise their Oversubscription Privilege. As mentioned above, in December, 1996, Roche Holdings loaned $187 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures March 31, 1997. A portion of the proceeds of the Rights Offering will be used to repay such loan. See "Use of Proceeds."

THE RIGHTS OFFERING

Securities Offered.....	A total of 10,000,000 shares of Preferred Stock are being offered in the Rights Offering pursuant to the exercise of Rights. Once the Rights are distributed and until the Expiration Date, the Company will not effect a reclassification of the Company's equity securities which could have the effect of materially altering the value of the Rights. See "Description of Rights Offering" and "Description of Preferred Stock."
Basic Subscription Privilege.....	Recordholders at the close of business on the Record Date will receive, at no cost, of a Right for each share of Common Stock owned of record at the close of business on such date. Each Right will entitle the Rights Holder to subscribe for one Underlying Share at the Subscription Price. Upon exercise of the Rights, Rights Holders must indicate on their Rights Certificate whether they wish to receive either shares of Series A Exchangeable Preferred Stock or shares of Series B PIK Preferred Stock. A failure to so indicate on the Rights Certificate will result in the issuance of Series A Exchangeable Preferred Stock. No fractional Rights or cash in lieu thereof will be issued or paid. Fractional Rights will be rounded up to the nearest whole number. ONCE A RIGHT HAS BEEN PROPERLY EXERCISED, IT CANNOT BE REVOKED. See "Description of Rights Offering--The Rights" and "--Subscription Privileges."
Oversubscription Privilege.....	Each Rights Holder who elects to

	exercise the Basic Subscription Privilege in full and who certifies as such, may also subscribe at the Subscription Price for Excess Shares of the same series as purchased pursuant to such Rights Holder's Basic Subscription Privilege, subject to availability and proration. Failure by a Rights Holder to indicate that such Rights Holder has exercised its Basic Subscription Privilege in full may result in forfeiture of such Rights Holder's Oversubscription Privilege. If an insufficient number of Excess Shares is available to satisfy fully all exercises of the Oversubscription Privilege, then the available Excess Shares will be prorated among Rights Holders who exercise their Oversubscription Privilege based upon the respective number of shares of Preferred Stock each such Rights Holder shall have subscribed for pursuant to the Basic Subscription Privilege. In such event, all excess payments shall be returned by mail without interest or deduction promptly after the Expiration Date and after all prorations and adjustments contemplated by the Rights Offering have been effected. See "Description of Rights Offering--Subscription Privileges."
Subscription Price.....	$50 per share of Preferred Stock.
Record Date.....	, 1997.
Expiration Date.....	The Rights will expire, if not exercised prior to 5:00 p.m., New York time, on , 1997 unless extended for up to 30 days in the sole discretion of the Company. The number and length of any such extensions will be set at the time of any such extension. See "Description of Rights Offering--Expiration Date."
The Rights.....	The Rights will be evidenced by transferable certificates that will be exercisable by a Rights Holder until the Expiration Date. Application has been made to list the Rights on the NYSE. It is expected that the Rights will trade on the NYSE until the close of business on the last trading day prior to the Expiration Date, at which time they will cease to have value.
Subscription and Information Agent..	American Stock Transfer & Trust Company.
Dealer Manager.....	The Company and Credit Suisse First Boston (the "Dealer Manager") have entered into a Dealer Manager Agreement pursuant to which Credit Suisse First Boston is acting as the dealer manager in connection with the Rights Offering. The Company has agreed to pay certain fees to, and expenses of, the Dealer Manager for its services in the Rights Offering. See "Plan of Distribution."
Procedure for Exercising Rights.....	The Basic Subscription Privilege and the Oversubscription Privilege may be exercised by properly completing the Rights Certificate, and forwarding it (or following the Guaranteed Delivery Procedures), with payment of the Subscription Price for each Underlying Share subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege, to the Subscription and Information Agent, who must receive such Rights Certificate or Notice of Guaranteed Delivery and payment on or prior to the Expiration Date. If Rights Certificates are sent by mail, Rights Holders are urged to use insured, registered mail, return receipt requested. See "Description of Rights Offering--Method of Subscription --Exercise of Rights." If the aggregate Subscription Price paid by an exercising Rights Holder is insufficient to purchase the number of

	Underlying Shares that the Rights Holder indicates are being subscribed for, or if no number of Underlying Shares to be purchased is specified, then the Rights Holder will be deemed to have exercised the Basic Subscription Privilege to purchase Underlying Shares to the full extent of the payment price tendered. If the aggregate Subscription Price paid by an exercising Rights Holder exceeds the amount necessary to purchase the number of Underlying Shares for which the Rights Holder has indicated an intention to subscribe, then the Rights Holder will be deemed to have exercised the Oversubscription Privilege to the full extent of the excess payment tendered, and any amount remaining shall be returned to such Rights Holder. See "Description of Rights Offering--Method of Subscription--Exercise of Rights." ONCE A RIGHTS HOLDER HAS EXERCISED THE BASIC SUBSCRIPTION PRIVILEGE OR THE OVERSUBSCRIPTION PRIVILEGE, SUCH EXERCISE MAY NOT BE REVOKED. RIGHTS NOT EXERCISED PRIOR TO THE EXPIRATION DATE WILL EXPIRE.
Persons Holding Common Stock, or Wishing to Exercise Rights, Through Others.....	Persons holding shares of Common Stock beneficially and receiving the Rights issuable with respect thereto, through a broker, dealer, commercial bank, trust company or other nominee, as well as persons holding certificates for Common Stock directly, who would prefer to have such institutions effect transactions relating to the Rights on their behalf, should contact the appropriate institution or nominee and request it to effect such transaction for them. See "Description of Rights Offering--Method of Subscription--Exercise of Rights."
Procedure for Exercising Rights by Stockholders Outside of the United States.....	Rights Certificates will not be mailed to holders of Common Stock whose addresses are outside the United States or who have an Army Post Office ("APO") or a Fleet Post Office ("FPO") address, but will be held by the Subscription and Information Agent for their accounts. To exercise the Rights represented thereby, such holders must notify the Subscription and Information Agent and take all other steps which are necessary to exercise the Rights on or prior to 5:00 p.m. New York time on , 1997. If no contrary instructions have been received by such time, the Rights of such holders will expire. See "Description of Rights Offering--Foreign and Certain Other Stockholders."
Federal Income Tax Consequences.....	For United States Federal income tax purposes, receipt of Rights by a Recordholder pursuant to the Rights Offering should be treated as a nontaxable distribution with respect to the Common Stock. See "Certain Federal Income Tax Consequences."
Issuance of Preferred Stock.....	Certificates representing shares of Preferred Stock purchased pursuant to the exercise of the Rights will be delivered to subscribers as soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected.
No Board or Financial Advisor Recommendations.....	An investment in the Preferred Stock must be made pursuant to each investor's evaluation of such investor's best interests. Accordingly, neither the Board of Directors of the Company nor Credit

	Suisse First Boston, as financial advisor to the Company, makes any recommendation to Rights Holders regarding whether they should exercise their Rights to purchase Preferred Stock.
Principal Stockholders.....	HLR and Roche Holdings, the owners of approximately 49.9% of the Common Stock currently outstanding, have indicated that they intend to exercise their Basic Subscription Privilege in full for approximately $250 million of Series B PIK Preferred Stock. HLR and Roche Holdings have not currently indicated whether or not they will exercise their Oversubscription Privilege.
NYSE Symbol for Common Stock.....	"LH"
Proposed NYSE Symbol for Rights.....	"LH RT"
Proposed NYSE Symbol for the Series A Exchangeable Preferred Stock.....	"LH PRA"
Proposed NYSE Symbol for the Series B PIK Preferred Stock....	"LH PRB"
Right to Terminate Rights Offering..	The Company expressly reserves the right, in its sole discretion, at any time prior to delivery of the shares of Preferred Stock offered hereby, to terminate the Rights Offering if the Rights Offering is prohibited by law, rule or regulation or the Board of Directors concludes that it is not in the best interests of the Company and its stockholders to complete the Rights Offering. If the Rights Offering is terminated, all funds received pursuant to the Rights Offering will be promptly refunded, without interest.
Use of Proceeds.....	The gross proceeds of the Rights Offering will be used to (i) repay the $187 million loan from Roche Holdings in order to fund the Settlement Payment and $3 million of accrued interest thereon, (ii) pay fees and expenses of approximately $15 million related to the Rights Offering and the Amended Credit Agreement and (iii) repay up to $295 million outstanding under the Existing Credit Agreement. See "Use of Proceeds."

THE PREFERRED STOCK

Securities Offered.....	An aggregate of 10,000,000 shares of % Series A Convertible Exchangeable Preferred Stock and % Series B Convertible Pay-in-Kind Preferred Stock. Except as described below, the terms of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock are identical in all respects.
Mandatory Redemption.....	, 2012.
Dividends.....	Annual cumulative dividends of $ per share on the Preferred Stock are payable quarterly on each , , and , when, as and if declared by the Board of Directors. Annual cumulative dividends in the case of the Series A Exchangeable Preferred Stock are payable in cash out of funds legally available therefor, and in the case of the Series B PIK Preferred Stock, in shares of Series B PIK Preferred Stock until , 2000, and thereafter in cash.
Liquidation Preference.....	$50 per share of Preferred Stock, plus accrued and unpaid dividends.
Conversion Rights.....	Each share of Preferred Stock will be convertible at any time at the option of the holder thereof in the case of the Series A Exchangeable Preferred Stock on or after , 1997 and in the

	case of the Series B PIK Preferred Stock on or after , 2000, into shares of Common Stock of the Company, subject to adjustment in certain events, including a Fundamental Change (as defined herein). See "Description of Preferred Stock --Conversion Rights."
Exchange for Notes.....	The Series A Exchangeable Preferred Stock will be exchangeable, subject to certain conditions, at the option of the Company, in whole (but not in part), on any dividend payment date on or after , 2000 for the Company's % Convertible Subordinated Notes due 2012 in a principal amount equal to $50 per share of Preferred Stock. The Notes will be convertible, at the option of the holder thereof, into shares of Common Stock initially at the conversion price for the Preferred Stock at the time of the exchange. Holders of Notes will be entitled to the same conversion rights as holders of Preferred Stock. The Notes will bear interest at the rate of % payable quarterly in arrears on , , and of each year, commencing on the first such interest payment date following the date of exchange. At the Company's option, on or after , 2000, the Notes will be redeemable, in whole or in part, at the redemption prices set forth herein plus accrued and unpaid interest. The Notes are not subject to mandatory sinking fund payments. The Notes will be subordinated to all Senior Indebtedness (as defined herein) of the Company.
Optional Redemption.....	The Preferred Stock will not be redeemable prior to , 2000. On and after such date, the Preferred Stock will be redeemable, in whole or in part, at the option of the Company, at the prices set forth herein, plus in each case accrued and unpaid dividends to the redemption date.
Ranking.....	The Preferred Stock will rank, with respect to dividend rights and rights upon liquidation, winding up or dissolution, senior to all classes of the Company's common stock and junior to any other series of preferred stock that may hereafter be created that ranks senior to the Preferred Stock.
Voting Rights.....	The holders of Preferred Stock will not have any voting rights, except as provided by applicable law and except that, among other things, holders will be entitled to vote as a separate class (with the holders of shares of any other series of preferred stock of the Company having similar rights) to elect two directors of the Company if the equivalent of six quarterly dividends payable on the Preferred Stock are in arrears. In addition, so long as any Preferred Stock is outstanding the Company will not, without the affirmative vote or consent of the holders of at least 66 2/3% of all outstanding shares of Preferred Stock and outstanding Parity Dividend Stock (as defined herein) (voting as a single class), take certain actions so as adversely to affect the relative rights, preferences, qualifications, limitations, or restrictions of the Preferred Stock, authorize or issue, or increase the authorized amount of any Senior Dividend Stock, Senior Liquidation Stock (as such terms are defined herein) or any security convertible into such Senior Dividend Stock or Senior Liquidation Stock or effect any reclassification of the Preferred Stock. Each share of Preferred Stock will be entitled to one vote on matters on which holders of such shares are entitled to vote.
Federal Income Tax Consequences.	There are certain Federal income tax consequences associated with purchasing, holding and disposing of the Preferred Stock, including the fact that an exchange of the Series A Exchangeable Preferred

Stock for Notes or a redemption of shares of Preferred Stock for cash will be a taxable transaction and may be taxable as a dividend. See "Certain Federal Income Tax Consequences."

SUMMARY FINANCIAL DATA

	Nine Months Ended September 30,		Year Ended December 31,				
	1996	1995	1995(a)	1994(b)	1993	1992	1991
	(Dollars in millions, except per share amounts)						
Statement of Operations Data:							
Net sales	$1,216.5	$1,028.6	$1,432.0	$872.5	$760.5	$ 721.4	$603.9
Cost of sales	903.9	722.4	1,024.3	597.0	444.5	395.1	332.5
Gross profit	312.6	306.2	407.7	275.5	316.0	326.3	271.4
Selling general and administrative expenses	223.0	162.3	238.5	149.3	121.4	117.9	97.9
Amortization of intangibles and other assets	22.1	19.2	27.0	16.3	9.1	8.3	7.7
Restructuring and non-recurring charges	23.0(c)	65.0(d)	65.0(d)	--	--	--	--
Provision for settlements and related expenses	185.0(c)	10.0(d)	10.0(d)	--	--	136.0(g)	--
Operating income (loss)	(140.5)	49.7	67.2	109.9	185.5	64.1	165.8
Litigation settlement and related expenses	--	--	--	(21.0)(e)	--	--	--
Other gains and expenses, net	--	--	--	--	15.3(f)	--	--
Net interest income (expense)	(49.9)	(47.4)	(64.1)	(33.5)	(9.7)	(2.0)	3.5
Earnings (loss) before income taxes and extraordinary item	(190.4)	2.3	3.1	55.4	191.1	62.1	169.3
Provision for income taxes	(35.7)	6.7	7.1	25.3	78.4	21.5	65.4
Earnings (loss) before extraordinary item	(154.7)	(4.4)	(4.0)	30.1	112.7	40.6	103.9
Extraordinary item--loss on early extinguishment of debt, net(h)	--	(8.3)	(8.3)	--	--	--	--
Net earnings (loss)	$ (154.7)	$ (12.7)	$ (12.3)	$ 30.1	$112.7	$ 40.6	$103.9
Weighted average common shares outstanding (in thousands)	122,917	106,424	110,579	84,754	89,439	94,468	99,096
Earnings (loss) per common share before extraordinary loss	$ (1.26)	$ (0.04)	$ (0.03)	$ 0.36	$ 1.26	$ 0.43	$ 1.05
Extraordinary loss per common share	--	(0.08)	(0.08)	--	--	--	--
Net earnings (loss) per common share	$ (1.26)	$ (0.12)	$ (0.11)	$ 0.36	$ 1.26	$ 0.43	$ 1.05
Dividends per common share	--	--	--	$ 0.08	$ 0.32	$ 0.31	$ 0.27
Supplemental Data:							
Net cash provided by (used in) operating activities	$(17.6)	$ 4.4	$ 47.0	$ 14.7	$ 57.2	$ 102.4	$135.3
Net cash used in investing activities	$(52.1)	$(83.0)	$ (115.0)	$(293.6)	$(95.7)	$ (36.3)	$(37.8)
Net cash provided by (used in) financing activities	$ 81.5	$ 76.8	$ 57.6	$ 293.4	$ 17.4	$ (84.0)	$(92.0)
Bad debt expense	$ 58.9	$ 35.5	$ 64.8	$ 29.5	$ 28.0	$ 32.1	$ 24.9
Bad debt expense as a % of net sales	4.8%	3.5%	4.5%	3.4%	3.7%	4.4%	4.1%
Capital expenditures	$46.3	$ 44.3	$ 75.4	$ 48.9	$ 33.6	$ 34.9	$ 25.4
EBITDA(i)	$(77.2)	$101.8	$139.6	$ 154.3	$217.7	$ 91.0	$187.8
EBITDA as a % of net sales(i)	(6.3)%	9.9%	9.7%	17.7%	28.6%	12.6%	31.1%
Adjusted EBITDA(j)	$130.8	$176.8	$214.6	$ 154.3	$217.7	$227.0	$187.8
Adjusted EBITDA as a % of net sales(j)	10.8%	17.2%	15.0%	17.7%	28.6%	31.5%	31.1%

Ratio of earnings to combined fixed charges and preferred stock dividends(k).....	NM	1.04x	1.04x	2.20x	10.16x	5.71x	20.65x

	As of September 30, 1996	As of December 31,				
	Actual	1995(a)	1994(b)	1993	1992	1991
	(Dollars in millions)					
Balance Sheet Data:						
Cash and cash equivalents.....	$ 28.2	$ 16.4	$ 26.8	$ 12.3	$ 33.4	$ 51.3
Working capital(l)	(795.8)	249.4	90.2	62.4	32.0	64.2
Total assets.....	1,908.4	1,837.2	1,012.7	585.5	477.4	411.3
Total debt(m).....	1,118.6	1,034.2	648.9	341.5	154.2	7.6
Total stockholders' equity....	256.9	411.6	166.0	140.8	212.5	330.8

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

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

(c) In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million in non-recurring charges in the second quarter of 1996 related to the integration of its operations following the Merger. See Note 6 to the Unaudited Consolidated Financial Statements. As a result of negotiations with the OIG and DOJ related to the 1996 Government Settlement, the Company recorded the Settlement Charge of $185.0 million in the third quarter of 1996 to increase accruals for settlements and related expenses of government and private claims resulting from these investigations. See "Regulation and Reimbursement--1996 Government Settlement."

(d) In 1995, following the Merger, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where duplicate NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans. See Note 3 of the Notes to Consolidated Financial Statements which sets forth the Company's restructuring activities for the year ended December 31, 1995. Also in 1995, the Company recorded a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, in which the Company believes it is probable that settlements will be made by the Company.

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

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

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

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

(i) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles

("GAAP") (and should not be considered as an indicator of operating performance or an alternative to cash flow (as measured by GAAP)), as a measure of liquidity, it is included herein to provide additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

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

(k) 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 nine months ended September 30, 1996, earnings were insufficient to cover fixed charges and preferred stock dividends by $190.4 million. For the nine months ended September 30, 1996 and the year ended December 31, 1995, pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $225.7 million and $20.6 million, respectively, assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege ($237.9 million and $35.6 million, respectively if HLR and Roche Holdings exercise their Basic Subscription Privilege and all other remaining Rights are also exercised).

(l) On September 23, 1996, as a result of a potential default under the Existing Credit Agreement, the Company entered into the Fourth Amendment to the Existing Credit Agreement (the "Fourth Amendment") which modified the interest coverage and leverage ratios applicable to the quarters ended September 30, 1996 and December 31, 1996 in return for, among other things, increased interest rate margins. As a result of the limited period covered by the Fourth Amendment, approximately $998 million of the Company's debt that would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(m) Total debt includes a capital lease obligation of $9.8 million at September 30, 1996 and $9.6 million, $9.8 million, $9.7 million and $9.6 million at December 31, 1995, 1994, 1993 and 1992, respectively. Total debt also includes the expected value of future contractual and contingent amounts to be paid to the principals of acquired laboratories. Such payments are principally based on a percentage of future revenues derived from the acquired customer lists or specified amounts to be paid over a period of time. At September 30, 1996, December 31, 1995, 1994, 1993, 1992 and 1991, such amounts were $16.5 million, $23.3 million, $35.1 million, $26.8 million, $4.6 million and $7.6 million, respectively. Total debt excludes accrued settlement costs. In December 1996, the Company also received a loan of $187 million from Roche Holdings to fund the Settlement Payment. The Settlement Payment was subsequently made in December 1996.

SUMMARY PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL DATA

	Nine Months Ended September 30, 1996(a)	Year Ended December 31, 1995(a)
	(Dollars in millions, except per share amounts)	
Statement of Operations Data:		
Net sales	$1,216.5	$1,678.6
Cost of sales	903.9	1,199.8
Gross profit	312.6	478.8
Selling general and administrative expenses	223.0	279.3
Amortization of intangibles and other assets	22.1	30.1
Restructuring and non-recurring charges	23.0	65.0
Provision for settlements and related expenses	185.0	10.0
Operating income (loss)	(140.5)	94.4
Net interest expense	(57.1)	(77.3)
Earnings (loss) before income taxes and extraordinary item	(197.6)	17.1
Provision for income taxes	(38.7)	14.4

Earnings (loss) before extraordinary item	(158.9)	2.7
Preferred dividends	(16.3)	(21.9)
Loss before extraordinary item attributable to common shareholders	$(175.2)	$(19.2)
Weighted average common shares outstanding (in thousands):		
Primary	122,917	122,909
Fully diluted	215,772	216,776
Loss per common share before extraordinary item	$ (1.43)	$(0.16)
Fully diluted loss per common share	$ (1.43)	$(0.16)

	As of September 30, 1996(b)
	(Dollars in millions)
Balance Sheet Data:	
Cash and cash equivalents	$ 28.2
Working capital	447.3
Total assets	1,911.3
Total debt	1,073.6
Total stockholders' equity	243.0

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(a) The summary unaudited pro forma statement of operations data for the nine months ended September 30, 1996 and for the year ended December 31, 1995 present the results of operations of the Company assuming the Rights Offering (assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock) and the application of the proceeds therefrom, the execution of the Amended Credit Agreement, the Merger, the Roche Loan and the Settlement Payment had been completed as of the beginning of such periods. If HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock and all other remaining Rights are exercised for Series A Exchangeable Preferred Stock, pro forma results would be as follows:

	Nine Months Ended September 30, 1996	Year Ended December 31, 1995
	(Dollars in millions, except per share amounts)	
Operating income (loss)	$(140.5)	$ 94.4
Net interest expense	(41.9)	(55.5)
Earnings (loss) before income taxes and extraordinary item	(182.4)	38.9
Provision for income taxes	(32.3)	23.3
Earnings (loss) before extraordinary item	(150.1)	15.6
Preferred dividends	(32.2)	(43.2)
Loss before extraordinary item attributable to common shareholders	$(182.3)	$(27.6)
Weighted average common shares outstanding (in thousands):		
Primary	122,917	122,909
Fully diluted	306,681	307,685
Loss per common share before extraordinary item	$(1.48)	$(0.22)
Fully diluted loss per common share before extraordinary item	$(1.48)	$(0.22)

(b) The summary unaudited pro forma consolidated balance sheet data as of September 30, 1996 presents the financial position of the Company adjusted to give pro forma effect to the Rights Offering (assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock) and the application of the proceeds therefrom, the execution of the Amended Credit Agreement, the Roche Loan and the Settlement Payment. If HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock and all other remaining Rights are exercised for Series A Exchangeable Preferred Stock, pro forma results would be as follows:

	As of September 30, 1996
	(Dollars in millions)
Cash and cash equivalents	$ 28.2
Working capital	447.3
Total assets	1,911.3
Total debt	823.6

Total stockholders' equity.....	243.0

For a complete description of the assumptions underlying the pro forma amounts, see "Unaudited Pro Forma Financial Information."

RISK FACTORS

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

Substantial Leverage. Following the Rights Offering, the Company will continue to be highly leveraged. As of September 30, 1996, after giving pro forma effect to the Rights Offering (assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock) and the application of the proceeds therefrom, the Company would have had total indebtedness of $1,073.6 million and stockholders' equity of $243.0 million. For the nine months ended September 30, 1996 and the year ended December 31, 1995, pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $225.7 million and $20.6 million, respectively, assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege ($237.9 million and $35.6 million, respectively if HLR and Roche Holdings exercise their Basic Subscription Privilege and all other remaining Rights are also exercised). Pro forma net interest expense for the fiscal year ended December 31, 1995 and the nine months ended September 30, 1996 would have been $77.3 million and $57.1 million, respectively. The Company may incur additional indebtedness in the future, subject to limitations imposed by the Amended Credit Agreement. See "Capitalization" and "Unaudited Pro Forma Financial Statements." As a result of the Company's performance, higher than projected debt levels and potential defaults under the Existing Credit Agreement, the Company has obtained waivers of certain covenants thereunder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of the limited period covered by the waivers, approximately $998.0 million of the Company's debt that would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. Such classification has created a material deficiency in short-term liquidity. A waiver with respect to certain covenants expires March 31, 1997. The Company expects to seek an additional waiver and amendment to the Existing Credit Agreement to be effective through the completion of the Rights Offering. There can be no assurance that such a waiver or amendment can be obtained. Borrowings under the Company's revolving credit facility of $450.0 million (the "Revolving Credit Facility") under the Existing Credit Agreement were $361.0 million as of September 30, 1996. In December 1996, the Company borrowed $187.0 million from Roche Holdings to fund the Settlement Payment in the form of a promissory note which matures March 31, 1997. While the Company expects to seek an extension thereof through the completion of the Rights Offering, there can be no assurance such an extension can be obtained. The Settlement Payment was subsequently made in December 1996. Cash and cash equivalents on hand and additional borrowing capabilities of $89 million as of September 30, 1996 under the Revolving Credit Facility are expected to be sufficient to meet anticipated operating requirements, debt repayments and provide funds for capital expenditures and working capital for the near term, however, further deterioration in cash flow from operations or the failure to complete the Rights Offering in the first half of 1997 could result in a cash deficiency.

