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

(Mark One)
X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
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EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 1996

OR

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

For the transition period from to

Commission file number 1-11353

LABORATORY CORPORATION OF AMERICA HOLDINGS

(Exact name of registrant as specified in its charter)

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

358 SOUTH MAIN STREET, BURLINGTON, NORTH CAROLINA

910-229-1127

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g)of the Act: None
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

State the aggregate market value of the voting stock held by non-affiliates of the registrant, by reference to the price at which the stock was sold as of a specified date within 60 days prior to the date of filing:
$215,620,388 at March 14, 1997.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 122,935,080 shares at March 14, 1997, of which 61,329,256 shares are held by indirect wholly owned subsidiaries of Roche Holding Ltd. The number of warrants outstanding to purchase shares of the issuer's common stock is 22,151,308 as of March 15, 1997, of which 8,325,000 are held by an indirect wholly owned subsidiary of Roche Holding Ltd.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1996 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in the diagnosis, monitoring and treatment of disease and other clinical states. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in

48 states.

The Company has achieved a substantial portion of its growth through acquisitions. On April 28, 1995, the Company completed a merger with Roche Biomedical Laboratories, Inc. ("RBL"), an indirect subsidiary of Roche Holdings Inc. ("Roche"), pursuant to an Agreement and Plan of Merger dated as of December 13, 1994 (the "Merger"). In connection with the Merger, the Company changed its name from National Health Laboratories Holdings Inc. ("NHL") to Laboratory Corporation of America Holdings. 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 Aquisition"). 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.

RECENT DEVELOPMENTS

During 1996 and the early part of 1997, the Company has undergone significant changes in management with Thomas P. Mac Mahon assuming the role of President and Chief Executive Officer in January 1997 in addition to his position as Chairman. Prior to such time Mr. Mac Mahon served as Senior Vice President of 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.

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 Inspector General ("OIG") of the Department of Health and Human Services ("HHS") and the Department of Justice ("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"). Consistent with this overall settlement the Company paid $187 million to the Federal Government in December 1996, with proceeds from a loan from Roche (the "Roche Loan"). As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185 million in the third quarter of 1996 to increase reserves for the 1996 Government Settlement, and other related expenses of government and private claims resulting therefrom.

During 1996, management began implementing a new business strategy in response to the Company's declining performance. These new strategic objectives are as follows: remaining a low cost provider of clinical testing services; providing high quality service to its clients; and improving account profitability. See "Management's Discussion and Analysis of Results of Operations and Financial Condition", "Business-Management Information Systems" and "-- Sales and Marketing and Client Service". In addition, the Company is focused on certain growth initiatives beyond the routine clinical laboratory testing. In particular the Company is focused on increasing market share in certain sections of the market by providing innovative services in three primary areas: (i) hospital alliances; (ii) specialty and niche businesses; and (iii) direct marketing to payors. See "Business--Affiliations and Alliances," "--Testing Services" and "--PCS Health Systems, Inc."

In February 1997, the Company filed a registration statement with the Securities and Exchange Commission (the "Commission") relating to the proposed offering of an aggregate of $500.0 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 the Company (the "Rights Offering"). Rights holders who exercise their rights in full will also be entitled to subscribe for additional shares of preferred stock issuable pursuant to any unexercised rights.

The proceeds of the Rights Offering will be used to reduce amounts outstanding under the Company's revolving and term loan credit facilities, repay the Roche Loan, and pay fees and expenses related to the Rights Offering and the Amended Credit Agreement discussed below.

In March 1997, the Company entered into the Sixth Amendment and Waiver (the "Sixth Amendment") to its credit agreement (the "Existing Credit Agreement"). The Sixth Amendment eliminates amortization payments on its term loan facility (the "Term Loan Facility") under the Existing Credit Agreement for 1997 and modifies the interest coverage and leverage ratios for the quarterly periods through December 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Pursuant to this amendment, the Company paid an amendment fee of 37.5 basis

points on commitments and will pay an additional fee of 62.5 basis points if the Rights Offering is not completed by June 30, 1997.

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

The Company also entered into an amended and restated credit agreement (the "Amended Credit Agreement") with its lenders under the Existing Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. The Amended Credit Agreement makes 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"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 9 of the Notes to Consolidated Financial Statements for a complete description of the Existing Credit Agreement and the Amended Credit Agreement.

THE CLINICAL LABORATORY TESTING INDUSTRY

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

The clinical laboratory industry consists primarily of three types of providers: hospital based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company.

The Company believes that in 1996 approximately 50% of the clinical testing revenues in the United States were derived by hospital-based laboratories, approximately 15% were derived by physicians in their offices and laboratories and approximately 35% were derived by independent clinical laboratories. The Health Care Financing Administration ("HCFA") of HHS has estimated that in 1996 there were over 5,000 independent clinical laboratories in the United States.

EFFECT OF MARKET CHANGES ON THE CLINICAL LABORATORY BUSINESS

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

In addition, Medicare (which principally services patients 65 and older), Medicaid (which principally serves indigent patients) and insurers have increased their effort to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices 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.

LABORATORY TESTING OPERATIONS AND SERVICES

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

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

TESTING SERVICES

Routine Testing

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

The Company performs this core group of routine tests in each of its 28 major regional laboratories, which constitutes a majority of the testing performed by the Company. The Company generally performs and reports most

routine procedures within 24 hours, utilizing a variety of sophisticated and computerized laboratory testing instruments.

Specialty and Niche Testing

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures are more specialized in nature. Certain types of unique testing capabilities and/or client requirements have been developed into specialty or niche businesses by the Company which have become a primary growth strategy for the Company. In general the specialty and niche businesses are designed to serve two market segments: (i) markets which are not served by the routine clinical testing laboratory and therefore are subject to less stringent regulatory and reimbursement constraints; and (ii) markets which are served by the routine testing laboratory and offer the possibility of adding related services from the same supplier. The Company's research and development group continually 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. Management believes these technologies may represent a significant savings to managed care organizations by increasing the detection of early stage (treatable) diseases. Also, the Company recently acquired Genetic Design, Inc. and management believes it is now the largest provider of identity testing services in the United States. The following are specialty and niche businesses in which the Company offers testing and related services:

Allergy Testing. The Company offers an extensive range of allergen testing services as well as computerized analysis and a treatment program that enables primary care physicians to diagnose and treat many kinds of allergic disorders.

Ambulatory Monitoring. The Company performs a computer assisted analysis of electrocardiograms and blood pressure measurements. Many of these analyses are submitted by physicians who require extended (up to 24 hours) monitoring of these parameters for patients.

Clinical Research Testing. The Company regularly performs clinical laboratory testing for pharmaceutical companies conducting clinical research trials on new drugs. This testing often involves periodic testing of patients participating in the trial over several years.

Diagnostic Genetics. The Company offers cytogenetic, biochemical and molecular genetic tests.

Identity Testing. The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in the resolution of disputed parentage in child support litigation. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father.

Industrial Hygiene Testing. The Company maintains a separate testing facility in Richmond, Virginia, dedicated to the analysis of potentially toxic substances in the workplace environment.

Kidney Stone Analysis. The Company offers specialized patient analysis assessing the risk of kidney stones based on laboratory measurements and patient history.

Oncology Testing. The Company offers an extensive series of testing technologies that aid in diagnosing and monitoring certain cancers and predicting the outcome of certain treatments.

Substance Abuse Testing. The Company provides urinalysis testing for the detection of drugs of abuse for private and government customers, and also provides blood testing services for the detection of drugs of abuse and alcohol. These testing services are designed to produce "forensic" quality test results that satisfy the rigorous requirements for admissibility as evidence in legal proceedings.

Veterinary Testing. The Company offers clinical laboratory testing of animal specimens for veterinarians which require specialized testing procedures and handling due to their differing characteristics.

The specialized or niche testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the people, instruments and related resources for performing such procedures so that quality and efficiency can be most effectively

monitored. The Company's Center for Molecular Biology and Pathology in Research Triangle Park, North Carolina, also specializes in new test development and education and training related thereto.

CLIENTS

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

Independent Physicians and Physician Groups

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

Hospitals

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

HMOs and Other Managed Care Groups

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

Other Institutions

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

PAYORS

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

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

AFFILIATIONS AND ALLIANCES

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

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

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

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

One of the Company's primary growth strategies is to develop an increasing number of hospital alliances. These alliances can take several different forms including laboratory management contracts, discussed above, reference agreements and joint ventures. As hospitals continue to be impacted by decreasing fee schedules from third party payors and managed care organizations, the Company believes that they will seek the most cost-effective laboratory services for their patients. Management believes the Company's economies of scale as well as its delivery system will enable it to assist 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. This increased the total number of alliances to 20 at December 31, 1996 from 14 at December 31, 1995.

PCS HEALTH SYSTEMS, INC.

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

The process begins when a test sample is collected at the physician's office or local Company service center. Patient eligibility will be

determined at the time of testing through interface with the PCS information system which will expedite processing of the claim for reimbursement. The laboratory sample will be sent via the courier to the Company testing facility. After tests are completed, the results are forwarded to the physician and the billing information regarding the tests performed are sent to PCS for plan processing and claim remittance.

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

SALES AND MARKETING AND CLIENT SERVICE

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

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

The Company believes that the clinical laboratory service business is shifting away from the traditional direct sales structure and into one in which the purchasing decisions for laboratory services are increasingly made by managed care organizations, insurance plans, employers and increasingly by patients themselves. In view of these changes, the Company has adapted its sales and marketing structure to more appropriately address the new opportunities. For example, the Company has expanded its specialists sales positions in both its primary business and its niche businesses in order to maximize the Company's competitive strengths of advanced technology and marketing focus.

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

INFORMATION SYSTEMS

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

The Company believes that the health care provider's need for data will continue to place high demands on its information systems staff. The Company operates several systems to handle laboratory, billing and financial data and transactions. The Company believes that the efficient handling of

information involving clients, patients, payors and other parties will be a critical factor in the Company's future success. The Company's Corporate Information Systems Division manages its information resources and programs on a consolidated basis in order to achieve greater efficiency and economies of scale. In addition, as a key part of its response to these challenges, the Company employs a Chief Information Officer, whose responsibility is to integrate, manage and develop the Company's information systems.

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

BILLING

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

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

During the fourth quarter of 1995 and the second quarter of 1996, the Company recorded pre-tax special charges of $15 million and $10 million, respectively, based on the Company's determination that additional reserves were needed to cover potentially lower collection rates from several third-party payors. The 1995 charge was necessitated by the deterioration in the Company's accounts receivable collection rates in the fourth quarter of 1995 primarily due to the effect of increased medical necessity and diagnosis code requirements of third party payors placed on the Company in the second half of 1995. Additional such requirements were placed on the Company at the beginning of 1996, which resulted in a further deterioration in accounts receivable collection rates in the second quarter of 1996. As a result of this further deterioration, the Company recorded the special charge of $10.0 million in the second quarter of 1996. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996 as a result of continued lower collection rates. To date, accounts receivable balances have continued to grow even though revenues have not increased. Although there can be no assurance of success, the Company has recently developed a number of initiatives to address the complexity of the billing process and to improve collection rates. These initiatives include: reorganization of departments to allow for more focus on specific issues; retention of management consultants to assess the situation and assist in re-engineering the billing process; establishment of a project group to address inaccurate and missing billing information captured when the specimen is received; addition of staff in each operating division to train field personnel in billing matters and to review and approve contracts with third-party payors to ensure that contracts can be properly billed; and training of clients related to limited coverage tests and the importance of providing diagnosis codes pertaining to such tests. Additionally, the Company believes that it can benefit from the conversion of its multiple billing

systems into a centralized system which it plans to implement once the growth in accounts receivable is stabilized.

QUALITY ASSURANCE

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

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

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

The CAP accreditation program involves both on-site inspections of the laboratory and participation in the CAP's proficiency testing program for all categories in which the laboratory is accredited by the CAP. The CAP is an independent non-governmental organization of board certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. The CAP has been accredited by HCFA to inspect clinical laboratories to determine Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988 (collectively, as amended "CLIA") standards. A laboratory's receipt of accreditation by the CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. All of the Company's major laboratories are accredited by the CAP.

COMPETITION

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

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

of these areas and is currently implementing strategies to improve its competitive position. See "_Clients" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

EMPLOYEES

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

REGULATION AND REIMBURSEMENT

General

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

The health care industry is undergoing significant change as third-party payors, such as Medicare (which principally serves patients 65 and older) and Medicaid (which principally serves indigent patients) and insurers, increase their efforts to control the cost, utilization and delivery of health care services. In an effort to address the problem of increasing health care costs, legislation has been proposed or enacted at both the Federal and state levels to regulate health care delivery in general and clinical laboratories in particular. Some of the proposals include managed competition, global budgeting and price controls. Although the Clinton Administration's health care reform proposal, initially advanced in 1994, was not enacted, such proposal or other proposals may be considered in the future. In particular, the Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third-party payors are likely to occur as well. The Company cannot predict the effect health care reform, if enacted, would have on its business, and there can be no assurance that such reforms, if enacted, would not have a material adverse effect on the Company's business and operations.

Regulation of Clinical Laboratories

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

In 1992, HHS published regulations implementing CLIA. The quality standards and enforcement procedure regulations became effective in 1992, although certain personnel, quality control and proficiency testing requirements are currently being phased in by HHS. The quality standards regulations divide all tests into three categories (waivered, moderate complexity and high complexity) and establish varying requirements depending upon the complexity of the test performed. A laboratory that performs high complexity tests must meet more stringent requirements than a laboratory that performs only moderate complexity tests, while those that perform only one or more of approximately twelve routine "waivered" tests may apply for a waiver from most requirements of CLIA. All major and many smaller company

facilities are certified by CLIA to perform high complexity testing. The remaining smaller testing sites of the Company are certified by CLIA to perform moderate complexity testing or have obtained a waiver from most requirements of CLIA. Generally, the HHS regulations require, for laboratories that perform high complexity or moderate complexity tests, the implementation of systems that ensure the accurate performance and reporting of test results, establishment of quality control systems, proficiency testing by approved agencies and biennial inspections.

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

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

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

Regulation Affecting Reimbursement of Clinical Laboratory Services

Containment of health care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. In 1984, Congress established a Medicare fee schedule for clinical laboratory services performed for patients covered under Part B of the Medicare program. Subsequently, Congress imposed a national ceiling on the amount that can be paid under the fee schedule. Laboratories bill the program directly and must accept the scheduled amount as payment in full for covered tests performed on behalf of Medicare beneficiaries. In addition, state Medicaid programs are prohibited from paying more than the Medicare fee schedule amount for clinical laboratory services furnished to Medicaid recipients. In 1996 and 1995, the Company derived approximately 23% and 28%, respectively, of its net sales from tests performed for beneficiaries of Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation in these programs because clients often want a single laboratory to perform all of their testing services. Since 1984, Congress has periodically reduced the ceilings on Medicare reimbursement to clinical laboratories from previously authorized levels. In 1993, pursuant to provisions in the Omnibus Budget and Reconciliation Act of 1993 ("OBRA `93"), Congress reduced, effective January 1, 1994, the Medicare national limitations from 88% of the 1984 national median to 76% of the 1984 national median, which reductions were implemented on a phased-in basis from 1994 through 1996 (to 84% in 1994, 80% in 1995 and 76% in 1996). The 1996 reduction to 76% was implemented as scheduled on January 1, 1996. OBRA `93 also eliminated the provision for annual fee schedule increases based upon the consumer price index for 1994 and 1995. These reductions were partially offset, however, by annual consumer price index fee schedule increases of 3.2% and 2.7% in 1996 and 1997, respectively. Because a significant portion of the Company's costs are relatively fixed, these Medicare reimbursement reductions have a direct adverse effect on the Company's net earnings and cash flows. The Company cannot predict if additional Medicare reductions will be implemented.

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

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

In 1996, the HCFA implemented changes in the policies used to

administer Medicare payments to clinical laboratories for the most frequently performed automated blood chemistry profiles. Among other things, the changes established a consistent standard nationwide for the content of the automated chemistry profiles. Another change incorporated in the HCFA policy requires laboratories performing certain automated blood chemistry profiles to obtain and provide documentation of the medical necessity of tests included in the profiles for each Medicare beneficiary. The Company expects to incur additional costs associated with the implementation of these requirements. The amount of additional costs and potential reductions in reimbursement for certain components of chemistry profiles and the impact on the Company's financial condition and results of operations have not yet been determined.

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

Fraud and Abuse Regulations

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

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

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

In March 1992, HCFA published proposed regulations to implement the Medicare statute's prohibition (with certain exceptions) on referrals by physicians who have an investment interest in or a compensation arrangement with laboratories. The prohibition on referrals also applies where an immediate family member of a physician has an investment interest or compensation arrangement with a laboratory. The proposed regulations would define remuneration that gives rise to a compensation arrangement as including discounts granted by a laboratory to a physician who sends testing business to the laboratory and who pays the laboratory for such services. If that definition of remuneration were to have become effective, it could have had an impact on the way the Company prices its services to physicians. However, in August 1993, the referenced Medicare statute was amended by OBRA `93. One of these amendments makes it clear that day-to-day transactions

between laboratories and their customers, including, but not limited to, discounts granted by laboratories to their customers, are not affected by the compensation arrangement provisions of the Medicare statute.

Environmental and Occupational Safety

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

Drug Testing

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

Controlled Substances

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

OIG INVESTIGATIONS

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

1996 Government Settlement

In August 1993, RBL and Allied each received a subpoena from the OIG requesting documents and information concerning pricing and billing practices. In September 1993, NHL received a subpoena from the OIG which required NHL to provide documents to the OIG concerning its regulatory compliance procedures. Among other things, the OIG subpoena received by RBL and Allied called for the production of documents regarding 14 blood chemistry tests which were being or had been performed by certain independent clinical laboratories in conjunction with automated chemistry profiles and which were being or had been billed separately to Medicare or Medicaid. An automated chemistry profile is a grouping of tests that can be performed together on a single specimen and that Medicare and Medicaid pay under the Medicare fee schedule. The government's investigations covered billings for tests performed by NHL, RBL and Allied from 1988 to 1994. These tests were deemed by regulators to be medically unnecessary. The investigations were part of a broad-based federal inquiry into Medicare and related billings that have resulted in financial settlements with a number of other clinical laboratories. The inquiries have also prompted the

imposition of more stringent regulatory compliance requirements industry-wide. In November 1996, the Company agreed to enter into a comprehensive Corporate Integrity Agreement and to pay $182 million to settle civil claims involving Medicare and related government billings for tests performed by NHL, RBL and Allied (the "1996 Government Settlement"). These claims arose out of the government's contention that laboratories offering profiles containing certain test combinations had the obligation to notify ordering physicians how much would be billed to the government for each test performed for a patient whose tests are paid for by Medicare, Medicaid or other government agency. The government contended claims submitted for tests ordered by physicians and performed by the laboratories were improper. The Company settled these allegations without an admission of fault. The Corporate Integrity Agreement, among other things, requires that detailed notifications be made to physicians. In addition, as part of the overall settlement, a San Diego laboratory that was formerly part of Allied agreed to plead guilty to a charge of filing a false claim with Medicare and Medicaid in 1991 and to pay $5 million to the Federal government. The assets of the San Diego laboratory were sold by Allied in 1992, two years before the Allied Acquisition. As is customary with asset sales, Allied retained the liability for conduct preceding the sale - a liability the Company later succeeded to, following the Allied Acquisition and Merger. As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185 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. The Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims, however, due to the early stage of the claims, the ultimate outcome cannot presently be predicted.

Pursuant to the 1996 Government Settlement, the Company paid $187 million in December 1996 (the "Settlement Payment"). The Settlement Payment was paid from the proceeds of a $187 million loan made by Roche to the Company in December 1996. See "Management Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

1992 NHL Government Settlement

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

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

1994 Allied Government Settlement

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

regulations and to provide certain reports and information to HHS regarding such compliance efforts.

COMPLIANCE PROGRAM

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

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

ITEM 2. 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	Leases expire 1999,2004; 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

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

ITEM 3. LEGAL PROCEEDINGS

The Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims, however, due to the early stage of the claims, the ultimate outcome cannot presently be predicted.

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.

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

(a) The Annual Meeting of the Stockholders of the Company was held on November 20, 1996.

(b) The following individuals were elected to the board of directors:

Thomas P. Mac Mahon
James B. Powell, M.D.
Jean-Luc Belingard
Wendy E. Lane
Robert E. Mittelstaedt, Jr.
David B. Skinner, M.D.
Andrew G. Wallace, M.D.

(c) The matters voted upon were the election of directors, approval and adoption of the 1997 Employee Stock Purchase Plan and the ratification of the appointment of KPMG Peat Marwick LLP as the Company's independent auditors for the fiscal year ending December 31, 1996. Each of such matters was described in the proxy statement dated October 25, 1996 which was distributed to stockholders in connection with the annual meeting of the stockholders of the Company. The results of the vote were as follows:

	For	Withheld
Election of the members of the board of directors:		
Thomas P. Mac Mahon	94,970,162	16,653,733

James B. Powell, MD	94,969,162	16,654,733
Jean-Luc Belingard	94,970,162	16,653,733
Wendy E. Lane	109,673,536	1,950,359
Robert E. Mittelstaedt, Jr.	109,673,636	1,950,259
David B. Skinner, MD	109,673,636	1,950,259
Andrew G. Wallace, MD	109,673,636	1,950,259

	Votes For	Votes Against	Votes Abstained
Approval and adoption of the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan:	104,336,606	6,597,917	54,784
Ratification of the appointment of KPMG Peat Marwick LLP as the Company's independent auditors for the fiscal year ending December 31, 1996:	111,139,247	453,431	31,217

In addition, certain shares of NHL which have not been converted to Company shares were eligible to vote at the annual meeting and were voted as follows:

	For	Withheld
Election of the members of the board of directors:		
Thomas P. Mac Mahon	215	100
James B. Powell, MD	215	100
Jean-Luc Belingard	215	100
Wendy E. Lane	215	100
Robert E. Mittelstaedt, Jr.	215	100
David B. Skinner, MD	215	100
Andrew G. Wallace, MD	215	100

	Votes For	Votes Against	Votes Abstained
Approval and adoption of the Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan:	215	100	0
Ratification of the appointment of KPMG Peat Marwick LLP as the Company's independent auditors for the fiscal year ending December 31, 1996:	215	100	0

PART II

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

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

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

	High	Low
1995		
First Quarter	15 1/2	12 5/8
Second Quarter	15 1/4	11 3/4
Third Quarter	14	9 1/8
Fourth Quarter	10	8 1/8
1996		
First Quarter	9 3/8	7 1/4
Second Quarter	9	7 3/8

Third Quarter		7 5/8	3 1/4
Fourth Quarter		3 7/8	2 3/8
1997			
First Quarter		4	2 1/2
Second Quarter	(through April 7, 1997)	3 3/8	2 3/4

On April 7, 1997 there were approximately 900 holders of record of the Common Stock.

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

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 1996 are derived from consolidated financial statements of the Company, which financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants. This data should be read in conjunction with the accompanying notes, the Company's consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere herein.

	YEAR ENDED DECEMBER 31,				
	1996	1995 (a)	1994 (b)	1993	1992
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$1,607.7	$1,432.0	$872.5	$760.5	$ 721.4
Gross profit	423.8	407.7	275.5	316.0	326.3
Operating income (loss)	(118.8)(c)	67.2(d)	109.9	185.5	64.1(e)
Earnings (loss) before extraordinary loss	(153.5)	(4.0)	30.1	112.7	40.6
Extraordinary loss	--	(8.3)(f)	--	--	--
Net earnings (loss)	$ (153.5)	$ (12.3)	$ 30.1	$112.7	$ 40.6
Earnings (loss) per common share before extraordinary loss	$ (1.25)	$ (0.03)	$ 0.36	$ 1.26	$ 0.43
Extraordinary loss per common share	--	(0.08)	--	--	--
Net earnings (loss) per common share	$ (1.25)	$ (0.11)	$ 0.3	$ 1.26	$ 0.43
Dividends per common share	$ --	$ --	$ 0.08	$ 0.32	$ 0.31
Weighted average common shares outstanding (in thousands)	122,920	110,579	84,754	89,439	94,468

	DECEMBER 31,				
	1996	1995 (a)	1994 (b)	1993	1992
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 29.3	$ 16.4	$ 26.8	$ 12.3	$ 33.4
Intangible assets, net	891.1	916.7	551.9	281.5	188.3
Total assets	1,917.0	1,837.2	1,012.7	585.5	477.4
Long-term obligations (g)	1,089.4	948.6	583.0	314.6	114.2
Due to affiliates (h)	190.5	0.9	--	0.1	0.9
Total stockholders' equity	258.1	411.6	166.0	140.8	212.5

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

(c) In the second quarter of 1996, the Company recorded certain charges of a non-recurring nature including additional charges related to the restructuring of operations following the Merger. The Company recorded a restructuring charge totaling $13.0 million for the shutdown of its La Jolla, California administrative facility and other workforce reductions. In addition, the Company recorded $10.0 million in non-recurring charges in the second quarter of 1996 related to the integration of its operations following the Merger. See Note 3 of the Notes to Consolidated Financial Statements. As a result of negotiations with the OIG and DOJ related to the 1996 Government Settlement, the Company recorded 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-OIG Investigations_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 years ended December 31, 1996 and 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 were billing disputes with various third party payors relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

(e) In the fourth quarter of 1992, the Company recorded a charge against operating income of $136.0 million related to the 1992 NHL Government Settlement (as defined herein). See "Regulation and Reimbursement_OIG Investigations_1992 NHL Government Settlement."

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

(g) Long term obligations include a capital lease obligation of $9.8 million, $9.6 million, $9.8 million, $9.7 million and $9.6 million at December 31, 1996, 1995, 1994, 1993 and 1992, respectively. Long term obligations also includes the long-term portion of the expected value of future contractual and contingent amounts to be paid to the principals of acquired laboratories. Such payments are principally based on a percentage of future revenues derived from the acquired customer lists or specified amounts to be paid over a period of time. At December 31, 1996, 1995, 1994, 1993 and 1992, such amounts were $14.8 million, $14.7 million, $8.5 million, $15.9 million, and $2.6 million, respectively. Long term obligations exclude amounts due to affiliates.

(h) In December 1996, Roche loaned $187.0 million to the Company to fund the Settlement Payment in the form of a promissory note. Such note bears interest at a rate of 6.625% per annum and matures on March 31, 1998. The Settlement Payment was subsequently made in December 1996. In addition the Company owes affiliated companies approximately $3.5 million in trade payables.

ITEM 7. 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 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. In June 1994, the Company acquired Allied for approximately $191.5 million in cash plus the assumption of $24.0 million of Allied indebtedness. 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 the Notes to Consolidated Financial Statements. In addition to the Merger and the Allied Acquisition, since 1993 the Company has acquired a total of 57 small clinical laboratories with aggregate sales of approximately $182.4 million.

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

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

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

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

These market based factors have had a significant adverse impact on the clinical laboratory industry, and on the Company's profitability.

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

As a result of the Merger, the Company has realized and is expected to continue to achieve substantial savings in operating costs through the consolidation of certain operations and the elimination of redundant expenses. Such savings are being realized over time as the consolidation process is completed. Since the Merger, the Company has been able to effect substantial operating cost reductions in the combined businesses and expects that the full effect of these savings (in excess of $120 million per year when compared to the businesses' costs immediately prior to the Merger) will be realized during 1997. Such savings include an annualized reduction of $4.7 million in corporate, general and administrative expenses including the consolidation of administrative staff. Combining the NHL sales force with the RBL sales force where duplicate territories existed has added approximately $17.8 million of annualized synergies. Operational savings have resulted in approximately $94.8 million of annualized synergies. These include closing of overlapping laboratories and other facilities and savings realized from additional buying power by the larger Company. The Company has also realized annualized savings of approximately $14.2 million relating to employee benefits as a result of changes to certain benefit arrangements. The realization of the savings have been partially offset by increased temporary help and overtime expenses during the consolidation process. These costs are expected to reduce to normal levels at the conclusion of the consolidation process in early 1997. In addition, these savings have been largely offset by price erosion and utilization declines resulting from the increase in managed care and to a lesser extent from increases in other expenses such as bad debt expenses as discussed below. The effects of price erosion and utilization declines on the Company's results of operations, however, would have been greater but for savings achieved through the synergy program. In addition, the Company is focused on additional initiatives which are expected to achieve incremental cost savings in 1997. These plans include further regional laboratory consolidation, a new agreement with a supplier of telecommunications services and additional supply savings primarily due to increased efficiency. There can be no assurance that the estimated additional cost savings expected to be achieved will be realized or achieved in a timely manner or that improvements, if any, in profitability will be achieved or that such savings will not be offset by increases in other expenses.

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 OIG and the DOJ, have investigated allegations of fraudulent and abusive conduct by health care providers. On November 21, 1996, the Company reached a settlement with the OIG and the DOJ regarding the prior billing practices of various of its predecessor companies. Consistent with this overall settlement the Company paid $187.0 million to the Federal government in December 1996, with proceeds from the Roche Loan. As a result of negotiations related to the 1996 Government Settlement, the Company recorded a charge of $185.0 million in the third quarter of 1996 to increase accruals for the 1996 Government Settlement, and

other related expenses of government and private claims resulting therefrom.

In February 1997, the Company filed a registration statement with the Commission relating to the proposed offering of 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 the Company. Rights holders who exercise their rights in full will also be entitled to subscribe for additional shares of preferred stock issuable pursuant to any unexercised rights.

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

The proceeds of the Rights Offering will be used to reduce amounts outstanding under the Company's revolving and term loan credit facilities, repay the Roche Loan, and pay fees and expenses related to the Rights Offering and the Amended Credit Agreement.

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

The Company also entered into the Amended Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. The Amended Credit Agreement makes available to the Company a term loan facility of $693.8 million and a $450.0 million revolving credit facility. See "Liquidity and Capital Resources" below and Note 9 of the Notes to Consolidated Financial Statements for a complete description of the Existing and Amended Credit Agreements.