The level of the Company's indebtedness could have important consequences to holders of the Company's securities, including but not limited to the following: (i) a substantial portion of the Company's cash flow from operations will be required to be dedicated to debt service and will not be available for other purposes; (ii) the Company's ability to obtain additional debt financing in the future for working capital, and capital expenditures could be limited; (iii) the Company may be more vulnerable to extended economic downturns and may be restricted in exploiting business opportunities; (iv) the Amended Credit Agreement will contain financial and restrictive covenants that limit the ability of the Company to, among other things, borrow additional funds, dispose of assets, pay cash dividends, including dividends on the Preferred Stock or pay interest on the Notes, and failure by the Company to comply with such covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on the Company and (v) the Company's level of indebtedness could limit its flexibility in planning for, or reacting to, changes in market conditions, including adverse governmental regulations (including reductions in the amounts reimbursable to the Company under Medicare and Medicaid). See "--Limitations on Third Party Payor Reimbursement of Health Care Costs." Furthermore, the ability of the Company to satisfy its obligations will be dependent upon its future performance and market conditions, which will be subject to prevailing economic conditions and to financial, business and other factors, including factors beyond the Company's control. In addition, because the borrowings outstanding under the Amended Credit Agreement will bear interest at a floating rate, the Company's financial performance may be adversely affected by increases in interest rates. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries) below 25%, the applicable interest margins and facility fees on borrowings outstanding under the Amended Credit Agreement will increase. The amount of the increase will depend, in part, on the leverage ratio of the Company at the time of such reduction. In addition, pursuant to the Amended Credit Agreement, the applicable interest margins on borrowings outstanding thereunder will be based upon the leverage ratio. As a result,

the applicable interest margins will vary depending upon the number of Rights exercised. See "Description of Amended Credit Agreement".

In addition, Notes issued upon exchange of the Preferred Stock will be subordinated to all Senior Indebtedness. Following the Rights Offering, assuming only HLR and Roche Holdings exercise the Basic Subscription Right for approximately $250 million of Preferred Stock, $1,083.1 million of Senior Indebtedness will be outstanding. There will be no restrictions on the creation of Senior Indebtedness in the Indenture.

Limitations on Third Party Payor Reimbursement of Health Care Costs. The health care industry is undergoing significant change as third party payors, such as Medicare and Medicaid and insurers, increase their efforts to control the cost of health care services. During the nine months ended September 30, 1996, the Company derived approximately 18% and 6% of its net revenues from tests performed for beneficiaries of Medicare and Medicaid programs, respectively. The Company's business depends significantly on continued participation in these programs and the Company is required by law to accept reimbursement from Medicare and Medicaid as payment in full for covered tests performed for Medicare and Medicaid beneficiaries. In an effort to address the problem of increasing health care costs, legislation has been proposed at both Federal and state levels to further regulate health care delivery in general and clinical laboratories in particular and legislation has been enacted that reduces the amounts reimbursable to the Company and other independent clinical laboratories under Medicare and Medicaid, the levels of which have declined steadily since 1984. See "Regulation and Reimbursement--General--Regulation Affecting Reimbursement of Clinical Laboratory Services." Such reductions have negatively impacted the Company's net sales, cost of sales as a percentage of net sales and selling, general and administrative expenses as a percentage of net sales. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Congress passed a bill (the Medicare Preservation Act) that would have further reduced the amounts reimbursable to the Company and other clinical laboratories, but the bill was vetoed by the President. In addition, effective January 1, 1996, HCFA adopted a new policy on reimbursement for chemistry panel tests. As of January 1, 1996, 22 automated tests (rather than 19 tests) became reimbursable by Medicare as part of an automated chemistry profile. HCFA retains the authority to expand in the future the list of tests included in a panel. Effective as of March 1, 1996, HCFA eliminated its prior policy of permitting payment for all tests contained in an automated chemistry panel when at least one of the tests in the panel is medically necessary. Under the new policy, Medicare payment will not exceed the amount that would be payable if only the tests that are "medically necessary" had been ordered. In addition, since 1995 most Medicare carriers have begun to require clinical laboratories to submit documentation supporting the medical necessity, as judged by ordering physicians, for commonly ordered tests. The Company has incurred and expects to continue to incur additional reimbursement reductions and additional costs associated with the implementation of these requirements of HCFA and Medicare carriers. These and other proposed changes affecting the reimbursement policy of Medicare and Medicaid programs could have a material adverse effect on the business, results of operations or financial condition of the Company. In particular, the Company has experienced lower collection rates beginning in the second quarter of 1996 as a result of these more stringent medical necessity requirements. See "--Collection Rates from Third Party Payors."

Collection Rates from Third Party Payors. During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15.0 million and $10.0 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996. Increased medical necessity and related diagnosis code requirements of the Medicare program were placed on the Company by certain third party carriers in late 1995 and additional requirements were placed on the Company at the beginning of 1996. The Company expects accounts receivable balances to continue to exceed 1995 levels as a result of these more stringent requirements. In addition, increased difficulty in collecting amounts due from private insurance including certain managed care plans has negatively impacted operating cash flow. Finally, Merger related integration issues have also resulted in increased accounts receivable balances as a result of multiple billing information systems. Although the Company currently has plans in place to improve the collection of accounts receivable and stabilize collection rates, to date, collection rates continue to decline despite these measures. Moreover, additional changes in requirements of third-party payors could increase the difficulties in collections. There can be no assurance that such trends will be reversed or that additional reserves will not be required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Role of Managed Care. Managed care organizations play a significant role in the health care industry and their role is expected to increase over the next several years. Managed care organizations typically negotiate capitated payment contracts, whereby a clinical laboratory receives a fixed monthly fee per covered individual, regardless of the number or cost of tests performed per covered individual and regardless of the number or cost of tests performed during the month (excluding certain tests, such as esoteric tests and anatomic pathology services). Laboratory services agreements with managed care organizations have historically been priced aggressively due to competitive pressure and the expectation that a laboratory would capture not only the volume of testing to be covered under the contract, but also the additional fee-for-services business from patients of participating physicians who are not covered under the managed care plan. However, as the number of patients covered under managed care plans continues to increase, there is less such fee-for-service business and, accordingly, less high margin business to offset the low margin (and often unprofitable) managed care business. Furthermore, increasingly, physicians are affiliated with more than one

managed care organization and as a result may be required to refer clinical laboratory tests to different clinical laboratories, depending on the coverage of their patients. As a result, a clinical laboratory might not receive any fee-for-service testing from such physicians. The increase in managed care has also resulted in declines in the utilization of laboratory testing services. See "Business--Clients and Payors" and "Business--The Clinical Laboratory Testing Industry." During the nine months ended September 30, 1996, services to managed care organizations under capitated rate agreements accounted for approximately 4% of the Company's net revenues from clinical laboratory testing and approximately 10% of the volume of specimens or accessions tested by the Company. As discussed below, the Company has targeted business development efforts in an attempt to become more judicious in pricing new business and is selectively repricing or discontinuing business with existing accounts not meeting Company targets. The Company has experienced some volume declines as a result of this strategy, however, the third quarter of 1996 was the first quarter since the Merger that overall prices did not decline versus the immediately preceding quarter. There can be no assurance however of the timing or success of such measures or that the Company will not lose market share to other clinical laboratories who continue to aggressively price laboratory services agreements with managed care organizations. In addition, despite such efforts, the Company may experience declines in per test revenue as managed care organizations continue to increase their share of the health care insurance market.

Implementation of New Business Strategy. During the third quarter of 1996, management began implementing a new business strategy in response to the Company's declining performance. See "Business--Strategy." Management expects this new business strategy will likely result in lower volumes as a result of repricing or discontinuing business with certain existing accounts not meeting Company profitability targets. However, management also believes that such measures will improve the Company's overall profitability. The substantial benefits of this strategic change are not expected until the latter half of 1998. The Company's future results and financial condition are dependent on the successful implementation of this new business strategy. While the Company believes that this strategy will enable it to improve its financial results, there can be no assurance that this new strategy will be successful, that the anticipated benefits of this new strategy will be realized, that management will be able to implement such strategy on a timely basis, that the Company will return to profitability levels experienced prior to 1995 or that losses will not continue in the future.

Recent Operating Losses. Following the Merger, the Company experienced a loss in 1995 and a loss in the nine months ended September 30, 1996. While such losses are largely attributable to costs incurred in connection with the Merger, the related restructuring described below and the Settlement Payment, there can be no assurance that losses will not continue in the future. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Result of Operations." As a result, the Company had an accumulated deficit of $0.6 million and $155.3 million as of December 31, 1995 and September 30, 1996, respectively. As a result of the Settlement Charge, the Company recorded a significant loss in 1996.

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

Intense Competition. The independent clinical laboratory industry in the United States is intensely competitive. The following factors, among others, are often used by health care providers in selecting a laboratory: (i) pricing of the laboratory's testing services; (ii) accuracy, timeliness and consistency in reporting test results; (iii) number and type of tests performed; (iv) service capability and convenience offered by the laboratory; and (v) its reputation in the medical community. The Company believes that in 1995 approximately 46% of the revenues of the clinical laboratory testing industry was generated by hospital-affiliated laboratories, approximately 39% by independent clinical laboratories and 15% by thousands of individual physicians in their offices and laboratories. Independent clinical laboratories fall into two separate categories: (1) smaller, generally local, laboratories that generally offer fewer tests and services and have less capital than the larger laboratories, and (2) larger laboratories such as the Company that provide a broader range of tests and services. The Company has two major competitors that operate in the national market--SmithKline Beecham Clinical Laboratories, Inc. ("SmithKline") and Quest Diagnostics Incorporated, formally known as Corning Clinical Laboratories ("Quest"). There are also many independent clinical laboratories that operate regionally and that compete with the Company in these regions. In addition, hospitals are in general both competitors and customers of independent clinical laboratories. The independent clinical laboratory testing industry has experienced intense price competition over the past several years, which has negatively impacted the Company's profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." There can be no assurance that the Company will be able to compete successfully with its existing or any new competitors or that competitive pressures faced by the Company will not materially and adversely affect its business, operating results or financial condition. See "Business--Competition."

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

A wide array of Medicare/Medicaid fraud and abuse provisions apply to clinical laboratories participating in such programs. Penalties for violations of these Federal laws include exclusion from participation in the Medicare/Medicaid programs, asset forfeitures and other civil and criminal penalties. Civil penalties for a wide range of offenses may be up to $2,000 per item and twice the amount claimed. These penalties will be increased effective January 1, 1997 to up to $10,000 per item plus three times the amount claimed. In the case of certain offenses, exclusion from participation in Medicare and Medicaid is a mandatory administrative penalty. The OIG interprets these fraud and abuse administrative provisions liberally and enforces them aggressively. Provisions in a bill enacted in August 1996 are likely to expand the Federal government's involvement in curtailing fraud and abuse due to the establishment of (i) an anti-fraud and abuse trust fund funded through the collection of penalties and fines for violations of such laws and (ii) a health care anti-fraud and abuse task force. As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the OIG and the DOJ, have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. The government's investigations covered billings for certain tests performed as part of the chemistry profiles of 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. Under the terms of the settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale-a liability the Company later succeeded to, following the Allied Acquisition and Merger. Consistent with this overall settlement, the Company paid $187 million to the Federal Government in December 1996 with proceeds from a loan from Roche Holdings. Additional investigations by the OIG in 1992 and 1994 were settled for $111.4 million in 1992 and $4.9 million in 1995, respectively. See "Regulation and Reimbursement--OIG Investigations."

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

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

will not incur significant liabilities in excess of policy limits.

No Assurance of Dividends-received Deduction. There is no assurance that the Company will have earnings and profits for Federal income tax purposes. Dividends paid to corporate holders that are in excess of the Company's earnings and profits would not qualify for the intercorporate dividends-received deduction.

Substantial Stockholder; Ability of Substantial Stockholder to Increase Ownership. As a result of the Merger, HLR and Roche Holdings received 49.9% of the total outstanding Common Stock of the Company. In connection with the Merger, the Company, HLR, Roche Holdings and Roche entered into the Stockholder Agreement. As a result of its ownership interest and its rights under the Stockholder Agreement, Roche is able to exercise significant influence on the governance of the Company and on the composition of its board of directors. Pursuant to the Stockholder Agreement, the Board of Directors of the Company (subject to specified exceptions) is comprised of seven members, consisting of three designees of HLR and Roche Holdings (the "Roche Directors") and four Independent Directors (as defined therein) nominated by the Nominating Committee of the board of directors. The Nominating Committee consists of one Roche Director and two Independent Directors and acts by a majority vote of the entire committee. There can be no assurance that the interests of HLR and Roche Holdings will be the same as those of the other stockholders of the Company. Pursuant to the Stockholder Agreement, HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries) have the right to acquire Equity Securities (as defined therein) to the extent that, after giving effect thereto, their Total Voting Power would not exceed 75%. Moreover, HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries) may acquire additional Equity Securities notwithstanding the fact that after giving effect thereto, their Total Voting Power would exceed 75%, if HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries) or any one of them offers, prior to consummation of such purchase, to purchase all outstanding Equity Securities and holders of Equity Securities totaling more than 50% of the outstanding Equity Securities (excluding Equity Securities held by HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries)) accept such offer. After the third anniversary of the Merger, the Stockholder Agreement does not restrict purchases by HLR, Roche Holdings or their affiliates of Equity Securities. Certain provisions of the Stockholder Agreement described below, including provisions limiting HLR's and Roche Holding's representation on the Board of Directors of the Company to three of seven members, would be suspended if the Total Voting Power of HLR, Roche Holdings and their affiliates (other than the Company and its subsidiaries) were to be increased to over 50%. HLR and Roche Holdings have indicated that they intend to exercise their Basic Subscription Privilege in the Rights Offering in full for approximately $250 million of Series B PIK Preferred Stock. HLR and Roche Holdings have not currently indicated whether or not they will exercise their Oversubscription Privilege. See "Certain Relationships and Related Transactions--The Stockholder Agreement."

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

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

No Prior Market for the Rights, the Preferred Stock or the Notes. The Rights, Series A Exchangeable Preferred Stock and Series B PIK Preferred Stock constitute new issues of securities with no established trading market. Application will be made to have the Rights and the Preferred Stock approved for listing on the New York Stock Exchange. There can be no assurance that an active market for the Rights and the Preferred Stock will develop or be sustained in the future on the New York Stock Exchange. Although Credit Suisse First Boston has indicated to the Company that it intends to make a market in the Rights, and, following the Rights Offering, the Preferred Stock, as permitted by applicable laws and regulations, it is not obligated to do so and may discontinue any such market-making at any time without notice. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Rights or the Preferred Stock.

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

Insufficient Authorized Capital to Permit Conversion and Payment of Dividends on Series B PIK Preferred Stock; Dilution. There are currently insufficient shares of Common Stock authorized to permit conversion of all of the Preferred Stock issued upon the exercise of Rights or as dividends on the Series B PIK Preferred Stock and insufficient shares of Preferred Stock authorized to permit the payment of dividends on the Series B PIK Preferred Stock if all the Preferred Stock offered hereby is sold. In connection with the next annual meeting of shareholders currently scheduled for , 1997, the Board of Directors will propose amending the Company's Certificate of Incorporation to increase (i) the authorized number of shares of Common Stock to permit the conversion of all of the Preferred Stock and (ii) the authorized number of shares of Preferred Stock to permit the payment of dividends on the Series B PIK Preferred Stock. HLR, Roche Holdings and the directors and executive officers of the Company have indicated to the Company that they intend to vote in favor of such amendment. However, there can be no assurance such amendment will be adopted. Rights Holders may experience dilution of their percentage of equity ownership interest and voting power in the Company if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms, if they do not exercise the Basic Subscription Privilege. Even if the Rights Holders exercise their Basic Subscription Privilege in full, they may nevertheless still experience dilution in their voting rights and in their proportional interest in any future net earnings of the Company if other holders of Rights exercise the Oversubscription Privilege and such Rights Holders elect not to exercise the Oversubscription Privilege, if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms. In addition, Rights Holders who exercise Rights for Series A Exchangeable Preferred Stock will experience dilution as dividends on the Series B PIK Preferred Stock are paid in shares of Series B PIK Preferred Stock until , 2000.

Shares of Common Stock Eligible for Future Sale. In accordance with the Sharing and Call Option Agreement dated as of December 13, 1994 (the "Sharing and Call Option Agreement") among HLR, Mafco Holdings Inc. ("Mafco"), all of the capital stock of which is owned by Mr. Ronald O. Perelman and National Healthcare Group, Inc., ("NHCG"), a wholly owned subsidiary of Mafco, the Company has filed with the Commission a registration statement on Form S-3 which has been declared effective by the Securities and Exchange Commission (the "Commission") and includes a resale prospectus that permits NHCG (or any of its pledgees) to sell shares of Common Stock and Warrants received by NHCG in the Merger without restriction. In addition, pursuant to the Stockholder Agreement and the Sharing and Call Option Agreement, HLR, Roche Holdings and NHCG, have been granted demand and piggy-back registration rights with respect to shares of Common Stock owned by them. HLR and Roche Holdings on the one hand and NHCG on the other hand own 49.9% and 11.8%, respectively, of the outstanding Common Stock of the Company. Although the Company cannot make any prediction as to the effect, if any, that sales in the public market of shares of Common Stock owned by HLR, Roche Holdings and NHCG would have on the market price for the Preferred Stock or Common Stock prevailing from time to time, sales of substantial amounts of Common Stock or the availability of such shares for sale could adversely affect prevailing market prices.

Volatility of Price of Common Stock. The market price of the Company's Common Stock has been highly volatile in recent years and on December 4, 1996 reached a 52-week low of $2 3/8. Factors such as quarter-to-quarter variations in the Company's revenues and earnings have caused and are expected to continue to cause the market price of the Company's securities to fluctuate significantly. In addition, in recent years the stock markets have experienced significant volatility, which often may be unrelated to the operating performance of the affected companies. Such volatility may also adversely affect the market price of the Company's securities. See "Common Stock Price Range."

Forward Looking Statements

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

USE OF PROCEEDS

The gross proceeds of the Rights Offering will be used to (i) repay the $187 million loan from Roche Holdings in order to fund the Settlement Payment, which bears interest at 6.625% per annum and matures March 31, 1997 and accrued interest of approximately $3 million related thereto, (ii) pay fees and expenses of approximately $15 million related to the Rights Offering and the Amended Credit Agreement and (iii) repay up to $295 million

outstanding under the Existing Credit Agreement which bears interest at LIBOR plus 1.0% per annum.

COMMON STOCK PRICE RANGE

The Company's Common Stock is traded publicly on the New York Stock Exchange under the symbol "LH." The following table sets forth for the calendar periods indicated the high and low sales prices for the Common Stock reported on the NYSE Composite Tape.

	High	Low
1995		
First Quarter	15 1/2	12 5/8
Second Quarter	15 1/4	11 3/4
Third Quarter	14	9 1/8
Fourth Quarter	10	8 1/8
1996		
First Quarter	9 3/8	7 1/4
Second Quarter	9	7 3/8
Third Quarter	7 5/8	3 1/4
Fourth Quarter	3 7/8	2 3/8
1997		
First Quarter (through February 25, 1997)	4	2 5/8

On December 31, 1996 there were approximately 733 holders of record of the Common Stock.

DIVIDEND POLICY

The Company, in connection with the Allied Acquisition in June 1994, discontinued its dividend payments for the foreseeable future. In addition, the Existing Credit Agreement contains, among other provisions, a covenant which prohibited the payment of cash dividends until April 29, 1996 and places certain restrictions, as defined in the Existing Credit Agreement, on the payment of such dividends after that date. The Amended Credit Agreement will contain a similar restriction but will expressly permit cash dividends on the Preferred Stock in the absence of a default and the failure to meet a specified fixed charge coverage ratio.

CAPITALIZATION

The following table sets forth as of September 30, 1996, (i) the cash and cash equivalents and total capitalization of the Company and (ii) cash and cash equivalents and total capitalization, adjusted to give pro forma effect to the Rights Offering, the execution of the Amended Credit Agreement, the Roche Loan and the Settlement Payment. The assumptions with respect to the Rights Offering are set forth in the notes hereto and the proceeds of the Rights Offering are assumed to be applied as set forth under "Use of Proceeds." See also "Unaudited Pro Forma Financial Statements." This table should be read in conjunction with the Unaudited Consolidated Financial Statements of the Company included elsewhere or incorporated by reference herein.

	As of September 30, 1996		
	Actual	As Adjusted	
		(in millions)	
		Minimum Subscription(1)	Maximum Subscription(2)
Cash and cash equivalents	$ 28.2	$ 28.2	$ 28.2
Short-term debt:			
Current portion of long-term debt(3)	$93.8	$ 37.5	$ 37.5
Loan from affiliate	--	--	--
Revolving credit facility classified as current(5)	361.0	--	--
Long-term debt classified as current(5)	637.5	--	--
Current portion of acquisition contingent payments	12.2	12.2	12.2
Total short-term debt	1,104.5	49.7	49.7
Current portion of accrued settlement costs(4)	200.7	13.7	13.7
Long-term debt:			
Revolving credit facility(5)	--	316.0	116.0
Long-term debt, less current portion(5)	--	693.8	643.8
Capital lease obligations	9.8	9.8	9.8
Acquisition contingent payments, less current portion	4.3	4.3	4.3
Total long-term debt	14.1	1,023.9	773.9
Accrued settlement costs, less current portion(4)	33.0	33.0	33.0
Preferred stock, $0.10 par value, 10,000,000 shares authorized, none issued and outstanding actual; 4,988,751 and 10,000,000 shares, respectively, issued and outstanding as adjusted(6)	--	250.0	500.0

Stockholders' equity:			
Common stock, par value $0.01 per share, 220,000,000 shares authorized; 122,923,705 shares issued and outstanding(6)	1.2	1.2	1.2
Additional paid-in capital	411.0	398.9	398.9
Accumulated deficit	(155.3)	(157.0)	(157.0)
Total stockholders' equity	256.9	243.1	243.1
Total capitalization	$1,609.2	$1,613.3	$1,613.3

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(1) Assumes only HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock.

(2) Assumes HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock and that the remaining Rights are exercised for approximately $250 million of Series A Exchangeable Preferred Stock.

(3) In October 1996 and January 1997, the Company made payments totaling $37.5 million on its $800.0 million senior term loan facility (the "Term Loan Facility").

(4) Reflects charges taken as a result of negotiations related to the 1996 Government Settlement.

(5) On September 23, 1996, as a result of a potential default under the Existing Credit Agreement, the Company entered into the Fourth Amendment which modified the interest coverage and leverage ratios applicable to the quarters ended September 30, 1996 and December 31, 1996 in return for, among other things, increased interest rate margins. As a result of the limited period covered by the Fourth Amendment, approximately $998 million of the Company's debt that would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet.

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

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

The unaudited pro forma consolidated financial statements for the nine months ended September 30, 1996 and for the year ended December 31, 1995 present the results of operations of the Company assuming that the Rights Offering, the execution of the Amended Credit Agreement, the Merger, the Roche Loan and the Settlement Payment had been completed as of the beginning of the period, in the case of the pro forma statements of operations, or September 30, 1996, in the case of the pro forma balance sheet. In addition, such pro forma financial statements assume that only HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock. For the effect on such pro forma financial statements of the assumption that HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock and that the remaining Rights are exercised for approximately $250 million of Series A Exchangeable Preferred Stock, see the supplemental note to the applicable pro forma financial statements. The proceeds of the Rights Offering have been assumed to be applied as set forth under "Use of Proceeds". In the opinion of management, the unaudited pro forma financial statements for the year ended December 31, 1995 and the nine months ended September 30, 1996 include all material adjustments necessary to restate the Company's historical results. The adjustments required to reflect such assumptions are described in the Notes to the unaudited pro forma financial statements and are set forth in the "Pro Forma Adjustments" columns.

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

Pro Forma Condensed Combined Consolidated Statement of Operations
Nine months ended September 30, 1996
(Dollars in millions, except share data)
(Unaudited)

	Historical	Pro Forma Adjustments		
	Company(1)	Roche Loan	Rights Offering	Pro Forma Combined
Net sales	$ 1,216.5			$1,216.5
Cost of sales	903.9			903.9
Gross profit	312.6			312.6
Selling, general and administrative expenses	223.0			223.0
Amortization of intangibles and other assets	22.1			22.1
Restructuring and other non-recurring charges	23.0			23.0
Provisions for settlements and related expenses	185.0			185.0
Operating income	(140.5)			(140.5)
Other income (expenses):				
Investment income	1.5			1.5
Interest expense	(51.4)	$ (9.3)(2)	$ 2.1(3)	(58.6)
Loss before income taxes	(190.4)	(9.3)	2.1	(197.6)
Provision for income taxes	(35.7)	(3.9)(4)	0.9(4)	(38.7)
Net loss	(154.7)	(5.4)	1.2	(158.9)
Preferred dividends			(16.3)	(16.3)
Net loss attributable to common shareholders	$ (154.7)	$ (5.4)	$ (15.1)	$ (175.2)
Primary loss per common share(8)	$ (1.26)			$ (1.43)
Fully diluted loss per common share(8)	$ (1.26)			$ (1.43)
Weighted average shares outstanding (thousands)(8):				
Primary	122,917			122,917
Fully diluted	122,917			215,772

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Supplemental Note: If HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock and all other remaining Rights are exercised for Series A Exchangeable Preferred Stock the pro forma condensed combined consolidated statement of operations for the nine months ended September 30, 1996 would be adjusted as follows:

	Pro Forma Adjustments	
	Rights Offering	Pro Forma Combined
Other income (expenses):		
Investment income	--	$ 1.5
Interest expense	$ 17.3(3)	(43.4)
Earnings before income taxes	17.3	(182.4)
Provision for income taxes	7.3(4)	(32.3)
Net earnings (loss)	10.0	(150.1)
Preferred dividends	(32.2)	(32.2)
Net loss attributable to common shareholders	$(22.2)	$ (182.3)
		$ (1.48)
Fully diluted loss per common share(8)		$ (1.48)
Weighted average shares outstanding (thousands)(8):		
Primary		122,917
Fully diluted		306,681

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

Pro Forma Condensed Combined Consolidated Statement of Operations
Year ended December 31, 1995
(Dollars in millions, except share data)

(Unaudited)

	Historical		Pro Forma Adjustments				
			The Merger				
	Company(1)	RBL(1)	Financing and Acquisition	Purchase Accounting	Roche Loan	Rights Offering	Pro Forma Combined
Net sales	$1,432.0	$246.6					$1,678.6
Cost of sales	1,024.3	177.5		$(2.0)(5)			1,199.8
Gross profit	407.7	69.1		2.0			478.8
Selling, general and administrative expenses	238.5	40.8					279.3
Amortization of intangibles and other assets	27.0	4.4		(1.3)(5)			30.1
Restructuring charges	65.0						65.0
Provision for settlements	10.0						10.0
Operating income	67.2	23.9		3.3			94.4
Other income (expenses):							
Investment income	1.4	0.1					1.5
Interest expense	(65.5)	(1.0)	$(7.8)(6) 1.0 (7)		$ (12.4)(2)	$6.9(3)	(78.8)
Earnings before income taxes and extraordinary item	3.1	23.0	(6.8)	3.3	(12.4)	6.9	17.1
Provision for income taxes	7.1	10.8	(2.7)(4)	1.3(4)	(5.0)(4)	2.9(4)	14.4
Earnings (loss) before extraordinary item	(4.0)	12.2	(4.1)	2.0	(7.4)	4.0	2.7
Preferred dividends						(21.9)	(21.9)
Net earnings (loss) before extraordinary item attributable to common shareholders	$(4.0)	$12.2	$(4.1)	$2.0	$ (7.4)	$(17.9)	$ (19.2)
Primary loss per common share before extraordinary item(8)	$(0.04)						$ (0.16)
Fully diluted loss per common share before extraordinary item(8)	$(0.04)						$ (0.16)
Weighted average shares outstanding (thousands)(8):							
Primary	110,579						122,909
Fully diluted	110,579						216,776

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Supplemental Note: If HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock and all other remaining Rights are exercised for Series A Exchangeable Preferred Stock, the pro forma condensed combined consolidated statement of operations for the year ended December 31, 1995 would be adjusted as follows:

	Pro Forma Adjustments	
	Rights Offering	Pro Forma Combined
Other income (expenses):		
Investment income	--	$ 1.5
Interest expense	$27.0(3)	(57.0)
Earnings before income taxes and extraordinary item	27.0	38.9
Provision for income taxes	11.3(4)	23.3
Earnings before extraordinary item	15.7	15.6
Preferred dividends	(43.2)	(43.2)
Loss before extraordinary item attributable to common shareholders	$(27.5)	$ (27.6)
Primary loss per common share before extraordinary item(8)		$ (0.22)
Fully diluted loss per common share before extraordinary item(8)		$ (0.22)
Weighted average shares outstanding (thousands)(8):		
Primary		122,909
Fully diluted		307,685

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

Notes to Pro Forma Condensed Combined Consolidated Statements of Operations

(1) Reflects the results of operations of RBL for the period from January 1, 1995 to April 28, 1995. The data for the Company includes the results of operations for RBL from May 1, 1995 through September 30, 1996.

(2) In December 1996, Roche Holdings loaned $187 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1997. Such note is assumed to be outstanding at the beginning of the period and then repaid with proceeds from the Rights Offering. See Note 3 below.

(3) Assumes the sale of approximately $250 million in Series B PIK Preferred Stock to HLR and Roche Holdings in the Rights Offering and the application of the proceeds therefrom to (i) repay the Roche Loan including accrued interest, (ii) pay fees and expenses related to the Amended Credit Agreement and the Rights Offering and (iii) repay approximately $45 million under the Existing Credit Agreement. The pro forma adjustment to interest expenses (based on the interest rate assumptions shown below) reflects the following:

	Nine Months ended 9/30/96	Year ended 12/31/95
	(in millions)	
Paydown of Roche Loan	$9.3	$12.4
Paydown of Revolving Credit Facility	2.3	3.3
Incremental interest under Amended Credit Agreement	(8.4)	(7.6)
Amortization of deferred financing costs	(0.3)	(0.4)
Commitment fee on Amended Credit Agreement	(0.8)	(0.8)
	$2.1	$ 6.9

If the remaining Rights were exercised for approximately $250 million in Series A Exchangeable Preferred Stock and the proceeds thereof were used to pay down amounts outstanding under the Existing Credit Agreement, the additional pro forma adjustment to interest expense (based on the interest rate assumptions shown below) would be as follows:

	Nine Months ended 9/30/96	Year ended 12/31/95
	(in millions)	
Paydown on Term Loan Facility (as defined herein)	$2.4	$ 3.6
Incremental paydown on Revolving Credit Facility	9.1	13.2
Additional incremental interest under Amended Credit Agreement	3.7	3.3
	$15.2	$20.1

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

	Nine Months ended 9/30/96	Year ended 12/31/95
Roche Loan	6.625%	6.625%
Term Loan Facility (as defined herein)	6.934%	7.481%
Revolving Credit Facility	6.684%	7.231%
Incremental interest under Amended Credit Agreement (Minimum Subscription)	1.125%	1.125%
Incremental interest under Amended Credit Agreement (Maximum Subscription)	0.625%	0.625%
Commitment fee on Amended Credit Agreement	0.250%	0.250%

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

Nine Months ended 9/30/96	Year ended 12/31/95

	(in millions)	
Revolving Credit Facility.....	$0.7	$0.5
Term Loan Facility.....	1.4	2.0

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

(5) The Merger was accounted for under the purchase method of accounting. Pro forma purchase accounting adjustments, which take into account the revaluation of the depreciable basis of the fixed assets of both entities, are provided below:

	Period 1/1/95- 4/28/95
	(in millions)
NHL	
Reduction in depreciation and amortization of leasehold improvements expense.....	$ (2.0)
RBL	
Elimination of pre-acquisition intangible asset amortization.....	(4.4)
Merger intangible asset amortization.....	3.1
	$ (3.3)

The intangible assets of RBL consist of goodwill of $284.6 million and customer list of $83.0 million. The amortization periods for these assets are 40 years and 25 years, respectively.

(6) The borrowings related to the Merger are assumed to have occurred at the beginning of the period. The pro forma adjustment to interest expense (based on the interest rate assumptions shown below) reflects the following:

	Period 1/1/95 - 4/28/95
	(in millions)
Interest on indebtedness:	
Term Loan Facility.....	$ (20.7)
Revolving Credit Facility.....	(4.6)
Facility fee on revolving credit facility.....	(0.4)
Amortization of deferred financing costs.....	(0.2)
Less historical amounts on Company indebtedness assumed to be repaid:	
Roche Loan interest.....	--
Interest expense.....	17.0
Commitment fees.....	0.2
Amortization of deferred financing costs.....	0.9
	$ (7.8)

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

	Period 1/1/95 - 4/28/95
Term Loan Facility.....	7.750%
Revolving Credit Facility.....	7.500%
Commitment fee on Amended Credit Agreement.....	0.250%

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

	Period 1/1/95 - 4/28/95
	(in millions)
Term Loan Facility.....	$0.7
Revolving Credit Facility.....	0.2

(7) Reflects the elimination of interest expense attributable to RBL of debt not assumed by HLR of $50.3 million, which was refinanced with proceeds from the Term Loan Facility.

(8) The primary and fully diluted shares assuming that only HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock, are calculated

as follows:

	Nine Months ended 9/30/96	Year ended 12/31/95
	(in thousands)	
Historical weighted average shares outstanding	122,917	110,579
Effect of shares issued in connection with the Merger	--	12,330
Weighted average shares used for primary earnings per share	122,917	122,909
Common Stock issuable upon conversion of Preferred Stock	90,909	90,909
Common Stock issuable upon conversion of PIK dividend	1,946	2,958
Weighted average shares used for fully diluted earnings per share	215,772	216,776

The primary and fully diluted shares assuming that HLR and Roche Holdings exercise their Basic Subscription Privilege with respect to approximately $250 million of Series B PIK Preferred Stock and that the remaining Rights are exercised for approximately $250 million of Series A Exchangeable Preferred Stock, are calculated as follows:

	Nine Months ended 9/30/96	Year ended 12/31/95
	(in thousands)	
Historical weighted average shares outstanding	122,917	110,579
Effect of shares issued in connection with the Merger	--	12,330
Weighted average shares used for primary earnings per share	122,917	122,909
Common Stock issuable upon conversion of Preferred Stock	181,818	181,818
Common Stock issuable upon conversion of PIK dividend	1,946	2,958
Weighted average shares used for fully diluted earnings per share	306,681	307,685

Pro Forma Condensed Combined Consolidated Balance Sheet
As of September 30, 1996
(Dollars in millions)
(Unaudited)

	Actual	Pro Forma Adjustments	Pro Forma Combined
ASSETS			
Current Assets:			
Cash and cash equivalents	$28.2		$28.2
Accounts receivable, net	494.4		494.4
Inventories	45.8		45.8
Prepaid expenses and other	20.9		20.9
Deferred income taxes	116.5		116.5
Income taxes receivable	9.9		9.9
Total current assets	715.7	----	715.7
Property, plant and equipment, net	289.3		289.3
Intangible assets, net	885.1		885.1
Other assets, net	18.3	$2.9(1)	21.2
	$1,908.4	$2.9	$1,911.3

	Actual	Pro Forma Adjustments	Pro Forma Combined
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$74.2		$74.2
Accrued expenses and other	144.3	$(1.3)(5)	143.0
Current portion of long-term debt	93.8	(56.3)(2)	37.5(3)
Current portion of accrued settlement expenses	200.7	(187.0)(4)	13.7
Loan from affiliate		187.0 (4)	0.0
		3.0 (5)	
		(190.0)(6)	
Revolving credit facility classified as current	361.0	(45.0)(6)	0.0
		(316.0)(2)	
Long-term debt classified as current	637.5	(637.5)(2)	0.0
Total current liabilities	1,511.5	(1,243.1)	268.4
Revolving credit facility	--	316.0 (2)	316.0
Long-term debt	--	637.5 (2)	693.8
		56.3 (3)	

Capital lease obligation	9.8		9.8
Accrued settlement expenses, less current portion	33.0		33.0
Other liabilities	97.2		97.2
Preferred stock	--	250.0 (6)	250.0
Stockholders' equity:			
Common stock	1.2		1.2
Additional paid-in capital	411.0	(12.1)(1)	398.9
Retained earnings	(155.3)	(1.7)(5)	(157.0)
Total stockholders' equity	256.9	(13.8)	243.1
	$1,908.4	$2.9	$1,911.3

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* Supplemental Note: If HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock and all other remaining Rights are exercised for Series A Exchangeable Preferred Stock, the pro forma condensed combined consolidated balance sheet as of September 30, 1996 would be adjusted as follows:

	Pro Forma Adjustments	Pro Forma Combined
Revolving credit facility classified as current	$(245.0)(7) (116.0)(2)	$0.0
Long-term debt classified as current	(637.5)(2) (50.0)(7)	0.0
Total current liabilities	(1,493.1)	268.4
Revolving credit facility	$116.0 (2)	$116.0
Long-term debt	643.8 (2)	643.8
Preferred stock	500.0 (7)	500.0

See accompanying Notes to Pro Forma Condensed Combined Consolidated Balance Sheet

Notes to Pro Forma Condensed Combined Consolidated Balance Sheet

(1) Reflects estimated fees and expenses in connection with the Rights Offering and Amended Credit Agreement, which fees and expenses have been capitalized as deferred financing costs and included in the caption "Other assets".

(2) Reflects reclassification of Revolving Credit Facility and Term Loan Facility after execution of the Amended Credit Agreement.

(3) In October 1996 and January 1997, the Company made payments totaling $37.5 million on the Term Loan Facility.

(4) In December 1996, Roche Holdings loaned $187 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1997. Such note is assumed to be repaid with a portion of the proceeds from the Rights Offering.

(5) Reflects accrued interest on the Roche Loan of approximately $3 million ($1.7 million net of tax) for the period December 30, 1996 through March 31, 1997 to be paid with a portion of the proceeds of the Rights Offering.

(6) Reflects the issuance of approximately $250 million of Series B PIK Preferred Stock to HLR and Roche Holdings in the Rights Offering and the application of the proceeds therefrom

(7) Reflects the issuance of approximately $250 million of Series B PIK Preferred Stock to HLR and Roche Holdings in the Rights Offering and that the remaining Rights are exercised for approximately $250 million of Series A Exchangeable Preferred Stock and the application of the proceeds therefrom.

SELECTED HISTORICAL FINANCIAL DATA

The following table presents selected historical financial data of the Company at the dates and for each of the periods indicated. The selected financial data as of and for each of the years ended December 31, 1995, 1994 and 1993 have been derived from the Consolidated Financial

Statements and the notes thereto included elsewhere and incorporated by reference herein. The selected financial data as of September 30, 1996 and for the nine months ended September 30, 1996 and 1995 have been derived from the Unaudited Consolidated Financial Statements. In the opinion of management, the Unaudited Consolidated Financial Statements include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of the financial position and results of operations for these periods. The unaudited interim results of operations for the nine months ended September 30, 1996 are not necessarily indicative of the results for the entire year ending December 31, 1996. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Nine Months Ended September 30,		Year Ended December 31,				
	1996	1995	1995(a)	1994(b)	1993	1992	1991
	(Dollars in millions, except per share amounts)						
Statement of Operations Data:							
Net sales	$1,216.5	$1,028.6	$1,432.0	$872.5	$760.5	$ 721.4	$603.9
Cost of sales	903.9	722.4	1,024.3	597.0	444.5	395.1	332.5
Gross profit	312.6	306.2	407.7	275.5	316.0	326.3	271.4
Selling general and administrative expenses	223.0	162.3	238.5	149.3	121.4	117.9	97.9
Amortization of intangibles and other assets	22.1	19.2	27.0	16.3	9.1	8.3	7.7
Restructuring and non-recurring charges	23.0(c)	65.0(d)	65.0(d)	--	--	--	--
Provision for settlements and related expenses	185.0(c)	10.0(d)	10.0(d)	--	--	136.0(g)	--
Operating income (loss)	(140.5)	49.7	67.2	109.9	185.5	64.1	165.8
Litigation settlement and related expenses	--	--	--	(21.0)(e)	--	--	--
Other gains and expenses, net	--	--	--	--	15.3(f)	--	--
Net interest income (expense)	(49.9)	(47.4)	(64.1)	(33.5)	(9.7)	(2.0)	3.5
Earnings (loss) before income taxes and extraordinary item	(190.4)	2.3	3.1	55.4	191.1	62.1	169.3
Provision for income taxes	(35.7)	6.7	7.1	25.3	78.4	21.5	65.4
Earnings (loss) before extraordinary item	(154.7)	(4.4)	(4.0)	30.1	112.7	40.6	103.9
Extraordinary item--loss on early extinguishment of debt, net(h)	--	(8.3)	(8.3)	--	--	--	--
Net earnings (loss)	$ (154.7)	$ (12.7)	$ (12.3)	$ 30.1	$112.7	$ 40.6	$103.9
Weighted average common shares outstanding (in thousands)	122,917	106,424	110,579	84,754	89,439	94,468	99,096
Earnings (loss) per common share before extraordinary loss	$ (1.26)	$ (0.04)	$ (0.03)	$ 0.36	$ 1.26	$ 0.43	$ 1.05
Extraordinary loss per common share	--	(0.08)	(0.08)	--	--	--	--
Net earnings (loss) per common share	$ (1.26)	$ (0.12)	$ (0.11)	$ 0.36	$ 1.26	$ 0.43	$ 1.05
Dividends per common share	--	--	--	$ 0.08	$ 0.32	$ 0.31	$ 0.27
Supplemental Data:							
Net cash provided by (used in) operating activities	$(17.6)	$ 4.4	$ 47.0	$ 14.7	$ 57.2	$ 102.4	$135.3
Net cash used in investing activities	$(52.1)	$(83.0)	$ (115.0)	$(293.6)	$(95.7)	$ (36.3)	$(37.8)
Net cash provided by (used in) financing activities	$ 81.5	$ 76.8	$ 57.6	$ 293.4	$ 17.4	$ (84.0)	$(92.0)
Bad debt expense	$ 58.9	$ 35.5	$ 64.8	$ 29.5	$ 28.0	$ 32.1	$ 24.9
Bad debt expense as a % of net sales	4.8%	3.5%	4.5%	3.4%	3.7%	4.4%	4.1%
Capital expenditures	$46.3	$ 44.3	$ 75.4	$ 48.9	$ 33.6	$ 34.9	$ 25.4
EBITDA(i)	$(77.2)	$101.8	$139.6	$ 154.3	$217.7	$ 91.0	$187.8

EBITDA as a % of net sales(i)	(6.3)%	9.9%	9.7%	17.7%	28.6%	12.6%	31.1%
Adjusted EBITDA(j)	$130.8	$176.8	$214.6	$ 154.3	$217.7	$227.0	$187.8
Adjusted EBITDA as a % of net sales(j)	10.8%	17.2%	15.0%	17.7%	28.6%	31.5%	31.1%
Ratio of earnings to combined fixed charges and preferred stock dividends(k)	NM	1.04x	1.04x	2.20x	10.16x	5.71x	20.65x

	As of September 30,	As of December 31,				
	1996	1995(a)	1994(b)	1993	1992	1991
	(Dollars in millions)					
Balance Sheet Data:						
Cash and cash equivalents	$ 28.2	$ 16.4	$ 26.8	$ 12.3	$ 33.4	$ 51.3
Working capital(l)	(795.8)	249.4	90.2	62.4	32.0	64.2
Total assets	1,908.4	1,837.2	1,012.7	585.5	477.4	411.3
Total debt(m)	1,118.6	1,034.2	648.9	341.5	154.2	7.6
Total stockholders' equity	256.9	411.6	166.0	140.8	212.5	330.8

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

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

(c) In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million in non-recurring charges in the second quarter of 1996 related to the integration of its operations following the Merger. See Note 6 to the Unaudited Consolidated Financial Statements. As a result of negotiations with the OIG and DOJ related to the Settlement Payment, the Company recorded a special charge of $185.0 million in the third quarter of 1996 to increase accruals for settlements and related expenses of government and private claims resulting from these investigations. See "Regulation and Reimbursement--1996 Government Settlement."

(d) In 1995, following the Merger, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where duplicate NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans. See Note 3 of the Notes to Consolidated Financial Statements which sets forth the Company's restructuring activities for the year ended December 31, 1995. Also in 1995, the Company recorded a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, in which the Company believes it is probable that settlements will be made by the Company.

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

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

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

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

of debt.

(i) EBITDA represents income (loss) before net interest expense, provision for income taxes, depreciation and amortization expense and extraordinary items. While EBITDA is not intended to represent cash flow from operations as defined by GAAP (and should not be considered as an indicator of operating performance or an alternative to cash flow (as measured by GAAP)), as a measure of liquidity, it is included herein to provide additional information with respect to the ability of the Company to meet its future debt service, capital expenditure and working capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

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

(k) 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 nine months ended September 30, 1996, earnings were insufficient to cover fixed charges and preferred stock dividends by $190.4 million. For the nine months ended September 30, 1996 and the year ended December 31, 1995, pro forma earnings would have been insufficient to cover combined fixed charges and preferred stock dividends by $225.7 million and $20.6 million, respectively, assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege ($237.9 million and $35.6 million, respectively if HLR and Roche Holdings exercise their Basic Subscription Privilege and all other remaining Rights are also exercised).

(l) On September 23, 1996, as a result of a potential default under the Existing Credit Agreement, the Company entered into the Fourth Amendment which modified the interest coverage and leverage ratios applicable to the quarters ended September 30, 1996 and December 31, 1996 in return for, among other things, increased interest rate margins. As a result of the limited period covered by the Fourth Amendment, approximately $998 million of the Company's debt that would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(m) Total debt includes a capital lease obligation of $9.8 million at September 30, 1996 and $9.6 million, $9.8 million, $9.7 million and $9.6 million at December 31, 1995, 1994, 1993 and 1992, respectively. Total debt also includes the expected value of future contractual and contingent amounts to be paid to the principals of acquired laboratories. Such payments are principally based on a percentage of future revenues derived from the acquired customer lists or specified amounts to be paid over a period of time. At September 30, 1996, December 31, 1995, 1994, 1993, 1992 and 1991, such amounts were $16.5 million, $23.3 million, $35.1 million, $26.8 million, $4.6 million and $7.6 million, respectively. Total debt excludes accrued settlement costs. In December 1996, the Company also received a loan of $187 million from Roche Holdings to fund the Settlement Payment. The Settlement Payment was subsequently made in December 1996.

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

General

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

Following the Merger in 1995, the Company determined that it would be beneficial to close certain laboratory facilities and eliminate duplicate functions in certain geographic regions where both NHL and RBL facilities or functions existed at the time of the Merger. The Company recorded restructuring charges of $65.0 million in connection with these plans. See Note 3 of Notes to Consolidated Financial Statements which sets forth the Company's restructuring activities for the year ended December 31, 1995. In addition, in the second quarter of 1995, the Company had an extraordinary loss of $8.3 million, net of taxes, related to early extinguishment of debt related to the Merger. In the second quarter of 1996, the Company recorded certain additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions and $10.0 million in non-recurring charges related to the integration of its operations following the Merger. See Note 6 of Notes to the Unaudited Consolidated Financial Statement. Future cash payments under the restructuring plan are expected to be $14.8 million in the twelve months ended September 30, 1997 and $14.1 million thereafter.

Recent Developments

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

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

In addition, Medicare (which principally serves patients 65 and older) and Medicaid (which principally serves indigent patients) and insurers, have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices and added costs and decreasing test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules in conjunction with certain budgetary bills. Any future changes to the Medicare fee schedules cannot be predicted at this time and management, therefore, cannot predict the impact, if any, such proposals, if enacted, would have on the results of operations or financial condition of the Company.

These market based factors have had a significant adverse impact on the clinical laboratory industry, and on the Company's profitability. Management expects that price erosion and utilization declines will continue to negatively impact net sales and results of operations for the foreseeable future. It is the objective of management to partially offset the increases in cost of sales as a percentage of net sales and selling, general and administrative expenses as a percentage of net sales through the cost savings the Company expects to realize following the Merger, as discussed below, and through comprehensive cost reduction programs including, but not limited to, six month deferral on increasing wages and adding new positions implemented on July 1, 1996. In addition, the Company has targeted business development efforts in an attempt to become more judicious in pricing new business and is selectively repricing or discontinuing business with existing accounts not meeting Company targets. The Company has experienced some volume declines as a result of this strategy; however, the third quarter of 1996 was the first quarter since the Merger that overall prices did not decline versus the immediately preceding quarter. There can be no assurance, however, of the timing or success of such measures or that the Company will not lose market share as a result of such measures.

As a result of the Merger, the Company has realized and is expected to continue to achieve substantial savings in operating costs through the consolidation of certain operations and the elimination of redundant expenses. Such savings are being realized over time as the consolidation process is completed. Since the Merger, the Company has been able to effect substantial operating cost reductions in the combined businesses and expects that the full effect of these savings (approximately $120 million per year when compared to the businesses' costs immediately prior to the Merger) will first be realized in 1997. Such savings include an annualized reduction of $4.3 million in corporate, general and administrative expenses including the consolidation of administrative staff. Combining the NHL sales force with the RBL sales force where duplicate territories existed has added approximately $17.8 million of annualized synergies. Operational savings have resulted in approximately $74.9 million of annualized synergies. These include closing of overlapping laboratories and other facilities and savings realized from

additional buying power by the larger Company. The Company has also realized annualized savings of approximately $14.5 million relating to employee benefits as a result of changes to certain benefit arrangements. Additional annualized savings of $8.5 million are expected to be achieved in 1997. These additional savings will be principally achieved in operational areas from the further consolidation of overlapping laboratories. The realization of the savings have been reduced by increased temporary help and overtime expenses during the consolidation process. These costs are expected to reduce to normal levels at the conclusion of the consolidation process in the second quarter of 1997. In addition, these savings have been largely offset by price erosion and utilization declines resulting from the increase in managed care and to a lesser extent from increases in other expenses such as bad debt expenses as discussed below. The effects of price erosion and utilization declines on the Company's results of operations, however, would have been greater but for savings achieved through the synergy program. In addition, the Company is focused on additional initiatives which are expected to achieve incremental cost savings in 1997. These plans include a new agreement with a supplier of telecommunications services, additional supply savings primarily due to increased efficiency, and further regional laboratory consolidation. There can be no assurance that the estimated additional cost savings expected to be achieved will be realized or achieved in a timely manner or that improvements, if any, in profitability will be achieved or that such savings will not be offset by increases in other expenses.

During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15 million and $10 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. In addition, the Company increased its monthly provision for doubtful accounts during the third quarter of 1996. Increased medical necessity and related diagnosis code requirements of the Medicare program were placed on the Company by certain third party carriers in late 1995 and additional requirements were placed on the Company at the beginning of 1996 and the Company experienced lower collection rates beginning in the second quarter of 1996 as a result of these more stringent requirements. In addition, increased difficulty in collecting amounts due from private insurance carriers, including certain managed care plans, has negatively impacted cash flow from operations. Finally, Merger related integration issues have also resulted in increased accounts receivable balances as a result of multiple billing information systems. The Company currently has plans in place to stabilize collection rates and improve the collection of accounts receivable. See "Business - Billing". Additionally, the Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system which it plans to implement once the accounts receivable situation is stabilized. To date, however, collection rates have continued to decline despite such measures and additional changes in requirements of third-party payors could increase the difficulty in collections. There can be no assurance of the success of the Company's plans to improve collections and, due to changes in medical necessity requirements, the Company expects accounts receivable balances to continue to exceed 1995 levels.