SEASONALITY

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

RESULTS OF OPERATIONS

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

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

Cost of sales, which includes primarily laboratory and distribution costs, increased to $1,183.9 million in 1996 from $1,024.3 million in 1995. Of the $159.6 million increase, approximately $181.9 million or 17.8% was due to the inclusion of the cost of sales of RBL. Cost of sales increased (i) approximately $23.8 million as a result of wage increases prior to the implementation of a six-month deferral on wage rate increases implemented on July 1, 1996, (ii) approximately $5.0 million as a result of higher overtime and temporary employee expenses related to the acceleration of the Company's synergy program and other operational factors, (iii) approximately $7.5 million due to higher depreciation and maintenance of lab equipment as a result of the Company's purchase in 1996 of more sophisticated equipment to improve efficiency, and (iv) approximately $8.0 million in outside

collection and reference testing fees. These increases were partially offset by decreases due to lower volume of approximately $14.7 million. Additional decreases in salaries and benefits of $49.5 million, and several other expense categories aggregating approximately $2.4 million were primarily a result of the Company's synergy and cost reduction programs. Cost of sales as a percentage of net sales was 73.6% in 1996 and 71.5% in 1995. The increase in the cost of sales percentage of net sales primarily resulted from a reduction in net sales due to price erosion and utilization declines, each of which provided little corresponding reduction in costs, and, to a lesser extent, due to severe weather in January and February of 1996 and a reduction in Medicare fee schedules.

Selling, general and administrative expenses increased to $305.0 million in 1996 from $238.5 million in the same period in 1995 representing an increase of $66.5 million or 27.9%. The inclusion of the selling, general and administrative expenses of RBL since April 28, 1995 increased expenses by approximately $36.5 or 15.3%. Increases in salaries, overtime and temporary employee expenses, primarily related to billing issues, and related telephone and data processing costs, aggregated approximately $24.8. Also, increased medical necessity and related diagnosis code requirements of third-party payors placed on the Company in late 1995 and additional requirements placed on the Company at the beginning of 1996 have resulted in lower collection rates. As a result the provision for doubtful accounts for 1996 increased approximately $16.6 million, including a charge of $10.0 million in the second quarter of 1996 compared to 1995 which included a $15.0 million charge in the fourth quarter of 1995. The 1995 charge was necessitated by the deterioration in the Company's accounts receivable collection rates in the fourth quarter of 1995 primarily due to the effect of increased medical necessity and diagnosis code requirements of third party payors placed on the Company in the second half of 1995. Additional such requirements were placed on the Company at the beginning of 1996, which resulted in a further deterioration in accounts receivable collection rates in the second quarter of 1996. As a result of this further deterioration, the Company recorded the special charge of $10.0 million in the second quarter of 1996. In addition, the Company increased its monthly provision for doubtful accounts beginning in the third quarter of 1996 as a result of continued lower collection rates. These increases were partially offset by decreases in legal expenses, excluding settlement expenses, insurance and several other expense categories aggregating approximately $1.9 million. Selling, general and administrative expenses were 19.0% and 16.7% as a percentage of net sales in 1996 and 1995, respectively. The increase in the selling, general and administrative percentage primarily resulted from increased employee expenses related to billing and collection activities 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

write-off of deferred financing costs.

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

The Fifth Amendment extended the Third Waiver until January 31, 1997 and excluded the Roche Loan from covenant calculations for the quarters ending December 31, 1996 and March 31, 1997. On January 27, 1997, the Company negotiated a waiver (the "Fifth Waiver") which further extended the Third Waiver until March 31, 1997.

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

In March 1997 the Company also entered into the Amended Credit Agreement which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. The Amended Credit Agreement makes available to the Company the Amended Term Loan Facility of $693.8 million and the Amended Revolving Credit Facility of $450.0 million.

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

As in the Existing Credit Agreement, both the Amended Term Loan Facility and the Amended Revolving Credit Facility bear interest, at the option of the Company, at (i) the base rate plus the applicable base rate margin or (ii) the eurodollar rate plus the applicable eurodollar rate margin. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by 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.

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

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

Year	Amount
	(in millions)
1997	$ --
1998	--
1999	50.0
2000	100.0
2001	150.0
2002	150.0
2003	150.0
3/31/2004	93.8

As in the Existing Credit Agreement, the amounts available under the Amended Revolving Credit Facility are subject to certain mandatory permanent reduction and prepayment requirements and the Amended Term Loan Facility is subject to specified mandatory prepayment requirements. In the Amended Credit Agreement, required amounts will first be applied to repay scheduled Amended Term Loan Facility payments until the Amended Term Loan Facility is

repaid in full and then to reduce the commitments and advances under the Amended Revolving Credit Facility. Required payments and reductions will include (i) the proceeds of debt issuances, subject to certain exceptions; (ii) the proceeds of certain asset sales, unless reinvested within one year of the applicable asset sale in productive assets of a kind then used or usable in the business of the Company and its subsidiaries; (iii) the proceeds of sales of equity securities in excess of certain amounts; and (iv) under certain circumstances, a percentage of excess cash flow, as calculated annually.

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

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

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

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

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

Borrowings under the Revolving Credit Facility were $384.0 million as of March 31, 1997. In addition, in December 1996, the Company received a loan of $187.0 million from Roche Holdings to fund the Settlement Payment in the form of a promissory note which bears interest at 6.625% per annum and originally matured on March 31, 1997. As discussed above, in late March 1997, the Company obtained an extension of the Roche Loan to March 31, 1998. The Company subsequently made the Settlement Payment in December 1996. The Roche Loan is expected to be repaid with a portion of the proceeds from the Rights Offering. Cash and cash equivalents on hand, cash flow from operations and additional borrowing capabilities of $66.0 million under the Revolving Credit Facility as of March 31, 1997 are expected to be sufficient to meet anticipated operating requirements, debt repayments and provide funds for capital expenditures and working capital through 1997. The Company's ability to meet anticipated operating requirements, debt repayments, including the Roche Loan, and other anticipated cash outlays beyond 1997 is substantially dependant upon the completion of the Rights Offering. Failure to complete the Rights Offering by the end of February 1998 will require additional waivers or amendments to the Existing Credit Agreement and an extension of the Roche Loan. There can be no assurance that such waivers, amendments or an extension can be obtained. Therefore, the failure to complete the Rights Offering by the end of February 1998 could have a material adverse effect on the Company's financial condition and liquidity.

At December 31, 1996, the Company was a party to interest rate swap agreements with certain major financial institutions, rated A or better by Moody's Investor Service, solely to manage its interest rate exposure with respect to $600.0 million of its floating rate debt under the Term Loan Facility. The agreements effectively changed the interest rate exposure on $600.0 million of floating rate debt to a weighted average fixed interest rate of 6.01%, through requiring that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in 1996 were $2.0 million. The notional amounts of the agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. These agreements mature in September 1998. The estimated cost at which the Company could terminate such agreements was $0.9 million at December 31, 1996.

IMPACT OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 128--"EARNINGS PER SHARE"

On March 3, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," replacing Accounting Principles Board ("APB") Opinion No. 15, "Earnings per Share." SFAS No. 128 replaces "primary" and "fully diluted"

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

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

(a) Heightened competition, including 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 to obtain and provide documentation of the medical necessity of tests included in the profiles for each Medicare beneficiary.

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

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

(g) Adverse results in significant litigation matters.

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

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

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

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

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not Applicable.

PART III

The information required by Part III, Items 10 through 13, of Form 10-K is incorporated by reference from the registrant's definitive proxy statement for its 1997 annual meeting of stockholders, which is to be filed pursuant to Regulation 14A not later than April 30, 1997.

PART IV

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

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

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

See Index on page F-1

(2) Financial Statement Schedules:

See Index on page F-1

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

(3) Index to and List of Exhibits

(a) Exhibits:*

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

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

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

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

2.4 - Agreement and Plan of Merger dated as of December 13, 1994 among the Company, HLR Holdings Inc., Roche Biomedical Laboratories, Inc. and (for the purposes stated therein) Hoffmann-La Roche Inc. (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 filed with the Commission on March 3, 1995, File No. 1-11353 (the "1994 10-K")).

2.5 - Stock Purchase Agreement dated December 30, 1994 between Reference Pathology Holding Company, Inc. and Allied Clinical Laboratories, Inc. ("Allied") (incorporated herein by reference to the 1994 10-K).

3.1 - Certificate of Incorporation of the Company (amended pursuant to a Certificate of Merger filed on April 28, 1995) (incorporated by reference herein to the report on Form 8-K

dated April 28, 1995, filed with the Commission on May 12, 1995, File No. 1-11353 (the "April 28, 1995 Form 8-K")).

3.2 - Amended and Restated By-Laws of the Company (incorporated herein by reference to the April 28, 1995 Form 8-K).

4.1 - Warrant Agreement dated as of April 10, 1995 between the Company and American Stock Transfer & Trust Company (incorporated herein by reference to the April 28, 1995 Form 8-K).

4.2 - Specimen of the Company's Warrant Certificate (included in the Exhibit to the Warrant Agreement included therein as Exhibit 4.1 hereto) (incorporated herein by reference to the April 28, 1995 Form 8-K).

4.3 - Specimen of the Company's Common Stock Certificate (incorporated herein by reference to the April 28, 1995 Form 8-K).

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

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

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

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

10.5* - Settlement Agreement dated November 21, 1996 between the Company and the United States of America.

10.6 - National Health Laboratories 1988 Stock Option Plan, as amended (incorporated herein by reference to the Company's Registration Statement on Form S-1 (No. 33-35782) filed with the Commission on July 9, 1990 (the "1990 S-1")).

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

10.8 - Laboratory Corporation of America Holdings Performance Unit Plan (incorporated by reference to Annex II of the Company's 1995 Annual Proxy Statement filed with the Commission on August 17, 1995 (the "1995 Proxy")).

10.9 - Laboratory Corporation of America Holdings Annual Bonus Incentive Plan (incorporated by reference to Annex III of the 1995 Proxy).

10.10 - Laboratory Corporation of America Holdings Master Senior Executive Severence Plan (incorporated herein by reference to the report on Form 8-K dated October 24, 1996 (the "October 24, 1996 8-K") filed with the Commission on October 24, 1996, File No. 1-11353).

10.11 - Special Severance Agreement dated June 28, 1996 between the Company and Timothy J. Brodnik (incorporated herein by reference to the October 24, 1996 8-K).

10.12 - Special Severance Agreement dated July 12, 1996 between the Company and John F. Markus (incorporated herein by reference to the October 24, 1996 8-K).

10.13 - Special Severance Agreement dated June 28, 1996 between the Company and Robert E. Whalen (incorporated herein by reference to the October 24, 1996 8-K).

10.14 - Tax Allocation Agreement dated as of June 26, 1990 between MacAndrews & Forbes Holding Inc., Revlon Group Incorporated, New Revlon Holdings, Inc. and the subsidiaries of Revlon set forth on Schedule A thereto (incorporated herein by reference to the 1990 S-1).

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

10.16 - Sharing and Call Option Agreement dated as of December 13, 1994 among HLR Holdings Inc., Roche Biomedical Laboratories, Inc., Mafco Holdings Inc., National Health Care Group, Inc. and (for the purposes stated therein) the Company (incorporated by reference herein to the 1994 10-K).

10.17 - Stockholder Agreement dated as of April 28, 1995 among the Company, HLR Holdings Inc., Hoffmann-La Roche Inc. and Roche Holdings, Inc. (incorporated herein by reference to the April 28, 1995 Form 8-K).

10.18 - Exchange Agent Agreement dated as of April 28, 1995 between

		the Company and American Stock Transfer & Trust Company (incorporated herein by reference to the April 28, 1995 Form 8-K).
10.19	-	Credit Agreement dated as of April 28, 1995, among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the April 28, 1995 Form 8-K).
10.20	-	First Amendment to Credit Agreement dated as of September 8, 1995 among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent. (incorporated by reference herein to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 filed with the Commission on November 14, 1995, File No. 1-11353).
10.21	-	Second Amendment to Credit Agreement dated as of February 16, 1996 among the Company, the banks named therein, and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed with the Commission on March 29, 1996, File No. 1-11353).
10.22	-	Third Amendment and Second Waiver to Credit Agreement dated as of July 10, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch) as Administrative Agent (incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1996 filed with the Commission on August 14, 1996, File No. 1-11353).
10.23	-	Fourth Amendment to the Credit Agreement dated as of September 23, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the report in Form 8-K dated September 23, 1996, filed with the Commission on September 30, 1996, File No. 1-11353).
10.24	-	Third Waiver to the Credit Agreement dated as of November 4, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1996 filed with the Commission on November 14, 1996, File No. 1-11353).
10.25	-	Fifth Amendment and Fourth Waiver to the Credit Agreement dated as of December 23, 1996 among the Company, the banks named therein and Credit Suisse (New York Branch), as Administrative Agent (incorporated herein by reference to the report on Form 8-K filed with the Commission on January 6, 1997, File No. 1-11353 (the "January 6, 1997 8-K")).
10.26*	-	Fifth Waiver to the Credit Agreement dated as of January 27, 1997 among the Company, the banks named therein and Credit Suisse (New York Branch) as Administrative Agent.
10.27*	-	Sixth Amendment and Waiver to the Credit Agreement dated as of March 31, 1997 among the Company, the banks named therein and Credit Suisse First Boston as Administrative Agent.
10.28*	-	Amended and Restated Credit Agreement dated as of March 31, 1997 among the Company, the banks named therein and Credit Suisse First Boston as Administrative Agent.
10.29	-	Laboratory Corporation of America Holdings 1995 Stock Plan for Non-Employee Directors (incorporated by reference herein to the report of Form S-8 dated September 26, 1995, filed with the Commission on September 26, 1995).
10.30	-	Laboratory Corporation of America Holdings 1997 Employee Stock Purchase Plan (incorporated by reference herein to Annex I of the Company's 1996 Annual Proxy Statement filed with the Commission on October 25, 1996.
10.31	-	Promissory note dated December 30, 1996 between the Company and Roche Holdings Inc. (incorporated herein by reference to the January 6, 1997 8-K).
10.32*	-	First Amendment to promissory note given by the Company to Roche Holdings Inc.
21.1*	-	List of Subsidiaries of the Company
23.1*	-	Consent of KPMG Peat Marwick LLP.
24.1*	-	Power of Attorney of Jean-Luc Belingard
24.2*	-	Power of Attorney of Wendy E. Lane
24.3*	-	Power of Attorney of Robert E. Mittelstaedt, Jr.
24.4*	-	Power of Attorney of James B. Powell, M.D.
24.5*	-	Power of Attorney of David B. Skinner
24.6*	-	Power of Attorney of Andrew G. Wallace, M.D.

27 - Financial Data Schedule (electronically filed version only).

(b) Reports on Form 8-K

1) A current report on Form 8-K dated November 21, 1996 was filed on November 20, 1996 in connection with the Company's press release dated November 21, 1996 announcing a settlement agreement with the U.S. Government as well as certain other information.
2) A current report on Form 8-K dated December 4, 1996 was filed on December 4, 1996 in connection with the resignation of the Company's Chief Operating Officer.
3) A current report on Form 8-K dated December 30, 1996 was filed on January 6, 1997 in connection with promissory note between the Company and Roche Holdings Inc and an amendment to the Company's Credit agreement.

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

SIGNATURES

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

LABORATORY CORPORATION OF AMERICA HOLDINGS

Registrant

By:/s/ THOMAS P. MAC MAHON

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

Dated: April 9, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on April 9, 1997 in the capacities indicated.

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

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

By:/s/ BRADFORD T. SMITH
Bradford T. Smith
Attorney-in-fact

LABORATORY CORPORATION OF AMERICA HOLDINGS

INDEX TO FINANCIAL STATEMENTS
AND SCHEDULE

INDEPENDENT AUDITORS' REPORT

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Laboratory Corporation of America Holdings and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

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

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

	December 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29.3	$ 16.4
Accounts receivable, net	505.6	426.8
Inventories	44.3	50.1
Prepaid expenses and other	21.8	21.4
Deferred income taxes	66.2	63.3
Income taxes receivable	54.3	21.9
Total current assets	721.5	599.9
Property, plant and equipment, net	282.9	304.8
Intangible assets, net	891.1	916.7
Other assets, net	21.5	15.8
	$1,917.0	$1,837.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 65.7	$ 106.2
Accrued expenses and other	168.4	173.5
Current portion of long-term debt	18.7	70.8
Total current liabilities	252.8	350.5
Loan from affiliate	187.0	--
Revolving credit facility	371.0	218.0
Long-term debt, less current portion	693.8	712.5
Capital lease obligation	9.8	9.6
Other liabilities	144.5	135.0
Stockholders' equity:		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value; 220,000,000 shares authorized; 122,935,080 and 122,908,722 shares issued and outstanding at December 31, 1996 and 1995, respectively	1.2	1.2
Additional paid-in capital	411.0	411.0
Accumulated deficit	(154.1)	(0.6)
Total stockholders' equity	258.1	411.6
	$ 1,917.0	$1,837.2

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

	Common Stock $0.01 Par Value	Additional Paid-in Capital	Retained Earnings	Minimum Pension Liability Adjustment	Treasury Stock	Total
Balance, December 31, 1993	$ 1.0	$ 226.3	$ 202.0	$ (2.4)	$(286.1)	$140.8
Net earnings	--	--	30.1	--	--	30.1
Exercise of stock options	--	0.1	--	--	--	0.1
Dividends to stockholders	--	--	(6.8)	--	--	(6.8)
Retirement of treasury stock	(0.2)	(72.3)	(213.6)	--	286.1	--
Adjustment for minimum pension liability	--	--	--	2.4	--	2.4
Other	--	(0.6)	--	--	--	(0.6)
Balance, December 31, 1994	0.8	153.5	11.7	--	--	166.0
Net loss	--	--	(12.3)	--	--	(12.3)
Exercise of stock options	--	0.2	--	--	--	0.2
Cancellation of stock options	--	6.9	--	--	--	6.9
Distribution to stockholders	(0.2)	(474.5)	--	--	--	(474.7)
Issuance of common stock	0.6	674.6	--	--	--	675.2
Issuance of warrants	--	51.0	--	--	--	51.0
Other	--	(0.7)	--	--	--	(0.7)
Balance, December 31, 1995	1.2	411.0	(0.6)	--	--	411.6
Net loss	--	--	(153.5)	--	--	(153.5)
Balance, December 31, 1996	$ 1.2	$ 411.0	$(154.1)	$ --	$ --	$ 258.1

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ (153.5)	$(12.3)	$ 30.1
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Restructuring and non-recurring charges	23.0	65.0	--
Provision for settlements and related expenses	185.0	10.0	21.0
Extraordinary loss, net of income tax benefit	--	8.3	--
Depreciation and amortization, net	84.5	72.4	44.4
Deferred income taxes, net	30.3	(21.6)	11.0
Provision for doubtul accounts, net	22.2	12.4	(1.4)
Change in assets and liabilities, net of effects of acquisitions:			
Increase in accounts receivable	(102.2)	(58.6)	(54.0)
Decrease(increase)in inventories	8.0	5.1	(0.9)
Decrease(increase)in prepaid expenses and other	(3.1)	1.0	5.1
Change in income taxes receivable/payable, net	(32.4)	(11.7)	5.5
Increase(decrease)in accounts payable, accrued expenses and other	(33.4)	27.9	(13.1)
Payments for restructuring and non-recurring charges	(18.8)	(13.4)	--
Payments for settlement and related expenses	(188.9)	(32.1)	(29.8)
Other, net	(7.5)	(5.4)	(3.2)
Net cash provided by (used for) operating activities	(186.8)	47.0	14.7
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(54.1)	(75.4)	(48.9)
Proceeds from sale of subsidiary	--	--	10.1
Acquisitions of businesses	(5.0)	(39.6)	(254.8)
Net cash used for investing activities	(59.1)	(115.0)	(293.6)

(continued)

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
(Dollars in millions, except per share data)

	Years Ended December 31,		
	1996	1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facilities	$ 293.0	$ 308.0	$ 308.0
Payments on revolving credit facilities	(140.0)	(303.0)	(373.0)
Proceeds from long-term debt	--	800.0	400.0
Loan from affiliate	187.0	--	--
Payments on long-term debt	(70.8)	(446.7)	(20.0)
Deferred payments on acquisitions	(10.4)	(12.9)	(7.6)
Dividends paid on common stock	--	--	(13.6)
Distribution to stockholders	--	(474.7)	--
Cash received for issuance of common stock	--	135.7	--
Cash received for issuance of warrants	--	51.0	--
Other	--	0.2	(0.4)
Net cash provided by financing activities	258.8	57.6	293.4
Net increase (decrease) in cash and cash equivalents	12.9	(10.4)	14.5
Cash and cash equivalents at beginning of year	16.4	26.8	12.3
Cash and cash equivalents at end of year	$ 29.3	$ 16.4	$ 26.8
Supplemental schedule of cash flow information:			
Cash paid during the period for:			
Interest	$ 65.1	$ 58.6	$ 34.2
Income taxes	(15.2)	27.2	14.8
Disclosure of non-cash financing and investing activities:			
Common stock issued in connection with acquisition	--	539.5	--
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	$ 23.4	$ 777.7	$ 399.4
Cash paid	(5.0)	(39.6)	(254.8)
Stock issued	--	(539.5)	--
Liabilities assumed	$ 18.4	$ 198.6	$ 144.6

See notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

Laboratory Corporation of America Holdings is one of the three largest independent clinical laboratory companies in the United States based on 1996 net revenues. Through a national network of laboratories, the Company offers a broad range of testing services used by the medical profession in the diagnosis, monitoring and treatment of disease and other clinical states. Since its founding in 1971, the Company has grown into a network of 28 major laboratories and approximately 1,500 service sites consisting of branches, patient service centers and STAT laboratories, serving clients in 48 states.

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

Cash Equivalents:

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

Inventories:

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

Financial Instruments:

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

Property, Plant and Equipment:

Property, plant and equipment are recorded at cost. The cost of properties held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the

(Dollars in millions, except per share data)

leased property at the inception of the lease. Depreciation and amortization expense is computed on all classes of assets based on their estimated useful lives, as indicated below, using principally the straight-line method.

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

Leasehold improvements and assets held under capital leases are amortized over the shorter of their estimated lives or the period of the related leases. Expenditures for repairs and maintenance charged against earnings in 1996, 1995 and 1994 were $34.2, $28.3 and $16.5, respectively.

Fair Value of Financial Instruments:

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

Concentration of Credit Risk:

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

Revenue Recognition:

Sales are recognized on the accrual basis at the time test results are reported, which approximates when services are provided. Services are provided to certain patients covered by various third-party payor programs including the Medicare and Medicaid programs. Billings for services under third-party payor programs are included in sales net of allowances for differences between the amounts billed and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement. In 1996, 1995 and 1994, approximately 23%,

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

Income Taxes:

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

Stock Option Plans:

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

Earnings per Common Share:

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

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make

estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of:

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

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

Reclassifications:

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

2. MERGER AND ACQUISITIONS

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

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

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

3. RESTRUCTURING AND NON-RECURRING CHARGES

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

In addition, the Company recorded certain non-recurring charges in the second quarter of 1996 related to further integration after the Merger. The Company decided to abandon certain data processing systems and therefore wrote off approximately $6.7 in capitalized software costs. In addition, the Company relocated its principal drug testing facility to accommodate consolidation of the RBL and Company operations and will incur approximately $1.3 in costs primarily related to the write-off of leasehold improvements and building clean up. Finally, the Company recorded a charge of $2.0

for various other items including the write-off of certain supplies related to changes in testing methodologies to increase efficiency. As a result of these changes, some supplies were not compatible with the new testing methods and were disposed of.

Following the Merger in 1995, the Company determined that it would be beneficial to close Company laboratory facilities in certain geographic regions where duplicate Company and RBL facilities existed at the time of the Merger. As a result, the Company recorded a restructuring charge of $65.0 in the second quarter of 1995. As part of the Company's evaluation of its future obligations under these restructuring activities, certain changes in the estimates were made during the quarter ended June 30, 1996. These resulted in the reclassification of certain accruals in the categories listed below although the total liability did not change. These restructuring activities have been substantially completed as of December 31, 1996 and have resulted in a net reduction of approximately 1,600 employees.

(Dollars in millions, except per share data)

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

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

4. ACCOUNTS RECEIVABLE, NET

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

5. PROPERTY, PLANT AND EQUIPMENT, NET

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

(Dollars in millions, except per share data)

6. ACCRUED EXPENSES AND OTHER

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

7. OTHER LIABILITIES

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

8. SETTLEMENTS

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

In the second quarter of 1995, the Company took a pre-tax special charge of $10.0 in connection with the estimated costs of settling various claims pending against the Company, substantially all of which were billing disputes with various third party payors

relating to the contention that NHL improperly included tests for HDL cholesterol and serum ferritin in its basic test profile without clearly offering an alternative profile that did not include these medical tests. As of December 31, 1996, the majority of these disputes have been settled.

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

9. LONG-TERM DEBT

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

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

1997. On January 27, 1997, the Company negotiated a waiver (the "Fifth Waiver") which further extended the Third Waiver until March 31, 1997.

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

In March 1997, the Company also entered into an amended and restated credit agreement (the "Amended Credit Agreement") which will become effective upon completion of the Rights Offering following satisfaction of certain conditions precedent. The Amended Credit Agreement makes available to the Company a term loan facility of $693.8 (the "Amended Term Loan Facility") and a $450.0 revolving credit facility (the "Amended Revolving Credit Facility"). The Amended Revolving Credit Facility will include a $50.0 letter of credit sublimit. The maturities under the Amended Credit Agreement are extended approximately three years for the Amended Term Loan Facility to March 31, 2004 and approximately two years for the Amended Revolving Credit Facility to March 31, 2002.

As in the Existing Credit Agreement, both the Amended Term Loan Facility and the Amended Revolving Credit Facility bear interest, at the option of the Company, at (i) the base rate plus the applicable base rate margin or (ii) the eurodollar rate plus the applicable eurodollar rate margin. The Amended Credit Agreement provides that in the event of a reduction of the percentage of Common Stock held by 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 are based upon the leverage ratio.

Total amortization of the Amended Term Loan Facility for each twelve-month period following the closing date of the Rights Offering will be reduced significantly for the first three years, and will be

(Dollars in millions, except per share data)

made (in quarterly installments) in accordance with the following table:

Year	Amount
1997	$ --
1998	--
1999	50.0
2000	100.0
2001	150.0
2002	150.0
2003	150.0
3/31/2004	93.8

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

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

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

At December 31, 1996, the Company was a party to interest rate swap agreements with certain major financial institutions, rated A or better by Moody's Investor Service, solely to manage its interest rate exposure with respect to $600.0 of its floating rate debt under the Term Loan Facility. The agreements effectively changed the interest rate exposure on $600.0 of floating rate debt to a weighted average fixed interest rate of 6.01%, through requiring that the Company pay a fixed rate amount in exchange for the financial institutions paying a floating rate amount. Amounts paid by the Company in 1996 were $2.0. The notional amounts of the agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. These agreements mature in September 1998. The estimated cost at which the Company could terminate these agreements as of December 31, 1996 was approximately $0.9. The fair value was estimated by discounting the

expected cash flows using rates currently available for interest rate swaps with similar terms and maturities.

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

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

10. LOAN FROM AFFILIATE

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

11. STOCKHOLDERS' EQUITY

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

(Dollars in millions, except per share data)

12. INCOME TAXES

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

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

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

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

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

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

(Dollars in millions, except per share data)

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

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

There was no valuation allowance for deferred tax assets as of December 31, 1995 and 1994. At December 31, 1996 the valuation allowance for deferred tax assets was $32.0. Realization of the deferred tax assets related to the state net operating loss carry forwards, the post retirement benefit obligation as well as certain other temporary differences is considered uncertain, and therefore a valuation allowance has been established for these items. The

Company believes that it is more likely than not that the results of future operations and carry back availability will generate sufficient taxable income to realize the remaining deferred tax assets.

13. 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 13, 1994 and receive cash and shares of common stock according to a formula included in the merger agreement or (ii) convert such options into new options based on a formula included in the merger agreement. The amount of cash and shares of common stock issued was equal to the product of (i) the number of shares of common stock subject to such options submitted for cancellation and (ii) the excess of (1) $18.50 over (2) the per share exercise price of such options (such product, the "Option Value Amount"). The Option Value Amount was paid as follows: 40% of such amount was paid in cash, and 60% of such amount (the "Option Stock Amount") was paid in the number of shares of common stock obtained by dividing the Option Stock Amount by $15.42. In connection with the cancellation of stock options, the Company paid a total of $5.5 in cash and issued 538,307 shares of common stock to option holders. The value of such amounts were considered transaction costs of the merger and therefore were not treated as compensation expense. Also, a total of 562,532 options were reissued as a result of option conversions at exercise prices between $11.293 and $16.481.

At December 31, 1996, there were 3,427,316 additional shares available for grant under the Company's Stock Option Plans. There were no options granted in 1996. The per share weighted-average fair value of stock options granted during 1995 was $8.54 per share on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: - expected dividend yield

(Dollars in millions, except per share data)

0.0%, risk-free interest rate of 6.86%, and an expected life of ten years.

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

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

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

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

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

(Dollars in millions, except per share data)

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

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

14. COMMITMENTS AND CONTINGENCIES

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

Under the Company's present insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Company is responsible for the uninsured portion of losses related primarily to general, product and vehicle liability and workers' compensation. The self-insured retentions are on a per occurrence basis without any aggregate annual limit. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregated liability of claims incurred. At December 31, 1996 and 1995, the Company had provided letters of credit aggregating approximately $17.6 and $8.6, respectively, primarily in connection with certain insurance programs.

During 1991, the Company guaranteed a $9.0, five-year loan to a third party for construction of a new laboratory to replace one of the Company's existing facilities. Following its completion in November of 1992, the building was leased to the Company by this

(Dollars in millions, except per share data)

third party. Such transaction is treated as a capital lease for financial reporting purposes. The associated lease term continues for a period of 15 years, expiring in 2007. Under the terms of this guarantee, as modified, the Company is required to maintain 105% of the outstanding loan balance including any overdue interest as collateral in a custody account established and maintained at the lending institution. As of December 31, 1996 and 1995, the Company had placed $9.5 of investments in the custody account. Such investments are included under the caption "Other assets, net" in the accompanying consolidated balance sheets.

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

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

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

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

15. PENSION AND POSTRETIREMENT PLANS

The Company maintains a defined contribution pension plan for all eligible employees. Eligible employees are defined as individuals who are age 21 or older and have been employed by the Company for at least six consecutive months and completed 1,000 hours of service. Company contributions to the plan are based on a percentage of employee contributions. The cost of this plan was $7.5, $5.8, and $3.6 in 1996, 1995, and 1994, respectively.

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

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

Under the requirements of SFAS No. 87, "Employers Accounting for Pensions", the Company recorded an additional minimum pension liability representing the excess accumulated benefit obligation over plan assets at December 31, 1993. A corresponding amount was recognized as an intangible asset to the extent of unrecognized prior service cost, with the balance recorded as a separate reduction of stockholders' equity.

The Company recorded an additional liability of $3.0, an intangible asset of $0.6, and a reduction of stockholders' equity of $2.4. Such amounts were eliminated as a result of the amendments to the Company Plan effective December 31, 1994.

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

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

(Dollars in millions, except per share data)

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

The status of the plans are as follows:

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

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

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

(Dollars in millions, except per share data)

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

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

The status of the plan is as follows:

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

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

(Dollars in millions, except per share data)

16. QUARTERLY DATA (UNAUDITED)

The following is a summary of unaudited quarterly data:

	Year ended December 31, 1996				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Net sales	$ 403.9	$ 410.0	$ 402.6	$ 391.2	$1,607.7
Gross profit	100.6	109.5	102.5	111.2	423.8
Net earnings	5.9	(14.2)	(146.4)	1.2	(153.5)
Earnings per common share	0.05	(0.12)	(1.19)	0.01	(1.25)

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

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

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

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

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

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

17. SUBSEQUENT EVENT (UNAUDITED)

In February 1997, the Company filed a registration statement with the Securities and Exchange Commission (the "Commission") relating to the proposed offering of an aggregate of $500.0 of convertible preferred stock issuable in two series pursuant to transferable subscription rights to be granted on a pro rata basis to each stockholder of the Company (the "Rights Offering"). Rights holders who exercise their rights in full will also be entitled to subscribe for additional shares of preferred stock issuable pursuant to any unexercised rights.

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

The Company has recently been contacted by representatives of certain insurance companies, and individuals in a purported class action, who have asserted claims for private reimbursement which are similar to the Government claims recently settled. The Company is carefully evaluating these claims, however, due to the early stage of the claims, the ultimate outcome cannot presently be predicted.

Schedule II

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
Years Ended December 31, 1996, 1995 and 1994
(Dollars in Millions)

	Balance at beginning of year	Acquisitions	Charged to costs and expenses	Other (Deductions) Additions	Balance at end of year
Year ended December 31, 1996:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 90.4	$ --	$ 148.8	$ (127.6)	$ 111.6
Year ended December 31, 1995:					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 65.3	$ 33.2	$ 147.6	$ (155.7)	$ 90.4
Year ended December 31, 1994					
Applied against asset accounts:					
Contractual allowances and allowance for doubtful accounts	$ 51.0	$ 18.5	$ 91.5	$ (95.7)	$ 65.3

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement ("Agreement") is entered by and between the United States of America, acting through its Department of Justice and the United States Attorneys' Offices for the Middle District of North Carolina, Southern District of New York, Southern District of California, Middle District of Pennsylvania, District of New Mexico, and Eastern District of Virginia, and on behalf of the Office of Inspector General of the United States Department of Health and Human Services ("HHS-OIG"); the Office of Inspector General of the United States Railroad Retirement Board ("RRB-OIG"); the Office of the Civilian Health and Medical Program of the Uniformed Services ("OCHAMPUS") through the General Counsel, a field activity of the Office of the Secretary of Defense, the United States Department of Defense; the Federal Employees Health Benefits Program, administered by the United States Office of Personnel Management ("OPM-OIG"), through the United States Attorney's Office for the District of Columbia (collectively all of the above will be referred to as the "United States"); Laboratory Corporation of America Holdings, and Laboratory Corporation of America, corporations organized under the laws of the State of Delaware, Roche Biomedical Laboratories, Inc., National Health Laboratories, Inc., and Allied Clinical Laboratories, Inc.; and Andrew A. Hendricks, M.D., William St. John LaCorte, M.D., Mary J. Downy, and Geoffrey Zuccolo (the "Relators"). Collectively, all of the above will be referred to as "the Parties."

PREAMBLE

A. WHEREAS, this Agreement addresses the United States' civil claims against Roche Biomedical Laboratories, Inc. ("RBL"), National Health Laboratories, Inc. ("NHL"), Allied Clinical Laboratories, Inc. ("Allied"), and Laboratory Corporation of America Holdings ("LCAH") and Laboratory Corporation of America ("LCA") (LCAH and LCA will be collectively referred to as "LabCorp") as successor by merger to RBL and NHL, based on the conduct described in Preamble Paragraphs E through Z below and the conduct alleged in United States ex rel. Andrew A. Hendricks, M.D. v. Roche Biomedical Laboratories, Inc., 93 Civ. 5644 (JSM) (Southern District of New York) (filed August 13, 1993); United States ex rel. William St. John LaCorte, M.D. v. Roche Biomedical Laboratories, Inc., No. 2:96CV00417 (Middle District of North Carolina) (originally filed December 27, 1993, in the Eastern District of Louisiana, and transferred to the Middle District of North Carlina on May 15, 1996); United States ex rel. Mary J. Downy v. National Health Laboratories, Inc. and Roche Biomedical, Inc. (its successor) d/b/a Laboratory Corporation of America et al., Civ. No. 96-0378 (District of New Mexico) (filed March 20, 1996); and United States ex rel. Geoffrey Zuccolo v. NHL/LabCorp of America et al., Civ. No. 96-67-M (Eastern District of Virginia) (filed January 4, 1996) (collectively these four suits will be referred to as the "Civil Actions" and Andrew A. Hendricks, M.D., William St. John LaCorte, M.D., Mary J. Downy, and Geoffrey Zuccolo will be referred to as the "Relators");

B. WHEREAS, Allied is entering a plea of guilty to an Information alleging the submission of a false claim to the United States captioned United States v. Allied Clinical Laboratories, San Diego Regional Laboratory, Criminal Case No. [TO BE ASSIGNED] (filed in the Middle District of North Carolina, November 21, 1996);

C. WHEREAS, Laboratory Corporation of America Holdings (formerly National Health Laboratories Holdings, Inc.) is a Delaware corporation publicly traded on the New York Stock Exchange, which is the successor by merger to Roche Biomedical Laboratories, Inc., and which wholly owns Laboratory Corporation of America (formerly known as National Health Laboratories, Inc.) (this merger was effective April 28, 1995);

D. WHEREAS, Allied Clinical Laboratories, Inc., is a Delaware corporation formerly headquartered in Tennessee, which was acquired by NHL in June 1994;

E. WHEREAS, at relevant times, RBL, NHL, and Allied each owned and operated a system of independent clinical testing laboratories in the United States;

F. WHEREAS, RBL, NHL, and Allied submitted or caused to be submitted claims for payment to the Medicare program, Title XVIII of the Social Security Act, 42 U.S.C. ' 1395 et seq., which is

administered by the United States Department of Health and Human Services;

G. WHEREAS, RBL, NHL, and Allied submitted or caused to be submitted claims for payment to the CHAMPUS program, 10 U.S.C. '' 1071-1106, which is administered by the United States Department of Defense through its component agency, OCHAMPUS;

H. WHEREAS, RBL, NHL, and Allied submitted or caused to be submitted claims for payment to the Railroad Retirement Medicare program, Railroad Retirement Act of 1974, 45 U.S.C. ' 231 et seq., which is administered by the United States Railroad Retirement Board ("RRB");

I. WHEREAS, RBL, NHL, and Allied submitted or caused to be submitted claims for payment to the Federal Employees Health Benefits Program ("FEHBP"), which is administered by the Office of Personnel Management ("OPM") pursuant to 5 U.S.C. '' 8901 et seq.;

J. WHEREAS, RBL submitted or caused to be submitted claims for payment to the Medicaid programs, Title XIX of the Social Security Act, 42 U.S.C. ' 1396 et seq., of the states of Alabama, Alaska, Arkansas, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, and Wisconsin;

K. WHEREAS, NHL submitted or caused to be submitted claims for payment to the Medicaid programs, Title XIX of the Social Security Act, 42 U.S.C. ' 1396 et seq., of the states of Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and the District of Columbia;

L. WHEREAS, Allied submitted or caused to be submitted claims for payment to the Medicaid programs, Title XIX of the Social Security Act, 42 U.S.C. ' 1396 et seq., of the states of Alabama, California, Florida, Georgia, Idaho, Illinois, Louisiana, Mississippi, Nevada, North Carolina, Ohio, Tennessee, Texas, Utah, and Wyoming (the states referred to in Paragraphs J through L will be referred to collectively as the "Participating States");

M. WHEREAS, the United States alleges that commencing in 1990 and continuing thereafter RBL violated federal statutes and/or common law doctrines, in connection with the marketing, sale, pricing and billing of its Diagnostic Multi-Chem Profiles (RBL Nos. 027623 and 037267) and other profiles incorporating these Diagnostic Multi-Chem Profiles, by routinely and automatically adding high-density lipoprotein ("HDL") tests (Current Procedural Terminology code ("CPT") 83718) and low-density lipoprotein ("LDL") calculations (CPT 83720) to all of its Diagnostic Multi-Chem Profiles, and RBL submitted and/or caused to be submitted false claims to the United States for these tests that RBL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these tests were billed by and paid to RBL;

N. WHEREAS, the United States alleges that commencing on April 1, 1991, and continuing thereafter RBL violated federal statutes and/or common law doctrines, in connection with the marketing, sale, pricing and billing of its testing for Thyroid Stimulating Hormone ("TSH") (CPT 84443) by routinely adding such test to its Executive Profile I (RBL Nos. 048827 and 272211), Executive Profile II (RBL Nos. 252189 and 267898), Executive Profile III (RBL Nos. 213736 and 272203), and Executive Profile IV (RBL Nos. 277715 and 277723), as well as adding T-3 Uptake (CPT 84479) and Free Thyroxine Index ("T-7") (CPT 82756) to certain Executive Profiles, and RBL submitted and/or caused to be submitted false claims to the United States for these tests that RBL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these tests were billed by and paid to RBL;

O. WHEREAS, the United States alleges that prior to 1990 and continuing thereafter RBL violated federal statutes and/or common law doctrines, in connection with the marketing, sale, pricing and billing of its testing for osmolality (CPT 83930), by routinely and

automatically including such test in Executive Profile D (RBL Nos. 032185 and 040048) and Executive Profiles I and III and other profiles, and RBL submitted and/or caused to be submitted false claims to the United States for these tests that RBL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the treatment or diagnosis of illness or injury; these tests were billed by and paid to RBL;

P. WHEREAS, the United States alleges that prior to 1990 and continuing thereafter RBL violated federal statutes and/or common law doctrines, in connection with the marketing, sale, pricing and billing of its testing for fructosamine (CPT 82985) as a routine and automatic part of its Executive Profile D (RBL Nos. 032185 and 040048), Executive Profiles III and IV, and other profiles, and RBL submitted and/or caused to be submitted false claims to the United States for these tests that RBL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these tests were billed by and paid to RBL;

Q. WHEREAS, the United States alleges that prior to 1990 and continuing thereafter RBL violated federal statutes and/or common law doctrines in connection with the marketing, sale, pricing and billing of its testing for Syphilis (CPT 86592) as a routine and automatic part of its Executive Profile II (RBL No. 252189), Executive Profile III (RBL No. 213736) and other profiles, and RBL submitted and/or caused to be submitted false claims to the United States for these tests that RBL knew were not specifically ordered by a physician and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these tests were billed by and paid to RBL;

R. WHEREAS, the United States alleges that NHL violated federal statutes and/or common law doctrines from January 1, 1993, through December 31, 1993, in connection with the marketing, sale, pricing and billing of the HDL test and LDL calculation ("HDL" collectively) as a routine and automatic part of the NHL's standard "Health Survey Profile I" ("HSP I") group of blood tests commonly ordered by doctor-clients of NHL, and the serum ferritin test (a test to estimate iron storage) as a routine and automatic part of its standard HSP I blood tests; NHL submitted and/or caused to be submitted false claims to the United States for these tests which NHL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these tests were billed by and paid to NHL;

S. WHEREAS, the United States alleges that the HDL and ferritin conduct described in Paragraph R above did generate NHL claims for payment to federally-funded programs for HDL and ferritin tests that NHL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of an illness or injury, and enabled NHL to collect federal payments from Medicare, CHAMPUS, RRB, FEHBP, and Medicaid for such tests; these allegations resulted in tests that were billed by and paid to NHL;

T. WHEREAS, NHL asserts that after December 18, 1992, it took steps to disclose to its physician-clients the contents of the HSP I profile and to provide appropriate ordering options to them, but the United States alleges that NHL's steps to cease submitting false claims by billing federally-funded programs for medically unnecessary HDL, LDL, and ferritin tests/calculations were inadequate;

U. WHEREAS, the United States alleges that from January 1, 1989, through June 1993, NHL violated federal statutes and/or common law doctrines in connection with the marketing, sales, pricing and billing aspects of its program to provide two separate tests, prostatic acid phosphatase ("PAP") and prostate-specific antigen ("PSA"), only as a combined PAP/PSA panel, and by performing and billing for both tests when either test was ordered, combining the tests on its order forms, and/or presenting literature to healthcare providers representing that the combination of the PAP and PSA tests was medically valid and necessary; and NHL submitted and/or caused to be submitted false claims to the United States for these tests which NHL knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these allegations resulted in tests that were billed by and paid to NHL;

V. WHEREAS, the United States alleges that from January 1, 1988, and continuing thereafter Allied violated federal statutes and/or common law doctrines, in connection with the marketing, sale, pricing and billing of its testing for serum ferritin (CPT 82728),

gamma glutamyl transpeptidase ("GGT") (CPT 82977), triglycerides ("Trig") (CPT 84478), serum iron (CPT 83540/83545), HDL, LDL, creatine phosphokinase ("CPK") (CPT 82550), amalyse (CPT 82150), and serum magnesium tests (CPT 83735/83750), when performed routinely and automatically in conjunction with Allied chemistry profiles that included serial multichannel automated chemistry ("SMAC") tests (CPT 80002-80019); and Allied submitted and/or caused to be submitted false claims to the United States for these tests which Allied knew were not specifically ordered by physicians-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these services were billed by and paid to Allied;

W. WHEREAS, the United States alleges that from January 1, 1988, and continuing thereafter Allied violated federal statutes and/or common law doctrines in connection with its calculations of and billing for Complete Blood Count ("CBC"), one or more additional indices (CPT 85029/85030), when these indices were not ordered by physician-clients; and Allied submitted and/or caused to be submitted false claims to the United States for these tests which Allied knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these services were billed by and paid to Allied;

X. WHEREAS, the United States alleges that commencing on January 1, 1988, and continuing thereafter Allied violated federal statutes and/or common law doctrines in connection with its testing and billing for T-7 (CPT 82756) in conjunction with Allied's thyroid profiles; and Allied submitted and/or caused to be submitted false claims to the United States for these tests which Allied knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these services were billed by and paid to Allied;

Y. WHEREAS, the United States alleges that commencing on January 1, 1988, and continuing thereafter Allied violated federal statutes and/or common law doctrines in connection with its testing and billing for Free Thyroxine ("T-4") (CPT 84435, 84436, 84439) as reflex tests in conjunction with Allied's TSH tests; and Allied submitted and/or caused to be submitted false claims to the United States for these tests which Allied knew were not specifically ordered by physician-clients and were not reasonable and necessary for the diagnosis or treatment of illness or injury; these services were billed by and paid to Allied;

Z. WHEREAS, LabCorp on behalf of Allied, pursuant to an Allied Corporate Integrity Agreement entered into by HHS-OIG and Allied in March 1995, reported to HHS-OIG in May 1995, October, 1995, and in six Quarterly Reports submitted to HHS-OIG accompanied by audits in 1995 and 1996, that Allied had received overpayments by the Medicare program and enumerated Medicaid programs for certain specified conduct at identified locations for particular time periods, and LabCorp on behalf of Allied described in these reports the cost impact of such conduct;

AA. WHEREAS, the United States alleges that the practices described in Preamble Paragraphs E though Z above resulted in the submission of false claims actionable under the False Claims Act, 31 U.S.C. ' 3729 et seq., to the Medicare program, the Railroad Retirement Medicare program, the CHAMPUS program, the Federal Employees Health Benefits Program, and the Medicaid programs in the states listed in Preamble Paragraphs J through L above, which enabled RBL, NHL, and Allied to improperly collect federal Medicare payments, Railroad Retirement Medicare program payments, CHAMPUS payments, Federal Employees Health Benefits Program payments, and Medicaid program payments from the states listed in Preamble Paragraphs J through L above;

BB. WHEREAS, LabCorp, RBL, NHL, and Allied deny the contentions of the United States and the Relators as set forth in Preamble Paragraphs M through Y above;

CC. WHEREAS, the United States is entering into this Settlement Agreement on the basis of LabCorp's financial constraints, and in reliance on the accuracy and completeness of the financial disclosures made by LabCorp to the United States;

DD. WHEREAS, LabCorp has entered into a Corporate Integrity Agreement with HHS-OIG; and

EE. WHEREAS, in order to avoid the delay, expense, inconvenience and uncertainty of protracted litigation of these claims, the Parties

mutually desire to reach a full and final compromise of the civil claims the United States has against LabCorp, RBL, NHL, and Allied, pursuant to the statutes and terms set forth in Paragraphs 7 and 8 below and based on the conduct alleged in Preamble Paragraphs M through Z above, except as reserved in Paragraph 9 below.

TERMS AND CONDITIONS

NOW, THEREFORE, in reliance on the representations contained herein and in consideration of the mutual promises, covenants, and obligations in this Agreement, and for good and valuable consideration, receipt of which is hereby acknowledged, the Parties hereby agree as follows:

1. LabCorp agrees to pay the United States and the Participating States, collectively, the sum of one hundred eighty two million dollars ($182,000,000) (the "Settlement Amount"), and this sum shall constitute a debt immediately due and owing to the United States and the Participating States on the effective date of this Agreement. This debt is to be discharged by payments to the United States and the Participating States, under the following terms and conditions:

a. LabCorp shall pay one hundred eighty two million dollars ($182,000,000) to the United States and the Participating States, collectively, no later than three business days after the effective date on which LabCorp and its current lending banks refinance LabCorp's existing debt under its Credit Agreement with Credit Suisse and other banks dated April 28, 1995 ("Refinancing");

b. If the Refinancing is not achieved by January 28, 1997, LabCorp shall pay one hundred eighty two million dollars ($182,000,000) to the United States and the Participating States, collectively, by January 31, 1997, or LabCorp shall pay these amounts by March 31, 1997, together with interest on any amount not paid by January 31, 1997, at the annual rate of 5.64% compounded monthly from January 31, 1997, to the date of payment; this interest shall be paid to the United States no later than January 31, 1998;

c. The payment to the United States described above shall be electronically transferred pursuant to instructions provided by the Executive Office for the United States Attorneys, Department of Justice, Washington, D.C., 20530, and in accordance with the attached Promissory Note (Exhibit 1). Each payment to the United States described above and under the attached Promissory Note shall be made no later than 11:00 a.m. (New York City time) on the date due.

d. Nothing in this Agreement shall preclude LabCorp from prepaying any payment due under this Agreement.

2. RBL, NHL, Allied, and LabCorp are in default of this Agreement on the date of occurrence of any of the following events ("Events of Default"):

a. Failure to Make Timely Payments. Failure by LabCorp to pay any amount provided for in Paragraph 1 when such payment is due and payable;

b. Commencement of Bankruptcy or Reorganization Proceeding. If prior to making the full payment of the amount due under Paragraph 1 above, (i) LabCorp commences any case, proceeding, or other action (A) under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have any order for relief of debtors, or seeking to adjudicate it as bankrupt or insolvent, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets; or (ii) there shall be commenced against LabCorp any such case, proceeding or other action referred to in clause (i) which results in the entry of an order for relief and any such order remains undismissed, or undischarged or unbonded for a period of thirty (30) days; or (iii) LabCorp takes any action authorizing, or in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth above in this sub-Paragraph 2.b.;

c. Monetary Judgment. If prior to making payment of the amount due under Paragraph 1 above, any judgment or order for the payment of money in excess of twenty-five million dollars ($25,000,000) in any individual case, or fifty million dollars ($50,000,000) in the aggregate at any one time, is rendered against LabCorp, and (i) such judgment or order is not stayed, vacated, bonded, or dismissed pending appeal within thirty (30) calendar days of its entry, or (ii) any such judgment or order which is stayed, vacated, bonded, or dismissed as set forth in sub-Paragraph 2.c.(i), is then upheld after the exhaustion of all appeals. Notwithstanding the above, this Paragraph 2.c. shall be deemed to conform with Section 6.01(f) (or the successor section or sub-section) of the Credit

Agreement dated April 28, 1995.

d. Non-monetary Judgment. Any non-monetary judgment or order against LabCorp (i) that is rendered prior to the payments by LabCorp to the United States of the amounts due under Paragraph 1 above, and (ii) that is reasonably likely to materially impair (a) the ability of LabCorp to perform its obligations under this Agreement, or (b) the rights and remedies of the United States under this Agreement, and such judgment or order is not stayed, vacated, discharged or bonded pending appeal within thirty (30) calendar days of its entry, and such judgment or order which is stayed, vacated, bonded, or dismissed, is then upheld after the exhaustion of all appeals. The words "reasonably likely to materially impair" shall have the meaning they have in the Credit Agreement dated April 28, 1995, and under the securities laws. Notwithstanding the above, this Paragraph 2.d. shall be deemed to conform with Section 6.01(g) (or the successor section or sub-section) of the Credit Agreement dated April 28, 1995;

e. Other Event of Default. Any default occurs after the effective date of this Agreement under the Credit Agreement dated April 28, 1995, and such default is not cured or waived.

3. On the date of any such Event of Default as defined in Paragraph 2 above, RBL, NHL, Allied, and LabCorp agree that:

a. LabCorp shall provide the United States with written notice of such Event of Default within two (2) business days of such event (unless the Event of Default has been cured); or

b. The United States may, effective upon ten business days notice to LabCorp (unless the Event of Default has been cured or, in the case of an Event of Default pursuant to Paragraph 2.e, waived), in its sole discretion declare that an Event of Default has occurred;

4. Provided that notice has been given to the United States under Paragraph 3.a. above or notice has been given to LabCorp under Paragraph 3.b. above:

a. Unless the Event of Default is under Paragraph 2.b. above, the Settlement Amount referenced in Paragraph 1 above (minus any payments of principal made to date) shall become immediately due and payable, and shall bear interest at the interest rate of 10% annually above the published Wall Street Journal prime interest rate (as of November 21, 1996) from the effective date of this Settlement Agreement, in accordance with the attached Promissory Note;

b. In addition, LabCorp will pay the United States all reasonable costs of collection and enforcement of this Agreement, including attorneys' fees and expenses. The United States reserves the option of referring such matters for private collection. (The Settlement Amount plus interest described in Paragraph 4.a. above and the costs of collection and enforcement described in this Paragraph 4.b. will be referred to as the "Default Obligations.");

5. Provided that notice has been given to the United States under Paragraph 3.a. above or notice has been given to LabCorp under Paragraph 3.b. above, the United States may take any of the following actions:

a. The United States may exclude LabCorp from participation in any federally-funded health care program until the Default Obligations are satisfied. LabCorp agrees not to contest such exclusion either administratively or in any state or federal court, except based on payment in accordance with Paragraph 1 above, lack of notice, or full satisfaction of the Default Obligations;

b. The United States may satisfy the Default Obligations or any portion thereof by offset of any monies payable to LabCorp by any department, agency, or agent of the United States;

c. The United States may confess judgment as set forth in the attached Promissory Note and LabCorp agrees that it will not contest the fact or amount of the judgment except based on payment in accordance with Paragraph 1 above, lack of notice, or full satisfaction of the Default Obligations.

d. In addition to the rights enumerated in Paragraphs 5.a. through 5.c. above, in the Event of Default the United States retains any and all other rights and claims it has or may have under law and equity.

6. In the event of an Event of Default under Paragraph 2.b. above (Commencement of Bankruptcy or Reorganization Proceeding):

a. The United States shall have an allowed claim in the amount of two hundred million dollars ($200,000,000), in accordance with the confession of judgment provision of the attached Promissory Note, plus interest of 5% annually above the published Wall Street Journal prime rate (as of November 21, 1996) from the effective date of this Settlement Agreement plus other costs and fees, less any payments of principal already made to the United States under Paragraph 1 above, in accordance with the attached Promissory Note. LabCorp agrees not to dispute the validity or amount of this claim

subject only to being provided with calculations in support of the amount of the claim. LabCorp further agrees not to seek subordination of the United States' claim;

b. LabCorp agrees not to contest or oppose any motion filed by the United States seeking relief from or modification of the automatic stay of 11 U.S.C. ' 362(a) nor to seek relief under 11 U.S.C. ' 105 to enjoin or restrain the United States from recovering monies owed by LabCorp arising out of this Agreement or the attached Promissory Note, or recovering monies through offset of monies otherwise due to LabCorp from any federally-funded health care program. LabCorp recognizes that this express waiver is in consideration for the settlement of claims by the United States described in Paragraphs M through Z above, under the terms and conditions contained in this Settlement Agreement.

c. By expressly waiving the automatic stay provision, LabCorp agrees not to oppose or interfere with any motion made in federal court (including bankruptcy courts) by the United States to exclude LabCorp from participation in the Title XVIII (Medicare) and Title XIX (Medicaid) programs;

d. This Agreement shall be voidable at the sole option of the United States;

e. If any terms of this Agreement are set aside for any reason, including as a result of a preference action brought pursuant to 11 U.S.C. ' 547, the United States, at its sole option and in its discretion, may rescind all terms of this Agreement and seek recovery of the full amount of claims and allegations identified herein and in the Civil Actions or in the alternative enforce the remaining terms of this Agreement. In the event of such rescission, all Parties reserve all rights, claims, and defenses that are available under law and equity.

f. In addition to the rights enumerated in Paragraph 6.a. through 6.e. above, the United States and all other Parties shall retain all rights and claims they have or may have under law and equity.

7. Subject only to the conditions specified in Paragraph 9 below, on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, the United States, on behalf of itself, its officers, agents, agencies, and departments, will release and will be deemed to have released (i) RBL, NHL, Allied, LabCorp as successor-in-interest to RBL and NHL and Allied, their divisions and subsidiaries, (ii) their predecessors, parents, successors, assigns, transferees, (iii) any of their current or former directors, officers, and employees in such capacity, from any civil or administrative monetary claims (including recoupment claims) that the United States has or may have under the False Claims Act, 31 U.S.C. ' 3729 et seq. (as amended); the Program Fraud Civil Remedies Act, 31 U.S.C. ' 3801 et seq.; the Civil Monetary Penalties Law, 42 U.S.C. ' 1320a-7a; the FEHBP civil sanctions provision, 5 U.S.C. ' 8902a (subject to Paragraph 12 below); any statutory provision applicable to the federally-funded programs in this Agreement for which the Civil Division, United States Department of Justice, has actual and present authority to assert and compromise (or delegate) pursuant to 28 C.F.R. Part 0, Subpart I, ' 0.45(d) (1995); Titles XVIII and XIX of the Social Security Act, 42 U.S.C. ' 1395 et seq. and 42 U.S.C. ' 1395 et seq.; or common law, for the allegations set forth in Paragraphs M through Z of the Preamble above including the Civil Actions with respect to claims submitted or caused to be submitted to the Medicare program, the Railroad Retirement Medicare program, the CHAMPUS program, and/or the FEHBP, and to Medicaid programs of the Participating States.

8. Subject to Paragraph 9 below, the United States releases, under all of the terms and conditions of Paragraph 7 above and on full receipt of the payment described in Paragraph 1 above by the United States and the Participating States, collectively: Hoffmann-La Roche, Inc. ("HLR"), a New Jersey corporation; HLR Holdings, Inc., a Delaware corporation, and a direct wholly-owned subsidiary of Hoffmann-La Roche; Roche Holdings, Inc., a Delaware corporation; F. Hoffmann-La Roche Ltd., Roche Finance Ltd., Roche Holding AG (otherwise known as Roche Holding Ltd.), each of which is a corporation organized and existing under the laws of Switzerland, contingent on and subject to HLR or its designee making a one hundred million dollar ($100,000,000) capital investment in LabCorp which will be used to contribute to LabCorp's recapitalization.

9. Notwithstanding any other provision in this Agreement, the United States in this Settlement Agreement specifically does not release RBL, NHL, Allied, LabCorp, HLR or any corporate entity referenced in Paragraph 8 above, or any other entity or individual under this Agreement from (a) any potential criminal liability arising from the subject matter of this Agreement; (b) any potential criminal, civil or administrative claims arising under Title 26 U.S. Code

(Internal Revenue Code); (c) any potential liability to the United States (or any agencies thereof) for any conduct other than that identified in Preamble Paragraphs M through Z above; (d) any conduct or allegations in United States ex rel. Geoffrey Zuccolo v. NHL/LabCorp, Civ. No. 96-67-M (Eastern District of Virginia) (filed January 4, 1996), except that described in Preamble Paragraph U above; (e) any claims against individuals, including current or former directors, officers, and employees who are criminally indicted or convicted of an offense, or who enter a criminal plea or administrative agreement, related to the conduct alleged in Preamble Paragraphs M through Z above; (f) any obligations created by this Agreement; (g) any claims for defective or deficient services, including quality of testing service claims.