As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the OIG and the DOJ, have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. The government's investigations covered billings for certain tests performed as part of the chemistry profiles of 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. Under the terms of the 1996 Government Settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale--a liability the Company later succeeded to, following the Allied Acquisition and Merger. Consistent with this overall settlement, the Company paid $187 million to the Federal Government in December 1996 with proceeds from a loan from Roche Holdings. 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 to increase accruals for the 1996 Government Settlement described above, and other related expenses of government and private claims resulting therefrom.

Fourth Quarter Results

Net sales for the three months ended December 31, 1996, were $391.2 million, versus $403.4 million in the fourth quarter of 1995. In the fourth quarter of 1996, the Company posted operating income of $21.7 million,

net income of $1.2 million, and earnings per share of $0.01. This compares with operating income of $32.6 million, net income of $8.5 million, and earnings per share of $0.07 in the same period in 1995, before a charge of $15.0 million to increase the provision for doubtful accounts. After the charge in the fourth quarter of 1995, the Company posted operating income of $17.6 million and net income of $0.4 million.

While volume declined in the fourth quarter, pricing remained stable, resulting in the second consecutive quarter of price stability. In addition, although fourth quarter sales were lower than the third quarter by approximately 3%, fourth quarter operating income improved over third quarter operating income before special charges by 10.7%. Management believes this performance reflects the results of its new business strategy aimed at reducing costs and increasing account profitability. Management expects to see further benefit from these initiatives in 1997.

Full Year Results

For the year ended December 31, 1996, net sales were $1,607.7 million. Before special charges, operating income was $99.2 million, net income was $13.4 million, and earnings per share was $0.11. After the special charges in 1996, the Company posted a twelve month operating loss of $118.8 million, net loss of $153.5 million, and a net loss per share of $1.25. The special charges in 1996 were (i) second quarter charges of $23.0 million related to additional restructuring and nonrecurring charges related to the Merger and $10.0 million to increase the allowance for doubtful accounts, and (ii) the third quarter Settlement Charge.

Net sales for the year ended December 31, 1995, were $1,432.0 million. Before special charges and extraordinary loss, operating income was $157.2 million, net earnings was $50.9 million, and net earnings per share was $0.46. After the special charges and extraordinary item, operating income was $67.2 million, net loss was $12.3 million, and net loss per share was $0.11. In connection with the Merger, the Company took a second quarter 1995 pretax special charge of $75.0 million relating to restructuring and other provisions and had an extraordinary loss of $8.3 million, net of taxes, related to the early extinguishment of debt. In addition, in the fourth quarter of 1995 the Company took a charge of $15.0 million to increase the provision for doubtful accounts. The 1995 results reflect the Merger and, therefore, are not directly comparable to results for the year ended December 31, 1996.

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

Nine Months Ended September 30, 1996 compared with Nine Months Ended September 30, 1995

Net sales for the nine months ended September 30, 1996 were $1,216.5 million, an increase of 18.3% from $1,028.6 million reported in the comparable 1995 period. Net sales from the inclusion of RBL increased net sales by approximately $243.5 million or 23.7%. Acquisitions of small clinical laboratory companies increased net sales by approximately 1.4%. Such increases were partially offset by price erosion in the industry as a whole, lower utilization of laboratory testing and lost accounts, and net of growth in new accounts and price increases in selective markets. Lower utilization of laboratory testing and price erosion primarily resulted from continued changes in payor mix brought on by the increase in managed care. The Company has targeted business development efforts in an attempt to become more judicious in pricing new business and is selectively repricing or discontinuing business with existing accounts not meeting Company targets. The Company has experienced some volume declines as a result of this strategy, however, the third quarter of 1996 was the first quarter since the Merger that overall prices did not decline versus the immediately preceding quarter. A reduction in Medicare fee schedules from 80% to 76% of the national limitation amounts on January 1, 1996 reduced net sales by approximately 1.3%. Severe weather in January and February 1996 also negatively impacted net sales.

Cost of sales, which includes primarily laboratory and distribution costs, was $903.9 million for the nine months ended September 30, 1996, compared to $722.4 million in the corresponding 1995 period, an increase of $181.5 million or 25.1%. Cost of sales increased approximately $181.9 million or 25.2% due to the inclusion of the cost of sales of RBL. Cost of sales increased approximately $23.2 million as a result of wage increases prior to the implementation of a six month deferral on wage rate increases implemented on July 1, 1996, approximately $5.0 million as a result of higher overtime and temporary employee expenses related to the acceleration of the Company's synergy program and other operational factors, approximately $6.0 million due to higher depreciation and maintenance of lab equipment as a result of the Company's purchase of more sophisticated equipment to improve efficiency, and approximately $8.6 million in outside collection and reference testing fees. These increases were partially offset by decreases in salaries and benefits of $36.9 million, rental of premises of $2.9 million and several other expense categories aggregating approximately $3.4 million primarily as a result of the Company's synergy and cost reduction programs. Cost of sales as a percentage of net sales was 74.3% for the nine months ended September 30, 1996 and 70.2% in the corresponding 1995 period. The increase in the cost of sales percentage of net sales primarily resulted from a reduction in net sales due to price erosion and utilization declines, each of which provided little corresponding reduction in costs, and, to a lesser extent, due to

severe weather in January and February 1996 and a reduction in Medicare fee schedules.

Selling, general and administrative expenses increased to $223.0 million for the nine months ended September 30, 1996 from $162.3 million in the same period in 1995, representing an increase of $60.7 million or 37.4%. The inclusion of the selling, general and administrative expenses of RBL since April 28, 1995 increased expenses by approximately $36.5 million or 22.5%. Increases in salaries, overtime and temporary employee expenses, primarily related to billing issues and related telephone and data processing costs, aggregated approximately $15.5 million. Also, increased medical necessity and related diagnosis code requirements of third-party payors placed on the Company at the beginning of 1996 have resulted in increased accounts receivable balances and therefore the Company has increased its monthly provision for doubtful accounts. This resulted in an increase of approximately $3.9 million in the monthly provision for doubtful accounts for the nine months ended September 30, 1996 compared to the same 1995 period. In addition to increasing the monthly provision for doubtful accounts, the Company recorded $10.0 million of additional provision for doubtful accounts in the second quarter of 1996 which reflects the lower collection rates experienced beginning in the second quarter as a result of the more stringent medical necessity requirements. These increases were partially offset by decreases in legal expenses, excluding settlement expenses, of $2.0 million, insurance of $1.3 million and several other categories aggregating approximately $1.9 million. Selling, general and administrative expenses were 18.3% and 15.8% of net sales for the nine months ended September 30, 1996 and 1995, respectively. The increase in the selling, general and administrative percentage primarily resulted from increased employee expenses related to billing and the increases in the provision for doubtful accounts discussed above and to a lesser extent, from a reduction in net sales due to price erosion and utilization declines, each of which provided little corresponding reduction in costs.

As a result of negotiations with the OIG and DOJ related to the Settlement Payment, the Company recorded a special charge of $185.0 million in the third quarter of 1996 to increase reserves for settlements and related expenses of government and private claims resulting from these investigations.

The increase in amortization of intangibles and other assets to $22.1 million for the nine months ended September 30, 1996 from $19.2 million in the corresponding period in 1995 primarily resulted from the Merger in April 1995.

Interest expense was $51.4 million for the nine months ended September 30, 1996 compared with $48.5 million for the same period in 1995. The change resulted primarily from increased borrowings used to finance the Merger and increased accounts receivable balances partially offset by a lower effective borrowing rate. As a result of the Fourth Amendment, which resulted in increased borrowing margins, the Company's interest rate margin increased by approximately 0.625% beginning in the fourth quarter of 1996.

As a result of the restructuring and non-recurring charges in 1996 and 1995, the provision for income taxes is not comparable between periods. However, before charges, the Company's effective income tax rate for the nine months ended September 30, 1996 has increased from the same 1995 period as a result of increased non-deductible amortization and lower earnings before income taxes.

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

Net sales increased by $559.5 million to $1,432.0 million in 1995, an increase of 64.1% from $872.5 million reported in 1994. Net sales from the inclusion of RBL as a result of the Merger increased net sales by approximately $514.7 million or 59.0%. Also, net sales from the inclusion of Allied, which was acquired on June 23, 1994, increased net sales by approximately $56.6 million or 6.5%. Growth in new accounts and acquisitions of small clinical laboratory companies increased net sales by approximately 8.6% and 2.8%, respectively. Lower utilization of laboratory testing and price erosion in the industry as a whole decreased net sales by approximately 5.0%. A reduction in Medicare fee schedules from 84% to 80% of the national limitation amounts on January 1, 1995, plus changes in reimbursement policies of various third-party payors, reduced net sales by approximately 1.5%. Other factors, including accounts terminated by management, comprised the remaining reduction in net sales.

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

Selling, general and administrative expenses increased to $238.5 million in 1995 from $149.3 million in 1994, an increase of $89.2 million. Approximately $74.3 million of the increase was due to the inclusion

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

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

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

In the second quarter of 1995, the Company recorded a pre-tax special charge of $10.0 million in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, in which the Company believes it is probable that settlements will be made by the Company.

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

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

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

As discussed above and in Notes 2, 3 and 8 of the Notes to Consolidated Financial Statements, reported results in 1995 were impacted by the extraordinary loss, restructuring charges and provision for settlements. Excluding the impact of these non-recurring items, net earnings would have increased to $42.8 million in 1995 compared to $30.1 million in 1994.

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

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

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

Selling, general and administrative expenses increased to $149.3 million in 1994 from $121.4 million in 1993, an increase of $27.9 million. Approximately $21.7 million of the increase was due to the inclusion of the selling, general and administrative expenses of Allied since June 23,

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

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

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

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

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

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

Liquidity and Capital Resources

Net cash provided by (used for) operating activities (after payment of settlement and related expenses of $1.7 million, $32.1 million and $29.8 million, respectively) was $(17.6) million, $47.0 million and $14.7 million, in the first nine months of 1996, fiscal 1995 and fiscal 1994, respectively. The decrease in cash flow from operations in the first nine months of 1996 primarily resulted from an increase in accounts receivable related to increased medical necessity and related diagnosis code requirements of third-party payors placed on the Company at the beginning of 1996 and reflects the lower collection rates experienced beginning in the second quarter as a result of the more stringent requirements as discussed above.

Capital expenditures were $46.3 million, $75.4 million and $48.9 million for the first nine months of 1996, fiscal 1995 and fiscal 1994, respectively. The Company expects capital expenditures to be approximately $60.0 million in 1996 and $65.0 million in each of 1997 and 1998 to continue the Merger related integration, and to further automate laboratory processes and to improve efficiency. Such expenditures are expected to be funded by cash flow from operations as well as borrowings under the Company's Amended Credit Agreement.

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

Borrowings under the Revolving Credit Facility were $361.0 million as of September 30, 1996. In addition, in December 1996, the Company received a loan of $187.0 million from Roche Holdings to fund the Settlement Payment in the form of a promissory note which bears interest at 6.625% per annum and matures March 31, 1997. The Company subsequently made the Settlement Payment in December 1996. The Roche Loan will be repaid with a portion of the proceeds from the Rights Offering. Cash and cash equivalents on hand and additional borrowing capabilities of $89 million under the Revolving Credit Facility as of September 30, 1996 are expected to be sufficient to meet anticipated operating requirements, debt repayments and provide funds for capital expenditures and working capital for the near term, however, further deterioration in cash flow from operations or the failure to complete the Rights Offering in the first half of 1997 could result in a cash deficiency.

As a result of the Company's performance, higher than projected debt levels and a potential default under the Existing Credit Agreement, the Company obtained waivers for the quarter ended June 30, 1996 of certain covenants under the Existing Credit Agreement and on September 23, 1996, subsequently negotiated an amendment (the "Fourth Amendment") to the Existing Credit Agreement. The Fourth Amendment modifies the interest coverage and leverage ratios applicable to the quarters ending September 30 and December 31, 1996. The Fourth Amendment also increases the interest rate margin on its revolving credit facility from 0.25% to 0.875% and increases the interest rate margin on its term loan facility from 0.375% to 1.00%. As a result of the Settlement Charge in the third quarter of 1996, as described above, the Company obtained a waiver (the "Third Waiver") which excludes the special charge from covenant calculations for the periods covered by the most recent amendment until 30 days after the 1996 Government Settlement. As a result of the Roche Loan and the 1996 Government Settlement, the Company negotiated a Fifth Amendment and Fourth Waiver (the "Fifth Amendment") to the Existing Credit Agreement. The Fifth Amendment extended the Third Waiver until January 31, 1997 and excluded the Roche Loan from covenant calculations for the quarters ending December 31, 1996 and March 31, 1997. On January 27, 1997, the Company negotiated a waiver (the "Fifth Waiver") which further extended the Third Waiver until March 31, 1997. Because of the limited period covered by the waivers, approximately $998 million of the Company's debt that otherwise would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. Such classification has created a material deficiency in short-term liquidity. The Company expects to seek an additional waiver and amendment to the Existing Credit Agreement to be effective through completion of the Rights Offering. There can be no assurance that such a waiver or amendment can be obtained. In addition, the Roche Loan matures March 31, 1997. While the Company expects to seek an extension thereof through the completion of the Rights Offering, there can be no assurance such an extension can be obtained.

At December 31, 1995, the Company was a party to interest rate swap agreements with certain major financial institutions, rated A or better by Moody's Investor Service, solely to manage its interest rate exposure with respect to $600.0 million of its floating rate debt under the Term Loan Facility. The agreements effectively changed the interest rate exposure on $600.0 million of floating rate debt to a weighted average fixed interest rate of 6.01%, through requiring that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in 1995 were not significant. Amounts paid in the nine months ended September 30, 1996 were approximately $1.5 million. The notional amounts of the agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. These agreements mature in September 1998. The estimated cost at which the Company could terminate such agreements was $9.5 million at December 31, 1995. The estimated unrealized loss on such agreements was approximately $1.7 million at October 31, 1996.

In connection with the Rights Offering existing lenders under the Existing Credit Agreement will enter into the Amended Credit Agreement with the Company. The Amended Credit Agreement will make available to the Company the Amended Term Loan Facility (as hereinafter defined) of $694.0 million and the Amended Revolving Credit Facility (as defined herein) of $450.0 million. Following the Rights Offering, the Company estimates that availability under the Amended Credit Agreement will be approximately $99 million assuming only HLR and Roche exercise their Basic Subscription Privilege ($299 million if all shares of Preferred Stock are purchased in the Rights Offering). Such availability will be conditioned on certain customary conditions and the Amended Credit Agreement will contain customary representations, warranties, covenants and events of default. See "Description of New Bank Credit Agreement."

The gross proceeds of the Rights Offering will be used to (i) repay the $187 million loan from Roche Holdings made in December 1996 in order to fund the Settlement Payment, plus accrued interest of approximately $3 million thereon, (ii) pay fees and expenses of approximately $15 million related to the Rights Offering and the Amended Credit Agreement and (iii) repay up to $295 million outstanding under the Existing Credit Agreement. See "Use of Proceeds."

The Company expects that its cash needs for working capital, capital expenditures and the cash costs of the restructuring and operations of the Company after the Rights Offering will be met by its cash flow from operations and borrowings under the Amended Credit Agreement. See "Description of Amended Credit Agreement".

Changes in Accounting Standards

Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS No. 121")," was issued in 1995 and established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets held and used and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS No. 121 is effective for fiscal years beginning after December 15, 1995. The implementation of SFAS No. 121 will have no effect on the results of operations of the Company for 1996.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") effective for fiscal years beginning after December 15, 1995. SFAS No. 123 establishes the fair value based method of accounting for stock-based compensation arrangements, under which compensation cost is determined using the fair value of the stock option at the grant date and the number of options

vested, and is recognized over the periods in which the related services are rendered. If the Company were to retain its current intrinsic value based method, as allowed by SFAS No. 123, it will be required to disclose the pro forma effect of adopting the fair value based method. The Company adopted the pro forma disclosure method of accounting for stock-based compensation.

Forward Looking Statements

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

The Private Securities Litigation Reform Act of 1995 provides a new "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. The Company desires to take advantage of the new "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this section herein in order to do so. Accordingly, the Company hereby identifies the following important factors that could cause the Company's actual financial results to differ materially from those projected, forecast, estimated, or budgeted by the Company in forward-looking statements.

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

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

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

(d) The impact upon the Company's collection rates or general or administrative expenses resulting from compliance with Medicare administrative policies including specifically the HCFA's recent requirement that laboratories performing certain automated blood chemistry profiles obtain and provide documentation of the medical necessity of tests included in the profiles for each Medicare beneficiary.

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

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

(g) Adverse results in significant litigation matters.

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

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

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

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

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

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

BUSINESS

Overview

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1995 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in the diagnosis, monitoring and treatment of disease and other clinical states. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states. For the twelve months ended September 30, 1996, the Company had net sales of $1,619.9 million and EBITDA before a provision for settlements and related expenses, restructuring charges and non-recurring expenses of $168.6 million.

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

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

The Clinical Laboratory Testing Industry

Overview

Laboratory tests and procedures are used generally by hospitals, physicians, 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 1995 approximately 46 percent of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 15 percent was derived by physicians in their offices and laboratories and approximately 39 percent went to independent clinical laboratories. The HCFA has estimated that there are approximately 5,700 independent clinical laboratories in the United States.

Effect of Market Changes on the Clinical Laboratory Business

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

In addition, Medicare (which principally services patients 65 and older) and 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 and added costs and decreasing test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules in conjunction with certain budgetary bills. Any future changes to the Medicare fee schedules cannot be predicted at this time and management, therefore, cannot predict the impact, if any, such proposals, if enacted, would have on the results of operations of the Company.

The Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including primarily: an expanded base of scientific knowledge which has led to the development of more sophisticated specialized tests and increased the awareness of physicians of the value of clinical laboratory testing as a cost-effective means of prevention, early detection of disease and monitoring of treatment. Additional factors which have contributed to recent volume growth include: an increase in the number and types of tests which are, due to advances in technology and increased cost efficiencies, readily available on a more affordable basis to physicians; expanded substance-abuse testing by corporations and governmental agencies; increased testing for sexually transmitted diseases such as AIDS; and the general aging of the population in the United States. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare and other third party payors, particularly managed care organizations.

Business Strategy

During the third quarter of 1996, management began implementing

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

Low Cost Provider

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

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

Client Service

The Company competes primarily on the basis of the quality of its testing, reporting and information systems, its reputation in the medical community, the pricing of its services and its ability to employ qualified personnel. The Company believes it is a leading provider in terms of its menu and quality of testing services. As a result of the required focus on the consolidation process related to the Merger, however, the Company believes that its level of client service has been negatively impacted. Therefore, in 1997, with the consolidation process substantially completed, one of the Company's goals is to improve client service. One example is the continued integration of traditional sales and customer support functions into a new position, the Account Manager, which will have responsibility for certain sales, service and daily operational contact with physician-clients. Other important factors in improving client service include the Company's initiatives to improve its billing process. See "--Billing."

Account Profitability

Over the last several months the Company has begun an active effort to improve the profitability of new and existing business. To date this effort has focused primarily on reviewing existing contracts, including those with managed care organizations, and selectively repricing or discontinuing business with existing accounts which perform below Company expectations. The Company believes that as a result of this effort, the fourth quarter of 1996 was the second quarter since the Merger that the Company's price per accession did not decline versus the immediately preceding quarter. The Company is also targeting price increases to certain segments which have not seen price increases since the Merger. While such increases may adversely affect volumes, the Company believes that such measures along with other cost reduction programs, will improve its overall profitability. The substantial benefits of this strategic change are not expected until the latter half of 1998. Finally, the Company is reviewing its sales organization and expects to modify its commission structure so that compensation is tied more directly to the profitability of retained and new business instead of the current practice of basing commissions primarily on revenue generated. The Company is also reviewing alternatives relating to regions of the country and segments of business where profitability is not reaching internal goals and may enter into joint ventures, alliances, or asset swaps with interested parties in order to maximize regional operating efficiencies.

Focused Growth Initiatives

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

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

Another primary growth strategy for the Company is growth of

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

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

Laboratory Testing Operations and Services

The Company has 28 major laboratories, and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories. A "branch" is a central office which collects specimens in a region for shipment to one of the Company's laboratories for testing. Test results can be printed at a branch and conveniently delivered to the client. A branch also is used as a base for sales staff. A "patient service center" generally is a facility maintained by the Company to serve the physicians in a medical professional building. The patient service center collects the specimens as requested by the physician. The specimens are sent, principally through the Company's in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company's major laboratories for testing. Some of the Company's patient service centers also function as "STAT labs," which are laboratories that have the ability to perform certain routine tests quickly and report results to the physician immediately. The Company processed an average of approximately 250,000 patient specimens per day in 1996. Patient specimens are delivered to the Company accompanied by a test request form. These forms, which are completed by the client, indicate the tests to be performed and provide the necessary billing information.

Each specimen and related request form is checked for completeness and then given a unique identification number. The unique identification number assigned to each specimen helps to assure that the results are attributed to the correct patient. The test request forms are sent to a data entry terminal where a file is established for each patient and the necessary testing and billing information is entered. Once this information is entered into the computer system, the tests are performed and the results are entered primarily through computer interface or manually, depending upon the tests and the type of equipment involved. Most of the Company's computerized testing equipment is directly linked with the Company's information systems. Most routine testing is completed by early the next morning, and test results are printed and prepared for distribution by service representatives that day. Some clients have local printer capability and have reports printed out directly in their offices. Clients who request that they be called with a result are so notified in the morning. It is Company policy to notify the client immediately if a life-threatening result is found at any point during the course of the testing process.

Testing Services

Routine Testing

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

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

Specialty and Niche Testing

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures

are more specialized in nature. Certain types of testing capabilities and/or client requirements have been developed into specialty or niche businesses by the Company for marketing and management purposes. The following are specialty and niche businesses in which the Company offers testing and related services:

Allergy Testing.	The Company offers an extensive range of allergen testing services as well as computerized analysis and treatment programs that enable 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.
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.
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.
Substance Abuse Testing.	The Company provides urinalysis testing for the detection of drugs of abuse for private and government customers, and also provides blood testing services for the detection of drugs of abuse and alcohol. These testing services are designed to produce "forensic" quality test results that satisfy the rigorous requirements for admissibility as evidence in legal proceedings.
Veterinary Testing.	The Company offers clinical laboratory testing of animal specimens for veterinarians which require specialized testing procedures and handling due to their differing characteristics.

The specialized or niche testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the people, instruments and related resources for performing such procedures so that quality and efficiency can be most effectively monitored. The Company's Center for Molecular Biology 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, 1995 and the nine months ended September 30, 1996, no client or group of clients under the same contract accounted for more than two percent of the Company's net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups

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

Hospitals

The Company serves hospitals with services ranging from routine and specialty testing to contract management services. Hospitals generally maintain an on-site laboratory to perform immediately needed testing on patients receiving care. However, they also refer less time sensitive procedures, less frequently needed procedures and highly specialized procedures to outside facilities, including independent clinical laboratories

and larger medical centers. The Company typically charges hospitals for any such tests on a fee-for-service basis which is derived from the Company's customer fee schedule.

HMOs and Other Managed Care Groups

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

Other Institutions

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

Payors

Most testing services are billed to a party other than the "client" that ordered the test. In addition, tests performed by a single physician may be billed to different payors depending on the medical benefits of a particular patient. Payors other than the direct patient, include among others, insurance companies, managed care organizations, Medicare and Medicaid. Based on the year ended December 31, 1995 and the nine months ended September 30, 1996 billings to the Company's respective payors based on the total volume of accessions are as follows:

	Accession Volume as a % of Total		
	Fiscal 1995	Nine Months Ended September 30, 1996	Revenue per Accession
Private Patients	3 - 5%	3 - 5%	$65 - 75
Medicare, Medicaid and Insurance	25 - 30%	30 - 35%	$25 - 35
Commercial Clients	50 - 55%	45 - 50%	$15 - 25
Managed Care	15 - 20%	15 - 20%	$10 - 30

Hospital 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 often employed by the Company, reports to the hospital or clinic administration. Thus, the hospital or clinic ("Provider") maintains control of the laboratory. A pathologist designated by the Provider serves as medical director for the laboratory.

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

The Company's management service contracts typically have terms between three and five years. However, most contracts contain a clause that permits termination prior to the contract expiration date. The termination terms vary but they generally fall into one of the following categories: (i) termination without cause by either the Company or the contracted Provider after written notice (generally 60 to 90 days prior to termination); (ii) termination by the contracted Provider only if there are uncorrected deficiencies in the Company's performance under the contract after notice by the contracted Provider; or (iii) termination by the contracted Provider if there is a loss of accreditation held by any Company laboratory that services the contracted Provider, which accreditation is not reinstated within 30 days of the loss, or up to 30 days' notice if there is a decline in the quality of services provided under such contract which remains uncorrected after a 15-day period. While the Company believes that it will maintain and renew its existing contracts, there can be no assurance of such maintenance or renewal.

As part of its marketing efforts, and as a way to focus on a contract management client's particular needs, the Company has developed several different pricing formulas for its management services agreements. In certain cases, profitability may depend on the Company's ability to accurately

predict test volumes, patient encounters or the number of admissions in the case of an inpatient facility.

PCS

In 1996, the Company entered into an agreement with PCS to provide laboratory services as an extension of its prescription card services. PCS, a wholly-owned subsidiary of Eli Lilly and Company, is one of the leading pharmacy benefit management company in the United States with 58 million members covered by its programs and services. The arrangement with PCS is modeled after the current PCS prescription benefit plan. Patients will be provided with identification cards indicating beneficiary eligibility for both PCS prescription benefits and Company testing services.