10. Effective on full execution of this Agreement and provided no Event of Default occurs, the Office of Inspector General of HHS agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the Medicare program or State health care programs (as defined in 42 U.S.C. ' 1320a-7(h)) against LabCorp as successor to RBL and NHL and Allied, RBL and NHL, their parents, affiliates, divisions, subsidiaries, their predecessors, successors, assigns, transferees or any of their present or former directors, officers, employees, or agents under 42 U.S.C. ' 1320a-7a (Civil Monetary Penalties Law); 31 U.S.C. '' 3801-3812 (Program Fraud Civil Remedies Act); or 42 U.S.C. ' 1320a-7(b) (permissive exclusion) for the conduct described in Preamble Paragraphs M through Z above including that alleged in the Civil Actions, except as reserved in Paragraph 9 above. The Office of Inspector General of HHS expressly reserves all rights and statutory obligations to exclude RBL or NHL, or any of its parents, affiliates, divisions, subsidiaries, successors, or assigns, or any of its present or former officers, directors, employees, from the Medicare program or a State health care program under 42 U.S.C. ' 1320a-7(a) (mandatory exclusion). Nothing in this Paragraph precludes the Office of Inspector General of HHS from taking action against Allied, or from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 9 above.

11. Effective on full execution of this Agreement and provided no Event of Default occurs, OCHAMPUS agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the CHAMPUS program against LabCorp as successor to RBL and NHL and Allied, RBL and NHL, their parents, affiliates, divisions, subsidiaries, their predecessors, successors, assigns, transferees or any of their present or former directors, officers, employees, or agents under 32 C.F.R. ' 199.9, or 31 U.S.C. '' 3801-3812 (Program Fraud and Civil Remedies Act) for the conduct described in Preamble Paragraphs M through Z above including that alleged in the Civil Actions, except as reserved in Paragraph 9 above. OCHAMPUS expressly reserves all rights and statutory obligations to exclude RBL and NHL, or any of its parents, affiliates, divisions, subsidiaries, successors, or assigns, or any of its present or former officers, directors, employees, from the CHAMPUS program under its mandatory exclusion authority, set forth at 32 C.F.R. '' 199.9 (f)(1)(i)(A), (f)(1)(i)(B), (f)(1)(iii). Nothing in this Paragraph precludes OCHAMPUS from taking action against Allied, or from taking action against any entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 9 above.

12. Effective on full execution of this Agreement and provided no Event of Default occurs, OPM agrees to release and refrain from instituting, directing, or maintaining any administrative claim or any action seeking exclusion from the FEHBP program against LabCorp as successor to RBL and NHL and Allied, RBL or NHL, their parents, affiliates, divisions, subsidiaries, their predecessors, successors, assigns, transferees or any of their present or former directors, officers, employees, or agents, under 5 U.S.C. ' 8902a, 5 C.F.R. Part 970 or 31 U.S.C. '' 3801-3812 (Program Fraud and Civil Remedies Act) for the conduct described in Preamble Paragraphs M through Z above including that alleged in the Civil Actions, except as reserved in Paragraph 9 above and except if excluded by the Office of Inspector General of HHS pursuant to 42 U.S.C. ' 1320a-7(a). Nothing in this paragraph precludes OPM from taking action against Allied, or from taking action against entities or persons, or for conduct and practices, for which civil claims have been reserved in Paragraph 9 above.

13. LabCorp and Allied agree not to exercise any right to contest mandatory exclusion of the San Diego Regional Laboratory of

Allied or permissive exclusion of Allied by HHS, CHAMPUS, RRB, FEHBP, and/or the Participating States pursuant to 42 U.S.C. ' 1320a-7, 1320a-7a (Civil Monetary Penalties Law), 1320a-7c, 1320a-7(a) (Mandatory Exclusion), 1320a-7(b) (Permissive Exclusion), 5 U.S.C. ' 8902a (FEHBP), 32 C.F.R. ' 199.9 (CHAMPUS), and/or other applicable statutes and regulations; provided, however, that LabCorp shall have until January 2, 1997, to conclude the business affairs of Allied.

14. a. Each Relator has agreed and does agree that the settlement of his or her Civil Action against Roche or NHL (or successors thereto), is fair, adequate and reasonable under all the circumstances, pursuant to 31 U.S.C. ' 3730(c)(2)(B). Subject to the exceptions in Paragraph 9 above, each Relator will release, on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, NHL, RBL, and/or LabCorp (to the extent named in each respective Civil Action), their affiliates, divisions, subsidiaries, their predecessors, successors, assigns, transferees, and any of their current or former directors, officers, employees, shareholders, and agents from any and all claims that may arise under or relate to any of the allegations in the Civil Actions, except as they relate to a statutory claim for reasonable attorneys' fees, costs, and expenses, pursuant to 31 U.S.C. ' 3730(d).

b. The United States agrees to pay Geoffrey Zuccolo six hundred twenty five thousand four hundred dollars ($625,400) from the payment described in Paragraph 1 above within a reasonable time after receipt by the United States of such payment. Geoffrey Zuccolo, for himself, and for his heirs, successors, and assigns, will release and will be deemed to have released and forever discharged the United States from any claims pursuant to 31 U.S.C. ' 3730(d)(1) for a share of the proceeds of the Civil Actions, from any claims arising from the filing of his Civil Action, and in full settlement of claims under this Agreement. This Agreement does not resolve or in any manner affect any claims the United States has or may have against the Relator Geoffrey Zuccolo arising under Title 26, U.S. Code (Internal Revenue Code), or any claims arising under this Agreement.

c. The United States agrees to pay Mary J. Downy three hundred eighty eight thousand nine hundred sixty four dollars ($388,965) from the payment described in Paragraph 1 above within a reasonable time after receipt by the United States of such payment. Mary J. Downy, for herself, and for her heirs, successors, and assigns, will release and will be deemed to have released and forever discharged the United States from any claims pursuant to 31 U.S.C. ' 3730(d)(1) for a share of the proceeds of the Civil Actions, from any claims arising from the filing of her Civil Action, and in full settlement of claims under this Agreement. This Agreement does not resolve or in any manner affect any claims the United States has or may have against the Relator Mary J. Downy arising under Title 26, U.S. Code (Internal Revenue Code), or any claims arising under this Agreement.

15. RBL, NHL, and LabCorp as successor-in-interest to RBL and NHL hereby agree that they will waive and will not assert any defense, which may be based in whole or in part on the Double Jeopardy Clause of the Constitution as set forth in the holding or principles in United States v. Halper, 490 U.S. 435 (1989), in any criminal prosecution based on the conduct alleged in Preamble Paragraphs M through Z above, and they agree that the amounts paid under this Agreement are not punitive in nature or effect for purposes of such criminal prosecution. Nothing in this Agreement constitutes an agreement by the United States concerning the characterization of the amounts paid hereunder for purposes of any proceeding under Title 26 of the Internal Revenue Code.

16. With respect to the Civil Actions:

a. After this Agreement is executed, the United States will notify the Court in the Southern District of New York that the Parties have stipulated that the claims of the United States and Relator in the Civil Action pending there shall be dismissed with prejudice effective on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, pursuant to and consistent with the terms of this Agreement and the attached Promissory Note.

b. After this Agreement is executed, the United States will notify the Court in the District of New Mexico that the Parties have stipulated that the claims of the United States and Relator in the Civil Action pending there shall be dismissed with prejudice as to NHL effective on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, pursuant to and consistent with the terms of this Agreement and the attached Promissory Note.

c. After this Agreement is executed, the United States

will notify the Court in the Eastern District of Virginia that all Parties have stipulated that the claims of the United States and Relator in the Civil Action pending there, to the extent alleged in Paragraph U above only, shall be dismissed with prejudice effective on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, pursuant to and consistent with the terms of this Agreement and the attached Promissory Note. Any claims of the Relator in that Civil Action to the extent not alleged in Paragraph U above will not be released by the United States or subject to such stipulated dismissal.

d. After this Agreement is executed, the United States will notify the Court in the Middle District of North Carolina that the Parties have stipulated that the claims of the United States and Relator in the Civil Action pending there shall be dismissed with prejudice effective on full receipt of the payments described in Paragraph 1 above by the United States and the Participating States, collectively, pursuant to and consistent with the terms of this Agreement and the attached Promissory Note.

e. In addition to Paragraphs 16.a. through 16.d. above, the United States and the Relator, Dr. Andrew A. Hendricks, will file a stipulation for a transfer under 28 U.S.C. ' 1404 of his Civil Action from the Southern District of New York to the Middle District of North Carolina. That stipulation, and the notification to the United States District Court for the Middle District of North Carolina referenced in sub-Paragraph 16.d. above, will request that the United States District Court for the Middle District of North Carolina specifically retain jurisdiction with respect to any unresolved issues in those two Civil Actions, including reasonable attorneys' fees, costs, expenses, and Relators' shares, if any, of the settlement proceeds.

f. Within seven business days of the effective date of this Settlement Agreement, with respect to the Civil Action now pending in the Middle District of North Carolina and the Civil Action to be transferred there under Paragraph 16.e. above, the Department of Justice shall propose to the Court a procedure to resolve in the Middle District of North Carolina on an expedited basis the issues of entitlements, if any, to reasonable attorneys' fees, costs, and expenses, and Relators' shares, if any, of the settlement proceeds.

g. RBL, NHL, Allied and LabCorp agree that the time period between the effective date of this Agreement and March 31, 1997, shall not count in the calculation of any defense based on statutes of limitation, laches, or any other time-based defenses to the Civil Actions or the allegations described in Paragraphs M through Z above, pending the full satisfaction of the attached Promissory Note.

17. The payments from LabCorp to the United States and the Participating States, collectively, under Paragraph 1 above shall not be offset by any claims for payment now being withheld from payment by any Medicare carrier or intermediary, by any CHAMPUS or FEHBP carrier or payor, or by any state payor, related to the tests or conduct referred to in Paragraphs E through Z above; and RBL, NHL, Allied and LabCorp agree not to resubmit any claims to a Medicare carrier or intermediary, or by any CHAMPUS or FEHBP carrier or payor, or by any state payor, that have been denied for tests billed between January 1, 1989, and November 21, 1996, and agree not to appeal such denials of claims, where such denial resulted from the practices described in Preamble Paragraphs M through Z above. Allied will withdraw its appeal regarding billing for iron tests to the Medicare carrier in Utah, and the United States will seek no further offset against Allied for iron tests based on the conduct described in Preamble Paragraph V above through the effective date of this Agreement.

18. For government contracting purposes and for Medicare, Railroad Retirement Medicare, FEHBP, CHAMPUS, and state Medicaid purposes, RBL, NHL, Allied, and LabCorp agree to treat as unallowable all costs (as defined in the Federal Acquisition Regulations ("FAR") '31.205.47(a)) incurred by or on behalf of these corporate entities and/or its current or former officers, directors, agents, employees, shareholders, parents, subsidiaries, divisions, predecessors and successors in connection with (a) the matters covered by this Agreement; (b) the Government's audit and investigation of the matters covered by this Agreement; (c) these corporate entities' investigation, defense, and corrective actions; (d) the negotiation and performance of this Agreement; and (e) the payments made to the United States provided for in this Agreement. These amounts shall be separately estimated and accounted for by these corporate entities, and they will not charge such costs directly or indirectly to any contracts with the United States, or to any cost report submitted to the Medicare, Railroad Retirement Medicare, FEHBP, CHAMPUS, or state Medicaid programs.

19. The Parties agree that this Agreement does not constitute an admission by any person or entity with respect to any issue of law or fact.

20. This Agreement shall be binding only on the Parties, their successors, assigns, and heirs.

21. The undersigned RBL, NHL, Allied, and LabCorp signatories represent and warrant that they are signing this Agreement in their official capacities and are fully empowered and authorized by their Board of Directors to execute this Agreement. The undersigned United States signatories represent that they are signing this Agreement in their official capacities and that they are fully empowered and authorized to do so.

22. This agreement is subject to the acceptance by the United States District Court for the Middle District of North Carolina of the guilty plea and sentence set forth in the plea agreement between the United States and Allied Clinical Laboratories, San Diego Regional Laboratory, referenced in Preamble Paragraph B above.

23. This Agreement shall become final and binding only on signing by each respective party hereto.

24. This Agreement may not be changed, altered or modified, except in writing signed by the United States, LabCorp and, if applicable, the Party against whom the change, alteration, or modification is asserted.

25. Any communication required under this Agreement must be in writing and must be given personally, by FedEx, by facsimile, or by registered or certified mail, postage prepaid, as follows:

To LabCorp, RBL, Allied, and NHL:

Bradford T. Smith, Esq.
General Counsel
Laboratory Corporation of America Holdings
358 South Main Street
Burlington, North Carolina 27215
Telephone: (800) 222-7566
FAX: (910) 226-3835

To the United States:

Michael F. Hertz, Esq.
Director
Commercial Litigation Branch
Civil Division
United States Department of Justice
950 Pennsylvania Ave., N.W.
Washington, D.C. 20530-0001
Telephone: (202) 514-7179
FAX: (202) 616-3085

at the above addresses, or as otherwise designated by notice. Notice by personal delivery (messenger or otherwise) shall be effective upon actual receipt. Notices by mail will be effective three (3) calendar days after mailing. Notices by facsimile or FedEx will be effective upon electronic verification of successful receipt or confirmation of delivery by FedEx, respectively.

26. This Agreement shall be governed by the laws of the United States. The parties agree that the exclusive jurisdiction and venue for any dispute arising under this Agreement shall be the United States District Court for the Middle District of North Carolina.

27. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which shall constitute one and the same Agreement.

28. This Agreement is effective on the date signed by the last signatory.

UNITED STATES OF AMERICA

By: /s/ LAURENCE J FREEDMAN Dated: November 21, 1996

LAURENCE J. FREEDMAN
Civil Division
United States Department of Justice

By: /s/ CAROL C. LAM Dated: November 20, 1996

CAROL C. LAM
Assistant United States Attorney
Southern District of California

By: /s/ WALTER C. HOLTON Dated: November 21, 1996

WALTER C. HOLTON, JR.
United States Attorney
Middle District of North Carolina

By: /s/ DAVID A. KOENIGSBERG Dated: November 20, 1996

DAVID A. KOENIGSBERG
Assistant United States Attorney
Southern District of New York

By: /s/ LARRY B. SELKOWITZ Dated: November 21, 1996

LARRY B. SELKOWITZ
Assistant United States Attorney
Middle District of Pennsylvania

By: /s/ EDWIN WINSTEAD Dated: November 20, 1996

EDWIN WINSTEAD
Assistant United States Attorney
District of New Mexico

By: /s/ PAULA NEWETT Dated: November 20, 1996

PAULA NEWETT
Assistant United States Attorney
Eastern District of Virginia

By: /s/ LEWIS MORRIS Dated: November 20, 1996

LEWIS MORRIS
Assistant Inspector General
Office of the Inspector General
U.S. Department of Health and Human Services

By: /s/ DARA A. CORRIGAN Dated: November 20, 1996

DARA A. CORRIGAN
Assistant United States Attorney
District of Columbia
On Behalf of the Office of Personnel Management
Office of Inspector General

By: /s/ ROBERT D. SEAMAN Dated: November 20, 1996

ROBERT D. SEAMAN
General Counsel
Office of CHAMPUS

LABORATORY CORPORATION OF AMERICA HOLDINGS,
LABORATORY CORPORATION OF AMERICA, ROCHE BIOMEDICAL
LABORATORIES, INC., NATIONAL HEALTH LABORATORIES, INC.,
AND ALLIED CLINICAL LABORATORIES, INC.

By: /s/ JAMES B. POWELL, M.D. Dated: November 21, 1996

JAMES B. POWELL, M.D.
President and Chief Executive Officer

By: /s/ BRADFORD T. SMITH Dated: November 21, 1996

BRADFORD T. SMITH, ESQ.
General Counsel

By: /s/ DAVID P. KING, ESQ Dated: November 21, 1996

DAVID P. KING, ESQ.
Hogan & Hartson L.L.P.
Counsel to Roche Biomedical Laboratories, Inc. and
Laboratory Corporation of America Holdings

By: /s/ IRA H. RAPHAELSON Dated: November 20, 1996

IRA H. RAPHAELSON, ESQ.
O'Melveny & Myers
Counsel to Allied Clinical Laboratories, Inc. and
Laboratory Corporation of America Holdings

By: /s/ HELEN TRILLING, ESQ. Dated: November 21, 1996

HELEN TRILLING, ESQ.
Hogan & Hartson L.L.P.
Counsel to National Health Laboratories, Inc. and
Laboratory Corporation of America Holdings

RELATORS

By: /s/ ANDREW A. HENDRICKS, M.D. Dated: November 20, 1996
ANDREW A. HENDRICKS, M.D.

By: /s/ NEIL GETNICK, ESQ. Dated: November 20, 1996
NEIL GETNICK, ESQ.
Getnick & Getnick
Counsel to Andrew A. Hendricks, M.D.

By: /s/ WILLIAM ST. JOHN LACORTE, M.D. Dated November 20, 1996
WILLIAM ST. JOHN LaCORTE, M.D.

By: /s/ NORMAND PIZZA, ESQ. Dated: November 20, 1996
NORMAND PIZZA, ESQ.
Brook, Pizza & Van Loon, L.L.P.
Counsel to William St. John LaCorte, M.D.

By: /s/ GEOFFREY L. ZUCCOLO Dated: November 20, 1996
GEOFFREY L. ZUCCOLO

By: /s/ CANDACE MCCALL Dated: November 20, 1996
CANDACE McCALL, ESQ.
QUENTIN R. CORRIE, ESQ.
Counsel to Geoffrey Zuccolo

By: /s/ MARY J. DOWNY Dated: November 20, 1996
MARY J. DOWNY

By: /s/ JAMES A. BRANCH, JR, ESQ. Dated: November 20, 1996
JAMES A. BRANCH, JR., ESQ.
Counsel to Mary J. Downy

FIFTH WAIVER TO CREDIT AGREEMENT

Dated as of January 27, 1997

Among

LABORATORY CORPORATION OF AMERICA HOLDINGS,
as borrower,

THE BANKS NAMED HEREIN,
as Banks, and

CREDIT SUISSE (NEW YORK BRANCH),
as Administrative Agent

FIFTH WAIVER TO CREDIT AGREEMENT

FIFTH WAIVER TO CREDIT AGREEMENT, dated as of January 27, 1997 (this "Waiver") among LABORATORY CORPORATION OF AMERICA HOLDINGS (formerly known as NATIONAL HEALTH LABORATORIES HOLDINGS INC.), a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Banks") listed on the signature pages hereof, and CREDIT SUISSE (NEW YORK BRANCH), as administrative agent (the "Administrative Agent") for the Lenders hereunder .

PRELIMINARY STATEMENTS

The parties hereto have entered into a Credit Agreement dated as of April 28, 1995 (as amended, the "Credit Agreement") providing for, among other things, the Lenders to lend to the Borrower up to $1,250,000,000 on the terms and subject to the conditions set forth therein. The Borrower has requested that the Banks waive certain provisions of the Credit Agreement as set forth herein. Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Credit Agreement .

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

ARTICLE I

WAIVERS

SECTION 1. 01. Extension of Third Waiver The undersigned Required Lenders hereby agree that the Third Waiver to Credit Agreement dated as of November 4, 1996 by the Required Lenders in favor of the Borrower (the "Third Waiver"), as extended by the Fifth Amendment and Fourth Waiver to Credit Agreement dated as of December 23, 1996, shall remain in effect through March 31, 1997 notwithstanding the settlement with the Office of Inspector General of the U.S. Department of Health and Human Services referred to in Section 1.02 of the Third Waiver.

SECTION 1.02. Financial Models. The undersigned Required Lenders hereby waive compliance by the Borrower with the covenant set forth in Section 5.01(1) (v) of the credit Agreement; provided that such covenant is complied with no later than March 31, 1997.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

SECTION 2.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows :

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution, delivery and performance by the Borrower of this Waiver are within its corporate powers, have been duly authorized by all necessary corporate action, and do not contravene the Borrower's charter or by-laws.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Waiver.

(d) This Waiver has been duly executed and delivered by the Borrower. This Waiver is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower, in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally and by general principles of equity.

(e) The representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects on and as of the date hereof, as though made on and as of the date hereof.

(f) No event has occurred and is continuing which constitutes a Default.

ARTICLE III

MISCELLANEOUS

SECTION 3.01. Governing Law. This Waiver shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflicts of law principles thereof.

SECTION 3.02. Execution in counterparts. This Waiver may be executed in any number of counterparts and by any combination of the parties hereto in separate counterparts, each of which counterparts shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Waiver by facsimile shall be effective as delivery of a manually executed counterpart of this Waiver.

SECTION 3.03. Effect on the Credit Agreement. Except as expressly modified hereby, all of the terms and conditions of the Credit Agreement shall remain unaltered and in full force and effect. This Waiver shall become effective as of the date first above written when counterparts hereof shall have been executed by the Required Lenders. This Waiver is subject to the provisions of Section 8.01 of the Credit Agreement.

Each of the undersigned has caused this Waiver to be executed by its respective officer or officers thereunto duly authorized, as of the date first written above.

BORROWER: LABORATORY CORPORATION OF AMERICA HOLDINGS

By:/s/ WESLEY R. ELINGBURG

Name: Wesley R. Elingburg
Title: Executive Vice President

ADMINISTRATIVE AGENT:

CREDIT SUISSE FIRST BOSTON,
as Administrative Agent

By:/s/ KARL STUDER

Name: Karl Studer
Title: Director

and

By:/s/ HEATHER RIEKENBERG

Name: Heather Riekenberg
Title: Vice President

LENDERS: CREDIT SUISSE FIRST BOSTON

By:/s/ KARL STUDER

Name: Karl Studer
Title: Director

and

By:/s/ RICHARD CAREY

Name: Richard Carey
Title: Director

BANK OF AMERICA ILLINOIS

By:/s/ WENDY L. LORING

Name: Wendy L. Loring
Title: Vice President

BANQUE NATIONALE DE PARIS

By:/s/ RICHARD L. STED

Name: Richard L. Sted
Title: Senior Vice President

BAYERISCHE LANDESBANK GROZENTRALE

By:/s/ WILFRIED FREUDENBERGER

Name: Wilfried Freudenberger
Title: Executive Vice President
and General Manager

and

By:/s/ PETER OBERMANN

Name: Peter Obermann
Title: Senior Vice President
Manager Lending Division

THE CHASE MANHATTAN BANK

By:/s/SCOTT S. WARD

Name: Scott S. Ward
Title: Vice President

CREDIT LYONNAIS CAYMAN ISLAND BRANCH

By:/s/FARBOUD TAVANGAR

Name: Farboud Tavangar
Title: Authorized Signature

DEUTSCHE BANK AG NEW YORK BRANCH
and/or CAYMAN ISLANDS BRANCH

By:/s/ WOLF A. KLUGE

Name: Wolf A. Kluge
Title: Vice President

and

By:/s/ JAN PETER HARTMANN

Name: Jan Peter Hartmann
Title: Assistant Vice President

FIRST UNION NATIONAL BANK

By:/s/JOSEPH H. TOWELL

Name: Joseph H. Towell:
Title: Senior Vice President

THE FUJI BANK, LTD. (NEW YORK BRANCH)

By:/s/MASANOBU KOBAYASHI

Name: Masanobu Kobayashi
Title: Vice President and Manager

NATIONSBANK, N.A.

By:

    Name :
    Title :

SOCIETE GENERALE

By:/s/ GEORG L. PETERS

Name: Georg L. Peters
Title: Vice President

SUMITOMO BANK

By:/s/ YOSHINORI KAWAMURA

Name: Yoshinori Kawamura
Title: Joint General Manager

SWISS BANK CORPORATION
By:/s/ HANNO HUBER

Name: Hanno Huber
Title: Associate Director
Corporate Clients Switzerland

and

By:/s/ GUIDO W. SCHULER

Name: Guido W. Schuler
Title: Executive Director
Corporate Clients Switzerland

WACHOVIA BANK OF GEORGIA, N.A.

By:/s/ J. CALVIN RATCLIFF JR.

Name: J. Calvin Ratcliff Jr.
Title: Vice President

WESTDEUTSCHE LANDESBANK

By:/s/ DONALD F. WOLF

Name: Donald F. Wolf
Title: Vice President

and

By:/s/ CATHERINE RUHLAND

Name: Catherine Ruhland
Title: Vice President

COMMERZBANK AKTIENGESELLSCHAFT,
Atlanta Agency

By:/s/ A. BREMER

Name: A. Bremer
Title: Senior Vice President

and

By:/s/ E. KAGERER

Name: E. Kagerer
Title: Vice President

SIXTH AMENDMENT AND WAIVER TO

CREDIT AGREEMENT

Dated as of March 31, 1997

Among

LABORATORY CORPORATION OF AMERICA HOLDINGS,

as Borrower,

THE BANKS NAMED HEREIN,
as Banks, and

CREDIT SUISSE FIRST BOSTON,
as Administrative Agent

SIXTH AMENDMENT AND WAIVER TO CREDIT AGREEMENT

SIXTH AMENDMENT AND WAIVER TO CREDIT AGREEMENT, dated as of March 31, 1997 (this "Amendment") among LABORATORY CORPORATION OF AMERICA HOLDINGS (formerly known as NATIONAL HEALTH LABORATORIES HOLDINGS INC.), a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Banks") listed on the signature pages hereof, and CREDIT SUISSE FIRST BOSTON (formerly known as CREDIT SUISSE (NEW YORK BRANCH)), as administrative agent (the "Administrative Agent") for the Lenders hereunder.

PRELIMINARY STATEMENTS

The parties hereto (i) have entered into a Credit Agreement dated as of April 28, 1995 (as amended, the "Credit Agreement") providing for, among other things, the Lenders to lend to the Borrower up to $1,250,000,000 on the terms and subject to the conditions set forth therein and (ii) desire to amend the Credit Agreement in the manner set forth herein. Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Credit Agreement.

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

ARTICLE I

AMENDMENTS

SECTION 1.01. Amendment of Definitions. Section 1.01 of the Credit Agreement is hereby amended as follows:

(a) by (i) deleting the words set forth below in italic type with strikeover lines and (ii) adding the words set forth below in bold-face type with underscoring, to read in its entirety as follows:

"'Roche Debt' means the unsecured Debt of the Borrower issued in favor of Roche in an aggregate principal amount not to exceed $187 million, such Debt to (i) rank pari passu in right of payment with the Obligations of the Borrower under the Loan Documents, (ii) bear interest at a rate per annum equal to 6.625% and (iii) be due and payable on March 31, 1998."

SECTION 1.02. Amendment of Amortization Schedule. Section 2.03(a) of the Credit Agreement is hereby amended by (i) deleting the numbers set forth below in italic type with strikeover lines and (ii) adding the numbers set forth below in bold-face type with underscoring, to read in its entirety as follows:

(a) Term Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Lenders having Term Advances the outstanding principal amount of the Term Advances on the following dates in the amounts indicated; provided that the last such installment shall be in an amount sufficient to repay all amounts owed by the Borrower under the Term Advances:

Date	Amount
October 31, 1995	$16,666,000
January 31, 1996	16,667,000
April 30, 1996	16,667,000
July 31, 1996	18,750,000

October 31, 1996	18,750,000
January 31, 1997	18,750,000
February 19, 1998	131,250,000
April 30, 1998	37,500,000
July 31, 1998	37,500,000
October 31, 1998	37,500,000
January 31, 1999	37,500,000
April 30, 1999	37,500,000
July 31, 1999	43,750,000
October 31, 1999	43,750,000
January 31, 2000	43,750,000
April 30, 2000	43,750,000
July 31, 2000	50,000,000
October 31, 2000	50,000,000
January 31, 2001	50,000,000
April 30, 2001	50,000,000
Total	$800,000,000

SECTION 1.03. Amendment of Affirmative Covenants. Section 5.01 of the Credit Agreement is hereby amended as follows:

(a) Leverage Ratio. Section 5.01(i) of the Credit Agreement is hereby amended by (i) deleting the numbers set forth below in italic type with strikeover lines and (ii) adding the numbers set forth below in bold-face type with underscoring, to read in its entirety as follows:

(i) Leverage Ratio. Maintain at the end of each four fiscal quarter period specified below a Leverage Ratio of not more than the ratio set forth below:

Four Fiscal Quarters Ending in	Ratio
September 1996	6.50:1.0
December 1996	6.50:1.0
March 1997	6.50:1.0
June 1997	6.00:1.0
September 1997	5.25:1.0
December 1997	5.25:1.0
March 1998	3.25:1.0
June 1998	3.25:1.0
September 1998	3.25:1.0
December 1998	3.00:1.0
March 1999	3.00:1.0
June 1999	3.00:1.0
September 1999	3.00:1.0

December 1999	2.50:1.0
March 2000	2.50:1.0
June 2000	2.50:1.0
September 2000	2.50:1.0
December 2000	2.50:1.0
March 2001	2.50:1.0

(b) Interest Coverage Ratio. Section 5.01(j of the Credit Agreement is hereby amended by (i) deleting the numbers set forth below in italic type with strikeover lines and (ii) adding the numbers set forth below in bold-face type with underscoring, to read in its entirety as follows:

(j) Interest Coverage Ratio. Maintain at the end of each four fiscal quarter period specified below an Interest Coverage Ratio of not less than the ratio set forth below:

Four Fiscal Quarters Ending in	Ratio
September 1996	2.50:1.0
December 1996	2.50:1.0
March 1997	2.25:1.0
June 1997	2.25:1.0
September 1997	2.50:1.0
December 1997	2.50:1.0
March 1998	4.40:1.0
June 1998	4.60:1.0
September 1998	4.60:1.0
December 1998	5.00:1.0
March 1999	5.00:1.0
June 1999	5.40:1.0
September 1999	5.40:1.0
December 1999	5.90:1.0
March 2000	5.90:1.0
June 2000	6.00:1.0
September 2000	6.00:1.0
December 2000	6.50:1.0
March 2001	7.00:1.0

ARTICLE II

WAIVERS

SECTION 2.01. Roche Debt. The undersigned Required Lenders hereby agree as follows:

(a) the Roche Debt shall be excluded from the calculation of the Borrower's Consolidated Debt for the Borrower's four fiscal quarter periods ending March 31, 1997, June 30, 1997, September 30, 1997 and December 31, 1997 for the purpose of determining the Borrower's

compliance with the covenant set forth in Section 5.01(i) of the Credit Agreement [Leverage Ratio].

(b) the Roche Debt shall be excluded from the calculation of the Interest Coverage Ratio for the Borrower's four fiscal quarter periods ending March 31, 1997, June 30, 1997, September 30, 1997 and December 31, 1997 for the purpose of determining compliance with the covenant set forth in Section 5.01(j) of the Credit Agreement [Interest Coverage Ratio].

ARTICLE III

CONDITIONS PRECEDENT; OBLIGATION SUBSEQUENT

SECTION 3.01. Conditions Precedent. The effectiveness of the amendment of the Existing Credit Agreement as provided for hereby is subject to the following conditions precedent:

(a) The Administrative Agent shall have received (in a quantity sufficient for all Lenders) evidence that the maturity of the Roche Debt has been extended to March 31, 1998.

(b) There shall have occurred no Material Adverse Change since December 31, 1996 relating to the Borrower.

(c) The Borrower shall have paid all accrued fees and expenses of the Administrative Agent and the Lenders (including the reasonable fees and expenses of special counsel to the Administrative Agent), including, but not limited to the amendment fee payable to the Administrative Agent for distribution to the Lenders in proportion to their Revolving Credit Commitments (without giving effect to any Competitive Bid Reduction) plus their respective Committed Advances, equal to 0.375% times (A) the total Revolving Credit Commitments in effect on the Amendment Effective Date, plus (B) the total Term Advances outstanding on the Amendment Effective Date.

(d) The Administrative Agent shall have received the following, each dated as of the date hereof (unless otherwise specified), in form and substance satisfactory to the Administrative Agent (unless otherwise specified) and in sufficient copies for each Lender and the Administrative Agent:

(i) certified copies of the resolutions of the board of directors of the Borrower approving this Amendment;

(ii) a certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of such Person authorized to sign this Amendment; and

(iii) a certificate of the Borrower signed on behalf of the Borrower by its President or a Vice President and its Secretary or any Assistant Secretary, dated as of the date hereof, certifying as to the truth in all material respects of the representations and warranties made by the Borrower herein.

(e) The Administration Agent shall have received (in a quantity sufficient for all Lenders) (i) a copy of the final settlement with the Office of the Inspector General of the U.S. Department of Health, and (ii) evidence that all amounts payable pursuant to such settlement have been irrevocably paid in full.

(f) The representations and warranties contained in Section 4.01 of the Credit Agreement shall be true and correct in all material respects on and as of the date hereof.

(g) The Amended and Restated Credit Agreement dated as of the date hereof among the Borrower, the Banks and the Administrative Agent in the form attached hereto as Exhibit A (the "Amended and Restated Credit Agreement") shall have been executed and delivered by each of the

parties thereto.

SECTION 3.02 Obligation Subsequent. If the conditions precedent to effectiveness of the Amended and Restated Credit Agreement have not been satisfied on or before June 30, 1997, the Borrower shall pay an additional fee to the Administrative Agent for distribution to the Lenders in proportion to their Revolving Credit Commitments (without giving effect to any Competitive Bid Reduction) plus their respective Committed Advances, equal to 0.625% times (A) the total Revolving Credit Commitments in effect on the Amendment Effective Date, plus (B) the total Committed Advances outstanding on the Amendment Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution, delivery and performance by the Borrower of this Amendment are within its corporate powers, have been duly authorized by all necessary corporate action, and do not contravene the Borrower's charter or by-laws.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Amendment.

(d) This Amendment has been duly executed and delivered by the Borrower. This Amendment is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower, in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally and by general principles of equity.

(e) The representations and warranties contained in Section 4.01 of the Credit Agreement are correct in all material respects on and as of the date hereof, as though made on and as of the date hereof.

(f) No event has occurred and is continuing which constitutes a Default.

ARTICLE V

MISCELLANEOUS

SECTION 5.01. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflicts of law principles thereof.

SECTION 5.02. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by any combination of the parties hereto in separate counterparts, each of which counterparts shall be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 5.03. Effect on the Credit Agreement. Upon execution and delivery of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein", or words of like import shall mean and be a reference to the Credit Agreement, as amended hereby and each reference to the Credit Agreement in

any Loan Document (as defined in the Credit Agreement) shall mean and be a reference to the Credit Agreement, as amended hereby. Except as expressly modified hereby, all of the terms and conditions of the Credit Agreement shall remain unaltered and in full force and effect. This Amendment is subject to the provisions of Section 8.01 of the Credit Agreement.

Each of the undersigned has caused this Amendment to be executed by its respective officer or officers thereunto duly authorized, as of the date first written above.

BORROWER: LABORATORY CORPORATION OF AMERICA HOLDINGS

By: /s/ WESLEY R. ELINGBURG

Name: Wesley R. Elingburg
Title: Executive Vice President
Chief Financial Officer and
Treasurer

ADMINISTRATIVE AGENT: CREDIT SUISSE FIRST BOSTON, as Administrative Agent

By: /s/ KARL STUDER

Name: Karl Studer
Title: Director

By: /s/ HEATHER RIEKENBERG

Name: Heather Riekenberg
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By /s/ KARL STUDER

Name: Karl Studer
Title: Director

By /s/MARTIN P. LASANCE

Name: Martin P. Lasance
Title: Associate

BANK OF AMERICA ILLINOIS

By: /s/ WENDY L. LORING

Name: Wendy L. Loring
Title: Vice President

BANQUE NATIONALE DE PARIS

By: /s/ RICHARD L. STED

Name: Richard L. Sted
Title: Senior Vice President

By: /s/ BONNIE G. EISENSTAT

Name: Bonnie G. Eisenstat
Title: Vice President
Corporate Banking Division

BAYERISCHE LANDESBANK GIROZENTRALE

By: /s/ PETER OBERMANN

Name: Peter Obermann
Title: Senior Vice President
Manager Lending Division

By: /s/ MARTHA ASMA

Name: Martha Asma
Title: Vice President

THE CHASE MANHATTAN BANK

By: /s/ SCOTT S. WARD

Name: Scott S. Ward
Title: Vice President

CREDIT LYONNAIS (NEW YORK BRANCH)

By: /s/ JOHN OBERLE

Name: John Oberle
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH
and/or CAYMAN ISLANDS BRANCH

By: /s/ WOLF A. KLUGE

Name: Wolf A. Kluge
Title: Vice President

By: /s/ SHERINE FANOUS

Name: Sherine Fanous
Title: Assistant Vice President

FIRST UNION NATIONAL BANK

By: /s/ JOSEPH H. TOWELL

Name: Joseph H. Towell
Title: Senior Vice President

THE FUJI BANK, LTD. (NEW YORK BRANCH)

By: /s/ TOSHIAKI YAKURA

Name: Toshiaki Yakura
Title: Senior Vice President

NATIONSBANK, N.A.

By: /s/ MICHAEL A. CRABB, III

Name: Michael A. Crabb, III
Title: Vice President

SOCIETE GENERALE

By: /s/ GEORG L. PETERS

Name: Georg L. Peters
Title: Vice President

SUMITOMO BANK

By: /s/ JOHN C. KISSINGER

Name: John C. Kissinger
Title: Joint General Manager

SWISS BANK CORPORATION

By: /s/ PAOLO SEIFERLE

Name: Paolo Seiferle
Title: Associate Director
Corporate Clients
Switzerland

By: /s/ DOROTHY L. MCKINLEY

Name: Dorothy L. McKinley
Title: Associate Director
Banking Finance
Support, N.A.

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ LISA M. SHAWL

    Name: Lisa M. Shawl
    Title: Vice President

WESTDEUTSCHE LANDESBANK

By: /s/ DONALD F. WOLF

Name: Donald F. Wolf
Title: Vice President

By: /s/ C. RUSHLAND

Name: C. Rushland
Title: Vice President

COMMERZBANK AKTIENGESELLSCHAFT,
Atlanta Agency

By: /s/ A. BREMER

Name: A. Bremer
Title: Sen. Vice President

By: /s/ D. SUTTLES

Name: D. Suttles
Title: Vice President

BANK BRUSSELS LAMBERT,
New York Branch

By: /s/ MARIA LAUDICINA BOYER

Name: Maria Laudicina Boyer
Title: Assistant Vice President

By: /s/ DOMINICK H.J. VANGAEVER

Name: Dominick H.J. Vangaever
Title: Senior Vice President Credit

==========

$1,143,750,000

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of March 31, 1997

Among

LABORATORY CORPORATION OF AMERICA HOLDINGS,
as Borrower,

THE BANKS NAMED HEREIN,
as Banks, and

CREDIT SUISSE FIRST BOSTON,
as Administrative Agent

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TABLE OF CONTENTS

AMENDED AND RESTATED CREDIT AGREEMENT dated as of March 31, 1997 (this "Agreement") among LABORATORY CORPORATION OF AMERICA HOLDINGS, a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Banks") listed on the signature pages hereof, and CREDIT SUISSE FIRST BOSTON ("CSFB"), as administrative agent (the "Administrative Agent") for the Lenders hereunder.

PRELIMINARY STATEMENT

The parties hereto have entered into a Credit Agreement dated as of April 28, 1995 (as amended and in effect immediately prior to the Amendment Effective Date referred to below, the "Existing Credit Agreement") providing for, among other things, the Lenders to lend to the Borrower up to $1,250,000,000 on the terms and subject to the conditions set forth therein.

The Borrower has requested that the Lenders and the Administrative Agent agree to amend and restate the Existing Credit Agreement, and the Lenders and the Administrative Agent have indicated their willingness to amend and restate the Existing Credit Agreement, all on the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, the parties hereto hereby agree to amend and restate the Existing Credit Agreement effective as of the Amendment Effective Date so that, as amended and restated, it reads in its entirety as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquisitions" has the meaning set forth in Section 5.02(h).

"Administrative Agent" has the meaning specified in the recital of parties to this Agreement.

"Administrative Agent's Account" means the account of the Administrative Agent maintained by the Administrative Agent at 11 Madison Avenue, New York, New York 10010, Account No. 368822-05.

"Advance" means a Revolving Credit Advance, a Term Advance or a Competitive Bid Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the terms "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person include (except, with respect to the Borrower, in the case of Genentech, Inc.) the possession, direct or indirect, of the power to vote 5% or more of the Voting Stock of such Person or to direct or cause direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Amendment Effective Date" means such date as the Borrower and the Administrative Agent may select; provided that all the conditions set forth in Section 3.01 shall have been satisfied or waived by the Lenders and the Administrative Agent on or before such date.

"Application Documents" means the L/C Issuer's customary L/C application and/or such other standard documents as may reasonably be required by the L/C Issuer.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a Competitive Bid Advance, the office of such Lender notified by such Lender to the Administrative Agent as its Applicable Lending Office with respect to such Competitive Bid Advance.

"Applicable Margin" means, with respect to Eurodollar Rate Advances or Base Rate Advances, as the case may be:

(a) for all times during which the Investor Group Interest equals or exceeds 25%, the applicable percentage set forth in the chart immediately below based on the Leverage Ratio of the Borrower:

Leverage Ratio	Greater than or equal to 3.5:1.0	Less than and greater then equal to 2.5:1.0	Less than 2.5:1.0
TERM ADVANCES:			
Eurodollar Rate Margin	1.00%	0.50%	0.375%
Base Rate Margin	0.0%	0.0%	0.0%
REVOLVING CREDIT ADVANCES:			
Eurodollar Rate Margin	0.75%	0.3125%	0.25%
Base Rate Margin	0.0%	0.0%	0.0%

and (b) for all times during which the Investor Group Interest is less than 25%, the applicable percentage set forth in the chart immediately below based on the Leverage Ratio of the Borrower:

Leverage Ratio	Greater than or equal to 4.5:1.0	Less than 4.5:1.0 and greater than or equal to 4.0:1.0	Less than 4.0:1.0 and greater then or equal to 3.0:1.0	Less than 3.0:1.0 and greater than or equal to 2.5:1.0	Less than 2.5:1.0
TERM ADVANCES:					
Eurodollar Rate Margin	2.50%	2.25%	2.00%	1.50%	1.375%
Base Rate Margin	0.0%	0.0%	0.0%	0.0%	0.0%
REVOLVING CREDIT ADVANCES:					
Eurodollar Rate Margin	2.00%	1.875%	1.75%	1.25%	1.1875%
Base Rate Margin	0.0%	0.0%	0.0%	0.0%	0.0%

In each case the Leverage Ratio of the Borrower shall be determined by reference to the most recent financial statements delivered to the Administrative Agent pursuant to Section 5.01(l)(i) or (ii), as applicable (any change in the Applicable Margin based on Leverage Ratio shall be effective upon the earlier of (i) the date of delivery of financial statements to the Administrative Agent pursuant to Section 5.01(l)(i) or (ii), as applicable, which financial statements evidence a Leverage Ratio requiring such change, and (ii) the latest date permitted for such delivery pursuant to Section 5.01(l)(i) or (ii), as applicable).

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee of such Lender, and accepted by the Administrative Agent, in substantially the form of Exhibit B hereto.

"Available Excess Cash Flow" means, for any fiscal year, the amount of Excess Cash Flow for the prior fiscal year not required to be applied to prepayment of Advances pursuant to subsection 2.05(b)(iv) and not previously applied in the current fiscal year towards Acquisitions or Capital Expenditures or paid as cash dividends to holders of the Borrower's capital stock.

"Bank" has the meaning specified in the recital of parties to this Agreement.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of (a) the rate of interest announced publicly by CSFB in New York, New York, from time to time, as CSFB's base lending rate for commercial loans in dollars; and (b) 1/2 of 1% per annum above the Federal Funds Rate. The base lending rate is not the lowest rate of interest charged by CSFB in connection with extensions of credit.

"Base Rate Advance" means an Advance that bears interest as provided in Section 2.06(a)(i).

"Beneficiary Documents" has the meaning specified in Section 2.03A(d)(i).

"Borrower" has the meaning specified in the recital of parties to this Agreement.

"Borrower Common Stock" means the common stock, par value $0.01 per share, of the Borrower.

"Borrower Preferred Stock" means the Borrower Series A Preferred Stock and the Borrower Series B Preferred Stock.

"Borrower Series A Preferred Stock" means the Borrower's Series A Convertible Exchangeable Preferred Stock described in the Rights Offering Registration Statement.

"Borrower Series B Preferred Stock" means the Borrower's Series B Convertible Pay-in-Kind Preferred Stock described in the Rights Offering Registration Statement.

"Borrower's Account" means the account of the Borrower maintained by the Borrower with CSFB at 11 Madison Avenue, New York, New York 10010, Account No. 36882201.

"Borrowing" means a Revolving Credit Borrowing, a Term Borrowing or a Competitive Bid Borrowing.

"Business Day" means (a) a day of the year on which banks are not required or authorized to close in New York City and (b) if the applicable Business Day relates to an Advance bearing interest based on the Eurodollar Rate, a day of the year that is also a day on which dealings are carried on in the London interbank market and banks are open for business in London.

"Capital Expenditures" means, for any period, the sum, without duplication, of (a) gross additions to property, plant and equipment and other capital expenditures of the Borrower and its Consolidated Subsidiaries for such period plus (b) the aggregate principal amount of all Debt assumed or incurred by the Borrower and its Consolidated Subsidiaries in order to finance such additions to property, plant and equipment and other capital expenditures. Capital Expenditures shall not include additions to property, plant and equipment that constitute Acquisitions subject to Section 5.02(h).

"Capital Ratio" means, with respect to any fiscal quarter, the ratio (expressed as a percentage) calculated by dividing (a) the total Consolidated Debt of the Borrower and its Subsidiaries as of the last day of such fiscal quarter (excluding, to the extent included in Consolidated Debt, any Obligations to redeem the Preferred Stock) by (b) the sum of (i) the total Consolidated Debt of the Borrower and its Subsidiaries as of such day (excluding, to the extent included in Consolidated Debt, any Obligations to redeem the Preferred Stock) plus (ii) Stockholders' Equity as of such day; provided, however, that, the net amount (after provision for taxes) of non-cash write-offs or write-downs of goodwill during such period in connection with the contribution by the Borrower or any Subsidiary of assets to a joint venture permitted under Section 5.02(d) shall not be deducted from equity for the purposes of calculating Stockholder's Equity as of such day.

"Capitalized Leases" has the meaning specified in clause (e) of the definition of Debt.

"Cash Collateral Account" has the meaning specified in Section 6.02(b).

"Cash Equivalents" means any of the following, to the extent owned by the Borrower or its Subsidiaries free and clear of all Liens and having a maturity not greater than 180 days from the date of acquisition thereof: (a) direct obligations of the Government of the United States or any agency or instrumentality thereof or obligations unconditionally guaranteed by the full faith and credit of the Government of the United States, and repurchase agreements with respect thereto entered into with a commercial bank or trust company meeting the criteria specified in clause (c) below, (b) certificates of deposit of or time deposits with any Lender, (c) insured certificates of deposit of or time deposits with any commercial bank or trust company that is a member of the Federal Reserve System, issues (or the parent of which issues) commercial paper rated as described in clause (d), is organized under the laws of the United States or any State thereof and has combined capital and surplus of at least $1 billion, (d) commercial paper issued by any corporation organized under the laws of any State of the United States and rated at least "Prime-1" (or the then equivalent grade) by Moody's or "A-1" (or the then equivalent grade) by S&P or (e) shares of money market mutual or similar funds having assets in excess of $100,000,000 and substantially all of the assets of which satisfy the requirements of clauses (a) through (d) of this definition.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

"Change of Control" means any acquisition of Control of the Borrower after the date hereof by any Person or two or more Persons acting in concert who would constitute a "group" within the meaning of Section 13(d)(3) of the Exchange Act (other than Roche Holdings, so long as it is under the Control of Roche, or any other Person under the Control of Roche, or a group consisting of such Persons).

"Closing Date" means April 28, 1995.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and the rulings issued thereunder.

"Commitment" means a Revolving Credit Commitment or a Term Commitment.

"Committed Advance" means a Revolving Credit Advance or a Term Advance.

"Committed Borrowing" means a Term Borrowing or a Revolving Credit Borrowing.

"Competitive Bid Advance" means an advance by a Lender to the Borrower as part of a Competitive Bid Borrowing resulting from the auction bidding procedure described in Section 2.02(b) and refers to a Fixed Rate Advance or a LIBO CB Advance.

"Competitive Bid Borrowing" means a borrowing consisting of simultaneous Competitive Bid Advances from each of the Lenders whose offer to make one or more Competitive Bid Advances as part of such borrowing has been accepted under the auction bidding procedure described in Section 2.02(b).

"Competitive Bid Note" means the promissory note of the Borrower payable to the order of the Administrative Agent for the benefit of each Lender making a Competitive Bid Advance, in substantially the form of Exhibit A-3 hereto, evidencing the indebtedness of the Borrower to the Lenders resulting from Competitive Bid Advances made by the Lenders.

"Competitive Bid Reduction" has the meaning specified in Section 2.01(b).

"Competitive Bid Register" has the meaning specified in Section 2.02(b)(vi).

"Consolidated" for any Person refers to the consolidation of the financial statements of such Person and its Subsidiaries in accordance with GAAP.

"Control" by any Person or Persons of any other Person means

(a) beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Exchange Act) by such Person or Persons, directly or indirectly, of Voting Stock of such other Person (or other securities convertible into such Voting Stock) representing 51% or more of the combined voting power of all Voting Stock of such other Person, (b) control by such Person or Persons, by contract or otherwise, or entry by such Person or Persons into a contract or agreement that, upon consummation, will result in the acquisition by such Person or Persons of control, over Voting Stock of such other Person (or other securities convertible into such securities) representing 51% or more of the combined voting power of all Voting Stock of such other Person, or (c) the possession, directly or indirectly, by such Person or Persons of the power to direct or cause the direction of the management and policies of such other Person.

"Conversion", "Convert" and "Converted" each refers to a conversion of Advances of one Type into Advances of the other Type pursuant to Section 2.07, 2.10 or 2.15.

"CSFB" has the meaning specified in the recital of parties to this Agreement.

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money; (b) all Obligations of such Person for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of such Person's business); (c) all Obligations of such Person evidenced by notes, bonds, debentures or other similar instruments; (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (e) all Obligations of such Person as lessees under (i) Tax Finance Leases and (ii) leases that have been or should be, in accordance with GAAP, recorded as capital leases ("Capitalized Leases"); (f) all Obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities; (g) all Obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock; (h) all Debt of others referred to in clauses (a) through (g) above guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Debt or to advance or supply funds for the payment or purchase of such Debt, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Debt or to assure the holder of such Debt against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to maintain a balance sheet condition or to assure a creditor against loss; and (i) all Debt referred to in clauses (a) through (h) above secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Default Rate" means the rate of interest determined pursuant to Section 2.06(c) hereof.

"Defaulted Advance" means, with respect to any Lender at any time, the amount of any Committed Advance required to be made by such Lender to the Borrower pursuant to Section 2.01 at or prior to such time which has not been so made as of such time; provided, however, any Committed Advance made by the Administrative Agent for the account of such Lender pursuant to Section 2.02(a)(iii) shall not be considered a Defaulted Advance even if, at such time, such Lender shall not have reimbursed the Administrative Agent therefor as provided in Section 2.02(a)(iii). In the event that a portion of a Defaulted Advance shall be deemed made pursuant to Section 2.16(a), the remaining portion of such Defaulted Advance shall be considered a Defaulted Advance originally required to be made pursuant to Section 2.01 on the same date as the Defaulted Advance so deemed made in part.

"Defaulted Amount" means, with respect to any Lender at any time, any amount required to be paid by such Lender to the Administrative Agent or any other Lender hereunder or under any other Loan Document at or prior to such time which has not been so paid as of such time, including, without limitation, any amount required to be paid by such Lender to (a) the Administrative Agent pursuant to Section 2.02(a)(iii) to reimburse the

Administrative Agent for the amount of any Committed Advance made by the Administrative Agent for the account of such Lender, (b) any other Lender pursuant to Section 2.13 to purchase any participation in Advances owing to such other Lender and (c) the Administrative Agent pursuant to Section 7.05 to reimburse the Administrative Agent for such Lender's ratable share of any amount required to be paid by the Lenders to the Administrative Agent as provided therein. In the event that a portion of a Defaulted Amount shall be deemed paid pursuant to Section 2.16(b), the remaining portion of such Defaulted Amount shall be considered a Defaulted Amount originally required to be made hereunder or under any other Loan Document on the same date as the Defaulted Amount so deemed paid in part.

"Defaulting Lender" means, at any time, any Lender that, at such time, (a) owes a Defaulted Advance or a Defaulted Amount or (b) shall take or be the subject of any action or proceeding of a type described in Section 6.01(e).

"Direct Exposure" has the meaning specified in Section 6.02(d).

"Disposition" means the sale, lease, transfer or other disposition of any assets of the Borrower or any of its Subsidiaries (including, without limitation, shares of capital stock or other equity interests of any Person owned by the Borrower or any such Subsidiary) (other than sales, leases, transfers or other dispositions permitted by Section 5.02(d) (other than Section 5.02(d)(x)).

"dollars" and the sign "$" each means lawful money of the United States.

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"EBIT" means, for any fiscal period of the Borrower, Net Income plus, to the extent deducted in determining Net Income, the sum of (a) interest expense net of interest income, (b) income tax expense and (c) extraordinary losses included in Net Income, less extraordinary gains included in Net Income, in each case determined for such period without duplication on a Consolidated basis for the Borrower and its Subsidiaries and in accordance with GAAP.

"EBITDA" means, for any fiscal period of the Borrower, EBIT plus, to the extent deducted in determining Net Income, (a) depreciation expense, (b) amortization expense and (c) non-cash write-offs and write-downs of amortizable and depreciable items, in each case determined for such period without duplication on a Consolidated basis for the Borrower and its Subsidiaries and in accordance with GAAP. Notwithstanding the foregoing, EBITDA shall be deemed to be (i) $48,400,000 for the fiscal quarter of the Borrower ended March 31, 1996, (ii) $51,600,000 for the fiscal quarter of the Borrower ended June 30, 1996, (iii) $39,800,000 for the fiscal quarter of the Borrower ended September 30, 1996 and (iv) $43,300,000 for the fiscal quarter of the Borrower ended December 31, 1996.

"Eligible Assignee" means (a) any commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of $1,000,000,000; (b) any savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having a net worth determined in accordance with GAAP in excess of $250,000,000; (c) any commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development ("OECD") or has concluded special lending arrangements with the International Monetary Fund Associated with its General Arrangements to Borrow, or a political subdivision of any such country, and having total assets in excess of $1,000,000,000, so long as such bank is acting through a branch or agency located in the United States, in the Cayman Islands or in the country in which it is organized or another country that is described in this clause (c); (d) the central bank of any country that is a member of the OECD; (e) any finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that (i) is not affiliated with the Borrower, (ii) is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and (iii) has total assets in excess of $250,000,000; and (f) any other Person (other than an Affiliate of the Borrower) approved by the Administrative Agent and the Borrower, such approval not to be unreasonably withheld if such Person is a commercial bank.

"Environmental Action" means any administrative, regulatory or

judicial action, suit, demand, demand letter, claim, notice of non-compliance or violation, investigation, proceeding, consent order or consent agreement based upon or arising out of any Environmental Law or any Environmental Permit, including, without limitation (a) any claim by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any Environmental Law and (b) any claim by any third party seeking damages, contribution, or injunctive relief arising from alleged injury or threat of injury to health, safety or the environment.

"Environmental Law" means any federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree, determination or award relating to the environment, health or safety including, without limitation, CERCLA, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act, the Clean Water Act, the Toxic Substances Control Act, the Clean Air Act, the Safe Drinking Water Act, the Atomic Energy Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Occupational Safety and Health Act.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" of any Person means any other Person that for purposes of Title IV of ERISA is a member of such Person's controlled group, or under common control with such Person, within the meaning of Section 414 of the Code.

"ERISA Event" with respect to any Person means (a) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan of such Person or any of its ERISA Affiliates unless the 30-day notice requirement with respect to such event has been waived by the PBGC; (b) the provision by the administrator of any Plan of such Person or any of its ERISA Affiliates of a notice of intent to terminate such Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (c) the cessation of operations at a facility of such Person or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (d) the withdrawal by such Person or any of its ERISA Affiliates from a Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (e) the failure by such Person or any of its ERISA Affiliates to make a payment to a Plan described in Section 302(f)(1) of ERISA; (f) the adoption of an amendment to a Plan of such Person or any of its ERISA Affiliates requiring the provision of security to such Plan, pursuant to Section 307 of ERISA; or (g) the institution by the PBGC of proceedings to terminate a Plan of such Person or any of its ERISA Affiliates, pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that would constitute grounds for the termination of, or the appointment of a trustee to administer, such Plan; provided, however, that an event described in clause (a), (c) or (d) of this definition, or in clause (b) of this definition solely with respect to a standard termination under Section 4041(b) of ERISA, shall be an ERISA Event only if such event is reasonably likely to result in a material liability of such Person or any of its ERISA Affiliates.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"Eurodollar Rate" means the rate per annum equal to (i) the rate determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two Business Days before the first day of such Interest Period by reference to the British Bankers' Association Interest Settlement Rates for deposits in U.S. dollars (as set forth by any service selected by the Administrative Agent which has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying such rates) for a period equal to the relevant Interest Period divided by (ii) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of

this definition, the "Eurodollar Rate" shall be the interest rate per annum determined by the Administrative Agent to be the average (rounded upward to the nearest whole multiple of one-sixteenth of one percent per annum, if such average is not such a multiple) of the rates per annum at which deposits in U.S. dollars are offered to major banks in the London interbank market in London, England by the Reference Lenders at approximately 11:00 a.m. (London time) on the day which is two Business Days before the first day of such Interest Period. If any of the Reference Lenders shall be unable or shall otherwise fail to supply such rates to the Administrative Agent upon its request, the rate of interest shall be determined on the basis of the remaining Reference Lenders. The Eurodollar Rate for each Interest Period for each Eurodollar Rate Advance comprising part of the same Borrowing shall be determined by the Administrative Agent on the basis of applicable rates obtained by the Administrative Agent two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.07.

"Eurodollar Rate Advance" means a Term Advance or a Revolving Credit Advance that bears interest as provided in Section 2.06(a)(ii).

"Eurodollar Rate Reserve Percentage" of any Lender for any Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Excess Cash Flow" means for any period, without duplication, the total of the following: (a) EBITDA, less (b) any cash provision for (or plus any cash benefit from) income or franchise taxes included in the determination of Net Income, plus (c) decreases (or less increases) in Working Capital, plus (d) decreases (or less increases) in long-term deferred tax assets, plus (e) increases (or less decreases) in the long-term portion of reserves and accrued liabilities, plus (f) increases (or less decreases) in long-term deferred tax liabilities, less (g) the unfinanced portion of Capital Expenditures (excluding amounts paid for Capital Expenditures from Available Excess Cash Flow for such period), less (h) scheduled amortization of Debt actually paid in cash (but in the case of Junior Obligations or Subordinated Notes only to the extent such payment was permitted pursuant to Section 5.02(l)), less (i) the aggregate of all voluntary prepayments of the Advances (in the case of Revolving Credit Advances, only to the extent the Revolving Credit Commitments are simultaneously permanently reduced), less (j) Interest Expense, less (k) amounts paid in cash for Permitted Acquisitions (excluding amounts paid for Permitted Acquisitions from Available Excess Cash Flow for such period), less (l) amounts paid in cash as dividends permitted under Section 5.02(e)(iv), less (m) to the extent included in EBITDA, the amount of any gain on any Disposition.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Credit Agreement" has the meaning specified in the Preliminary Statement.