The process begins when a test sample is collected at the physician's office or local Company service center. Eligibility verification capabilities will be available at the service center, regional laboratory and centralized billing office using the electronic network managed by PCS. The laboratory sample will be sent via the courier to the Company testing facility. After tests are completed, the results are forwarded to the physician and the billing information regarding the tests performed are sent to PCS for plan processing and claim remittance.

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

Sales and Marketing

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 September 30, 1996, the Company employed approximately 267 generalists and 81 specialists. The Company's sales generalists and specialists are compensated through a combination of salaries, commissions and bonuses, at levels commensurate with each individual's qualifications and responsibilities. Commissions are primarily based upon the individual's productivity in generating new business for the Company.

The Company also employs customer service associates ("CSAs") to interact with clients on an ongoing basis. CSA's 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 September 30, 1996, the Company employed approximately 370 CSA's. CSA's are compensated with a combination of salaries and bonuses commensurate with each individual's qualifications and responsibilities.

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

Information Systems

The Company believes that the health care provider's need for data will continue to place high demands on its information systems staff. 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. In 1995, the Company created the Corporate Information Systems Division to manage 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 hired a Chief Information Officer, whose responsibility is to integrate, manage and develop the Company's information systems.

In 1996, information systems activities have been focused on selection and consolidation of the Company's multiple laboratory and billing systems to standardized laboratory testing and billing systems. The Company has also been focused on the establishment of regional data centers to handle all of the information processing needs of the Company. The Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system which it plans to implement once problems with the collection of accounts receivable balances resulting from increased medical

necessity and diagnosis code requirements are corrected. These conversions are expected to be completed within two years. The Company does not anticipate that the conversion costs will result in a significant increase in capital expenditures over the levels spent during the last several years.

Billing

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

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

During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15 million and $10 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. In addition, the Company increased its monthly provision for doubtful accounts during the third quarter of 1996. To date, accounts receivable balances have continued to grow. Although there can be no assurance of success, the Company has recently developed a number of initiatives to address the complexity of the billing process and to improve the collection rates. These initiatives include: reorganization of departments to allow for more focus on specific issues; retention of management consultants to assess the situation and assist in re-engineering the billing process; establishment of a project group to address inaccurate and missing billing information captured when the specimen is received; addition of staff in each operating division to train field personnel in billing matters and to review and approve contracts with third-party payors to ensure that contracts can be properly billed; and training of clients related to limited coverage tests and the importance of providing diagnosis codes pertaining to such tests. Additionally, the Company believes that it can benefit from the conversion of its multiple billing systems into a centralized system which it plans to implement once the accounts receivable situation is stabilized.

Quality Assurance

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

External Proficiency/ Accreditations. The Company participates in numerous externally-administered, blind quality surveillance programs, including the CAP program. The blind programs supplement all other quality assurance procedures and give 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 the HCFA to inspect

clinical laboratories to determine CLIA standards. A laboratory's receipt of accreditation by the CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. All of the Company's major laboratories are accredited by the CAP.

Competition

The clinical laboratory business is intensely competitive. The Company believes that in 1995 the entire United States clinical laboratory testing industry had revenues exceeding $30 billion; approximately 46% of such revenues were attributable to hospital-affiliated laboratories, approximately 39% were attributable to independent clinical laboratories and approximately 15% were attributable to physicians in their offices and laboratories. As recently as 1993, there were seven laboratories that provided clinical laboratory testing services on a national basis: NHL, RBL, Quest, SmithKline, Damon Corporation, Allied and Nichols Institute. Apart from the Merger and the Allied Acquisition, Quest acquired Nichols Institute in August 1994 and Damon Corporation in August 1993. In addition, in the last several years a number of large regional laboratories have been acquired by national clinical laboratories. There are presently three national independent clinical laboratories: the Company, which had approximately $1.6 billion in revenues from clinical laboratory testing in 1996; Quest, which had approximately $1.6 billion in revenues from clinical laboratory testing in 1996; and SmithKline, which had approximately $1.3 billion in revenues from clinical laboratory testing in 1996.

In addition to the two 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 "--Business Strategy."

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

Properties

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

Location	Approximate Area (in square feet)	Nature of Occupancy
Operating Facilities:		
Birmingham, Alabama	100,000	Lease expires 2005
Phoenix, Arizona	43,000	Lease expires 2001; one 5 year renewal option
San Diego, California	54,000	Lease expires 2007
Denver, Colorado	20,000	Lease expires 2001; two 5 year renewal options
Tampa, Florida	95,000	Lease expires 2009; one 5 year renewal option
Chicago, Illinois	40,000	Lease expires 2003; two 5 year renewal options
Louisville, Kentucky	60,000	Lease expires 2002; three 5 year renewal options
Detroit, Michigan	32,000	Lease expires 2004; two 5 year renewal options
Kansas City, Missouri	78,000	Owned
Reno, Nevada	16,000	Owned
	14,000	Lease expires 1999; 2 year renewal option
Raritan, New Jersey	186,000	Owned
Uniondale, New York	108,000	Lease expires 2007; two 5 year renewal options
Burlington, North Carolina	205,000	Owned
Charlotte, North Carolina	25,000	Lease expires 1997; renewal option every 3 years
Research Triangle Park, North Carolina	74,000	Lease expires 2008, three 5 year renewal options
	111,000	Lease expires 2011; three 5 year renewal options
Winston-Salem, North Carolina	73,000	Lease expires 2009; one 5 year renewal option
Dublin, Ohio	82,000	Owned
Memphis, Tennessee	30,000	Lease expires 1999; one 5 year renewal option

Dallas, Texas	54,000	Lease expires 2004; one 5 year renewal option
Houston, Texas	32,000	Lease expires 1997
San Antonio, Texas	44,000	Lease expires 2004; one 5 year renewal option
Salt Lake City, Utah	20,000	Lease expires 2002; two 5 year renewal options
Chesapeake, Virginia	21,000	Lease expires 2002; two 5 year renewal options
Herndon, Virginia	64,000	Lease expires 2004; one 5 year renewal option
Richmond, Virginia	57,000	Lease expires 2001; one 5 year renewal option
Seattle, Washington	42,000	Lease expires 1998; two 5 year renewal options
Fairmont, West Virginia	25,000	Lease expires 2005; three 5 year renewal options
Administrative Facilities:		
Burlington, North Carolina	160,000	Owned
	188,000	Leases expire 1997-2008; various options to purchase or renew

Employees

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

Legal Proceedings

The Company is involved in various legal proceedings arising in the ordinary course of business. Some of the proceedings against the Company involve claims that are substantial in amount. Although it is not feasible to predict the outcome of such proceedings or any claims made against the Company, it does not anticipate that the ultimate liability of such proceedings or claims will have a material adverse effect on the Company's financial position or results of operations as they primarily relate to professional liability for which the Company believes it has adequate insurance coverage. The Company maintains professional liability insurance for its professional liability claims.

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 (waivered, moderate

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

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

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

The Company's laboratories have continuing programs to ensure that their operations meet all applicable regulatory requirements.

Regulation Affecting Reimbursement of Clinical Laboratory Services

Containment of health care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. In 1984, Congress established a Medicare fee schedule for clinical laboratory services performed for patients covered under Part B of the Medicare program. Subsequently, Congress imposed a national ceiling on the amount that can be paid under the fee schedule. Laboratories must accept the scheduled amount as payment in full for covered tests performed on behalf of Medicare beneficiaries and must bill the program directly. In addition, state Medicaid programs are prohibited from paying more than the Medicare fee schedule amount for clinical laboratory services furnished to Medicaid recipients. In 1995 and the first nine months of 1996, the Company derived approximately 28% and 24%, respectively, of its net sales from tests performed for beneficiaries of Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation in these programs because clients often want a single laboratory to perform all of their testing services. Since 1984, Congress has periodically reduced the ceilings on Medicare reimbursement to clinical laboratories from previously authorized levels. In 1993, pursuant to provisions in the Omnibus Budget and Reconciliation Act of 1993 ("OBRA '93"), Congress reduced, effective January 1, 1994, the Medicare national limitations from 88% of the 1984 national median to 76% of the 1984 national median, which reductions were implemented on a phased-in basis from 1994 through 1996 (to 84% in 1994, 80% in 1995 and 76% in 1996). The 1996 reduction to 76% was implemented as scheduled on January 1, 1996. OBRA '93 also eliminated the provision for annual fee schedule increases based upon the consumer price index for 1994 and 1995. These reductions were partially offset, however, by annual consumer price index fee schedule increases of 3.2% and 2.7% in 1996 and 1997, respectively. Because a significant portion of the Company's costs are relatively fixed, these Medicare reimbursement reductions have a direct adverse effect on the Company's net earnings and cash flows. The Company cannot predict if additional Medicare reductions will be implemented.

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

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

In 1996, the HCFA implemented changes in the policies used to administer Medicare payments to clinical laboratories for the most frequently performed automated blood chemistry profiles. Among other things, the changes established a consistent standard nationwide for the content of the automated chemistry profiles. Another change incorporated in the HCFA policy requires laboratories performing certain automated blood chemistry profiles to obtain and provide documentation of the medical necessity of tests included in the profiles for each Medicare beneficiary. The Company expects to incur additional costs associated with the implementation of these requirements. The amount of additional costs and potential reductions in reimbursement for

certain components of chemistry profiles and the impact on the Company's financial condition and results of operations have not yet been determined.

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

Fraud and Abuse Regulations

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

In October 1994, the OIG issued a Special Fraud Alert, which set forth a number of practices allegedly engaged in by clinical laboratories and health care providers that the OIG believes violate the anti-kickback laws. These practices include providing employees to collect patient samples at physician offices if the employees perform additional services for physicians that are typically the responsibility of the physicians' staff; selling laboratory services to renal dialysis centers at prices that are below fair market value in return for referrals of Medicare tests which are billed to Medicare at higher rates; providing free testing to a physician's HMO patients in situations where the referring physicians benefit from such lower utilization; providing free pickup and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory's testing services; providing facsimile machines or computers to physicians that are not exclusively used in connection with the laboratory services performed; and providing free testing for health care providers, their families and their employees (professional courtesy testing). The OIG stressed in the Special Fraud Alert that when one purpose of the arrangements is to induce referral of program-reimbursed laboratory testing, both the clinical laboratory and the health care provider or physician may be liable under the anti-kickback laws and may be subject to criminal prosecution and exclusion from participation in the Medicare and Medicaid programs.

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

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

Environmental and Occupational Safety

The Company is subject to licensing and regulation under Federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. All Company laboratories are subject to applicable Federal and state laws and regulations relating to biohazard disposal of all laboratory specimens and the Company utilizes outside vendors for disposal of such specimens. In addition, the Federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. Although the Company is not aware of any current material non-compliances with such Federal, state and local laws and regulations, failure to comply could subject the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions.

Drug Testing

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

Controlled Substances

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

OIG Investigations

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

1996 Government Settlement

In August 1993, RBL and Allied each received a subpoena from the OIG requesting documents and information concerning pricing and billing practices. In September 1993, NHL received a subpoena from the OIG which required NHL to provide documents to the OIG concerning its regulatory compliance procedures. Among other things, the OIG subpoena received by RBL and Allied called for the production of documents regarding 14 blood chemistry tests which were being or had been performed by certain independent clinical laboratories in conjunction with automated chemistry profiles and which were being or had been billed separately to Medicare or Medicaid. An automated chemistry profile is a grouping of which 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. Under the terms of the 1996 Government Settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale--a liability the Company later succeeded to, following the Allied Acquisition and Merger.

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

1992 NHL Government Settlement

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

medical necessity of these tests.

Pursuant to the 1992 NHL Government Settlement, NHL pleaded guilty to the charge of presenting two false claims to the Civilian Health and Medical Program of the Uniformed Services ("CHAMPUS") and paid a $1 million fine. In connection with pending and threatened civil claims, NHL also agreed to pay $100 million to the Federal Government in installments. As of December 31, 1995, all such payments due to the government under the 1992 NHL Government Settlement had been made. Concurrent with the 1992 NHL Government Settlement, NHL settled related Medicaid claims with states that account for over 99.5% of its Medicaid business and paid $10.4 million to the settling states.

1994 Allied Government Settlement

In April 1994, Allied received a subpoena from the OIG requesting documents and certain information regarding the Medicare billing practices of its Cincinnati, Ohio clinical laboratory with respect to certain cancer screening tests. In March 1995, Allied resolved the issues raised by the April 1994 subpoena and a related qui tam action commenced in Cincinnati, Ohio Federal court by entering into agreements with, among others, HHS, the United States Department of Justice and the relators in the qui tam action pursuant to which it agreed to pay $4.9 million to settle all pending claims and inquiries regarding these billing practices and certain others. NHL had previously established reserves that were adequate to cover such settlement payments. In connection with the settlement, Allied agreed with HHS, among other things, to implement a corporate integrity program to ensure that Allied and its representatives remain in compliance with applicable laws and regulations and to provide certain reports and information to HHS regarding such compliance efforts. During 1995 and 1996, Allied met all of its obligations assumed under the corporate integrity agreement.

Compliance Program

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

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

MANAGEMENT

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

Name	Age	Position
Thomas P. Mac Mahon	50	Chairman of the Board, President, Chief Executive Officer and Director
Jean-Luc Belingard	48	Director
Wendy E. Lane	45	Director
Robert E. Mittelstaedt, Jr.	53	Director
James B. Powell, M.D.	58	Director
David B. Skinner, M.D.	61	Director
Andrew G. Wallace, M.D.	61	Director
Wesley R. Elingburg	40	Executive Vice President, Chief Financial Officer and Treasurer
Larry L. Leonard	55	Executive Vice President, Southwest and West Divisions
Bradford T. Smith	43	Executive Vice President, General Counsel, Corporate Compliance Officer and Secretary
Stevan R. Stark	49	Executive Vice President, Alliances and Sales Coordination
Ronald B. Sturgill	60	Executive Vice President, Human Resources and South Atlantic Division
William M. Meilahn	56	Senior Vice President, Chief Information Officer

Thomas P. Mac Mahon has been President and Chief Executive Officer since January 1997 and has been Chairman and a Director of the Company since April 1996. Prior to April 1996 and since the Merger, Mr. Mac Mahon served as Vice Chairman and Director. Mr. Mac Mahon was Senior Vice President of Roche from

1993 to January 1997 and President of Roche Diagnostics Group and a Director and member of the Executive Committee of Roche from 1988 to January 1997. Mr. Mac Mahon was also a Director of HLR until January 1997. As Senior Vice President of Roche and President of Roche Diagnostics Group, Mr. Mac Mahon was responsible for the management of all United States operations of the diagnostic business of Roche. Mr. Mac Mahon is a member of the management committee of the Company.

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

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

Robert E. Mittelstaedt, Jr. has been a Director of the Company since November 1996. Mr. Mittelstaedt is Vice Dean of The Wharton School of the University of Pennsylvania, Director of the Aresty Institute of Executive Education. Mr. Mittelstaedt has held these and other positions with the Wharton school since 1973, with the exception of the period from 1985 to 1989 when he founded, served as President and Chief Executive Officer, and sold Intellego, Inc., a company engaged in practice management, systems development and service bureau billing operations in the medical industry. Mr. Mittelstaedt is also a director of A.G. Simpson Automotive Systems, Inc. and IS&S Inc.

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

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

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

Wesley R. Elingburg has served as Executive Vice President, Chief Financial Officer and Treasurer since October 24, 1996. Previously, Mr. Elingburg has served as Senior Vice President, Finance following the Merger. Prior to that time, Mr. Elingburg served as Senior Vice President-Finance and Treasurer of RBL from 1988 through April 1995 and Assistant Vice President of Roche from 1989 until the Merger in April 1995. Mr. Elingburg is a member of the management committee of the Company.

Larry L. Leonard has served as Executive Vice President of the Company since 1993. He joined the Company in 1978. Dr. Leonard, who holds a Ph.D degree in microbiology, was named Senior Vice President of the Company in 1991 and previously was Vice President-Division Manager. Dr. Leonard oversees major regional laboratories in Arizona, Texas, Colorado, California, Nevada, Washington and Utah. Dr. Leonard is a member of the management committee of the Company.

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

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

Ronald B. Sturgill has served as Executive Vice President, Human Resources of the South Atlantic Division since October 1996. Mr. Sturgill oversees human resources and major regional laboratories in North and South Carolina. Prior to October 1996, Mr. Sturgill served as Senior Vice

President, South Atlantic Division. Mr. Sturgill served as Senior Vice President, Administration of RBL from 1987 until the Merger where his duties included the supervision of Information Systems, Human Resources, Sales Support and Training. Mr. Sturgill is a member of the management committee of the Company.

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

OWNERSHIP OF CAPITAL STOCK

The following table sets forth as of February 14, 1997, the total number of shares of Common Stock beneficially owned, and the percent so owned, by (i) each director of the Company who is a beneficial owner of any shares of Common Stock, (ii) each person known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, (iii) certain executive officers and (iv) all directors and officers as a group. The number of shares owned are those "beneficially owned," as determined under the rules of the Commission, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and any shares of common stock which the person has the right to acquire within 60 days through the exercise of any option, warrant or right, through conversion of any security, or pursuant to the automatic termination of power of attorney or revocation of trust, discretionary account or similar arrangement.

Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding
Roche Holdings, Inc. 15 East North Street Dover, DE 19901	61,329,256(1)	49.9%
Ronald O. Perelman. 35 East 62nd Street New York, NY 10021	14,527,244(2)	11.8%
Thomas P. Mac Mahon	3,996	*
James B. Powell, M.D.	66,667(3)	*
Jean-Luc Belingard	3,996	*
David B. Skinner, M.D.	3,996	*
Andrew G. Wallace, M.D.	3,996	*
Timothy J. Brodnik	--(3)	*
Haywood D. Cochrane, Jr.	107,738(3)	*
James R. Maher	205,374	*
John F. Markus	27,649(3)	*
Robert E. Whalen	--	*
David C. Flaugh	--	*
All current directors and executive officers as a group (13 persons)	206,365(3)	*

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* Less than 1%

(1) As reported on the Schedule 13D filed with the Commission on May 8, 1995, on behalf of Roche Holdings, 49,008,538 of these shares are directly held by HLR, and 12,320,718 of these shares are directly held by Roche Holdings. Both HLR and Roche Holdings are indirect wholly owned subsidiaries of Roche. Dr. H.C. Paul Sacher, an individual and citizen of Switzerland has, pursuant to an agreement, the power to vote a majority of the voting shares of Roche Holdings.

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

(3) Beneficial ownership by officers and directors of the Company includes shares of Common Stock which such officers and directors have the right to acquire upon the exercise of options which either are vested or which may vest within 60 days. The number of shares of Common Stock included in the table as beneficially owned which are subject to such options is as follows: Dr. Powell -- 66,667; all directors and executive officers as a group (not including Messrs. Brodnik, Cochrane, Flaugh, Markus and Whalen who are no longer employed by the Company) -- 182,732.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Stockholder Agreement

In connection with the Merger, the Company, HLR, Roche Holdings and Roche entered into a stockholder agreement dated as of April 28, 1995 (the "Stockholder Agreement"). The Stockholder Agreement contains certain provisions relating to (i) the governance of the Company following the Merger, including but not limited to the composition of the Board of Directors, (ii)

the issuance, sale and transfer of the Company's Equity Securities (as defined therein) by the Company and Roche, (iii) the acquisition of additional Equity Securities and (iv) the registration rights granted by the Company to HLR, Roche Holdings and Roche with respect to the Company's Equity Securities. A copy of the Stockholder Agreement was included as an exhibit to the current report on Form 8-K of the Company filed with the Commission on May 12, 1995 in connection with the consummation of the Merger.

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

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

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

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

The Sharing and Call Option Agreement

In connection with the Merger Agreement, HLR, Mafco, NHCG, and the Company entered into the Sharing and Call Option Agreement. The Sharing and Call Option Agreement provides, among other things, that at any time after the third anniversary of the Merger, HLR or one of its affiliates (other than the Company) may exercise the right, which right may only be exercised once, to purchase all, but not less than all, of the shares of Common Stock then owned by NHCG, Mafco or any of their controlled affiliates. The Sharing and Call Option Agreement provides that HLR or one of its affiliates will, if it elects to exercise this purchase right, pay a price per share for the shares to be purchased equal to 102% of the average closing price per share of such security for the 30 trading days before the date of such exercise.

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

Registration Rights Agreement

In addition to those registration rights granted to NHCG under the Sharing and Call Option Agreement, the Company and NHCG also are parties to a registration rights agreement dated as of April 30, 1991 (the "Registration Rights Agreement") pursuant to which the Company is obligated, upon the request of NHCG, to file registration statements ("Demand Registration Statements") from time to time with the Commission covering the sale of any shares of Common Stock owned by NHCG upon the completion of certain public offerings by the Company of shares of Common Stock in 1991. Such Demand Registration Statements may also cover the resale from time to time of any shares of Common Stock that NHCG may purchase in the open market at a time when it is deemed to be an affiliate (as such term is defined under Rule 144 under the Securities Act of 1933, as amended), and certain securities issued in connection with a combination of shares, recapitalization, reclassification, merger or consolidation, or other pro rata distribution. NHCG will also have the right to include such Common Stock and other securities in any registration statement filed by the Company for the underwritten public offering of shares of Common Stock (whether or not for the Company's account), subject to certain reductions in the amount of such Common Stock and securities if the managing underwriters of such offering determine that the inclusion thereof would materially interfere with the offering. The Company agreed not to effect any public or private sale, distribution or purchase of any of its securities which are the same as or similar to the

securities covered by any Demand Registration Statement during the 15-day period prior to, and during the 45-day period beginning on, the closing date of each underwritten offering under such registration statement and NHCG agreed to a similar restriction with respect to underwritten offerings by the Company. NHCG's rights under the Registration Rights Agreement are transferable as provided therein.

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

Tax Allocation Arrangement

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

Other Transactions with Roche

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

The Company has certain on-going arrangements with Roche for the purchase by the Company of certain products and the licensing by the Company from Roche of certain diagnostics technologies, with an aggregate value of approximately $9.1 million and $18.7 million in 1995 and 1996, respectively. The Company provides certain diagnostic testing and support services to Roche in connection with Roche's clinical pharmaceutical trials, with an aggregate value of approximately $2.3 million and $2.4 million in 1995 and 1996, respectively. In addition, in connection with the Merger, the Company and Roche entered into a transition services agreement for the provision by Roche to the Company of certain payroll and other corporate services for a limited transition period following the Merger. These services were charged to the Company based on the time involved and the Roche personnel providing the service. The Company paid Roche a total of approximately $215,000 and $267,000 in 1995 and 1996, respectively, for these services. Each of these arrangements was entered into in the ordinary course of business, on an arm's length basis and on terms which the Company believes are no less favorable to it than those obtainable from unaffiliated third parties.

Pursuant to the Merger Agreement, an aggregate of 61,329,256 shares of Common Stock were issued to HLR and its designee, Roche Holdings in exchange for all shares of common stock, no par value, of RBL outstanding immediately prior to the effective date of the Merger (other than treasury shares, which were canceled) and a cash contribution of $135.7 million. The issuance of such shares of Common Stock constituted approximately 49.9% of the total outstanding shares of Common Stock outstanding immediately after the Merger.

In addition, pursuant to the Merger Agreement on April 28, 1995 the Company issued to Roche, for a purchase price of approximately $51.0 million, warrants to purchase 8,325,000 shares of Common Stock.

HLR and Roche Holdings have indicated that they intend to exercise their Basic Subscription Privilege in the Rights Offering in full for approximately $250 million of Series B PIK Preferred Stock. HLR and Roche Holdings have not currently indicated whether or not they will exercise their Oversubscription Privilege.

DESCRIPTION OF THE AMENDED CREDIT AGREEMENT

In connection with the Rights Offering existing lenders under

the Existing Credit Agreement will enter into the Amended Credit Agreement with the Company. A copy of the form of the Amended Credit Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The following summaries of certain provisions of the Amended Credit Agreement do not purport to be complete and where reference is made to particular provisions of the Amended Credit Agreement such provisions, including definitions of certain terms are incorporated by reference as a part of such summaries or terms, which are qualified in their entirety by such reference.

The Amended Credit Agreement will make available to the Company a term loan facility of $693.8 million (the "Amended Term Loan Facility") and a $450.0 million revolving credit facility (the "Amended Revolving Credit Facility"). Following the Rights Offering, assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege, the Company estimates that availability under the Amended Credit Agreement will be approximately $99 million ($299 million if all shares of Preferred Stock are purchased in the Rights Offering). Such availability will be conditioned on certain customary conditions contained in the Amended Credit Agreement.

Facilities and Maturity Dates

As in the Existing Credit Agreement, the senior unsecured credit facilities under the Amended Credit Agreement will be composed of the Amended Term Loan Facility and the Amended Revolving Credit Facility. The Amended Revolving Credit Facility will include a $50,000,000 letter of credit sublimit. The Amended Credit Agreement maturity dates will be extended approximately three years for the Amended Term Loan Facility to March 31, 2004 and approximately four years for the Amended Revolving Credit Facility to March 31, 2004.

Interest Margins and Facility Fee

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

Amendment Fees

The Company will pay each lender an amendment fee based on its commitment.