"Facility" means the Revolving Credit Facility or the Term Facility.

"Facility Fee Percentage" means (a) for all times during which the Investor Group Interest equals or exceeds 25%, the applicable percentage set forth in the chart immediately below based on the Leverage Ratio of the Borrower:

LEVERAGE RATIO	FACILITY FEE PERCENTAGE
Greater than or equal to 3.5:1.0	0.25%
Less than 3.5:1.0 and greater than or equal to 2.5:1.0	0.1875%

Less than 2.5:1.0	0.125%;

and (b) for all times during which the Investor Group Interest is less than 25%, the applicable percentage set forth in the chart immediately below based on the Leverage Ratio of the Borrower:

LEVERAGE RATIO	FACILITY FEE PERCENTAGE
Greater than or equal to 4.5:1.0	0.50%
Less than 4.5 and greater than or equal to 4.0:1.0	0.375%
Less than 4.0:1.0 and greater than or equal to 2.5:1.0	0.25%
Less than 2.5:1.0	0.1875%.

In each case the Leverage Ratio shall be determined by reference to the most recent financial statements delivered to the Administrative Agent pursuant to Section 5.01(l)(i) and (ii) (any change in the Facility Fee Percentage based on the Leverage Ratio shall be effective upon the earlier of (i) the date of delivery of financial statements to the Administrative Agent pursuant to Section 5.01(l)(i) and (ii), which financial statements evidence a Leverage Ratio requiring such change, and (ii) the latest date permitted for such delivery pursuant to Section 5.01(l)(i) and (ii)).

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fixed Rate Advances" has the meaning specified in Section 2.02(b)(i).

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time.

"Guaranty Confirmation" has the meaning specified in Section 3.01(d)(vii).

"Hazardous Materials" means (a) petroleum or petroleum products, natural or synthetic gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and radon gas, (b) any substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "contaminants" or "pollutants," or words of similar import, under any Environmental Law and (c) any other substance exposure to which is regulated under any Environmental Law.

"Hedge Agreements" means interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements.

"HLR" means HLR Holdings Inc., a Delaware corporation and a direct wholly-owned subsidiary of Hoffmann-La Roche.

"HLR Stockholder Agreement" means the Stockholder Agreement dated as of April 28, 1995 among HLR, Roche Holdings, Hoffmann-La Roche and the Borrower, as the same, subject to Section 5.02(k), may be amended, supplemented or otherwise modified from time to time.

"Hoffmann-La Roche" means Hoffmann-La Roche Inc., a New Jersey corporation.

"Indemnified Party" has the meaning specified in Section 8.04(c).

"Initial Date" means, for purposes of Section 2.12, in the case of the Administrative Agent and each Bank, the date of its execution and delivery of the Existing Credit Agreement and, in the case of each Lender other than a Bank, the date of the Assignment and Acceptance pursuant to which it becomes a Lender.

"Interest Coverage Ratio" means with respect to each four fiscal quarter period, commencing with the four fiscal quarter period ending on March 31, 1997, the ratio of (x) Consolidated EBITDA of the Borrower and its Subsidiaries for such period to (y) Consolidated Interest Expense of the Borrower and its Subsidiaries for such period.

"Interest Expense" means, with respect to any specified period, the sum of interest expense on all Debt of the Borrower and its Subsidiaries on a Consolidated basis in accordance with GAAP and including, without limitation, to the extent not otherwise included in accordance with GAAP (a) the interest component of obligations under Tax Finance Leases and Capitalized Leases, (b) commissions, discounts and other fees and charges payable in connection with letters of credit, (c) the net payment, if any, payable in connection with Hedge Agreements, (d) fees paid pursuant to Section 2.08(a), (e) amortization of original issue discount and (f) the interest portion of any deferred payment obligation.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Term Borrowing or Revolving Credit Borrowing, the period commencing on the date of such Eurodollar Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the periods elected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months as the Borrower may, upon notice received by the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) the Borrower may not select any Interest Period which ends after any principal repayment installment date unless, after giving effect to such selection, the aggregate principal amount of Base Rate Advances and of Eurodollar Rate Advances having Interest Periods that end on or prior to such principal repayment installment date shall be at least equal to the aggregate principal amount of such Advances due and payable on or prior to such date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iii) whenever the first day of any Interest Period occurs on a day in a calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any capital stock, warrants, rights, options, debt obligations or other securities of such Person, any capital contribution to such Person or any other investment in such Person, including, without limitation, any arrangement pursuant to which the investor incurs Debt of the type referred to in clause (h) or (i) of the definition of "Debt" in respect of such Person.

"Investor Group Interest" has the meaning set forth in the HLR Stockholder Agreement, as in effect on the date hereof.

"Junior Obligations" means unsecured indebtedness of the Borrower for borrowed money in favor of non-Affiliates of the Borrower: (i) payment or prepayment (mandatory or optional) of which (whether at maturity, upon acceleration, pursuant to scheduled amortization or otherwise) is not permitted or required until after the prior payment in full of the Obligations under the Loan Documents, (ii) incurred pursuant to loan agreements or other evidence of indebtedness providing for interest rates, fees and other returns to the obligee thereof, and for affirmative, negative and financial covenants and other terms and conditions, not more favorable,

in the judgment of the Required Lenders, than those set forth in the Loan Documents, and (iii) otherwise subordinated to the prior payment in full of the Obligations under the Loan Documents on terms and conditions satisfactory to the Required Lenders.

"L/C(s)" means any standby letter of credit issued by the L/C Issuer for the account of Borrower pursuant to Section 2.03A hereof, in each case, as amended, supplemented or modified from time to time.

"L/C Expiration Date" means with respect to any L/C, the date which is the earlier to occur of (a) three hundred sixty-five (365) days after the date of issuance or extension thereof, or (b) thirty (30) days prior to the Revolving Credit Termination Date.

"L/C Issuance Request" means a request in the form of Exhibit I for the issuance of a L/C.

"L/C Issuer" means either CSFB or any other Lender that has agreed to become an L/C Issuer, as designated in the related L/C Issuance Request.

"L/C Obligations" means as of any date of determination, all the existing liabilities (including all fees) of the Borrower to the L/C Issuer, the Agent and the Lenders in respect of all L/C(s) outstanding, whether such liability is contingent or fixed, which liabilities shall be computed to include the sum of the aggregate maximum amount then available to be drawn under all L/C(s) (assuming, whether or not such is the case, that such aggregate maximum amount shall have been drawn) and the aggregate amount of any Unreimbursed Drawings then outstanding.

"L/C Outstandings" means at any time, the sum of (a) the maximum aggregate amount available to be drawn under all outstanding L/C(s) (assuming, whether or not such is the case, that such aggregate maximum amount shall have been drawn) and (b) the amount of all Unreimbursed Drawings.

"L/C Reimbursement Due Date" has the meaning specified in Section 2.03A(c)(i).

"L/C Sublimit" means at any time, an amount equal to the lesser of (x) Fifty Million Dollars ($50,000,000), as such amount may be reduced in accordance with the terms hereof, and (y) the aggregate Unused Revolving Credit Commitments of all the Lenders at such time. The L/C Sublimit shall automatically and permanently terminate on the earlier of (i) March 1, 2002 and (ii) the Revolving Credit Termination Date.

"Lenders" means the Banks listed on the signature pages hereof and each Eligible Assignee that shall become a party hereto pursuant to Section 8.07 and each assignee that shall become a party hereto pursuant to Section 2.14.

"Leverage Ratio" means with respect to each four fiscal quarter period, commencing with the four fiscal quarter period ending December 31, 1996, the ratio of (x) the total Consolidated Debt of the Borrower and its Subsidiaries (excluding, to the extent included in Consolidated Debt, any Obligations to redeem the Preferred Stock) as of the last day of such fiscal quarter to (y) Consolidated EBITDA of the Borrower and its Subsidiaries for the four fiscal quarter period ended at the end of such fiscal quarter.

"LIBO CB Advance" has the meaning specified in Section 2.02(b)(i).

"Lien" means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

"Loan Documents" means this Agreement, the Notes, the Subsidiary Guaranty and the Guaranty Confirmation.

"Loan Parties" means the Borrower and the Subsidiary Guarantors.

"Mandatory L/C Advance" has the meaning specified in Section 2.03A(c)(i) hereof.

"Margin Stock" has the meaning specified in Regulation U of the Board of Governors of the Federal Reserve System and any successor regulations thereto, as in effect from time to time.

"Material Adverse Change" means, with respect to any Person, a material adverse change in the financial condition, results of operations or business of such Person and its Subsidiaries, taken as a whole.

"Material Adverse Effect" means a material adverse effect upon (a) the financial condition, results of operations or business of the Borrower and its Subsidiaries, taken as a whole, or (b) the ability of a Loan Party to perform its Obligations under any Loan Document or (c) the binding nature, validity or enforceability of any Loan Document as an obligation of any Loan Party.

"Material Subsidiary" means (a) as to any Person, each "Subsidiary" (as defined in Rule 1-02 of Regulation S-X (17 CFR Part 210) ("Rule 1-02")) that qualifies as a "Significant Subsidiary" (as defined in Rule 1-02) of such Person, (b) NHL and (c) each Subsidiary of the Borrower that is a direct or indirect beneficial owner of any shares of capital stock of NHL.

"Materially Different Business" means a business or line of business that is materially different from that described for the Borrower and its Subsidiaries in the Rights Offering Registration Statement.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" of any Person means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, which is subject to Title IV of ERISA, and to which such Person or any of its ERISA Affiliates is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Net Cash Proceeds" means, with respect to any sale, lease, transfer or other disposition of any asset or the sale or issuance by any Person of any Debt or capital stock or other equity interest, any securities convertible into or exchangeable for any capital stock or other equity interest or any warrants, rights or options to acquire any capital stock or other equity interest, the aggregate amount of cash received from time to time by or on behalf of such Person in connection with such transaction after deducting therefrom only (a) reasonable and customary brokerage commissions, underwriting fees and discounts, legal fees and expenses, finder's fees, accountants' fees and expenses and other similar fees, expenses and commissions, (b) the amount of taxes payable or estimated in good faith to be payable in connection with or as a result of such transaction and (c) the amount of any Debt that, by the terms of such transaction or the terms of such Debt, is required to be repaid upon such disposition, in each case to the extent, but only to the extent, that the amounts so deducted are payable to a Person that is not an Affiliate and are properly attributable to such transaction or to the asset that is the subject thereof.

"Net Income" means, for any Person in any period, the net income of such Person and its Subsidiaries on a Consolidated basis for such period, as determined in accordance with GAAP.

"Net Tangible Assets" means, for any Person, total assets of such Person less all intangible assets of such Person, in each case determined in accordance with GAAP.

"NHL" means Laboratory Corporation of America, as successor-in-interest to National Health Laboratories Incorporated, a Delaware corporation and an indirect wholly-owned Subsidiary of the Borrower, and its successors.

"Note" means a Revolving Credit Note, a Term Note or a Competitive Bid Note.

"Notice of Borrowing" means a Notice of Committed Borrowing or a Notice of Competitive Bid Borrowing.

"Notice of Committed Borrowing" has the meaning specified in Section 2.02(a).

"Notice of Competitive Bid Borrowing" has the meaning specified in Section 2.02(b).

"Obligation" means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not such claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 6.01(e). Without limiting the generality of the foregoing, the Obligations of the Loan Parties under the Loan Documents include (a) the

obligation to pay principal, interest, charges, expenses, fees, attorneys' fees and disbursements, guarantees, indemnities and other amounts payable by any Loan Party under any Loan Document and (b) the obligation to reimburse any amount in respect of any of the foregoing that any Lender, in its sole discretion, may elect to pay or advance on behalf of such Loan Party.

"Other Taxes" has the meaning specified in Section 2.12(b).

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor agency or entity performing substantially the same functions.

"Permitted Acquisition" means any Acquisition permitted under Section 5.02(h).

"Person" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Plan" means an employee pension benefit plan (other than a Multiemployer Plan) which is subject to Title IV of ERISA, and either (i) is maintained or contributed to by the Borrower or any of its ERISA Affiliates, or to which the Borrower or any of its ERISA Affiliates has an obligation to contribute, for employees of the Borrower or any of its ERISA Affiliates, (ii) has at any time within the preceding five years been maintained or contributed to by Borrower or any Person which was at such time an ERISA Affiliate of the Borrower for employees of Borrower or any Person which was at such time an ERISA Affiliate of the Borrower or (iii) was at any time within the five years preceding the merger of RBLI and the Borrower maintained or contributed to by RBLI or any of its then existing ERISA Affiliates, or to which RBLI or any of its then existing ERISA Affiliates had an obligation to contribute, for employees for RBLI or any of its then existing ERISA Affiliates (an "RBLI Plan") provided, however, that the term "Plan" shall only apply with respect to an "RBLI Plan" for the period preceding the merger of RBLI and the Borrower.

"Purchase Price" means, with respect to any Acquisition or proposed Acquisition, the consideration paid or to be paid for such Acquisition in cash and property (including, without limitation, all purchase price installments and all liabilities assumed, Debt incurred and equity issued by the Borrower or any of its Subsidiaries in connection with such Acquisition).

"RBLI" means Roche Biomedical Laboratories, Inc., a New Jersey corporation and a direct wholly-owned subsidiary of HLR, as such corporation existed immediately prior to the effectiveness of the merger between such corporation and the Borrower.

"RBLI Plan" has the meaning specified in the definition of "Plan".

"Reference Lenders" means Credit Suisse First Boston, Swiss Bank Corporation, New York Branch, and Deutsche Bank AG, New York Branch, or such other Lenders as the Borrower, the Administrative Agent and the Required Lenders shall designate in writing.

"Register" has the meaning specified in Section 8.07(b).

"Relevant Contingent Exposure" has the meaning specified in Section 6.02(d).

"Required Lenders" means at any time Lenders holding at least 51% of the sum of (a) the aggregate principal amount of the Committed Advances outstanding at such time and (b) the aggregate unused Term Commitments plus the aggregate Unused Revolving Credit Commitments at such time (provided that, for purposes hereof, neither the Borrower, nor any of its Affiliates, if a Lender, shall be included in (x) the Lenders holding such amount of the Committed Advances or having such amount of the Commitments or (y) determining the aggregate unpaid principal amount of the Committed Advances or the total Commitments); provided, however, if any Lender shall be a Defaulting Lender at such time, there shall be excluded from the determination of Required Lenders at such time (i) the aggregate principal amount of the Committed Advances made by such Lender and outstanding at such time and (ii) the aggregate Commitments of such Lender under both of the Facilities at such time.

"Revolving Credit Advance" has the meaning specified in Section 2.01(b).

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by the Revolving Credit Lenders.

"Revolving Credit Commitment" means, with respect to any Revolving Credit Lender at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Revolving Credit Commitment" or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 8.07(b) as such Lender's "Revolving Credit Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.04.

"Revolving Credit Facility" means, at any time, the aggregate amount of the Revolving Credit Lenders' Revolving Credit Commitments at such time.

"Revolving Credit Lender" means any Lender that has a Revolving Credit Commitment.

"Revolving Credit Note" means a promissory note of the Borrower payable to the order of any Lender having a Revolving Credit Commitment or a Revolving Credit Advance, in substantially the form of Exhibit A-2 to the Existing Credit Agreement as amended pursuant to Section 8.13 or in substantially the form of Exhibit A-2 hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Revolving Credit Advances made or held by such Lender.

"Revolving Credit Termination Date" means the earlier of (a) March 31, 2002 or (b) the date of termination in whole of the Revolving Credit Commitments pursuant to Section 2.04 or 6.01.

"Rights Offering Registration Statement" means the Form S-3 Registration Statement filed by the Borrower with the Securities and Exchange Commission on February 27, 1997 in connection with the offering of subscription rights for the Borrower Preferred Stock and as the same may be amended with the consent of the Agent following receipt of comments from the Securities and Exchange Commission.

"Roche" means Roche Holding Ltd, a corporation organized and existing under the laws of Switzerland.

"Roche Debt" means the indebtedness of the Borrower evidenced by the Roche Note.

"Roche Holdings" means Roche Holdings, Inc., a Delaware corporation.

"Roche Note" means the promissory note of the Borrower in the principal amount of $187,000,000 dated December 23, 1996 in favor of Roche Holdings, as amended on March 31, 1997 and as further amended with the consent of the Required Lenders.

"S&P" means Standard & Poor's Ratings Group.

"Solvent" and "Solvency" mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Stockholders' Equity" means stockholders equity of the Borrower and its Subsidiaries on a Consolidated basis, as determined in accordance with GAAP.

"Subordinated Debt" means unsecured indebtedness of the Borrower for borrowed money incurred pursuant to the terms and conditions set forth in Schedule VI.

"Subsidiary" of any Person means any corporation, partnership, limited liability company, joint venture, trust or estate of which (or in which) more than 50% of (a) the Voting Stock of such corporation, (b) the interest in the capital or profits of such partnership, limited liability

company or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Subsidiary Guarantors" means each Material Subsidiary of the Borrower, from time to time, that is organized under the laws of a state of the United States.

"Subsidiary Guaranty" has the meaning specified in Section 3.01(d)(vii).

"Surviving Debt" has the meaning specified in Section 4.01(q).

"Taxes" has the meaning specified in Section 2.12(a).

"Tax Finance Lease" means a lease not required, in accordance with GAAP, to be recorded as a Capitalized Lease, but which is treated as a financing lease for federal income tax purposes.

"Term Advance" has the meaning specified in Section 2.01(a).

"Term Borrowing" means a borrowing consisting of simultaneous Term Advances of the same Type made by the Term Lenders.

"Term Commitment" means, with respect to any Term Lender at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Term Commitment" or, if such Lender has entered into one or more Assignments and Acceptances, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 8.07(b) as such Lender's "Term Commitment", as such amount may be reduced pursuant to Section 2.04.

"Term Facility" means, at any time, the aggregate amount of the Term Lenders' Term Commitments at such time.

"Term Lender" means any Lender that has a Term Advance.

"Term Note" means a promissory note of the Borrower payable to the order of any Lender having a Term Commitment or a Term Advance, in substantially the form of Exhibit A-1 to the Existing Credit Agreement hereto as amended pursuant to Section 8.13 or in substantially the form of Exhibit A-1 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from the Term Advance made or held by such Lender.

"Termination Date" means March 31, 2004.

"Type" refers to the distinction between Term Advances and Revolving Credit Advances bearing interest at a rate based upon the Base Rate and Term Advances and Revolving Credit Advances bearing interest at a rate based upon the Eurodollar Rate.

"Unfunded Pension Liabilities" with respect to any Plan means the excess, if any, of its accumulated benefit obligation, as determined in accordance with Statement of Financial Accounting Standards No. 87 or any successor thereto (based on interest, mortality and other relevant actuarial assumptions used to fund such Plan as of its most recent actuarial valuation), over the fair market value of its assets (as of such date).

"Unreimbursed Drawings" has the meaning specified in Section 2.03A(c)(i).

"Unused Revolving Credit Commitment" means, with respect to any Revolving Credit Lender at any time, (a) such Lender's Revolving Credit Commitment at such time, minus (b) the aggregate principal amount of all Revolving Credit Advances made by such Lender under the Revolving Credit Facility and outstanding at such time, minus (c) the Competitive Bid Reduction applicable to such Lender pursuant to Section 2.01(b), and minus (d) such Lender's pro rata share of the L/C Outstandings.

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Welfare Plan" means a welfare plan, as defined in Section 3(1) of ERISA.

"Withdrawal Liability" has the meaning specified in Part I of

Subtitle E of Part IV of ERISA.

"Working Capital" means current assets minus current liabilities, excluding cash, Cash Equivalents, the current portion of long-term Debt, and the aggregate outstanding principal amount of all Revolving Credit Advances made under the Revolving Credit Facility.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding".

SECTION 1.03. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Lenders; provided that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article V to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article V for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The Advances. (a) The Term Advances. On the Amendment Effective Date the Term Advance made by each Term Lender under the Existing Credit Agreement shall continue as an advance hereunder (a "Term Advance"). Term Advances repaid or prepaid may not be reborrowed.

(b) The Revolving Credit Advances. On the Amendment Effective Date each Revolving Credit Advance made by each Revolving Credit Lender under the Existing Credit Agreement shall continue as an advance hereunder and each Revolving Credit Lender severally agrees, on the terms and conditions hereinafter set forth, to make additional advances (each a "Revolving Credit Advance") to the Borrower from time to time on any Business Day during the period from the Amendment Effective Date until the Revolving Credit Termination Date, in an aggregate amount not to exceed at any time outstanding such Lender's Revolving Credit Commitment on such Business Day; provided that the aggregate amount of the Revolving Credit Commitments of the Lenders shall be deemed used from time to time to the extent of the aggregate amount of the Competitive Bid Advances then outstanding and such deemed use of the aggregate amount of the Revolving Credit Commitments shall be allocated among the Lenders ratably according to their respective Revolving Credit Commitments (such deemed use of the aggregate amount of the Revolving Credit Commitments being a "Competitive Bid Reduction") and provided further that the aggregate amount of the Revolving Credit Commitments of the Lenders shall be deemed used from time to time to the extent of the aggregate amount of the L/C Outstandings and such deemed use of the aggregate amount of the Revolving Credit Commitments shall be allocated among the Lenders ratably according to their respective Revolving Credit Commitments. Each Revolving Credit Borrowing shall be in an aggregate amount not less than $10,000,000 or an integral multiple of $1,000,000 in excess thereof (or, if less, an aggregate amount equal to the amount by which the aggregate amount of a proposed Competitive Bid Borrowing requested by the Borrower exceeds the aggregate amount of Competitive Bid Advances offered to be made by the Lenders and accepted by the Borrower in respect of such Competitive Bid Borrowing, if such Competitive Bid Borrowing is made on the same date as such Revolving Credit Borrowing) and shall consist of Advances made on the same day by the Revolving Credit Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Revolving Credit Lender's Unused Revolving Credit Commitment in effect from time to time, the Borrower may borrow, prepay pursuant to Section 2.05(a) and reborrow under this Section 2.01(b).

(c) The Competitive Bid Advances. Each Lender severally agrees that the Borrower may make Competitive Bid Borrowings from time to time on any Business Day during the period from the Amendment Effective Date until the date occurring seven days prior to the Revolving Credit Termination Date in the manner set forth in Section 2.02(b); provided that, following the making of each Competitive Bid Borrowing, the aggregate amount of the

Revolving Credit Advances and Competitive Bid Advances then outstanding shall not exceed the aggregate amount of the Revolving Credit Commitments of the Lenders (calculated without regard to any Competitive Bid Reduction). Each Competitive Bid Borrowing shall be in an aggregate amount of $10,000,000 or an integral multiple of $1,000,000 in excess thereof, subject to the immediately preceding proviso. Within the limits and on the conditions set forth in this Article II, the Borrower may from time to time borrow under this Section 2.01(c), repay and reborrow under this Section 2.01(c), provided that a Competitive Bid Borrowing shall not be made within seven Business Days (or such other period as the Borrower and the Administrative Agent may agree) of the date of any other Competitive Bid Borrowing.

SECTION 2.02. Making the Advances. (a) Committed Advances. (i) Each Committed Borrowing shall be made on notice given not later than 11:00 A.M. (New York City time) on the date of a proposed Base Rate Borrowing or the third Business Day prior to the date of a proposed Eurodollar Rate Borrowing, by the Borrower to the Administrative Agent, which shall give to each Lender prompt notice thereof by telecopier, telex or cable. Each such notice of a Committed Borrowing (a "Notice of Committed Borrowing") shall be by telecopier, telex or cable (or by telephone and confirmed immediately thereafter by telecopier, telex or cable), in substantially the form of Exhibit C-1 hereto, specifying therein the requested (A) date of such Committed Borrowing, (B) Type of Advances comprising such Committed Borrowing, (C) aggregate amount of such Committed Borrowing and (D) Interest Period for each Eurodollar Rate Advance included in such Committed Borrowing. In the case of any such proposed Committed Borrowing comprised of Eurodollar Rate Advances, the Administrative Agent shall promptly notify the Borrower and each Lender of the applicable interest rate under Section 2.06(a)(ii). Each Lender shall, before 1:00 P.M. (New York City time) on the date of such Committed Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account, in same day funds, such Lender's ratable portion of such Committed Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available by crediting the Borrower's Account. Each Notice of Committed Borrowing shall be irrevocable and binding on the Borrower.

(ii) The Borrower may not request a Committed Borrowing comprised of Eurodollar Rate Advances or, pursuant to Section 2.15, convert Base Rate Advances into Eurodollar Rate Advances or select a new Interest Period for existing Eurodollar Rate Advances if, after the making or Conversion of such Advances or the selection of such Interest Period, the number of outstanding Committed Borrowings comprised of Eurodollar Rate Advances and having different Interest Periods (whether of different duration or commencing on different dates) would exceed ten.

(iii) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Committed Borrowing under a Facility under which such Lender has a Commitment that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Committed Borrowing, the Administrative Agent may assume, or at its option request confirmation from such Lender, that such Lender has made such portion available to the Administrative Agent on the date of such Committed Borrowing in accordance with Section 2.02(a)(i) and the Administrative Agent may, in reliance upon such assumption or confirmation (as the case may be), make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (A) in the case of the Borrower, the interest rate applicable at such time under Section 2.06 to Advances comprising such Committed Borrowing and (B) in the case of such Lender, the cost (expressed as a rate per annum) to the Administrative Agent of funding such Lender's ratable portion; provided that, upon the request of such Lender, the Administrative Agent shall provide such Lender with a certificate as to the calculation of such amount. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Advance as part of such Committed Borrowing for purposes of this Agreement.

(b) Competitive Bid Advances. (i) The Borrower may request a Competitive Bid Borrowing by delivering to the Administrative Agent, by telecopier or telex, confirmed immediately in writing, a notice of a Competitive Bid Borrowing (a "Notice of Competitive Bid Borrowing"), in substantially the form of Exhibit C-2 hereto, specifying therein (A) the date of such proposed Competitive Bid Borrowing, (B) the aggregate amount of such proposed Competitive Bid Borrowing, (C) the maturity date for repayment

of each Competitive Bid Advance to be made as part of such Competitive Bid Borrowing (which maturity date may not be earlier than the date occurring seven days after the date of such Competitive Bid Borrowing or later than the Revolving Credit Termination Date), (D) the interest payment date or dates relating thereto and (E) any other terms to be applicable to such Competitive Bid Borrowing, not later than 11:00 A.M. (New York City time) (x) at least one Business Day prior to the date of the proposed Competitive Bid Borrowing, if the Borrower shall specify in the Notice of Competitive Bid Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum (the Competitive Bid Advances comprising any such Competitive Bid Borrowing being referred to herein as "Fixed Rate Advances") and (y) at least four Business Days prior to the date of the proposed Competitive Bid Borrowing, if the Borrower shall instead specify in the Notice of Competitive Bid Borrowing the basis to be used by the Lenders in determining the rates of interest to be offered by them (the Competitive Bid Advances comprising any such Competitive Bid Borrowing being referred to herein as "LIBO CB Advances"). The Administrative Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Borrowing received by it from the Borrower by sending such Lender a copy of the related Notice of Competitive Bid Borrowing.

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Advances to the Borrower as part of such proposed Competitive Bid Borrowing at a rate or rates of interest specified by such Lender, in its sole discretion, by submitting a notice, in the form of Exhibit C-3, to the Administrative Agent (which shall give prompt notice thereof to the Borrower), before 9:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances, and three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO CB Advances, specifying (A) the minimum amount and maximum amount of each Competitive Bid Advance which such Lender would be willing to make as part of such proposed Competitive Bid Borrowing (which amounts may, subject to the first proviso set forth in Section 2.01(c), exceed such Lender's Revolving Credit Commitment, if any), (B) the rate or rates of interest per annum therefor and (C) such Lender's Applicable Lending Office with respect to such Competitive Bid Advance; provided that if the Administrative Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer before 9:15 A.M. (New York City time) on the date on which notice of such election is to be given to the Administrative Agent by the other Lenders.

(iii) The Borrower shall, in turn, before 10:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances, and before 10:30 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO CB Advances, either:

(A) cancel such Competitive Bid Borrowing by giving the Administrative Agent notice to that effect, or

(B) accept one or more of the offers made by any Lender or Lenders pursuant to Section 2.02(b)(ii), in its sole discretion, by giving notice to the Administrative Agent of the amount of each Competitive Bid Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to the Borrower by the Administrative Agent on behalf of such Lender for such Competitive Bid Advance pursuant to Section 2.02(b)(ii)) to be made by each Lender as part of such Competitive Bid Borrowing, and reject any remaining offers made by Lenders pursuant to Section 2.02(b)(ii) by giving the Administrative Agent notice to that effect. If the Borrower accepts any offers made by Lenders pursuant to Section 2.02(b)(ii), such offers shall be accepted in the order of the lowest to highest interest rates or, if two or more Lenders offer to make Competitive Bid Advances at the same interest rate, such offers, if any, shall be accepted in proportion to the amount offered by each such Lender at such interest rate.

(iv) If the Borrower notifies the Administrative Agent that such Competitive Bid Borrowing is cancelled pursuant to Section 2.02(b)(iii)(A), the Administrative Agent shall give prompt notice thereof to the Lenders and such Competitive Bid Borrowing shall not be made.

(v) If the Borrower accepts one or more of the offers made by any Lender or Lenders pursuant to Section 2.02(b)(iii)(B), the Administrative Agent shall in turn promptly notify (A) each Lender that has made an offer pursuant to Section 2.02(b)(ii) of the date and aggregate amount of such Competitive Bid Borrowing and whether or not any offer or offers made by

such Lender pursuant to Section 2.02(b)(ii) have been accepted by the Borrower and (B) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing of the amount of each Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing. Each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing shall, before 1:00 P.M. (New York City time) on the date of such Competitive Bid Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account, in same day funds, such Lender's portion of such Competitive Bid Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Administrative Agent of such funds, the Administrative Agent will make such funds available to the Borrower by crediting the Borrower's Account. Promptly after each Competitive Bid Borrowing the Administrative Agent will notify each Lender of the amount of the Competitive Bid Borrowing, the consequent Competitive Bid Reduction and the dates upon which such Competitive Bid Reduction commenced and will terminate.

(vi) The Administrative Agent shall maintain at its address referred to in Section 8.02 a copy of each Notice of Competitive Bid Borrowing delivered by the Borrower and a register for the recordation of the date, amount, maturity, interest rate, interest payment dates, other terms and Lender of each Competitive Bid Advance accepted by the Borrower from time to time pursuant to this Section 2.02(b) (the "Competitive Bid Register"). The entries in the Competitive Bid Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent and the Lenders may treat the entries recorded in the Competitive Bid Register as evidence of Competitive Bid Advances made pursuant to this Section 2.02(b). The Competitive Bid Register shall be available for inspection by the Borrower or any Lender making a Competitive Bid Advance at any reasonable time and from time to time upon reasonable prior notice.

(vii) The indebtedness of the Borrower resulting from each Competitive Bid Advance made to the Borrower as part of a Competitive Bid Borrowing shall be evidenced by a master Competitive Bid Note of the Borrower payable to the order of the Administrative Agent for the benefit of the Lender making such Competitive Bid Advance.

(c) Funding Losses. The Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure by the Borrower to fulfill on or before the date specified in any Notice of Borrowing for the applicable Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

(d) Several Obligations. The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

SECTION 2.03. Repayment. (a) Term Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Lenders having Term Advances the outstanding principal amount of the Term Advances on the following dates in the amounts indicated; provided that the last such installment shall be in an amount sufficient to repay all amounts owed by the Borrower under the Term Advances:

DATE	AMOUNT
March 31, 1999	12,500,000
June 30, 1999	12,500,000
September 30, 1999	12,500,000
December 31, 1999	12,500,000
March 31, 2000	25,000,000
June 30, 2000	25,000,000
September 30, 2000	25,000,000
December 31, 2000	25,000,000
March 31, 2001	37,500,000
June 30, 2001	37,500,000
September 30, 2001	37,500,000
December 31, 2001	37,500,000
March 31, 2002	37,500,000
June 30, 2002	37,500,000
September 30, 2002	37,500,000

December 31, 2002	37,500,000
March 31, 2003	37,500,000
June 30, 2003	37,500,000
September 30, 2003	37,500,000
December 31, 2003	37,500,000
March 31, 2004	93,750,000
Total	$693,750,000

(b) Revolving Credit Advances. The Borrower shall repay to the Administrative Agent for the ratable account of the Lenders having Revolving Credit Advances the aggregate principal amount of the Revolving Credit Advances on the Revolving Credit Termination Date.

(c) Competitive Bid Advances. The Borrower shall repay to the Administrative Agent for the account of each Lender that has made a Competitive Bid Advance, on the maturity date of each Competitive Bid Advance (such maturity date being that specified by the Borrower for repayment of such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered by the Borrower and recorded in the Competitive Bid Register with respect to such Competitive Bid Advance), the then unpaid principal amount of such Competitive Bid Advance.

SECTION 2.03A. Letters of Credit.

(a) Amount and Expiration. (i) Subject to the terms and conditions of this Agreement, the Borrower may request that an L/C Issuer, in its individual capacity, issue one or more standby L/Cs for the account of the Borrower, provided, however, that no L/C shall be issued if, after giving effect to the issuance of such L/C (x) the aggregate amount of all L/C Outstandings and the aggregate amount of all Revolving Credit Advances and Competitive Bid Advances then outstanding would exceed the aggregate amount of the Revolving Credit Commitments of the Lenders at such time or (y) the aggregate amount of all L/C Outstandings then outstanding would exceed the L/C Sublimit. Subject to the foregoing, the Borrower may request the issuance of L/C(s) under this Section 2.03A(a)(i), repay any drawings thereunder and request the issuance of additional L/Cs under this Section 2.03A(a)(i). For all purposes of this Agreement, reference to the "issue" or "issuance" of any L/C or any L/C being "issued" shall include the amendment, supplement or modification of any L/C, including, without limitation, any increase in the amount thereof, or any extension or renewal thereof.

(ii) Each L/C shall expire by its terms not later than the L/C Expiration Date. Subject to the preceding sentence, each L/C shall expire on or before the first anniversary of the date of such issuance; provided that the expiry date of any L/C may be extended from time to time for a period not exceeding one year (i) at the Borrower's request or (ii) if such L/C so provides, automatically, in each case so long as such extension is granted (or the last day on which notice can be given to prevent such extension occurs) no earlier than three months before the then existing expiry date thereof. No L/C may be denominated or drawable other than in United States dollars.

(b) Notice and Issuance. (i) The Borrower shall give notice to the applicable L/C Issuer and to the Administrative Agent, of a request for issuance of any L/C not less than five (5) Business Days prior to the proposed issuance date (which prescribed time period may be waived at the option of the applicable L/C Issuer in the exercise of its sole discretion). Each such notice (a "L/C Issuance Request") shall specify: (A) the requested date of such issuance (which shall be a Business Day); (B) the maximum amount of such L/C; (C) the expiration date of such L/C; (D) the purpose of such L/C; (E) the name and address of the beneficiary of such L/C; (F) the identity of the L/C Issuer for such L/C; and (G) the required documents under any such L/C and, if one has been supplied by the beneficiary of such L/C, the form of such L/C (which shall be acceptable to both of such L/C Issuer and the Administrative Agent, in their respective sole discretion). The making of each L/C Issuance Request shall be deemed to be a representation and warranty by the Borrower that such L/C may be issued in accordance with and will not violate the terms of Section 2.03A(a)(i) hereof. Each L/C Issuance Request shall be accompanied by the Application Documents, each duly completed and executed and delivered by the Borrower.

(ii) Upon acceptance of the form of the proposed L/C by the applicable L/C Issuer and the Administrative Agent and upon fulfillment of the conditions set forth above in this Section 2.03A(b) and the applicable conditions in Article III hereof, such L/C Issuer shall issue such L/C and provide notice thereof to the Administrative Agent. Promptly after issuance, amendment or any extension of such L/C, such L/C Issuer shall

provide the Administrative Agent with copy of such L/C or amendment thereto.

(iii) Notwithstanding the foregoing, no L/C Issuer shall be under any obligation to issue any L/C if at the time of such issuance:

(A) any order, judgment or decree of any governmental authority or arbitrator shall purport by its terms to enjoin or restrain such L/C Issuer from issuing such L/C or any requirement of law applicable to such L/C Issuer or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such L/C Issuer shall prohibit, or request that such L/C Issuer refrain from, the issuance of letters of credit generally or such L/C in particular, or shall impose upon such L/C Issuer with respect to such L/C any requirement (for which such L/C Issuer is not otherwise compensated) not in effect on the date hereof, or any unreimbursed loss, cost or expense which was not applicable, in effect or known to such L/C Issuer as of the date hereof and which such L/C Issuer in good faith deems material to it; or

(B) such L/C Issuer shall have received notice from any Lender prior to the issuance of such L/C that one or more of the applicable conditions specified in this Section 2.03A(b) or in Article III are not then satisfied, or that the issuance of such L/C would violate Section 2.01(b) above.

(iv) Upon the request of any Lender, the applicable L/C Issuer shall promptly deliver to such Lender the information specified in Sections 2.03A(b)(i)(A) through (D) above and copies of any L/Cs issued by such L/C Issuer.

(v) Each L/C Issuer shall, on the last Business Day of each calendar month, provide to the Administrative Agent a report of the L/C Obligations with respect to the L/Cs issued by it, including the date of issue, account party, amount, expiration date and reference number of each L/C issued by it.

(vi) The relevant L/C Issuer shall give the Administrative Agent at least three (3) Business Days' notice before such L/C Issuer extends (or allows an automatic extension of) the expiry date of any L/C issued by it. Such notice shall (i) identify such L/C, (ii) specify the date on which such extension is to be made (or the last day on which such L/C Issuer can give notice to prevent such extension from occurring) and (iii) specify the date to which such expiry date is to be so extended. No L/C Issuer shall extend (or allow the extension of) the expiry date of any L/C if (x) the extended expiry date would be after the thirtieth day before the Revolving Credit Termination Date or (y) such L/C Issuer shall have been notified by the Administrative Agent or the Required Lenders expressly to the effect that such issuance would violate the terms of Section 2.03A(a)(i) on the date such L/C is to be extended.

(c) Reimbursement Obligations. (i) The applicable L/C Issuer shall give prompt notice to the Administrative Agent and the Borrower of each payment under an L/C by such L/C Issuer for drafts drawn or any other amount paid or disbursed under an L/C. The Borrower shall be obligated to reimburse the Administrative Agent, for the account of the applicable L/C Issuer, in immediately available funds, on the day of each payment under an L/C issued by such L/C Issuer or the date on which such L/C Issuer notifies the Borrower of such payment, whichever is later, for drafts drawn and all amounts paid or disbursed under each such L/C (all such amounts so drawn, paid or disbursed until reimbursed are hereinafter referred to as "Unreimbursed Drawings"); provided that if such notice is given after 11:00 a.m. (New York City time) on the later of such dates, such reimbursement shall be due and payable on the next following Business Day (the date on which it is due and payable being an "L/C Reimbursement Due Date"). If any such Unreimbursed Drawings are not so reimbursed by 12:00 noon (New York City time) on the related L/C Reimbursement Due Date, the Borrower's reimbursement obligation in respect of such Unreimbursed Drawings shall be funded on such date with the borrowing of Base Rate Advances (each such advance a "Mandatory L/C Advance") in the full amount of the Unreimbursed Drawings from all Lenders based on each Lender's pro rata share of the Revolving Credit Commitment. The Administrative Agent shall promptly notify the applicable L/C Issuer of the amount of any Unreimbursed Drawings and the Administrative Agent shall promptly notify the Lenders of the amount of each such Mandatory L/C Advance not later than 1:00 p.m. (New York City time) on the date on which such Mandatory L/C Advance is to be made. Each such Lender hereby irrevocably agrees to make Revolving Credit Advances pursuant to each Mandatory L/C Advance in the amount, and not later than 3:00 p.m. (New York City time) on the date, and in the manner specified in the

preceding sentence, notwithstanding (A) that the amount of the Mandatory L/C Advance may not comply with the minimum amount for Advances otherwise required hereunder, (B) whether any conditions specified in Article III are then satisfied, (C) whether a Default or an Event of Default then exists, (D) the date of such Mandatory L/C Advance and (E) any reduction in the Revolving Credit Commitment after any such L/C was issued. In the event that the Administrative Agent delivers the above-described notice to any Lender later than 1:00 p.m. (New York City time) on the date of the required Mandatory L/C Advance, then such Lender shall not be obligated to effect such Mandatory L/C Advance until the next succeeding Business Day (but not later than 12:00 noon (New York City time)).

(ii) Notwithstanding the foregoing, if at any time when a draft is drawn under an L/C, there are not sufficient funds in any account of Borrower with the applicable L/C Issuer or sufficient availability to permit creation of Revolving Credit Advances sufficient to fund payment of the related Unreimbursed Drawings in full in accordance with clause (i) above, any funds advanced by an L/C Issuer and the other Lenders in payment thereof shall be due and payable on the related L/C Reimbursement Date and shall bear interest until paid in full at the Default Rate, such interest to be payable on demand. In the event of any conflict, discrepancy or any omission of terms provided herein between the terms established by the applicable L/C Issuer in its Application Documents or otherwise and this Agreement, the terms provided herein shall prevail. The obligations of the Lenders in respect of any funds so advanced or to be advanced by the L/C Issuer under Section 2.03A(c)(i) shall be as more particularly described in Sections 2.03A(e)(ii) and (iii) hereof.

(d) General Unconditional Obligations. The L/C Obligations shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the Application Documents, under all circumstances whatsoever, including, without limitation, the following circumstances, whether relating to any one or more L/Cs:

(i) any agreement between the Borrower and any beneficiary or any agreement or instrument relating thereto (the "Beneficiary Documents") proving to be forged, fraudulent, invalid, unenforceable or insufficient in any respect;

(ii) any amendment or waiver of or any consent to departure from all or any of the Beneficiary Documents;

(iii) the existence of any claim, setoff, defense or other rights which the Borrower may have at any time against any beneficiary or any transferee of any L/C (or any Persons for whom any applicable beneficiary or any such transferee may be acting), the applicable L/C Issuer, any other Lender, the Administrative Agent or any other Person, whether in connection with this Agreement, the Beneficiary Documents or any unrelated transaction;

(iv) any demand presented under any L/C (or any endorsement thereon) proving to be forged, fraudulent, invalid, unenforceable or insufficient in any respect or any statement therein being inaccurate in any respect whatsoever;

(v) payment by the applicable L/C Issuer under any L/C against presentation of a demand which does not comply with the terms of such L/C, including, without limitation, the circumstances referred to in clause (iv) above or the failure of any document to bear reference or to bear adequate reference to such L/C, except to the extent resulting from the gross negligence or willful misconduct of such L/C Issuer;

(vi) the use to which any L/C may be put or any acts or omission of any beneficiary in connection therewith; or

(vii) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing, except to the extent resulting from the gross negligence or willful misconduct of the applicable L/C Issuer.

(e) Participations by Lenders. (i) On the date of issuance of each L/C the applicable L/C Issuer shall be deemed irrevocably and unconditionally to have sold and transferred to each Lender (excluding, for all purposes of this Section 2.03A(e), such L/C Issuer, which shall retain a portion of such L/C based on its pro rata share of the Revolving Credit Commitments) without recourse or warranty, and each Lender shall be deemed to have irrevocably and unconditionally purchased and received from such L/C Issuer, an undivided interest and participation, to the extent of such Lender's pro rata share of the Revolving Credit Commitments in effect on the

date of such issuance, in such L/C, each substitute letter of credit, each drawing made thereunder, the related Application Documents and all L/C Obligations (other than fees under Section 2.03A(h)(ii) relating to such L/C and all Loan Documents securing, guaranteeing, supporting, or otherwise benefiting the payment of such L/C Obligation. Each L/C Issuer shall furnish to any Lender, upon request, copies of any L/C and any Application Documents as may be requested by such Lender.

(ii) In the event that any reimbursement obligation under Section 2.03A(c) hereof is not paid to the applicable L/C Issuer with respect to any L/C in full immediately or by a Mandatory L/C Advance from all the Lenders pro rata pursuant to Section 2.03A(c)(i), such L/C Issuer shall promptly notify the Administrative Agent to that effect, and the Administrative Agent shall promptly notify the Lenders of the amount of such reimbursement obligation and each such Lender shall immediately pay to the Administrative Agent, for immediate payment to such L/C Issuer, in lawful money of the United States and in immediately available funds, an amount equal to such Lender's ratable portion of the amount of such unpaid reimbursement obligation; provided, however, that no Lender shall be responsible to pay any portion of an unpaid reimbursement obligation of any other Lender.

(iii) The obligation of each Lender to make Revolving Credit Advances in respect of each Mandatory L/C Advance and to make payments under the preceding Section 2.03A(e)(ii) shall be absolute and unconditional and irrevocable and not subject to any qualification or exception whatsoever and shall be made in accordance with the terms and conditions of this Agreement under all circumstances and shall not be subject to any conditions set forth in Article III hereof or otherwise affected by any circumstance including, without limitation, (A) the occurrence or continuance of a Default or Event of Default; (B) any adverse change in the business condition (financial or otherwise), operations, performance, properties or prospects of the Borrower; (C) any breach of this Agreement or any Application Documents or other Loan Documents by the Borrower or any Lender (other than a breach by the relevant L/C Issuer arising from such L/C Issuer's gross negligence or willful misconduct); (D) any set-off, counterclaim, recoupment, defense or other right which such Lender or the Borrower may have at any time against the applicable L/C Issuer, any other Lender or any beneficiary named in any L/C in connection herewith or otherwise; (E) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (F) any lack of validity or enforcement of this Agreement or any of the Loan Documents; (G) the granting, surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or (H) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. The Borrower agrees that any Lender purchasing a participation in any L/C from a L/C Issuer hereunder may, to the fullest extent permitted by law, exercise all of its rights of payment with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

(iv) Promptly after the applicable L/C Issuer receives a payment on account of a reimbursement obligation with respect to any L/C as to which any other Lender has funded its participation pursuant to Section 2.03A(e)(ii) above, such L/C Issuer shall promptly pay to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which funded its participation therein, in lawful money of the United States and in the kind of funds so received, an amount equal to such Lender's ratable share thereof.

(v) If any payment received on account of any reimbursement obligation with respect to an L/C and distributed to a Lender as a participant under Section 2.03A(e)(i) is thereafter recovered from the applicable L/C Issuer in connection with any bankruptcy or insolvency proceeding relating to the Borrower or otherwise, each Lender which received such distribution shall, upon demand by the Administrative Agent, repay to such L/C Issuer such Lender's ratable share of the amount so recovered together with an amount equal to such Lender's ratable share (according to the proportion of (A) the amount of such Lender's required repayment to (B) the total amount so recovered) of any interest or other amount paid or payable by such L/C Issuer in respect of the total amount so recovered.

(f) Non-Liability. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any L/C with respect to its use of such L/C. Neither the Administrative Agent, any L/C Issuer nor any other Lender, nor any of their respective officers or directors, shall be liable or responsible for: (i) the use that may be made of any L/C or any acts or omissions of any beneficiary or transferee in connection therewith; (ii) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all

respects invalid, insufficient, fraudulent or forged; (iii) payment by the applicable L/C Issuer against presentation of documents that do not comply with the terms of an L/C, including failure of any documents to bear any reference or adequate reference to an L/C, except that the Borrower shall have a claim against such L/C Issuer, and such L/C Issuer shall be liable to the Borrower, to the extent of any direct, but not consequential, damages suffered by the Borrower that the Borrower proves were caused solely by (A) such L/C Issuer's willful misconduct or gross negligence in determining whether documents presented under any L/C comply with the terms of the L/C or (B) such L/C Issuer's willful failure to make lawful payment under an L/C after the presentation to it of a draft and documents and/or certificates strictly complying with the terms and conditions of the L/C; (iv) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they are in cipher; (v) for errors in interpretation of technical terms; (vi) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such L/C or of the proceeds thereof; and (vii) for any consequence arising from causes beyond the control of such L/C Issuer, including, without limitation, any government acts. None of the above shall affect, impair, or prevent the vesting of any of such L/C Issuer's rights or powers hereunder. In furtherance and not in limitation of the foregoing, the L/C Issuers may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. The Uniform Customs and Practice for Documentary Credits as most recently published by the International Chamber of Commerce shall be deemed a part of this Section 2.03A as if incorporated herein in all respects and shall apply to the L/Cs.

(g) Indemnification. In addition to amounts payable as elsewhere provided in this Agreement, without duplication, the Borrower agrees to indemnify and hold harmless the Administrative Agent and each Lender, including each L/C Issuer, from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) which any such Administrative Agent or Lender may incur or be subject to as a consequence, direct or indirect, of the issuance of any L/C or any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain an L/C Issuer or the Administrative Agent from paying any amount under any applicable L/C or the failure of an L/C Issuer to honor a drawing under an L/C as a result of any act or omission, whether rightful or wrongful of any present or future de jure or de facto government or governmental authority, except that no such Person shall be entitled to indemnification for matters to the extent caused by such Person's gross negligence or willful misconduct. Without modifying the foregoing, and anything contained herein to the contrary notwithstanding, the Borrower shall use all reasonable efforts to cause each L/C issued for its account to be canceled and returned to the applicable L/C Issuer promptly upon its expiration.

(h) Letter of Credit and Fronting Fees. The Borrower agrees to pay to (i) the Administrative Agent, for the account of the Lenders in proportion to their Revolving Credit Commitments, a letter of credit fee for the period from and including the Amendment Effective Date to the Revolving Credit Termination Date equal to the Applicable Margin for Revolving Credit Advances that bear interest at the Eurodollar Rate less 0.125% per annum on the average daily L/C Outstandings, if any, during such period, such letter of credit fee to be payable quarterly in arrears on the last Business Day of each January, April, July and October of each year and on the Revolving Credit Termination Date commencing on the first such date to occur after the Amendment Effective Date and (ii) each L/C Issuer a fronting fee, not to exceed 0.125% per annum on the average daily L/C Outstandings of such L/C Issuer, in the amount and on the dates as specified in any fee letter between the Borrower and each such L/C Issuer.

SECTION 2.04. Reduction of the Commitments. (a) Optional. The Borrower shall have the right, upon at least three Business Days' prior notice to the Administrative Agent, to terminate in whole or reduce ratably in part the Term Commitments or the Unused Revolving Credit Commitments; provided that each partial reduction shall be in an aggregate amount of $10,000,000 or an integral multiple of $1,000,000 in excess thereof, and each reduction of the Term Commitment shall be applied pro rata to reduce the amounts of each installment due pursuant to Section 2.03(a). No Commitment amount so terminated shall be reinstated.

(b) Mandatory. (i) Dispositions, Etc. The Revolving Credit Commitments shall be reduced, on a pro rata basis for each Lender, by an amount equal to the amounts required to be applied to reduce the Revolving Credit Facility pursuant to Section 2.05(b).

(ii) Revolving Credit Termination Date. The Revolving Credit Commitments shall terminate in whole on the Revolving Credit Termination

Date.

SECTION 2.05. Prepayments. (a) Optional. The Borrower may, upon at least one Business Day's notice to the Administrative Agent, in the case of Base Rate Advances, and three Business Days' notice to the Administrative Agent, in the case of Eurodollar Rate Advances, stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given, the Borrower shall, prepay the outstanding principal amounts of the Committed Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount so prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount not less than $10,000,000 or an integral multiple of $1,000,000 in excess thereof (or, if the aggregate principal amount of all Committed Advances that constitute part of such Borrowing is less, such aggregate principal amount) and (y) in the event any such prepayment of Eurodollar Rate Advances is not made on the last day of an Interest Period, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(b). Each such prepayment of any Term Advances shall be applied to the installments thereof in inverse order of maturity. The Borrower shall have no optional right to prepay any principal amount of any Competitive Bid Advance unless, and then only on the terms, specified by the Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered by the Borrower and set forth in the Competitive Bid Register with respect to such Competitive Bid Advance.

(b) Mandatory. (i) Dispositions. The Borrower shall, as promptly as practicable after the date of receipt by the Borrower or any of its Subsidiaries of Net Cash Proceeds from any Disposition (other than the sale of capital stock of the Borrower), which Net Cash Proceeds (A) exceed $1,000,000 for any single transaction or series of related transactions, and (B) when aggregated with all other Net Cash Proceeds from Dispositions with Net Cash Proceeds in excess of $1,000,000 for any single transaction or series of related transactions received during the term of this Agreement, exceed $25,000,000, apply an amount equal to 100% of the amount of Net Cash Proceeds of such Disposition, if the Borrower or such Subsidiary does not reinvest, within one year of such Disposition, such Net Cash Proceeds in productive assets of a kind used or usable in the business of the Borrower or such Subsidiary, as follows: First, to the Term Advances, in prepayment of the installments thereof pro rata, and second, to the Revolving Credit Facility, as a reduction in the Revolving Credit Commitments.

(ii) Debt Issuance. The Borrower shall, on the date of receipt of the Net Cash Proceeds from the sale and issuance by the Borrower or any of its Subsidiaries of any Debt (other than Debt permitted pursuant to Section 5.02(j) (other than Sections 5.02(j)(ii)(A) and 5.02(j)(ix)), apply an amount equal to 100% of such Net Cash Proceeds as follows: (A) First, to the Term Advances, in prepayment of the installments thereof, (1) first, 50% of such prepayment to be applied to such installments in the inverse order of maturity and (2) second, 50% of such prepayment to be applied to such installments pro rata, and (B) Second, to the Revolving Credit Facility, as a reduction in the Revolving Credit Commitments.

(iii) Equity Issuance. The Borrower shall, on the date of receipt of the Net Cash Proceeds from the sale and issuance by the Borrower or any of its Subsidiaries of any capital stock, but only to the extent that Net Cash Proceeds when aggregated with all other Net Cash Proceeds from the Preferred Stock Offering and any other sale of capital stock received on or after the date of this Agreement exceed $250,000,000, apply an amount equal to (A) 100% of such Net Cash Proceeds in excess of $250,000,000 and less than or equal to $500,000,000 as follows: First, to pay the Roche Debt, second, the excess, if any, to prepay $50,000,000 of Term Advances to be applied to installments thereof pro rata, and third, to the Revolving Credit Facility, to prepay Revolving Credit Advances and (B) 50% of such Net Cash Proceeds in excess of $500,000,000 as follows: First, to the Term Advances, in prepayment of the installments thereof pro rata, and second, to the Revolving Credit Facility, as a reduction in the Revolving Credit Commitments.

(iv) Excess Cash Flow. The Borrower shall, within 105 days after the end of each fiscal year of the Borrower, apply an amount equal to (A) if the Leverage Ratio for such fiscal year is equal or greater than 3:5:1.0, 75% of Excess Cash Flow for such fiscal year or (B) if the Leverage Ratio for such fiscal year is less than 3:5:1.0 but greater than 2:5:1.0, 50% of Excess Cash Flow for such fiscal year, in each case as follows: First, to the Term Advances, in prepayment of the installments thereof, pro rata, and second, to the Revolving Credit Facility, as a reduction in the Revolving Credit Commitments.

(v) Deferral. If any application of Net Cash Proceeds required by clauses (i) through (iv) above would otherwise require prepayment of

Eurodollar Rate Advances or portions thereof prior to the last day of a then current Interest Period relating thereto, such reduction shall, unless the Administrative Agent otherwise notifies the Borrower upon the instructions of the Required Lenders, be deferred to the last day of the related Interest Period.

(vi) Overadvance. The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Revolving Credit Advances (and any Competitive Bid Advances) equal to the amount by which the aggregate principal amount of the Revolving Credit Advances (and any Competitive Bid Advances) plus the L/C Outstandings exceeds the Revolving Credit Facility on such Business Day.

(vii) Accrued Interest. All prepayments under this Section 2.05(b) shall be made together with accrued interest to the date of such prepayment on the principal amount prepaid.

SECTION 2.06. Interest. (a) Ordinary Interest on Committed Advances. The Borrower shall pay interest on the unpaid principal amount of each Committed Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of the Base Rate in effect from time to time plus the Applicable Margin in effect from time to time, payable in arrears quarterly on the last Business Day of each January, April, July and October during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin in effect from time to time, payable in arrears on (A) the last day of such Interest Period and (B) if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period (clause (iii) of the definition of "Interest Period" set forth in Section 1.01 shall apply to payments required by this clause (B), as if the three-month period referred to herein constitutes an "Interest Period").

(b) Ordinary Interest on Competitive Bid Advances. The Borrower shall pay interest on the unpaid principal amount of each Competitive Bid Advance from the date of such Competitive Bid Advance to the date the principal amount of such Competitive Bid Advance is repaid in full, at the rate of interest for such Competitive Bid Advance specified by the Lender making such Competitive Bid Advance in its notice with respect thereto delivered pursuant to Section 2.02(b)(ii), payable on the interest payment date or dates specified by the Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered by the Borrower, as recorded in the Competitive Bid Register with respect to such Competitive Bid Advance.

(c) Default Interest. The Borrower shall pay on demand interest on the unpaid principal amount of each Advance that is not paid when due and on the unpaid amount of all interest, fees and other amounts then due and payable hereunder that is not paid when due from the due date thereof to the date paid, at a rate per annum equal at such time to (i) in the case of any amount of principal, 2% per annum above the rate of interest per annum required to be paid on such Advance immediately prior to the date on which such amount became due and payable and (ii) in the case of all other amounts, 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to Section 2.06(a)(i).

SECTION 2.07. Interest Rate Determination. (a) The Administrative Agent shall give prompt notice to the Borrower and each Lender of the applicable interest rate determined by the Administrative Agent for purposes of Section 2.06(a) and of any British Bankers' Association Settlement Rates or Reference Lenders rates obtained by the Administrative Agent for the purposes of determining the applicable interest rate under Section 2.06(a).

(b) If neither the British Bankers' Association Settlement Rates nor the rates of the Reference Lenders are timely available to the Administrative Agent for determining the Eurodollar Rate, the Administrative Agent shall forthwith notify the Borrower and each Lender that the interest rate cannot be determined for such Eurodollar Rate Advances, whereupon (i) each such Eurodollar Rate Advance will automatically, on the last day of the

then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower that the Administrative Agent has determined that the circumstances causing such suspension no longer exist.

(c) If the Required Lenders notify the Administrative Agent that the Eurodollar Rate for any Interest Period for such Eurodollar Rate Advances will not adequately and fairly reflect the cost to such Lenders of making, funding or maintaining their pro rata shares of such Eurodollar Rate Advances for such Interest Period, the Administrative Agent shall forthwith so notify the Borrower and the Lenders, whereupon (i) each such Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower that such Lenders have determined that the circumstances causing such suspension no longer exist.

(d) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Administrative Agent will forthwith so notify the Borrower and the Lenders and the Interest Period for such Eurodollar Rate Advances will be one month.