Letter of Credit Issuers, Fronting Fee and Letter of Credit Fee

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

Term Facility Amortization

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

Year	Amount
	(in millions)
1997	$0
1998	$0
1999	$50
2000	$100
2001	$150
2002	$150
2003	$150
3/31/2004	$93.75

Mandatory and Optional Prepayments and Commitment Reductions

As in the Existing Credit Agreement, the amounts available under the Amended Revolving Credit Facility will be subject to certain mandatory permanent reduction and prepayment requirements and the Amended Term Loan Facility will be subject to specified mandatory prepayment requirements. In the Amended Credit Agreement, required amounts will first be applied to repay scheduled Amended Term Loan Facility payments until the Amended Term Loan Facility is repaid in full and then to reduce the commitments and advances under the Amended Revolving Credit Facility. Required payments and reductions will include (i) the proceeds of debt issuances, subject to certain exceptions; (ii) the proceeds of certain asset sales, unless reinvested within

one year of the applicable asset sale in productive assets of a kind then used or usable in the business of the Company and its subsidiaries; (iii) the proceeds of sales of accounts receivable, subject to certain exceptions; (iv) the proceeds of sales of equity securities in excess of certain amounts; and (v) under certain circumstances, a percentage of excess cash flow, as calculated annually.

Representations and Warranties

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

Conditions Precedent

Conditions precedent to closing under the Amended Credit Agreement will include, without limitation, execution of loan documentation satisfactory to the lenders, receipt of appropriate certificates and legal opinions, accuracy in all material respects of representations and warranties, absence of defaults and material litigation, evidence of authority, receipt of 1996 audited financial statements, absence of material adverse change in the Company and its subsidiaries (taken as a whole) since December 31, 1996, satisfactory review of the 1996 Government Settlement, satisfactory due diligence by the Administrative Agent and payment of transaction fees.

Covenants

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

Financial Covenants

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

Events of Default

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

DESCRIPTION OF RIGHTS OFFERING

The Rights

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

No fractional Rights or cash in lieu thereof will be issued or paid. Instead, the number of Rights issued to a Recordholder will be rounded up to the nearest whole number. A depositary, bank, trust company or securities broker or dealer holding shares of Common Stock on the Record Date for more than one beneficial owner may, upon delivery to American Stock Transfer & Trust Company (the "Subscription and Information Agent") of the Certification and Request for Additional Rights form available from the Company or the Subscription and Information Agent, exchange its Rights Certificate to obtain a new Rights Certificate for the number of Rights to which all beneficial owners in the aggregate would have been entitled had each been a holder on the Record Date. No other Rights Certificate may be so divided as to increase the number of Rights to which the original recipient was entitled. The Company reserves the right to refuse to issue any Rights Certificate if such issuance would be inconsistent with the principle that each beneficial owner's holdings will be rounded up to the nearest whole number of Rights. The Subscription and Information Agent must receive the Certification and Request for Additional Rights no later than 5:00 p.m., New York time, on , 1997 after which time no new Rights Certificates will be issued.

Because the number of Rights issued to each Recordholder will be rounded up to the nearest whole number, beneficial owners of Common Stock who are also Recordholders of their shares will receive more Rights under certain circumstances than beneficial owners of Common Stock who are not Recordholders of their shares and who do not obtain (or cause the Recordholders of their shares of Common Stock to obtain) a separate Rights Certificate with respect to the shares beneficially owned by them, including shares held in an investment advisory or similar account. To the extent that Recordholders or beneficial owners of Common Stock who obtain a separate Rights Certificate receive more Rights, they will be able to subscribe for more shares pursuant to the Basic Subscription Privilege. Beneficial owners of Common Stock who are not Recordholders may obtain a separate Rights Certificate upon request to the nominee Recordholder. See "Method of Subscription--Exercise of Rights."

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

Expiration Date

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

Subscription Privileges

Basic Subscription Privilege. Each Right will entitle the holder thereof to purchase at the Subscription Price one Underlying Share. Upon exercise of Rights, Rights Holders must indicate on their Rights Certificate whether they wish to receive either shares of Series A Exchangeable Preferred Stock or shares of Series B PIK Preferred Stock. A failure to so indicate on the Rights Certificate will result in issuance of Series A Exchangeable Preferred Stock. Each Rights Holder is entitled to subscribe for all, or any portion of, the Underlying Shares which may be acquired through the exercise of Rights held by it; provided, that all of the portion of Underlying Shares purchased must be either Series A Exchangeable Preferred Stock or Series B PIK Preferred Stock. Payment of the Subscription Price will be held in an escrow account to be maintained by the Subscription and Information Agent and will be applied to the purchase of Preferred Stock. The certificates representing Underlying Shares purchased pursuant to the Basic Subscription Privilege will be delivered to subscribers as soon as practicable after the Expiration Date.

Oversubscription Privilege. Subject to availability and proration, Rights Holders who fully exercise the Basic Subscription Privilege and who certify as such will be eligible to subscribe, at the Subscription Price, for additional shares of the same series of Preferred Stock purchased pursuant to such Rights Holder's Basic Subscription Privilege available after satisfaction of all subscriptions pursuant to the Basic Subscription Privilege. This Oversubscription Privilege must be exercised at the same time as the Basic Subscription Privilege is exercised. Failure of a Rights Holder to certify that such Rights Holder is exercising its Basic Subscription Privilege in full may result in forfeiture of such Rights Holder's Oversubscription Privilege.

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

To exercise the Oversubscription Privilege, banks, brokers and other nominee Rights Holders who exercise the Oversubscription Privilege on behalf of beneficial owners of Rights will be required to certify to the Subscription and Information Agent and the Company the aggregate number of Rights as to which the Oversubscription Privilege has been exercised and the number and series of Excess Shares thereby subscribed for by each beneficial owner of Rights on whose behalf such nominee is acting.

Subscription Price

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

No Board or Financial Advisor Recommendation

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

Method of Subscription -- Exercise of Rights

Rights Holders may exercise their Rights by delivering to the Subscription and Information Agent, at the addresses specified below, at or prior to the Expiration Date, the properly completed and executed Rights Certificate(s) evidencing those Rights, with any signatures guaranteed as required, together with payment in full of the Subscription Price for each Underlying Share subscribed for pursuant to the Basic Subscription Privilege and the Oversubscription Privilege. Payment may be made only (i) by check or bank draft drawn upon a U.S. bank, or postal, telegraphic or express money order, payable to the Subscription and Information Agent; or (ii) by wire transfer of funds to the escrow account maintained by the Subscription and Information Agent for the purpose of accepting subscriptions (the "Subscription Account"). Requests for information by Rights Holders, including with respect to payment by wire transfer to the Subscription Account, should be directed to the Subscription and Information Agent at (800) 937-5449 or (212) 936-5100. The Subscription Price will be deemed to have been received by the Subscription and Information Agent only upon (i) clearance of any uncertified check; (ii) receipt by the Subscription and Information Agent of any certified check or bank draft drawn upon a U.S. bank or any postal, telegraphic or express money order; or (iii) receipt of collected funds in the Subscription Account. Funds paid by uncertified personal check may take up to five business days to clear. Accordingly, Rights Holders who wish to pay the Subscription Price by means of an uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such time and are urged to consider, in the alternative, payment by means of certified check, bank draft, money order or wire transfer. All funds received in payment of the Subscription Price shall be held by the Subscription and Information Agent and invested at the direction of the Company in short-term certificates of deposit, short-term obligations of the United States or any state or any agency thereof or money market mutual funds investing in the foregoing instruments. The account in which such funds will be held will not be insured by the FDIC. Any interest earned on such funds will be retained by the Company.

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

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

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

(2) BY FACSIMILE:
FOR NOTICE OF GUARANTEED DELIVERY ONLY

(718) 921-8355

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

The Company will pay the costs of the fees and expenses of the Subscription and Information Agent and has also agreed to indemnify the Subscription and Information Agent from certain liabilities which it may incur in connection with the Rights Offering. Except for fees absorbed by the Company, and transfer taxes, if any, which shall be paid by the Company, all commissions, fees and other expenses (including brokerage commissions) incurred in connection with the exercise of Rights will be for the account of the Rights Holder, and none of such commissions, fees or expenses will be paid by the Company.

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

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

(ii) the Subscription and Information Agent receives, at or prior to the Expiration Date, a guarantee notice (a "Notice of Guaranteed Delivery"), guaranteed by a member firm of an approved Signature Guarantee Medallion Program, giving the name of the exercising Rights Holder, the number of Underlying Shares being subscribed for pursuant to

the Basic Subscription Privilege and, if any, pursuant to the Oversubscription Privilege and guaranteeing the delivery to the Subscription and Information Agent of the Rights Certificate(s) evidencing those Rights within two (2) business days following the date of the Notice of Guaranteed Delivery; and

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

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

Funds received in payment of the Subscription Price for Excess Shares subscribed for pursuant to the Oversubscription Privilege will be held by the Subscription and Information Agent in the Subscription Account and segregated from its other accounts pending issuance of the Excess Shares. If a Rights Holder exercising the Oversubscription Privilege is allocated less than all of the Excess Shares for which that Rights Holder subscribed pursuant to the Oversubscription Privilege, then the excess funds paid by the Rights Holder as the Subscription Price for shares not allocated to such Rights Holder shall be returned by mail as soon as practicable after the Expiration Date and after all prorations and reductions contemplated by the terms of the Rights Offering have been effected.

Certificates representing shares of Preferred Stock subscribed for and issued pursuant to the Rights will be mailed as soon as practicable after the Expiration Date and after all prorations contemplated by the terms of the Rights Offering have been effected. Certificates for shares of Preferred Stock issued pursuant to the exercise of Rights will be registered in the name of the Rights Holder exercising such Rights. There can be no assurance that the value of the Preferred Stock will not decline below the Subscription Price before such shares of Preferred Stock are delivered.

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

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

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

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

Certain directors and officers of the Company will assist the Company in the Rights Offering by, among other things, participating in

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

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

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

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
(800) 937-5449
(212) 936-5100

Partial Exercise Procedures

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

Except for the fees charged by the Subscription and Information Agent (which will be paid by the Company as described above), all commissions, fees and other expenses (including brokerage commissions and transfer terms) incurred in connection with the exercise of Rights will be for the account of the transferor of the Rights, and none of such commissions, fees or expenses will be paid by the Company or the Subscription and Information Agent.

Foreign and Certain Other Stockholders

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

Subscription by Principal Stockholder

HLR and Roche Holdings have indicated that they intend to exercise their Basic Subscription Privilege in the Rights Offering in full for approximately $250 million in Series B PIK Preferred Stock. HLR and Roche Holdings have not indicated whether they intend to exercise their Oversubscription Privilege.

No Revocation

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

Dilution

Rights Holders may experience dilution of their percentage of equity ownership interest and voting power in the Company if and when all of the shares of Preferred Stock are converted into shares of Common Stock in

accordance with their terms if they do not exercise the Basic Subscription Privilege. Even if the Rights Holders exercise their Basic Subscription Privilege in full, they may nevertheless still experience dilution in their voting rights and in their proportional interest in any future net earnings of the Company if other holders of Rights exercise the Oversubscription Privilege and such Rights Holders elect not to exercise the Oversubscription Privilege, if and when all of the shares of Preferred Stock are converted into shares of Common Stock in accordance with their terms. In addition, Rights Holders who exercise Rights for Series A Exchangeable Preferred Stock will experience dilution as dividends on the Series B PIK Preferred Stock are paid in shares of Series B PIK Preferred Stock until , 2000.

Termination of the Rights Offering

The Company expressly reserves the right, in its sole discretion, at any time prior to delivery of the shares of Preferred Stock offered hereby, to terminate the Rights Offering if the Rights Offering is prohibited by law or regulation or the Board of Directors concludes that it is not in the best interests of the Company, and its stockholders, to complete the Rights Offering. If the Rights Offering is terminated, all funds received pursuant to the Rights Offering will be promptly refunded, without interest.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 220,000,000 shares of Common Stock, par value $.01 per share, and 10,000,000 shares of preferred stock, par value $0.10 per share. As of February 14, 1997, 122,935,081 shares of Common Stock were issued and outstanding. Prior to the Rights Offering, no shares of preferred stock were issued and outstanding.

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

Common Stock

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

Warrant Agreement

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

Preferred Stock

The Board of Directors is authorized to issue up to an aggregate of 10,000,000 shares of Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors

providing for the issuance of such class or series and as may be permitted by the Delaware General Corporate Law ("DGCL"), including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Company; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Company at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions. See "Description of Preferred Stock" for a description of the Preferred Stock being offered hereby.

Transfer Agent and Registrar

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

DESCRIPTION OF PREFERRED STOCK

General

The Preferred Stock consists of the Series A Exchangeable Preferred Stock and the Series B PIK Preferred Stock, each of which has been authorized as a new series of preferred stock, which in the aggregate will consist of 10,000,000 shares (plus up to 2,875,000 shares of Series B PIK Preferred Stock to be issued in the form of dividends). The Company's Certificate of Incorporation authorizes the Company to issue without any action on the part of its stockholders, an aggregate of 10,000,000 shares of Preferred Stock, par value $0.10 per share. When issued in accordance with the terms of the Rights Offering, the Preferred Stock will be fully paid and nonassessable. The holders of the Preferred Stock will have no preemptive rights with respect to any shares of capital stock of the Company or any other securities of the Company convertible into, or carrying rights or options to purchase, any such shares. The Preferred Stock will not be subject to any sinking fund. Unless converted, exchanged or redeemed by the Company prior to , 2012, on such date all of the Preferred Stock shall be redeemed by the Company at the redemption price set forth herein. The following summary description of the terms of the Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designation, Rights and Preferences for the Series A Exchangeable Preferred Stock (the "Series A Certificate of Designation") and the Certificate of Designation, Rights and Preferences for the Series B PIK Preferred Stock (the "Series B Certificate of Designation" and together with the Series A Certificate of Designation, the "Certificates of Designation"), copies of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. Upon request, the transfer agent for the Preferred Stock will furnish holders a copy of the applicable Certificate of Designation. The Company has applied to list the Preferred Stock on the NYSE.

Dividends and Ranking

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

Dividends on Series B PIK Preferred Stock. Holders of shares of Series B PIK Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company out of funds legally available for payment, dividends at an annual rate of % of the Liquidation Preference (as defined) of the Preferred Stock, or $ per share of Series B PIK Preferred Stock, payable in shares of Series B PIK Preferred Stock until , 2000 and thereafter in cash, payable quarterly in arrears on , , and of each year, commencing , 1997 (with respect to the period from the date of issuance of such Shares of Preferred Stock to such date), except that if any such date is a Saturday, Sunday or legal holiday then such dividend will be payable on the next day that is not a Saturday, Sunday or legal holiday. Dividends will accrue and be cumulative from such date of issuance and will be payable to holders of record as they appear on the stock transfer books on such record dates as are fixed by the Board of Directors (provided that no record date shall be later than (a) the sixth business day prior to the date fixed for any redemption of the Preferred Stock or, (b) in the case of the dividend payment date occurring on , the tenth business day prior to such date). No fractional shares of Series B PIK Preferred Stock will be issued, so that the number of shares to be paid as a dividend pursuant to the Series B PIK Preferred Stock shall be rounded to the nearest whole number of shares. All dividends paid in additional shares of Series B PIK Preferred Stock shall be deemed issued on the applicable dividend payment date, and will

thereupon be duly authorized, validly issued, fully paid and nonassessable and free and clear of all liens and charges.

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

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

Under Delaware law, the Company may declare and pay dividends on its capital stock only out of surplus, as defined in the Delaware General Corporation Law (the "DGCL") or, if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Surplus under the DGCL is generally defined to mean the excess, at any given time, of the net assets of a corporation over the amount of the corporation's capital. No dividends or distributions may be declared, paid or made if the Company is or would be rendered insolvent by virtue of such dividend or distribution, or if such declaration, payment or distribution would contravene the certificate of incorporation of the corporation. The Company is also subject to restrictions on dividend payments (including dividend payments on the Preferred Stock) pursuant to the terms of the Amended Credit Agreement. See "Dividend Policy".

Liquidation Rights

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

Voting Rights

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

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

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

Redemption

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

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

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

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

Conversion Rights

The holder of any shares of Preferred Stock will have the right at any time on or after , 1997 in the case of the Series A Exchangeable Preferred Stock and on or after , 2000 in the case of the Series B PIK Preferred Stock, at the holder's option, to convert any or all shares into Common Stock at any time at the conversion rate (subject to adjustment as described below) of shares for each share of Preferred Stock, equivalent to an initial conversion price of $ for each share of Common Stock. If the Preferred Stock is called for redemption, the conversion right will terminate at 5:00 p.m. New York City time on the business day prior to the date fixed for such redemption and if not exercised prior to such time,

such conversion right will be lost, unless the Company defaults in making the payment due upon redemption, except that, with respect to any redemption occurring on or one business day thereafter, the conversion rights will terminate at 5:00 p.m. New York City time on the date fixed for redemption such that all holders of shares of Preferred Stock to be redeemed will be entitled to receive the dividend payment (assuming such holders held such shares on the corresponding record date). Except as provided in the next paragraph, no payment or adjustment will be made upon any conversion of any share of Preferred Stock or on account of any dividends on the Common Stock issued upon conversion (except that if a converting holder of Preferred Stock is eligible for a dividend on both the Preferred Stock and the Common Stock issued upon conversion, the holder is entitled to the higher of such dividend amounts). Following conversion, the holder will no longer have any right to payment of dividends on the shares surrendered for conversion. No fractional shares of Common Stock will be issued upon conversion but, in lieu thereof, an appropriate amount will be paid in cash based on the reported last sale price for the shares of Common Stock on the NYSE on the day of such conversion.

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

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

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

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

In the event that the Company is a party to any transaction (including, without limitation, a merger, consolidation, sale of all or substantially all of the Company's assets, recapitalization or reclassification of the Common Stock (each of the foregoing being referred to as a "Company Transaction")), in each case (except in the case of a Common Stock Fundamental Change (as defined)) as a result of which shares of Common Stock shall be converted into the right to receive securities, cash or other property, each share of the Preferred Stock shall thereafter be convertible into the kind and amount of securities, cash and other property receivable upon the consummation of such Company Transaction by a holder of that number of shares of Common Stock into which one share of the Preferred Stock was convertible immediately prior to such Company Transaction (or in the case of a Common Stock Fundamental Change, common stock of the kind received by the holders of Common Stock as a result of such Common Stock Fundamental Change) (but after giving effect to any adjustment discussed in the next paragraph relating to a Fundamental Change (as defined) if such Company Transaction constitutes a Fundamental Change, and subject to funds being legally available

for such purpose under applicable law at the time of such conversion).

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

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

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

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

The foregoing conversion price adjustments in the event of a Common Stock Fundamental Change will apply in situations whereby more than 50% of the value received by holders of Common Stock consists of common stock of another company that has been admitted for listing on a national securities exchange or quoted on the Nasdaq National Market, in which case the Preferred Stock will become convertible into shares of common stock of the other company. If consideration for the Common Stock consists partly of common stock of another company and partly of other securities, cash or property, each share of Preferred Stock will be convertible solely into a number of shares of such common stock determined so that the initial value of such shares (measured as described in the definition of Purchaser Stock Price below) equals the value of the shares of Common Stock into which such share of Preferred Stock Price below) equals the value of the shares of Common Stock into which such share of Preferred Stock was convertible immediately before the Transaction (measured as described in the definition of Applicable Price below). If consideration for Common Stock is solely common stock of another company, each share of Preferred Stock will be convertible into the same number of shares of such common stock receivable by a holder of the number of shares of Common Stock into which such share of Preferred Stock was convertible immediately before such transaction.

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

Stock immediately prior to such Common Stock Fundamental Change.

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

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

The term "Common Stock Fundamental Change" means any Fundamental Change in which more than 50% of the value (as determined in good faith by the Board of Directors of the Company) of the consideration received by holders of Common Stock consists of common stock that for each of the ten consecutive trading days referred to in the second preceding paragraph has been admitted for listing or admitted for listing subject to notice of issuance on a national securities exchange or quoted on the Nasdaq National Market, provided, however, that a Fundamental Change shall not be a Common Stock Fundamental Change unless either (i) the Company continues to exist after the occurrence of such Fundamental Change and the outstanding shares of Preferred Stock continue to exist as outstanding Preferred Stock, or (ii) not later than the occurrence of such Fundamental Change, the outstanding shares of Preferred Stock are converted into or exchanged for shares of Preferred Stock of a corporation succeeding to the business of the Company, which Preferred Stock has powers, preferences and relative, participating, optional or other rights, and qualifications, limitations and restrictions, substantially similar to those of the Preferred Stock.

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

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

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

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

Notwithstanding the foregoing provisions, the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in shares of Common Stock under any such plan, and the issuance of any shares of Common Stock or options or rights to purchase such shares pursuant to any employee benefit plan or program of the Company or pursuant to any option, warrant, right or exercisable, exchangeable

or convertible security outstanding as of the date the Preferred Stock was first designated shall not be deemed to constitute an issuance of Common Stock or exercisable, exchangeable or convertible securities by the Company to which any of the adjustment provisions described above applies. There shall also be no adjustment of the conversion price in case of the issuance of any stock (or securities convertible into or exchangeable for stock) of the Company, except as specifically described above. If any action would require adjustment of the conversion price pursuant to more than one of the provisions described above, only one adjustment shall be made and such adjustment shall be the amount of adjustment which has the highest absolute value to holders of the Preferred Stock. No adjustment in the conversion price will be required unless such adjustment would require an increase or decrease of at least 1% of the conversion price, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

Exchange Provisions

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

Lack of Established Market for the Preferred Stock

There is currently no public market for the Preferred Stock. Although an application has been made for the listing of the Preferred Stock on the NYSE, there can be no assurance that an active market for the Preferred Stock will develop or that, if the Preferred Stock is approved for such listing, such listing will continue while the Preferred Stock is outstanding. Future trading prices for the Preferred Stock will depend on many factors, including, among others, the Company's financial results, the market for similar securities and the volume of trading activity in the Preferred Stock.

Transfer Agent

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

DESCRIPTION OF THE NOTES

If the Company elects to issue Notes in exchange for the Series A Exchangeable Preferred Stock, the Company will issue the Notes under an Indenture (the "Indenture") between the Company and , as trustee (the "Trustee") at a rate of $50 principal amount of Notes for each share of Series A Exchangeable Preferred Stock exchanged. The Indenture will be substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus is a part, with such changes as may be required by law or usage. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture including the definition therein of certain terms and the Trust Indenture Act of 1939, as amended.

General

The Notes will be unsecured, subordinated obligations of the Company, will be limited in aggregate principal amount to the aggregate liquidation preference of the Series A Exchangeable Preferred Stock for which the Notes are exchanged and will mature on , 2012. The Company will pay interest on the Notes quarterly in cash on , , and of each year, at the rate of % per annum. Interest on the Notes will be paid to the persons who are registered holders at the close of business on the , , and next preceding the interest payment dates. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal (and premium, if any) and

interest will be payable, and the Notes may be presented for conversion, exchange or registration of transfer, at the office or agency of the Company maintained for such purposes in New York, New York or at such other office or agency as may be maintained by the Company for such purpose, except that payment of interest may, at the option of the Company, be made by check mailed to the address of the person entitled thereto as it appears on the security register. The Notes are to be issued only in registered form, without coupons, in denominations of $50 or any integral multiple thereof.

Conversion Rights

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

Subordination

Payment of the principal of (and premium, if any) and interest on the Notes will be subordinated in the right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness when due in accordance with the terms thereof. Senior Indebtedness will be defined in the Indenture as the principal of (and premium, if any) and unpaid interest on, and all other sums, whether direct or contingent including, without limitation, costs and expenses of collection and enforcement (including the reasonable fees and expenses of legal counsel engaged for such purpose) payable by the Company relating to, the following (whether outstanding at the date of the Indenture or thereafter incurred or created): (a) indebtedness for money borrowed (including purchase money obligations) evidenced by notes or other written obligations including, without limitation, letters of credit and bankers acceptances, (b) indebtedness evidenced by notes, bonds or other securities issued under the provisions of an indenture or similar instrument, (c) obligations as lessee under capitalized leases and under leases of property made as part of any sale and leaseback transactions, (d) indebtedness of others of any of the kinds described in the preceding clauses (a) through (c) assumed or guaranteed and (e) renewals, extensions and refunding of indebtedness and obligations of the kinds described in the preceding clauses (a) through (d); provided, however, that the following will not constitute Senior Indebtedness: (i) any indebtedness or obligation as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is expressly provided that such indebtedness or obligation is subordinate in right of payment to all other indebtedness, (ii) any indebtedness or obligation which by its terms refers explicitly to the Notes and states that such indebtedness or obligation shall not be senior in right of payment thereto, (iii) any indebtedness or obligation in respect of the Notes and (iv) any indebtedness or obligation to a subsidiary.

Following the Rights Offering, assuming only HLR and Roche Holdings exercise their Basic Subscription Privilege for approximately $250 million of Series B PIK Preferred Stock, $1,083.1 million of Senior Indebtedness will be outstanding. There will be no restrictions on the creation of Senior Indebtedness in the Indenture.

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

Redemption at Option of Company

The Notes are not redeemable prior to , 2000. On or

after such date the Notes may be redeemed by the Company, at its option, in whole or in part at any time, subject to the limitations, if any, imposed by applicable law, at a redemption price, expressed as a percentage of the principal amount, together with accrued and unpaid interest to the date fixed for redemption, if redeemed during the twelve month period beginning of the years indicated below:

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

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

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

Consolidation, Merger and Sale of Assets

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

Defaults and Remedies

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

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

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

Modification

Modification and amendment of the Indenture may be effected by the Company and the Trustee with the consent of the holders of not less than a majority in aggregate principal amount of the Notes, provided that no such modification or amendment may, without the consent of each holder affected thereby, (i) reduce the rate or change the time or place for payment of interest on any Notes, (ii) reduce the principal of (or premium, if any) or change the fixed maturity of, any Notes, (iii) make any Notes payable in a currency other than that stated in the Notes, (iv) impair the right to institute suit for the enforcement of any payment on or with respect of any Notes, (v) make any change that adversely affects the right to convert any Notes, (vi) modify the subordination provisions in a manner adverse to the holders or (vii) reduce the amount of Notes whose holders must consent to a modification or amendment or waive compliance with certain provisions of the Indenture. The Indenture also contains provisions permitting the Company and the Trustee to effect certain minor modifications of the Indenture not adversely affecting the rights of holders of Notes in any material respect.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain Federal income tax considerations relevant to the receipt, ownership and disposition of the Rights, the Preferred Stock and the Notes, but does not purport to be a

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

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

The Rights

For Federal income tax purposes, receipt of Rights by a shareholder pursuant to the Rights Offering should be treated as a nontaxable distribution with respect to the Common Stock.

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

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

If the Company has, as of the date of the issuance of the Rights, current or accumulated earnings and profits, then the Rights will, with respect to the initial distributees of such Rights, be treated as "Section 306 stock." In that event, each Right, with respect to an initial distributee, shall carry section 306 "taint" in the amount equal to the lesser of (i) the fair market value of the Right on the date of distribution, or (ii) the allocable share of the Company's current or accumulated earnings and profits. Under such circumstances, subject to certain exceptions, an initial distributee shareholder who disposes of the Rights must treat the proceeds as ordinary income to the extent of the "taint" and cannot recognize a loss on the sale of the Rights.

The Preferred Stock

Dividends

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

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

For purposes of the remainder of this discussion, the term "dividend" refers to a distribution taxable as ordinary income as described

above unless the context indicates otherwise. Dividends received by corporate shareholders will be eligible for a dividends-received deduction under section 243 of the Code, subject to the limitations contained in sections 246 and 246A of the Code.

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

Redemption and Exchange for the Notes

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

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

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

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

Sale of Preferred Stock

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

If the Rights constitute "section 306 stock" as described above, then upon the sale or disposition of the Preferred Stock acquired through the exercise of the Rights, the proceeds received will be taxable as ordinary income to the extent of the "taint." Furthermore, no loss will be

recognized upon the sale or disposition; any unrecovered basis would revert to the shareholder's remaining Common Stock holdings or possibly to its Preferred Stock holdings, or, if the shareholder does not retain any such holding, it may lose such basis entirely.

The Notes

Original Issue Discount

For purposes of the following discussion, it is assumed that the Notes will constitute debt for Federal income tax purposes and will not constitute "applicable high-yield discount obligations" under section 163(i) of the Code, and that the Notes or Series A Exchangeable Preferred Stock will be readily tradeable on an established securities market at the time of exchange of the Notes for Series A Exchangeable Preferred Stock. In general, if a Note's stated redemption price at maturity exceeds its "issue price," it will be considered to have been issued at an original issue discount ("OID") in an amount equal to such excess. For these purposes, the issue price of a Note will be equal to the fair market value of the Note (including the value of the conversion feature) as of the issue date or, if the Note is not traded on an established securities market within 30 days of the issue date, the fair market value of the Series A Exchangeable Preferred Stock on such date. The stated redemption price at maturity of a Note will equal the sum of all payments required under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable as a series of payments in cash or property (other than interest payments payable in debt instruments of the Company) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest.

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

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

Bond Premium

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

Redemption or Sale of Notes

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

Conversion of Preferred Stock or Notes into Common Stock

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

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

Conversion Adjustments for the Preferred Stock and the Notes

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

Backup Withholding and Information Reporting

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

PLAN OF DISTRIBUTION

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

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

The Company has agreed to pay the Dealer Manager a fee of $ per share for each Underlying Share issued pursuant to the exercise of Rights other than any Underlying Shares issued to HLR and Roche Holdings and to pay the Dealer Manager a fee for its soliciting efforts equal to $ per share for each Underlying Share issued pursuant to the exercise of Rights other than any Underlying Shares issued to HLR and Roche Holdings. The maximum compensation that the Dealer Manager would receive under this arrangement is $.

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

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

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

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

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

LEGAL MATTERS

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

EXPERTS

The consolidated financial statements and schedule of the Company as of December 31, 1995 and 1994, and for each of the years in the three-year period ended December 31, 1995, have been included or incorporated by reference herein and in the Registration Statement in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein or incorporated by reference herein upon the authority of said firm as experts in accounting and auditing.

The consolidated statement of operations and cash flows of Roche Biomedical Laboratories, Inc. for the year ended December 31, 1994

incorporated in this Prospectus by reference to the National Health Laboratories Holdings Inc. Registration Statement on Forms S4/S3 dated April 25, 1995 (Registration No. 33-58775) filed under the Securities Act of 1933, as amended, which contains the statement of operations and cash flows for the year ended December 31, 1994, have been so incorporated in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

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

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

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996, the Company's Reports on Form 8-K dated February 13, 1996, April 25, 1996, June 27, 1996, August 1, 1996, September 23, 1996, October 24, 1996, November 21, 1996, December 4, 1996, December 30, 1996 and January 6, 1997, the Company's Report on Form 8-K/A dated February 26, 1997 and the consolidated statement of operations and cash flows of Roche Biomedical Laboratories, Inc. for the year ended December 31, 1994 included in the National Health Laboratories Holdings Inc. Registration Statement on Forms S4/S3 dated April 25, 1995 (Registration No. 33-58775) filed under the Securities Act of 1933, as amended, are hereby incorporated by reference in this Prospectus except as superseded or modified herein. All documents filed with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of this Prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person, including any beneficial owner, to whom this Prospectus is delivered, upon written or oral request of such person, a copy of any and all of the documents that have been or may be incorporated by reference herein (other than exhibits to such documents which are not specifically incorporated by reference into such documents). Such requests should be directed to Attention: Bradford T. Smith, Secretary, Laboratory Corporation of America Holdings, 358 South Main Street, Burlington, North Carolina 27215, (910) 229-1127.

INDEX TO FINANCIAL STATEMENTS

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

	September 30, 1996 (Unaudited)	December 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28.2	$ 16.4
Accounts receivable, net	494.4	425.6
Inventories	45.8	51.3
Prepaid expenses and other	20.9	21.4
Deferred income taxes	116.5	63.3
Income taxes receivable	9.9	21.9
Total current assets	715.7	599.9
Property, plant and equipment, net	289.3	304.8
Intangible assets, net	885.1	916.7
Other assets, net	18.3	15.8
	$1,908.4	$1,837.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 74.2	$ 106.2
Accrued expenses and other	144.3	173.5
Current portion of long-term debt	93.8	70.8
Current portion of accrued settlement costs	200.7	--
Revolving credit facility classified as current	361.0	--
Long-term debt classified as current	637.5	--
Total current liabilities	1,511.5	350.5
Revolving credit facility	--	218.0
Long-term debt, less current portion	--	712.5
Accrued settlement costs, less current portion	33.0	--
Capital lease obligation	9.8	9.6
Other liabilities	97.2	135.0
Stockholders' equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued and outstanding	--	--
Common stock, $0.01 par value; 220,000,000 shares authorized; 122,923,705 shares and 122,908,698 shares issued and outstanding at September 30, 1996 and December 31, 1995, respectively	1.2	1.2
Additional paid-in capital	411.0	411.0
Accumulated deficit	(155.3)	(0.6)
Total stockholders' equity	256.9	411.6
	$1,908.4	$1,837.2

See notes to unaudited consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share data)
(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
Net sales	$1,216.5	$1,028.6
Cost of sales	903.9	722.4
Gross profit	312.6	306.2
Selling, general and administrative expenses	223.0	162.3
Amortization of intangibles and other assets	22.1	19.2
Restructuring and non-recurring charges	23.0	65.0
Provision for settlements and related expenses	185.0	10.0
Operating income (loss)	(140.5)	49.7
Other income (expense):		
Investment income	1.5	1.1
Interest expense	(51.4)	(48.5)
Earnings (loss) before income taxes and extraordinary item	(190.4)	2.3
Provision for income taxes	(35.7)	6.7
Loss before extraordinary item	(154.7)	(4.4)
Extraordinary item --		
Loss on early extinguishment of debt, net of income tax benefit of $5.2	--	(8.3)
Net loss	$ (154.7)	$ (12.7)
Net loss per common share:		
Loss per common share before extraordinary loss	$ (1.26)	$ (0.04)
Extraordinary loss per common share	--	(0.08)
Net loss per common share	$ (1.26)	$ (0.12)
Dividends per common share	$ --	$ --

See notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(154.7)	$ (12.7)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Restructuring and non-recurring charges	23.0	65.0
Provision for settlements and related expenses	185.0	10.0
Extraordinary loss, net of income tax benefits	--	8.3
Depreciation and amortization	63.3	52.1
Deferred income taxes, net	(27.4)	(27.5)
Provision for doubtful accounts, net	9.9	3.0
Change in assets and liabilities, net of effects of acquisitions:		
Increase in accounts receivable	(78.7)	(60.0)
Decrease in inventories	6.5	4.4
Decrease (increase) in prepaid expenses and other	(2.4)	6.5
Change in income taxes receivable/payable, net	12.0	5.4
Decrease in accounts payable and other	(34.9)	(7.0)
Payments for restructuring and non-recurring charges	(14.4)	(6.7)
Payments for settlement and related expenses	(1.7)	(32.1)
Other, net	(3.1)	(4.3)
Net cash provided by (used for) operating activities	(17.6)	4.4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(46.3)	(44.3)
Acquisitions of businesses	(3.3)	(38.7)
Investment in joint venture	(2.5)	--

Net cash used for investing activities	(52.1)	(83.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facilities	$ 223.0	$ 270.0
Payments on revolving credit facilities	(80.0)	(265.0)
Proceeds from long-term debt	--	800.0
Payments on long-term debt	(52.1)	(430.0)
Deferred payments on acquisitions	(9.4)	(10.3)
Proceeds from exercise of stock options	--	0.2
Dividends paid on common stock	--	(474.8)
Cash received for issuance of common stock	--	135.7
Cash received for warrants	--	51.0
Net cash provided by financing activities	81.5	76.8
Net increase (decrease) in cash and cash equivalents	11.8	(1.8)
Cash and cash equivalents at beginning of year	16.4	26.8
Cash and cash equivalents at end of period	$ 28.2	$ 25.0
Supplemental schedule of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 55.1	$ 42.4
Income taxes	(15.6)	22.0
Disclosure of non-cash financing and investing activities:		
Common stock issued in connection with an acquisition	$ --	$ 539.6
Common stock issued in connection with the cancellation of employee stock options	--	6.9
In connection with business acquisitions, liabilities were assumed as follows:		
Fair value of assets acquired	$ 9.6	$ 775.7
Cash paid	(3.4)	(38.7)
Stock issued	--	(539.6)
Liabilities assumed	$ 6.2	$ 197.4

See notes to unaudited consolidated financial statements.

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

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

2. EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding during the nine months ended September 30, 1996 of 122,917,281 shares, and the weighted average number of shares outstanding during the nine months ended September 30, 1995 of 106,424,055 shares.

3. MERGER WITH ROCHE BIOMEDICAL LABORATORIES, INC.

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

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

	Nine Months Ended September 30, 1995
Net sales	$1,275.2
Net earnings	49.5
Net earnings per common share	0.41

4. SETTLEMENTS AND RELATED EXPENSES

As previously discussed in the Company's December 31, 1995 10-K and June 30, 1996 10-Q, the Office of Inspector General ("OIG") of Health and Human Services and the Department of Justice ("DOJ") had been investigating certain past laboratory practices of the predecessor companies of the Company -- National Health Laboratories Holdings Inc. ("NHL"), Roche Biomedical Laboratories, Inc. ("RBL") and Allied Clinical

Laboratories, Inc. ("Allied"). On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of these predecessor companies. The government's investigations covered billings for certain tests performed as part of the chemistry profiles of 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. Under the terms of the 1996 Government Settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182.0 to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale--a liability the Company later succeeded to, following the Allied Acquisition and Merger. Consistent with this overall settlement, the Company paid $187.0 to the Federal Government in December 1996 with proceeds from a loan from Roche Holdings. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a discussion of the impact of the settlement on the Company's liquidity. Also see "Regulation and Reimbursement" for additional discussion of legal proceedings.

5. LONG-TERM DEBT

The Company obtained waivers for the quarter ended June 30, 1996 of certain covenants contained in its existing credit agreement, as amended (the "Credit Agreement") and subsequently successfully negotiated an amendment (the "Fourth Amendment") to the Credit Agreement on September 23, 1996. The Fourth Amendment modifies the interest coverage and leverage ratios applicable to the quarters ending September 30 and December 31, 1996. The Fourth Amendment also increases the interest rate margin on its revolving credit facility (the "Revolving Credit Facility") from 0.25% to 0.875% and increases the interest rate margin on its term loan facility (the "Term Loan Facility", and collectively with the Revolving Credit Facility, the "Bank Facility") from 0.375% to 1.00%. As a result of the Settlement Charge taken in the third quarter of 1996, as described in Note 4, the Company obtained a waiver which excludes the Settlement Charge from covenant calculations for the periods covered by the most recent amendment. Because of the limited period covered by the Fourth Amendment, approximately $998.0 of the Company's debt that otherwise would have been classified as long-term has been classified as current in the September 30, 1996 consolidated balance sheet. Such classification has created a material deficiency in short-term liquidity. The Company has commenced a comprehensive analysis of its capital structure and expects to seek an additional waiver and amendment to the existing Credit Agreement to be effective through completion of the Rights Offering. There can be no assurance that such waivers or amendments can be obtained. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

6. RESTRUCTURING AND NON-RECURRING CHARGES

In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations. The Company recorded a restructuring charge totaling $13.0 for the shutdown of its La Jolla, California administrative facility and other workforce reductions. This amount includes approximately $8.1 for severance, $3.5 for the future lease obligation of the La Jolla facility and $1.4 for the write down of leasehold improvements and fixed assets that will be abandoned or disposed of. The La Jolla facility is expected to be substantially closed by the end of 1996. The remaining workforce reductions will take place in various other areas of the Company and are expected to be completed by the end of 1996.

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 the Company operations and will incur approximately $1.3 in costs primarily related to the write off of leasehold improvements and building cleanup. Finally, the Company recorded a charge of $2.0 for various other items including the write-off of certain supplies related to changes in testing methodologies to increase efficiency. As a result of these changes, some supplies were not compatible with the new testing methods and were disposed of.

Following the Merger in 1995, the Company determined that it would be beneficial to close Company laboratory facilities in certain geographic regions where duplicate Company and RBL facilities existed at the time of the Merger. As part of the Company's evaluation of its future obligations under these restructuring activities, certain changes in the estimates were made during the quarter ended June 30, 1996. These resulted in the reclassification of certain accruals in the categories listed below although the total liability did not change.

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

	Severance Costs	Asset revaluations and write-offs	Lease and other facility obligations	Total
Balance at December 31, 1995.....	$12.8	$18.6	$18.9	$50.3
Additional restructuring charges.....	8.1	1.4	3.5	13.0
Reclassifications.....	1.6	0.7	(2.3)	--
Non cash items.....	--	(10.8)	--	(10.8)
Cash payments.....	(11.9)	--	(1.8)	(13.7)
Balance at September 30, 1996.....	$10.6	$ 9.9	$18.3	$38.8
Current.....				$24.7
Non-current.....				14.1
				$38.8

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Laboratory Corporation of America Holdings and subsidiaries as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Laboratory Corporation of America Holdings and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Raleigh, North Carolina
February 16, 1996

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

	December 31, 1995	December 31, 1994
ASSETS		
Current assets:		
Cash and cash equivalents.....	$ 16.4	$ 26.8
Accounts receivable, net.....	425.6	205.4
Inventories.....	53.7	20.1
Prepaid expenses and other.....	19.0	8.3
Deferred income taxes.....	63.3	29.4
Income taxes receivable.....	21.9	3.0
Total current assets.....	599.9	293.0

Property, plant and equipment, net	304.8	140.1
Intangible assets, net	916.7	551.9
Other assets, net	15.8	27.7
	$1,837.2	$1,012.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 106.2	$ 44.3
Accrued expenses and other	168.9	92.8
Current portion of long-term debt	70.8	39.0
Current portion of accrued settlement expenses	4.6	26.7
Total current liabilities	350.5	202.8
Revolving credit facility	218.0	213.0
Long-term debt, less current portion	712.5	341.0
Capital lease obligation	9.6	9.8
Deferred income taxes	5.1	20.6
Other liabilities	129.9	59.5
Stockholders' equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value; 220,000,000 shares authorized; 122,908,722 and 84,761,817 shares issued and outstanding at December 31, 1995 and 1994, respectively	1.2	0.8
Additional paid-in capital	411.0	153.5
Retained earnings (accumulated deficit)	(0.6)	11.7
Total stockholders' equity	411.6	166.0
	$1,837.2	$1,012.7

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share data)

	Years Ended December 31,		
	1995	1994	1993
Net sales	$1,432.0	$ 872.5	$ 760.5
Cost of sales	1,024.3	597.0	444.5
Gross profit	407.7	275.5	316.0
Selling, general and administrative expenses	238.5	149.3	121.4
Amortization of intangibles and other assets	27.0	16.3	9.1
Restructuring charges	65.0	--	--
Provision for settlements	10.0	--	--
Operating income	67.2	109.9	185.5
Other income (expenses):			
Litigation settlement and related expenses	--	(21.0)	--
Other gains and expenses, net	--	--	15.3
Investment income	1.4	1.0	1.2
Interest expense	(65.5)	(34.5)	(10.9)
Earnings before income taxes and extraordinary loss	3.1	55.4	191.1
Provision for income taxes	7.1	25.3	78.4
Earnings (loss) before extraordinary loss	(4.0)	30.1	112.7
Extraordinary loss from early extinguishment of debt, net of income tax benefit of $5.2	(8.3)	--	--
Net earnings (loss)	$ (12.3)	$ 30.1	$ 112.7
Earnings (loss) per common share:			
Earnings (loss) per common share before extraordinary item	$ (0.03)	$ 0.36	$ 1.26
Extraordinary loss per common share	(0.08)	--	--
Net earnings (loss) per common share	$ (0.11)	$ 0.36	$ 1.26
Dividends per common share	$ --	$ 0.08	$ 0.32

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in millions, except per share data)

	Common	Additional	Minimum Pension

	Stock $0.01 Par Value	Paid-in Capital	Retained Earnings	Liability Adjustment	Treasury Stock
Balance, January 1, 1993.....	$ 1.0	$225.9	$117.5	$ --	$(131.9)
Net earnings.....	--	--	112.7	--	--
Exercise of stock options.....	--	0.4	--	--	--
Dividends to stockholders.....	--	--	(28.2)	--	--
Acquisition of treasury stock.....	--	--	--	--	(154.2)
Adjustment for minimum pension liability.....	--	--	--	(2.4)	--
Balance, December 31, 1993.....	1.0	226.3	202.0	(2.4)	(286.1)
Net earnings.....	--	--	30.1	--	--
Exercise of stock options.....	--	0.1	--	--	--
Dividends to stockholders.....	--	--	(6.8)	--	--
Retirement of treasury stock....	(0.2)	(72.3)	(213.6)	--	286.1
Adjustment for minimum pension liability.....	--	--	--	2.4	--
Other.....	--	(0.6)	--	--	--
Balance, December 31, 1994.....	0.8	153.5	11.7	--	--
Net loss.....	--	--	(12.3)	--	--
Exercise of stock options.....	--	0.2	--	--	--
Cancellation of stock options.....	--	6.9	--	--	--
Distribution to stockholders.....	(0.2)	(474.5)	--	--	--
Issuance of common stock.....	0.6	674.6	--	--	--
Issuance of warrants.....	--	51.0	--	--	--
Other.....	--	(0.7)	--	--	--
Balance, December 31, 1995.....	$ 1.2	$411.0	$ (0.6)	$ --	$ --

See notes to consolidated financial statements.

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Years Ended December 31,		
	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss).....	$(12.3)	$ 30.1	$112.7
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	72.4	44.4	32.2
Restructuring charges.....	65.0	--	--
Extraordinary loss, net of income tax benefit.....	8.3	--	--
Provision for doubtful accounts, net.....	12.4	(1.4)	0.2
Provision for settlements and related expenses.....	10.0	21.0	--
Other gains and expenses, net.....	--	--	(15.3)
Change in assets and liabilities, net of effects of acquisitions:			
Increase in accounts receivable.....	(58.6)	(54.0)	(35.8)
Decrease (increase) in inventories.....	5.1	(0.9)	(0.9)
Decrease (increase) in prepaid expenses and other.....	1.0	5.1	(2.5)
Decrease (increase) in deferred income taxes, net.....	(21.6)	11.0	19.1
Decrease (increase) in income taxes receivable.....	(11.7)	5.5	6.5
Increase (decrease) in accounts payable, accrued expenses and other.....	27.9	(13.1)	1.5
Payments for restructuring charges.....	(13.4)	--	--
Payments for settlement and related expenses.....	(32.1)	(29.8)	(55.8)
Other, net.....	(5.4)	(3.2)	(4.7)
Net cash provided by operating activities.....	47.0	14.7	57.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures.....	(75.4)	(48.9)	(33.6)
Proceeds from sale of subsidiary.....	--	10.1	--
Acquisitions of businesses.....	(39.6)	(254.8)	(78.2)
Restricted investment.....	--	--	0.8
Other gains and expenses, net.....	--	--	15.3
Net cash used for investing activities.....	(115.0)	(293.6)	(95.7)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facilities.....	$ 308.0	$ 308.0	$342.0
Payments on revolving credit facilities.....	(303.0)	(373.0)	(139.0)

Proceeds from long-term debt	800.0	400.0	--
Payments on long-term debt	(446.7)	(20.0)	--
Deferred payments on acquisitions	(12.9)	(7.6)	(1.9)
Purchase of treasury stock	--	--	(154.2)
Dividends paid on common stock	--	(13.6)	(29.0)
Distribution to stockholders	(474.7)	--	--
Cash received for issuance of common stock	135.7	--	--
Cash received for issuance of warrants	51.0	--	--
Proceeds from exercise of stock options	0.2	0.1	0.4
Other	--	(0.5)	(0.9)
Net cash provided by financing activities	57.6	293.4	17.4
Net increase (decrease) in cash and cash equivalents	(10.4)	14.5	(21.1)
Cash and cash equivalents at beginning of year	26.8	12.3	33.4
Cash and cash equivalents at end of year	$ 16.4	$ 26.8	$ 12.3
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$ 58.6	$ 34.2	$ 8.4
Income taxes	27.2	14.8	59.6
Disclosure of non-cash financing and investing activities:			
Dividends declared and unpaid on common stock	$ --	$ --	$ 6.8
Common stock issued in connection with acquisition	539.5	--	--
Common stock issued in connection with the cancellation of employee stock options	6.9	--	--
In connection with business acquisitions, liabilities were assumed as follows:			
Fair value of assets acquired	$ 777.7	$ 399.4	$ 106.9
Cash paid	(39.6)	(254.8)	(78.2)
Stock issued	(539.5)	--	--
Liabilities assumed	$ 198.6	$ 144.6	$ 28.7

See notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Cash Equivalents

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

Inventories

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

Financial Instruments

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

Property, Plant and Equipment

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

	Years
Buildings and improvements	35-40
Machinery and equipment	3-10
Furniture and fixtures	5-10

Leasehold improvements and assets held under capital leases are amortized over the shorter of their estimated lives or the period of the related leases. Expenditures for repairs and maintenance charged against earnings in 1995, 1994 and 1993 were $27.5, $16.5 and $10.8,

respectively.

Intangible Assets

Intangible assets, consisting of goodwill, net of amortization, of $700.1 and $417.0 at December 31, 1995 and 1994, respectively, and other intangibles (i.e., customer lists and non-compete agreements), net of amortization, of $216.6 and $134.9 at December 31, 1995 and 1994, respectively, are being amortized on a straight-line basis over a period of 40 years and 3-25 years, respectively. Total accumulated amortization for intangible assets aggregated $87.4 and $60.8 at December 31, 1995 and 1994, respectively. The Company assesses the recoverability of intangible assets by determining whether the amortization of the intangibles' balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of intangible asset impairment, if any, is measured based on projected undiscounted future operating cash flows.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires that fair values be disclosed for most of the Company's financial instruments. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are considered to be representative of their respective fair values. The carrying amount of the revolving credit facility and long-term debt are considered to be representative of their respective fair values as their interest rates are based on market rates.

Concentration of Credit Risk

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

Revenue Recognition

Sales are recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payor programs including the Medicare and Medicaid programs. Billings for services under third-party payor programs are included in sales net of allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement. In 1995, 1994 and 1993, approximately 28%, 35% and 41%, respectively, of the Company's revenues were derived from tests performed for beneficiaries of Medicare and Medicaid programs.

Income Taxes

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

Earnings per Common Share

For the years ended December 31, 1995, 1994 and 1993, earnings per common share is calculated based on the weighted average number of shares outstanding during each year (110,579,096, 84,754,183 and 89,438,764 shares, respectively).

Use of Estimates

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

Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform with the 1995 presentation.

2. MERGER AND ACQUISITIONS

On April 28, 1995, the Company completed its merger with Roche Biomedical Laboratories, Inc. ("RBL") pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated as of December 13, 1994 (the "Merger").

Pursuant to the Merger Agreement, each outstanding share of common stock, par value $0.01 per share of the Company ("Common Stock") (other than as provided in the Merger Agreement), was converted (the "Share Conversion") into (i) 0.72 of a share of Common Stock of the Company and (ii) a distribution of $5.60 in cash per share, without interest. The aggregate

number of shares issued and outstanding following the Share Conversion was 61,041,159. Also, an aggregate of 538,307 shares of Common Stock were issued in connection with the cancellation of certain employee stock options.

In addition, pursuant to the Merger Agreement, an aggregate of 61,329,256 shares of Common Stock were issued to HLR Holdings Inc. ("HLR") and its designee, Roche Holdings, Inc. in exchange for all shares of common stock, no par value of RBL outstanding immediately prior to the effective date of the Merger (other than treasury shares, which were canceled) and a cash contribution described below. The issuance of such shares of Common Stock constituted approximately 49.9% of the total outstanding shares of Common Stock outstanding immediately after the Merger.

The Company also made a distribution (the "Warrant Distribution") to holders of record as of April 21, 1995, of 0.16308 of a warrant per outstanding share of Common Stock, each such warrant representing the right to purchase one newly issued share of Common Stock for $22.00 (subject to adjustment) on April 28, 2000 (each such warrant, a "Warrant"). Approximately 13,826,000 Warrants were issued in the Warrant Distribution (including fractional Warrants, which were not distributed, but were liquidated in sales on the New York Stock Exchange and the proceeds thereof distributed to such stockholders).

In addition, pursuant to the Merger Agreement on April 28, 1995 the Company issued to Hoffmann-La Roche Inc. ("Roche"), for a purchase price of approximately $51.0, 8,325,000 Warrants (the "Roche Warrants") to purchase shares of Common Stock, which Warrants have the terms described above.

The aggregate cash consideration of approximately $474.7 paid to stockholders of the Company in the Merger was financed from three sources: a cash contribution (the "Company Cash Contribution") of approximately $288.0 out of the proceeds of borrowings under the credit agreement (as described in note 9), a cash contribution made by HLR to the Company in the amount of approximately $135.7 and the proceeds from the sale and issuance of the Roche Warrants.

The exchange consideration of approximately $558.0 for the purchase of RBL consisted of the value of the stock issued to HLR and Roche Holdings, Inc., as well as other cash costs of the Merger, net of cash received from HLR. The Merger has been accounted for under the purchase method of accounting; as such RBL's assets and liabilities were recorded at their estimated fair values on the date of acquisition. The exchange consideration exceeded the fair value of acquired net tangible assets by approximately $371.9. RBL's results of operations have been included in the Company's results of operations since April 28, 1995.

The Company acquired Allied Clinical Laboratories, Inc. ("Allied") as a wholly owned subsidiary on June 23, 1994, for approximately $191.5 in cash, $185.0 of which was borrowed under a revolving credit facility, plus the assumption of $24.0 of Allied indebtedness and the recognition of approximately $5.0 of Allied net liabilities (the "Allied Acquisition"). The Allied Acquisition was accounted for using the purchase method of accounting; as such, Allied's assets and liabilities were recorded at their fair values on the date of acquisition. The purchase price exceeded the fair value of acquired net tangible assets by approximately $220.5. Allied's results of operations have been included in the Company's results of operations since June 23, 1994.

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

	Year Ended December 31,	
	1995	1994
Net sales	$1,678.6	$1,692.6
Net earnings	48.9	71.3
Net earnings per common share	$ 0.40	$ 0.58

During 1995, the Company also acquired nine small clinical laboratory companies for an aggregate purchase price, including assumption of liabilities, of $41.7. During 1994 and 1993, the Company acquired eleven and thirty-four laboratories, respectively, for an aggregate purchase price, including assumption of liabilities, of $79.3 and $106.9, respectively. The acquisitions were accounted for as purchase transactions. The excess of cost over the fair value of net tangible Assets acquired during 1995, 1994 and 1993 was $28.2, $72.1, and $100.1, respectively, which is included under the caption "Intangible assets, net" in the accompanying consolidated balance sheets. The consolidated statements of operations reflect the results of operations of these purchased businesses from their dates of acquisition.

3. RESTRUCTURING CHARGES

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

Under the restructuring plan, the Company recorded a restructuring charge of $65.0 in the second quarter of 1995. The charge includes approximately $24.2 to reduce the workforce by approximately 2,200 individuals. The plan includes a reduction of approximately 1,520 laboratory operations personnel, approximately 80 sales and marketing personnel and approximately 600 finance and administrative personnel both at laboratory locations and in La Jolla, California.

Approximately $21.3 of the restructuring charges consist of the reduction of certain assets to their net realizable values and primarily consists of the write-off of approximately $17.7 of leasehold improvements on facilities to be closed or significantly downsized.

Lease and other facility obligations accounted for approximately $19.5 of the restructuring charge, including the future minimum lease payments and expenses from the estimated closing or downsizing date to the end of the contractual lease term for facilities to be significantly downsized or closed.

As of December 31, 1995, three facilities have either been closed or significantly downsized. In addition, certain duplicative functions in La Jolla, California were eliminated. As of December 31, 1995, the net reduction in the total workforce was approximately 800 employees. The Company expects that a substantial portion of the remaining restructuring will be completed in 1996 with the remainder completed in early 1997. The Company believes that the remaining liabilities are sufficient to complete such restructuring activities.

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

	Severance Costs	Asset Revaluations and write-offs	Lease and other facility obligations	Total
Balance at December 31, 1994.....	$ --	$ --	$ --	$ --
Restructuring charges.....	24.2	21.3	19.5	65.0
Non cash items.....	(0.3)	(2.7)	--	(3.0)
Cash payments.....	(11.1)	--	(0.6)	(11.7)
Balance at December 31, 1995.....	$12.8	$18.6	$18.9	$50.3
Current.....				$32.3
Non-current.....				18.0
				$50.3

4. ACCOUNTS RECEIVABLE, NET

	December 31, 1995	December 31, 1994
Gross accounts receivable.....	$516.0	$270.7
Less contractual allowances and allowance for doubtful accounts.....	(90.4)	(65.3)
	$425.6	$205.4

5. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 1995	December 31, 1994
Land.....	$ 7.0	$ 1.3
Buildings and building improvements.....	54.7	1.8
Machinery and equipment.....	268.1	154.2
Leasehold improvements.....	70.3	44.2
Furniture and fixtures.....	27.3	22.0
Buildings under capital leases.....	9.6	9.6
	437.0	233.1
Less accumulated depreciation and amortization.....	(132.2)	(93.0)

	$304.8	$140.1

6. ACCRUED EXPENSES AND OTHER

	December 31, 1995	December 31, 1994
Employee compensation and benefits.....	$50.5	$38.8
Deferred acquisition related payments..	14.8	15.9
Acquisition related reserves.....	39.4	21.8
Restructuring reserves.....	32.3	--
Other.....	31.9	16.3
	$168.9	$92.8

7. OTHER LIABILITIES

	December 31, 1995	December 31, 1994
Deferred acquisition related payments..	$ 8.5	$19.2
Acquisition related reserves.....	68.2	31.9
Restructuring reserves.....	18.0	--
Other.....	35.2	8.4
	$129.9	$59.5

8. PROVISIONS FOR SETTLEMENTS

In the second quarter of 1995, the Company recorded a pre-tax special charge of $10.0 in connection with the estimated costs of settling various claims pending against the Company, substantially all of which are billing disputes, in which the Company believes it is probable that settlements will be made by the Company.

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

9. LONG-TERM DEBT

The Company entered into a credit agreement dated as of April 28, 1995 (the "Credit Agreement"), with the banks named therein (the "Banks") and Credit Suisse (New York Branch), as administrative agent (the "Bank Agent"), under which the Banks made available to the Company a Term Loan Facility of $800.0 (the "Term Loan Facility") and a revolving credit facility of $450.0 (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Bank Facility"). The Bank Facility provided funds for the Company Cash Contribution, for the refinancing of certain existing debt of the Company and its subsidiaries and RBL, for related fees and expenses of the Merger and for general corporate purposes of the Company and its subsidiaries, in each case subject to the terms and conditions set forth in the Credit Agreement. The Bank Facility is unconditionally and irrevocably guaranteed by certain of the Company's subsidiaries.

In connection with the Credit Agreement, the Company paid the Banks and Bank Agent customary underwriting, closing and participation fees, respectively. In addition, the Credit Agreement includes a facility fee based on the total Revolving Credit Facility commitment (regardless of usage) of 0.125% per annum. Availability of funds under the Bank Facility is conditioned on certain customary conditions, and the Credit Agreement, as amended, contains customary representations, warranties, covenants and events of default.

The Revolving Credit Facility matures in April 2000. The Term Loan Facility matures in April 2001, with payments in each quarter prior to maturity based on a specified amortization schedule. For as long as HLR and its affiliates' ownership of outstanding Company common stock (the "HLR Group Interest") remains at least 25%, the Revolving Credit Facility bears interest, at the option of the Company, at (i) Credit Suisse's Base Rate (as defined in the Credit Agreement) or (ii) the Eurodollar Rate (as defined in the Credit Agreement) plus a margin of 0.25% and the Term Loan Facility bears interest, at the option of the Company, at (i) Credit Suisse's Base Rate (as defined in the Credit Agreement) or (ii) the Eurodollar Rate (as defined in the Credit Agreement) plus a margin of 0.375%. In the event there is a reduction in the HLR Group interest to below 25%, applicable interest margins will not be determined as set forth above, but instead will be determined based upon the Company's financial performance as described in the Credit Agreement. The Company's weighted average borrowing rate, including the effects of interest rate swap agreements discussed below, was 6.23% at December 31, 1995.

Aggregate maturities on long-term debt are $70.8, $112.5, $150.0, $162.5, and $187.5 for the years 1996 through 2000, respectively.

At December 31, 1995, the Company was a party to interest rate swap agreements with certain major financial institutions, rated A or better by Moody's Investors Service, solely to manage its interest rate exposure with respect to $600.0 of its floating rate debt under the Term Loan Facility. The agreements effectively changed the interest rate exposure on $600.0 of floating rate debt to a weighted average fixed interest rate of 6.01%, through requiring that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in 1995 were not significant. The notional amounts of the agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. These agreements mature in September 1998. The estimated cost at which the Company could terminate these agreements as of December 31, 1995 was $9.5. The fair value was estimated by discounting the expected cash flows using rates currently available for interest rate swaps with similar terms and maturities.

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

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

10. STOCKHOLDERS' EQUITY

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

11. INCOME TAXES

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

	Years Ended December 31,		
	1995	1994	1993
Current:			
Federal.....	$10.4	$16.2	$48.9
State.....	1.5	3.0	10.4
	11.9	19.2	59.3
Deferred:			
Federal.....	(4.6)	4.9	14.9
State.....	(0.2)	1.2	4.2
	(4.8)	6.1	19.1
	$ 7.1	$25.3	$78.4

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

	Years Ended December 31,		
	1995	1994	1993
Statutory federal rate.....	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit.....	28.0	4.9	4.9
Non deductible amortization of intangible assets...	166.0	4.9	0.9
Other.....	7.0	0.9	0.2
Effective rate.....	236.0%	45.7%	41.0%

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

	Years Ended December 31,

	1995	1994	1993
Acquisition related reserves....	$(17.7)	$ (1.2)	$ --
Settlement and related expenses....	8.8	2.5	22.2
Reserve for doubtful accounts...	(4.3)	0.9	0.4
Other.....	8.4	3.9	(3.5)
	$ (4.8)	$ 6.1	$ 19.1

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 are as follows:

	December 31, 1995	December 31, 1994
Deferred tax assets:		
Settlement and related expenses, principally due to accrual for financial reporting purposes.....	$1.8	$10.7
Accounts receivable, principally due to allowance for doubtful accounts.....	21.9	8.4
Self insurance reserves, principally due to accrual for financial reporting purposes.....	4.8	2.4
Postretirement benefit obligation, principally due to accrual for financial reporting purposes.....	9.9	--
Compensated absences, principally due to accrual for financial reporting purposes.....	--	2.8
Acquisition related reserves, principally due to accrual for financial reporting purposes.....	81.0	8.0
State net operating loss carryforwards.....	7.4	--
Other.....	13.7	4.4
Total gross deferred tax assets.....	140.5	36.7
Deferred tax liabilities:		
Intangible assets, principally due to differences in amortization.....	(59.5)	(22.1)
Property, plant and equipment, principally due to differences in depreciation.....	(16.4)	(0.8)
Other.....	(6.4)	(5.0)
Total gross deferred tax liabilities.....	(82.3)	(27.9)
Net deferred tax asset.....	$ 58.2	$ 8.8

A valuation allowance was deemed unnecessary at December 31, 1995, 1994 and 1993. Based on the Company's history of taxable income, exclusive of one-time charges, and its projection of future earnings, it believes that it is more likely than not that sufficient taxable income will be generated in the foreseeable future to realize the deferred tax asset.

12. STOCK OPTIONS

In 1988, the Company adopted the 1988 Stock Option Plan, reserving 2,000,000 shares of common stock for issuance pursuant to options and stock appreciation rights that may be granted under the plan. The Stock Option Plan was amended in 1990 to limit the number of options to be issued under the Stock Option Plan to 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 31, 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. Also, a total of 562,532 options were reissued as a result of option conversions at exercise prices between $11.293 and $16.481.

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

Changes during 1993, 1994 and 1995 in options outstanding under the plans were as follows:

	Number of Options	Exercise Price per Option		
Options at January 1, 1993.....	864,071	$ 7.750	--	$20.250
Granted.....	818,500	$16.625	--	$17.875
Exercised.....	(33,400)	$ 7.750		
Canceled or expired.....	(84,835)	$16.625	--	$20.250
Outstanding at December 31, 1993.	1,564,336	$ 7.750	--	$20.250
Granted.....	2,042,000	$ 7.690	--	$13.875
Exercised	(11,125)	$ 7.690	--	$ 7.750
Canceled or expired.....	(92,498)	$13.875	--	$20.250
Outstanding at December 31, 1994.	3,502,713	$ 7.690	--	$20.250
Granted.....	1,378,000	$13.000		
Merger-related grants.....	562,532	$11.293	--	$16.481
Exercised.....	(20,542)	$ 7.690	--	$13.875
Merger-related cancellations...	(3,425,667)	$ 7.690	--	$20.250
Canceled or expired.....	(254,125)	$ 7.690	--	$20.250
Outstanding at December 31, 1995.	1,742,911	$11.293	--	$16.481
Exercisable at December 31, 1995.	886,973	$11.293	--	$16.481

13. COMMITMENTS AND CONTINGENCIES

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

Under the Company's present insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company is responsible for the uninsured portion of losses related primarily to general, product and vehicle liability and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 1995 and 1994, the Company had provided letters of credit aggregating approximately $8.6 and $4.9, respectively, primarily in connection with certain insurance programs.

During 1991, the Company guaranteed a $9.0, five-year loan to a third party for construction of a new laboratory to replace one of the Company's existing facilities. Following its completion in November of 1992, the building was leased to the Company by this third party. Such transaction is treated as a capital lease for financial reporting purposes. The associated lease term continues for a period of 15 years, expiring in 2007. Under the terms of this guarantee, as modified, the Company is required to maintain 105% of the outstanding loan balance including any overdue interest as collateral in a custody account established and maintained at the lending institution. As of December 31, 1995 and 1994, the Company had placed $9.5 of investments in the custody account. Such investments are included under the caption "Other assets, net" in the accompanying consolidated balance sheets.

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

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

	Operating	Capital
1996.....	$ 38.1	$ 1.3
1997.....	29.8	1.4
1998.....	23.5	1.5
1999.....	19.5	1.6
2000.....	16.2	1.7
Thereafter.....	47.0	15.0
Total minimum lease payments.....	174.1	22.5
Less amount representing interest.....	--	12.9
Total minimum operating lease payments and present value of minimum capital lease payments.....	$174.1	$ 9.6

Rental expense, which includes rent for real estate, equipment and automobiles under operating leases, amounted to $60.4, $34.6 and $29.9 for the years ended December 31, 1995, 1994 and 1993, respectively.

14. 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 $5.8, $3.6, and $3.0 in 1995, 1994 and 1993, respectively.

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

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

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

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

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

	NHL Plan			RBL Plan
	Years ended December 31,			Eight ended December 31,
	1995	1994	1993	1995
Service cost	$ 3.2	$ 5.5	$ 3.7	$ 2.6
Interest cost	2.7	3.5	2.6	2.3
Actual return on plan assets	(7.6)	0.1	(1.3)	(4.3)
Net amortization and deferral	4.2	(1.4)	0.4	1.2
Net periodic pension cost	$ 2.5	$ 5.7	$ 5.4	$ 1.8

The status of the plans are as follows:

	NHL Plan		RBL Plan
	December 31,		December 31,
	1995	1994	1995
Actuarial present value of benefit obligations: Vested benefits	$36.2	$26.6	$38.8
Non-vested benefits	4.4	3.5	6.4
Accumulated benefit obligation	40.6	30.1	45.2
Effect of projected future salary increases	2.2	1.9	1.6
Projected benefit obligation	42.8	32.0	46.8
Fair value of plan assets, principally corporate equity securities and fixed income investments	40.8	31.6	46.6
Unfunded projected benefit obligation	2.0	0.4	0.2
Unrecognized prior service cost	6.6	9.7	12.7
Unrecognized net loss	(7.1)	(8.4)	(9.4)
Accrued pension cost	$ 1.5	$ 1.7	$ 3.5

Assumptions used in the accounting for the plans were as

follows:

	NHL Plan		RBL Plan
	1995	1994	1995
Weighted average discount rate	7.5%	8.5%	7.5%
Weighted average rate of increase in future compensation levels	4.0%	4.0%	5.4%
Weighted average expected long-term rate of return	9.0%	9.0%	9.5%

In addition, the Company assumed obligations under RBL's postretirement medical plan. Effective 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:

	Eight months ended December 31, 1995
Service cost	$ 1.1
Interest cost	1.4
Postretirement benefit costs	$ 2.5

The status of the plan is as follows:

Accumulated postretirement benefit obligation	$27.2
Unrecognized net loss	(2.1)
Accrued postretirement benefit obligation	$25.1

The weighted average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit costs were 7.6% and 8.1%, respectively. The health care cost trend rate was assumed to be 9.0%, declining gradually to 5.1% in the year 2005, then remaining level to the year 2020 in which it declines to 5.0%, and remaining level thereafter. The health care cost trend rate has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1995 by approximately $5.1, and the aggregate of the service and interest components of 1995 net periodic postretirement benefit cost by approximately $0.2.

15. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

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

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

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

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

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

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

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

16. SUBSEQUENT EVENT (UNAUDITED)

As part of an examination of the rapid growth of Federal expenditures for clinical laboratory services, several Federal agencies, including the Federal Bureau of Investigation, the Office of the Inspector General ("OIG") of the Department of Health and Human Services ("HHS") and the Department of Justice (the "DOJ"), have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. The government's investigations covered billings for certain tests performed as part of the chemistry profiles of National Health Laboratories Holdings Inc. ("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. Under the terms of the 1996 Government Settlement, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182.0 to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied. These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5.0 to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale--a liability the Company later succeeded to, following the Allied Acquisition and Merger. Consistent with this overall settlement, the Company paid $187.0 to the Federal Government in December 1996 with proceeds from a loan from Roche Holdings. 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 to increase reserves for the 1996 Government Settlement described above, and other related expenses of government and private claims resulting therefrom.

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No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained or incorporated by reference in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Dealer Manager. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such

Laboratory Corporation of America Holdings

an offer in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

10,000,000 Shares

TABLE OF CONTENTS

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

PROSPECTUS

Credit Suisse First Boston

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

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

Securities and Exchange Commission registration fee	$ 195,076
NASD filing fee	30,500
NYSE listing fee	*
Printing expense	*
Accounting fees and expenses	*
Legal fees and expenses	*
Rating agency fees	*
Miscellaneous	*
Total	$ *

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* To be completed by amendment.

Item 15. Indemnification of Directors and Officers

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

Section 145 of the DGCL empowers the Company to indemnify, subject to the standards set forth therein, any person in connection with any action, suit or proceeding brought before or threatened by reason of the fact that the person was a director, officer, employee or agent of such company, or

is or was serving as such with respect to another entity at the request of such company. The DGCL also provides that the Company may purchase insurance on behalf of any such director, officer, employee or agent.

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

Item 16. Exhibits

See index to exhibits at E-1.

Item 17. Undertakings

The undersigned registrant hereby undertakes:

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

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

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

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

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

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

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

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

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

Pursuant to the requirements of the Securities Act of 1933, Laboratory Corporation of America Holdings certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Burlington, state of North Carolina, on February 27, 1997.

LABORATORY CORPORATION OF AMERICA
HOLDINGS

By: /s/ Thomas P. Mac Mahon

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

The registrant and each person whose signature appears below constitutes and appoints Thomas P. Mac Mahon, Wesley R. Elingburg and Bradford T. Smith, and each of them, his, her or its true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him, her or it and in his, her, or its name, place and stead, in any and all capacities, to sign and file (i) any and all amendments (including post-effective amendments) to this registration statement, with all exhibits thereto, and other documents in connection therewith, and (ii) a registration statement, and any and all amendments, thereto, relating to the offering covered hereby filed pursuant to Rule 462(b) under the Securities Act of 1933, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he, she or it might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Thomas P. Mac Mahon - --- Thomas P. Mac Mahon	Chairman of the Board, President, Chief Executive Officer and Director	February 27, 1997
/s/ Wesley R. Elingburg - --- Wesley R. Elingburg	Executive Vice President, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)	February 27, 1997
/s/ Jean-Luc Belingard - --- Jean-Luc Belingard	Director	February 27, 1997
/s/ Wendy E. Lane - --- Wendy E. Lane	Director	February 27, 1997
/s/ Robert E. Mittelstaedt, Jr. - --- Robert E. Mittelstaedt, Jr.	Director	February 27, 1997
/s/ James B. Powell, M.D. - --- James B. Powell, M.D.	Director	February 27, 1997
/s/ David B. Skinner, M.D. - --- David B. Skinner, M.D.	Director	February 27, 1997
/s/ Andrew G. Wallace, M.D. - --- Andrew G. Wallace, M.D.	Director	February 27, 1997

INDEX TO EXHIBITS

Exhibit No.	Description	Sequentially Numbered Page
1.1	Form of Dealer Manager Agreement*	
4.1	Form of Certificate of Designation of the Series A Exchangeable Preferred Stock*	
4.2	Form of Certificate of Designation of the Series B Preferred Stock*	
4.3	Form of Indenture*	
4.4	Form of Note (included in Exhibit 4.3 hereto)	
4.5	Form of Rights Certificate*	
5.1	Opinion of Davis Polk & Wardwell*	
8.1	Opinion of Davis Polk & Wardwell (re: tax matters)*	
10.1	Form of Amended Credit Agreement*	
10.2	The Settlement Agreement and Release*	

10.3	Corporate Integrity Agreement*
12.1	Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends*
23.1	Consent of Price Waterhouse LLP
23.2	Consent of KPMG Peat Marwick LLP filed as Exhibits 5.1 and 8.1 hereto)*
23.3	Consent of Davis Polk & Wardwell (contained in the Opinion of Counsel filed as Exhibits 5.1 and 8.1 hereto)*
24.1	Power of Attorney (included on signature page)
25.1	Statement of Eligibility under the Trust Indenture Act of 1939, as amended of , as Trustee under the Indenture*
99.1	Form of Subscription and Information Agency Agreement*
99.2	Form of Instructions for Rights Certificates*
99.3	Form of Notice of Guaranteed Delivery of Rights Certificates*

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* To be filed by amendment.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of this Registration Statement on Form S-3 of our report dated February 15, 1995 with respect to the consolidated statement of operations and cash flows of Roche Biomedical Laboratories, Inc. for the year ended December 31, 1994, appearing on page F-2 of the National Health Laboratories Holdings Inc. Registration Statement on Forms S-4/S-3, dated April 25, 1995 (Registration No. 33-58775) filed under the Securities Act of 1933, as amended. We also consent to the reference to us under the "Experts" heading in such Prospectus.

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP
Raleigh, North Carolina
February 25, 1997

EXHIBIT 23.2

Independent Auditors' Consent

The Board of Directors
Laboratory Corporation of America Holdings:

We consent to the use of our reports included herein and incorporated herein by reference and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG Peat Marwick LLP

Raleigh, North Carolina
February 25, 1997

EXHIBIT 20.1

FOR IMMEDIATE RELEASE Contact: Pamela Sherry (910) 584-5171 Ext. 4855

LABORATORY CORPORATION OF AMERICA -TM- HOLDINGS FILES REGISTRATION STATEMENT RELATING TO RIGHTS OFFERING OF UP TO AN AGGREGATE OF $500 MILLION OF CONVERTIBLE PREFERRED STOCK

Burlington, NC, February 27, 1997 -- Laboratory Corporation of America -TM- Holdings (LabCorp-TM-) (NYSE: LH) announced that it has filed a registration statement today with the Securities and Exchange Commission relating to the offering of up to an aggregate of $500 million of convertible preferred stock issuable in two series pursuant to transferable subscription rights to be granted on a pro rata basis to each stockholder of LabCorp. Rights holders who exercise their rights in full will also be entitled to subscribe for shares of preferred stock issuable pursuant to any unexercised rights.

The commencement and original expiration date of the rights offering will depend largely on the timing of SEC review of the Company's registration statement. The rights offering is expected to begin approximately six business days after the registration statement is declared effective, and will remain open for approximately thirty days.

Credit Suisse First Boston Corporation will act as dealer manager for the rights offering.

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

Laboratory Corporation of America -TM- Holdings (LabCorp -TM-) is a national clinical laboratory organization with estimated annualized revenues of $1.6 billion. The Company operates primary testing facilities nationally, offering more than 1,700 different clinical assays, from routine blood analysis to more sophisticated technologies. LabCorp performs diagnostic tests for physicians, managed care organizations, hospitals, clinics, long-term care facilities, industrial companies and other clinical laboratories.

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such state.

Copies of the preliminary prospectus relating to the rights offering may be obtained from the Information and Subscription Agent, American Stock Transfer & Trust Company, 40 Wall Street, New York, NY 10005, telephone (800) 937-5449 or (212) 936-5100.