SECTION 2.08. Fees. (a) Agency and Facility Fees. In addition to the fees set forth in Section 2.03A(h), the Borrower agrees (i) to pay to the Administrative Agent, for its own account, an agency fee at the rate specified in the fee letter dated December 13, 1994 between the Borrower and CSFB, as the same may be amended or otherwise modified from time to time, for the period from and including the Closing Date to the Termination Date, such agency fee to be payable in advance on the Closing Date and on each anniversary of the Closing Date and (ii) to pay to the Administrative Agent, for distribution to the Lenders in proportion to their Revolving Credit Commitments (without giving effect to any Competitive Bid Reduction), a facility fee for the period from and including the Amendment Effective Date to the Revolving Credit Termination Date, equal to the applicable Facility Fee Percentage per annum on the average daily Revolving Credit Commitments in effect (without reduction for any Advances that may be outstanding at any time or from time to time), such facility fee to be payable quarterly in arrears on the last Business Day of each January, April, July and October of each year and on the Revolving Credit Termination Date, commencing on the first such date to occur after the Amendment Effective Date.

(b) Other Fees. Without duplication of any amount specified in Section 2.08(a), the Borrower shall pay to the Administrative Agent such fees as are due to the Administrative Agent for its own account as set forth in the fee letter dated December 13, 1994 between the Borrower and CSFB, as the same may be amended or otherwise modified from time to time.

SECTION 2.09. Increased Costs. (a) Except as to taxes, levies, imposts, deductions, charges, withholdings or liabilities with respect thereto (it being understood that the Borrower shall not have any liability for any taxes, levies, imposts, deductions, charges, withholdings or liabilities with respect thereto, except as provided in Section 2.12), if, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (ii) the compliance by any Lender with any guideline or request from any central bank or other governmental authority in any case introduced, changed, interpreted or requested after the date hereof (whether or not having the force of law), there shall be (x) imposed, modified or deemed applicable any reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, any Lender or (y) imposed on any Lender any other condition relating to this Agreement, any L/C or the Advances made by it, and the result of any event referred to in clause (x) or (y) shall be to increase the cost to such Lender of agreeing to make or making, funding or maintaining any L/C or Eurodollar Rate Advances or LIBO CB Advances, then the Borrower shall from time to time, within 15 days after demand by such Lender (with a copy of such demand to the Administrative Agent) made within 60 days after the first date on which such Lender has actual knowledge that it is entitled to make demand for payment under this Section 2.09(a), pay to the Administrative Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost; provided, however, that if such Lender fails to so notify the Borrower within such 60-day period, such increased cost shall commence accruing on such later date on which the Lender notifies the Borrower; provided further that such Lender agrees to use its best efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a

designation would avoid the need for, or reduce the amount of, such increased cost and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost, submitted to the Borrower and the Administrative Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental or monetary authority in regard to capital adequacy (whether or not having the force of law), in any case in which such law, regulation, guideline or request became effective or was made after the date hereof, has or would have the effect of reducing the rate of return on the capital of, or maintained by, such Lender or any corporation controlling such Lender as a consequence of such Lender's Advances or Commitments hereunder and other commitments of this type, by increasing the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender, to a level below that which such Lender or any corporation controlling such Lender could have achieved but for such adoption, effectiveness, change or compliance (taking into account such Lender's or such corporation's policies with respect to capital adequacy), by an amount deemed by such Lender to be material, then the Borrower shall, from time to time, pay such Lender, within 15 days after demand by such Lender (with a copy of such demand to the Administrative Agent) made within 60 days after the first date on which such Lender has actual knowledge that it is entitled to make demand for payment under this Section 2.09(b) of such reduction in return, such additional amount as may be specified by such Lender as being sufficient to compensate such Lender for such reduction in return, to the extent that such Lender reasonably determines such reduction to be attributable to the existence of such Lender's commitment to lend hereunder; provided, however, that if such Lender fails to so notify the Borrower within such 60-day period, such amounts shall commence accruing on such later date on which the Lender notifies the Borrower. A certificate as to such amounts submitted to the Borrower and the Administrative Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.10. Illegality. Notwithstanding any other provision of this Agreement, if on or after the date hereof the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or LIBO CB Advances or to fund or maintain Eurodollar Rate Advances or LIBO CB Advances hereunder, then, upon written notice by such Lender to the Borrower (with a copy to the Administrative Agent), (i) each Eurodollar Rate Advance and LIBO CB Advance of such Lender will automatically Convert into a Base Rate Advance and (ii) the obligation of such Lender to make, or to Convert Base Rate Advances into, Eurodollar Rate Advances shall be suspended until such Lender shall notify the Borrower (with a copy to the Administrative Agent) that the circumstances causing such suspension no longer exist; provided, however, that such Lender shall designate a different Eurodollar Lending Office if the making of such a designation would avoid the need for giving such notice and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender.

For purposes of this Section 2.10, a notice to the Borrower by a Lender shall be effective with respect to any Advance on the last day of the then current Interest Period for such Advance; provided, however, that, if it is not lawful for such Lender to maintain such Advance until the end of the Interest Period applicable thereto, then the notice to the Borrower shall be effective upon receipt by the Borrower.

SECTION 2.11. Payments and Computations. (a) The Borrower shall make each payment hereunder and under the Notes not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Administrative Agent at the Administrative Agent's Account in same day funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility or letter of credit fees ratably (other than amounts payable with respect to Competitive Bid Advances or pursuant to Section 2.03A(h)(ii), 2.09 or 2.12) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount (including Competitive Bid Advances) payable to any applicable Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee

thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) The Borrower hereby authorizes each Lender, if and to the extent payment of principal, interest or fees owed to such Lender is not made when due hereunder or under the Note or Notes held by such Lender, to charge from time to time against any or all of the Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Eurodollar Rate or the Federal Funds Rate and of facility and letter of credit fees shall be made by the Administrative Agent on the basis of a year of 360 days, and all computations of interest based on CSFB's base lending rate shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Administrative Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(d) Whenever any payment hereunder or under any Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fees, as the case may be; provided, however, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances or LIBO CB Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder or under any Note that the Borrower will not make such payment in full, the Administrative Agent may assume, or at its option request confirmation from the Borrower, that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

(f) If the Administrative Agent receives funds for application to the Obligations under the Loan Documents under circumstances for which the Loan Documents do not specify the Advances or the Facility to which, or the manner in which, such funds are to be applied, the Administrative Agent may, but shall not be obligated to, elect to distribute such funds to each Lender ratably in accordance with such Lender's proportionate share of the principal amount of all outstanding Advances then outstanding, in repayment or prepayment of such of the outstanding Advances or other Obligations owed to such Lender, and for application to such principal installments, as the Administrative Agent shall direct.

SECTION 2.12. Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, (i) taxes imposed on its income, and franchise taxes imposed on it, by the United States (other than United States withholding taxes) or the jurisdiction under the laws of which such Lender or the Administrative Agent (as the case may be) is organized or any political subdivision or taxing authority thereof or therein, (ii) taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Lender's or the Administrative Agent's principal office or Applicable Lending Office, or in the case of any foreign jurisdiction that imposes taxes on the basis of management and control or other concept of principal residence, by the jurisdiction in which such Lender or the Administrative Agent is so resident, or any political subdivision or taxing authority thereof or therein and (iii) United States withholding tax payable with respect to payments hereunder under laws (including, without limitation, any statute, treaty, ruling, determination or regulation) in effect on the Initial Date with respect to such Lender or the Administrative Agent, but not excluding any United States withholding tax (including backup withholding taxes) payable as a result of any change in such laws occurring after the Initial Date (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred

to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions of Taxes (including deductions of Taxes applicable to additional sums payable under this Section 2.12) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions of Taxes been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law; provided, however, that any such Lender shall designate a different Eurodollar Lending Office if, in the judgment of such Lender, such designation would avoid the need for, or reduce the amount of, any Taxes required to be deducted from or in respect of any sum payable hereunder to such Lender or the Administrative Agent and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Lender and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.12) paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, additions to tax, interest and costs and expenses (including reasonable attorneys' fees and expenses)) arising therefrom or with respect thereto; provided that, in the event such Lender or the Administrative Agent, as the case may be, successfully contests the assessment of such Taxes or Other Taxes or any liability arising therefrom or with respect thereto, such Lender or the Administrative Agent shall refund, to the extent of any refund or credit thereof made to such Lender or the Administrative Agent, any amounts paid by the Borrower under this Section 2.12 in respect of such Taxes, Other Taxes or liabilities arising therefrom or with respect thereto. Each Lender and the Administrative Agent agrees that it will contest such Taxes, Other Taxes or liabilities if (i) the Borrower furnishes to it an opinion of reputable tax counsel (such opinion and such counsel to be acceptable to such Lender or the Administrative Agent) to the effect that such Taxes or Other Taxes were wrongfully or illegally imposed and (ii) such Lender or the Administrative Agent determines, in its sole discretion, that it would not be materially disadvantaged or prejudiced as a result of such contest. This indemnification shall be made within 30 days from the date such Lender or the Administrative Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 8.02, appropriate evidence of payment thereof. If no Taxes are payable in respect of any payment hereunder or under the Notes by the Borrower from an account or branch outside the United States or on behalf of the Borrower by a payor that is not a United States person, the Borrower will furnish to the Administrative Agent, at such address, a certificate from each appropriate taxing authority, or an opinion of counsel acceptable to the Administrative Agent, in either case stating that such payment is exempt from or not subject to Taxes. For purposes of this Section 2.12, the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States and the Administrative Agent, if organized under the laws of a jurisdiction outside the United States, shall, on or prior to the Initial Date and from time to time thereafter if requested in writing by the Borrower or the Administrative Agent (but only so long thereafter as such Lender or the Administrative Agent remains lawfully able to do so), provide the Borrower and (in the case of any such Lender other than the Administrative Agent) the Administrative Agent with two duly completed copies of Internal Revenue Service form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender or the Administrative Agent is entitled to benefits under an income tax treaty to which the United States is a party that reduces the rate of withholding tax on payments under this Agreement or the Notes or certifying that the income receivable pursuant to this Agreement or the Notes is effectively connected with the conduct of a trade or business in the United States. To the extent permitted by law, as an alternative to form 1001 or 4224, each such Lender or the Administrative Agent shall so provide the Borrower and (in the case of any such Lender other than the Administrative Agent) the Administrative Agent with two duly completed

copies of Internal Revenue Service form W-8, or any successor form prescribed by the Internal Revenue Service, certifying that such Lender or the Administrative Agent is exempt from United States federal withholding tax pursuant to Sections 871(h) or 881(c) of the Code, together with an annual certificate stating that such Lender is not a Person described in Sections 871(h)(3) or 881(c)(3) of the Code.

(f) For any period with respect to which the Administrative Agent or a Lender has failed to provide the Borrower with the appropriate forms described in subsection (e) above (other than if such failure is due to a change in law occurring after the date on which such person was originally required to provide such forms, or if such forms are otherwise not required under subsection (e) above), the Administrative Agent or such Lender shall not be entitled to increased payments or indemnification under subsection (a) or (c) above with respect to Taxes imposed by the United States; provided, however, that should the Administrative Agent or a Lender become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as the Administrative Agent or such Lender shall reasonably request to assist the Lender to recover such Taxes if, in the judgment of the Borrower such steps would avoid the need for, or reduce the amount of, any Taxes required to be deducted from or in respect of any sum payable hereunder to the Administrative Agent or such Lender and would not, in the judgment of the Borrower, be disadvantageous or prejudicial to the Borrower.

(g) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.12 shall survive the payment in full of principal and interest hereunder and under the Notes.

(h) If a Lender shall change its Applicable Lending Office other than (i) at the request of the Borrower or (ii) at a time when such change would not result in this Section 2.12 requiring the Borrower to make a greater payment than if such change had not been made, such Lender shall not be entitled to receive any greater payment under this Section 2.12 than such Lender would have been entitled to receive had it not changed its Applicable Lending Office.

SECTION 2.13. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances owing to it (other than pursuant to Section 2.09 or 2.12 or on account of any Competitive Bid Advances owing to it) in excess of its ratable share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that, if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.13 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.14. Removal of Lender. In the event that any Lender demands payment of costs or additional amounts pursuant to Section 2.09 or Section 2.12 or asserts pursuant to Section 2.10 that it is unlawful for such Lender to make Eurodollar Rate Advances, then (subject to such Lender's right to rescind such demand or assertion within ten days after the notice from the Borrower referred to below) the Borrower may, upon 20 days' prior written notice to such Lender and the Administrative Agent, elect to cause such Lender to assign its Advances and Commitments in full to an assignee institution selected by the Borrower that meets the criteria of an Eligible Assignee and is reasonably satisfactory to the Administrative Agent, so long as such Lender receives payment in full of the outstanding principal amount of all Advances made by it and all accrued and unpaid interest thereon and all other amounts due and payable to such Lender as of the date of such assignment (including without limitation amounts owing pursuant to Section 2.09 or 2.12), and in such case such Lender agrees to make such assignment, and such assignee shall agree to accept such assignment and assume all obligations of such Lender hereunder, in accordance with Section 8.07.

SECTION 2.15. Conversion of Advances. (a) Optional. The Borrower may on any Business Day, upon notice given to the Administrative

Agent not later than 11:00 a.m. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.07 and 2.09, Convert all or any portion of the Committed Advances of one Type comprising the same Borrowing into Committed Advances of the other Type; provided, however, that any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made on, and only on, the last day of an Interest Period for such Eurodollar Rate Advances, and any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be subject to the limitation set forth in Section 2.02(a)(ii) and in an amount not less than $10,000,000. Each such notice of Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Committed Advances to be Converted and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for such Committed Advances. Each notice of Conversion shall be irrevocable and binding on the Borrower.

(b) Mandatory. (i) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Committed Borrowing shall be reduced, by payment or prepayment or otherwise, to less than $10,000,000, such Advances shall automatically Convert into Base Rate Advances.

(ii) Upon the occurrence and during the continuance of any Event of Default (or, in the case of any involuntary proceeding described in Section 6.01(e), a Default), (A) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (B) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended.

SECTION 2.16. Defaulting Lenders. (a) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Advance to the Borrower and (iii) the Borrower shall be required to make any payment hereunder or under any other Loan Document to or for the account of such Defaulting Lender, then the Borrower may, so long as no Default shall occur or be continuing at such time and to the fullest extent permitted by applicable law, set off and otherwise apply the Obligation of the Borrower to make such payment to or for the account of such Defaulting Lender against the Obligation of such Defaulting Lender to make such Defaulted Advance. In the event that the Borrower shall so set off and otherwise apply the Obligation of the Borrower to make any such payment against the Obligation of such Defaulting Lender to make any such Defaulted Advance on any date, the amount so set off and otherwise applied by the Borrower shall constitute for all purposes of this Agreement and the other Loan Documents a Committed Advance by such Defaulting Lender made on such date under the Facility pursuant to which such Defaulted Advance was originally required to have been made pursuant to Section 2.01. Such Committed Advance shall be a Base Rate Advance and shall be considered, for all purposes of this Agreement, to comprise part of the Committed Borrowing in connection with which such Defaulted Advance was originally required to have been made pursuant to Section 2.01, even if the other Committed Advances comprising such Committed Borrowing shall be Eurodollar Advances on the date such Committed Advance is deemed to be made pursuant to this subsection (a). The Borrower shall notify the Administrative Agent at any time the Borrower reduces the amount of the Obligation of the Borrower to make any payment otherwise required to be made by it hereunder or under any other Loan Document as a result of the exercise by the Borrower of its right set forth in this subsection (a) and shall set forth in such notice (A) the name of the Defaulting Lender and the Defaulted Advance required to be made by such Defaulting Lender and (B) the amount set off and otherwise applied in respect of such Defaulted Advance pursuant to this subsection (a). Any portion of such payment otherwise required to be made by the Borrower to or for the account of such Defaulting Lender which is paid by the Borrower, after giving effect to the amount set off and otherwise applied by the Borrower pursuant to this subsection (a), shall be applied by the Administrative Agent as specified in subsection (b) or (c) of this Section 2.16.

(b) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Amount to the Administrative Agent or any of the other Lenders and (iii) the Borrower shall make any payment hereunder or under any other Loan Document to the Administrative Agent for the account of such Defaulting Lender, then the Administrative Agent may, on its behalf or on behalf of such other Lenders and to the fullest extent permitted by applicable law, apply at such time the amount so paid by the Borrower to or for the account of such Defaulting Lender to the payment of each such Defaulted Amount to the extent required to pay such Defaulted Amount. In the event that the Administrative Agent shall so apply any such amount to the payment of any such Defaulted Amount on any date, the amount so applied by the Administrative Agent shall constitute for all purposes of this Agreement and the other Loan Documents

payment, to such extent, of such Defaulted Amount on such date. Any such amount so applied by the Administrative Agent shall be retained by the Administrative Agent or distributed by the Administrative Agent to such other Lenders, ratably in accordance with the respective portions of such Defaulted Amounts payable at such time to the Administrative Agent and such other Lenders and, if the amount of such payment made by the Borrower shall at such time be insufficient to pay all Defaulted Amounts owing at such time to the Administrative Agent and the other Lenders, in the following order of priority:

(i) first, to the Administrative Agent for any Defaulted Amount then owing to the Administrative Agent; and

(ii) second, to any other Lenders for any Defaulted Amounts then owing to such other Lenders, ratably in accordance with such respective Defaulted Amounts then owing to such other Lenders.

Any portion of such amount paid by the Borrower for the account of such Defaulting Lender remaining, after giving effect to the amount applied by the Administrative Agent pursuant to this subsection (b), shall be applied by the Administrative Agent as specified in subsection (c) of this Section 2.16.

(c) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall not owe a Defaulted Advance or a Defaulted Amount and (iii) the Borrower, the Administrative Agent or any other Lender shall be required to pay or distribute any amount hereunder or under any other Loan Document to or for the account of such Defaulting Lender, then the Borrower or such other Lender shall pay such amount to the Administrative Agent to be held by the Administrative Agent, to the fullest extent permitted by applicable law, in escrow or the Administrative Agent shall, to the fullest extent permitted by applicable law, hold in escrow such amount otherwise held by it. Any funds held by the Administrative Agent in escrow under this subsection (c) shall be deposited by the Administrative Agent in an account with CSFB, in the name and under the control of the Administrative Agent, but subject to the provisions of this subsection (c). The terms applicable to such account, including the rate of interest payable with respect to the credit balance of such account from time to time, shall be CSFB's standard terms applicable to escrow accounts maintained with it. Any interest credited to such account from time to time shall be held by the Administrative Agent in escrow under, and applied by the Administrative Agent from time to time in accordance with the provisions of, this subsection (c). The Administrative Agent shall, to the fullest extent permitted by applicable law, apply all funds so held in escrow from time to time to the extent necessary to make any Committed Advances required to be made by such Defaulting Lender and to pay any amount payable by such Defaulting Lender hereunder and under the other Loan Documents to the Administrative Agent or any other Lender, as and when such Committed Advances or amounts are required to be made or paid and, if the amount so held in escrow shall at any time be insufficient to make and pay all such Committed Advances and amounts required to be made or paid at such time, in the following order of priority:

(i) first, to the Administrative Agent for any amount then due and payable by such Defaulting Lender to the Administrative Agent hereunder;

(ii) second, to any other Lenders for any amount then due and payable by such Defaulting Lender to such other Lenders hereunder, ratably in accordance with such respective amounts then due and payable to such other Lenders; and

(iii) third, to the Borrower for any Committed Advance then required to be made by such Defaulting Lender pursuant to a Commitment of such Defaulting Lender.

In the event that such Defaulting Lender shall, at any time, cease to be a Defaulting Lender, any funds held by the Administrative Agent in escrow at such time with respect to such Defaulting Lender shall be distributed by the Administrative Agent to such Defaulting Lender and applied by such Defaulting Lender to the Obligations owing to such Lender at such time under this Agreement and the other Loan Documents ratably in accordance with the respective amounts of such Obligations outstanding at such time.

(d) The rights and remedies against a Defaulting Lender under this Section 2.16 are in addition to other rights and remedies which the Borrower may have against such Defaulting Lender with respect to any Defaulted Advance and which the Administrative Agent or any Lender may have against such Defaulting Lender with respect to any Defaulted Amount.

ARTICLE III

CONDITIONS OF LENDING

SECTION 3.01. Conditions Precedent to Amendment Effective Date and Issuance of L/Cs. The effectiveness of the amendment and restatement of the Existing Credit Agreement as provided for hereby, the obligation of each Lender to extend or continue credit hereunder on the Amendment Effective Date and the obligation of the L/C Issuers to issue L/C(s) on any date is subject to the following conditions precedent:

(a) On the Amendment Effective Date, the Administrative Agent shall have received (in a quantity sufficient for all Lenders) evidence of the Borrower's receipt of gross cash proceeds from the sale of the Borrower Preferred Stock in an aggregate amount equal to at least $250,000,000 and the application thereof as follows:

(i) the first $250,000,000 of Net Cash Proceeds thereof to (A) pay fees and expenses not in excess of $7,500,000 associated with the transactions contemplated by the Loan Documents and (B) prepay Revolving Credit Advances; and

(ii) any Net Cash Proceeds in excess of $250,000,000, first, to pay the Roche Debt; second, the excess, if any, to prepay up to $50,000,000 of Term Advances to be applied to installments of the Term Advances pro rata; and third, the excess, if any, to prepay Revolving Credit Advances.

(b) The Borrower shall have paid all accrued fees and expenses of the Administrative Agent and the Lenders (including the reasonable fees and expenses of special counsel to the Administrative Agent) payable pursuant to Section 8.04 of this Agreement and for which it has received an invoice on or before the Amendment Effective Date.

(c) If the Borrower shall have received gross cash proceeds from the sale of the Borrower Preferred Stock in an aggregate amount of more than $250,000,000 and less than $440,000,000, the Administrative Agent shall have received evidence that the maturity of the Roche Note has been extended to a date not earlier than April 30, 2004.

(d) The Administrative Agent shall have received on or before the date of the Amendment Effective Date the following, each dated as of the Amendment Effective Date (unless otherwise specified), in form and substance satisfactory to the Administrative Agent (unless otherwise specified) and in sufficient copies for each Lender and the Administrative Agent:

(i) certified copies of the resolutions of the board of directors of each Loan Party approving each Loan Document to which it is or is to be a party, as appropriate, and, if requested by the Administrative Agent, of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to each Loan Document to which it is or is to be a party, as appropriate;

(ii) a certificate of the Secretary or an Assistant Secretary of each Loan Party certifying the names and true signatures of the officers of such Person authorized to sign each Loan Document to which such Person is or is to be party and the other documents to be delivered hereunder and thereunder;

(iii) a copy of the certificate of incorporation (or equivalent charter document) of each Loan Party and each amendment thereto, certified (as of a date reasonably near the Amendment Effective Date) by the secretary of state of the jurisdiction of its incorporation as being a true and correct copy thereof; provided, however, if a certificate of incorporation (or equivalent charter document) of such Loan Party was delivered to the Administrative Agent on the Closing Date, no amendments to such certificate have been made since the Closing Date and such Loan Party delivers a certificate signed on behalf of such Loan Party by its President or a Vice President and its Secretary or any Assistant Secretary, dated as of the Amendment Effective Date certifying as to the absence of any amendments to such certificate of incorporation (or equivalent charter document) since the Closing Date, delivery of a certificate of incorporation (or equivalent charter document) for such Loan Party shall not be required;

(iv) a copy of a certificate of the secretary of state of the relevant jurisdiction of incorporation, dated reasonably near the

Amendment Effective Date, listing the certificate of incorporation (or equivalent charter document) of each Loan Party, as the case may be, and each amendment thereto on file in his office and certifying that (A) such amendments are the only amendments to the charter documents of such Person on file in his office, (B) such Person has paid all franchise taxes to the date of such certificate and (C) such Person is duly incorporated and in good standing under the laws of the jurisdiction of its incorporation;

(v) (A) a certificate of each Loan Party signed on behalf of such Person by its President or a Vice President and its Secretary or any Assistant Secretary, dated as of the Amendment Effective Date (the statements made in such certificate shall be true on and as of the Amendment Effective Date), certifying as to (1) the absence of any amendments to the certificate of incorporation (or equivalent charter document) of such Person since the date of the secretary of state's certificate referred to in subclause (v) above, (2) a true and correct copy of the by-laws of such Person as in effect on the Amendment Effective Date and (3) the absence of any proceeding for the dissolution or liquidation of such Person and (B) a certificate of each Loan Party signed on behalf of such Person by its President or a Vice President and its Secretary or any Assistant Secretary, dated as of the Amendment Effective Date (the statements made in such certificate shall be true on and as of the Amendment Effective Date), certifying as to the truth in all material respects of the representations and warranties made by such Person in each Loan Document as appropriate, as though made on and as of the Amendment Effective Date;

(vi) a certificate of the Borrower certifying as to the absence of any event occurring and continuing, or resulting from the transactions contemplated hereby, that constitutes a Default;

(vii) a confirmation of guaranty in substantially the form of Exhibit H (as amended from time to time in accordance with its terms, the "Guaranty Confirmation"), duly executed by the Subsidiary Guarantors and a supplemental guaranty in substantially the form of Exhibit A to the guaranty attached hereto as Exhibit D (as amended from time to time in accordance with its terms, the "Subsidiary Guaranty") duly executed by any Material Subsidiary, if any, that is not a Subsidiary Guarantor;

(viii) such financial and business information regarding each Loan Party and their respective Subsidiaries as the Lenders shall have reasonably requested, and all documents the Administrative Agent may reasonably request relating to the existence of the Loan Parties, the corporate authority for and the validity of the Loan Documents and any other matters relevant thereto, all in form and substance satisfactory to the Administrative Agent;

(ix) a letter, in form and substance satisfactory to the Administrative Agent, from the Borrower to KPMG Peat Marwick, its independent certified public accountants, advising such accountants that the Administrative Agent and the Lenders have been authorized to exercise all rights of the Borrower to require such accountants to disclose any and all financial statements and any other information of any kind that they may have with respect to the Borrower and its Subsidiaries and directing such accountants to comply with any reasonable request of the Administrative Agent or any Lender for such information;

(x) a letter, in form and substance satisfactory to the Administrative Agent, from KPMG Peat Marwick, the Borrower's independent certified public accountants, to the Administrative Agent, acknowledging that the Lenders have relied and will rely upon the financial statements of the Borrower examined by such accountants in determining whether to enter into, and to take action or refrain from taking action under, the Loan Documents; and

(xi) a favorable opinion of Bradford T. Smith, Executive Vice President and General Counsel of the Borrower, and of Davis Polk & Wardwell, special New York counsel for the Borrower, substantially in the forms of Exhibits E-1 and E-2 hereto, respectively, and as to such other matters as the Administrative Agent may reasonably request.

(e) The representations and warranties contained in Section 4.01 shall be true and correct in all material respects on and as of the Amendment Effective Date.

SECTION 3.02. Conditions Precedent to Each Borrowing and Each L/C Issuance. The obligation of each Lender to make an Advance on the occasion of each Borrowing (including the initial Borrowing) resulting in an increase in the aggregate amount of outstanding Advances and the obligation of each L/C Issuer to issue a L/C shall be subject to the further conditions precedent that on the date of such Borrowing or the date of issuance of such L/C, as applicable, the following statements shall be true (and the giving of the applicable Notice of Borrowing or the applicable L/C Issuance Request, as applicable, and the acceptance by the Borrower of the proceeds of such Borrowing, or upon the issuance of such L/C, as applicable, shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or the date of issuance of such L/C, as applicable, such statements are true):

(i) The representations and warranties contained in Section 4.01 are correct in all material respects on and as of the date of such Borrowing or issuance of such L/C, as applicable, before and after giving effect to such Borrowing or issuance of such L/C, as applicable, and to the application of the proceeds therefrom, as though made on and as of such date; and

(ii) No event has occurred and is continuing, or would result from such Borrowing, the issuance of such L/C or from the application of the proceeds therefrom, which constitutes a Default.

SECTION 3.03. Conditions Precedent to Each Competitive Bid Borrowing. The obligation of each Lender that is to make a Competitive Bid Advance to make such Competitive Bid Advance as part of a Competitive Bid Borrowing is subject to the further conditions precedent that (a) the Administrative Agent shall have received the written confirmatory Notice of Competitive Bid Borrowing with respect thereto and (b) on or before the date of such Competitive Bid Borrowing, but prior to such Competitive Bid Borrowing, the Administrative Agent shall have received for recordation in the Competitive Bid Register information as to each of the one or more Competitive Bid Advances to be made by the Lenders as part of such Competitive Bid Borrowing, the principal amount of each such Competitive Bid Advance and such other terms agreed to for each such Competitive Bid Advance in accordance with Section 2.02.

SECTION 3.04. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Administrative Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the Amendment Effective Date specifying its objection thereto.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each Loan Party (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed would not have a Material Adverse Effect and (iii) has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted. All of the outstanding capital stock of the Borrower has been validly issued, is fully paid and non-assessable.

(b) Set forth on Schedule II hereto is a complete and accurate list of all Material Subsidiaries of the Borrower, showing as of the date hereof (as to each such Subsidiary) the jurisdiction of its incorporation, the number of shares of each class of capital stock authorized, and the number outstanding and the percentage of the outstanding shares of each such class owned (directly or indirectly) by the Borrower, and the number of shares covered by all outstanding options, warrants, rights of conversion or purchase and similar rights at the date hereof. All of the outstanding capital stock of all of such Subsidiaries has been validly issued, is fully paid and non-assessable and is owned by the Borrower or one or more of its

Subsidiaries free and clear of all Liens. Each such Subsidiary (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) is duly qualified and in good standing as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed would not have a Material Adverse Effect and (iii) has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

(c) The execution, delivery and performance by each Loan Party of each Loan Document to which it is or is to be a party, as appropriate, and the consummation of the transactions contemplated hereby, are within such Person's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene such Person's charter or by-laws, (ii) violate any law (including, without limitation, the Exchange Act), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award, (iii) conflict with or result in the breach of, or constitute a default under, any loan agreement, contract, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting the Borrower, any of its Subsidiaries or any of its properties, the effect of which conflict, breach or default is reasonably likely to have a Material Adverse Effect or (iv) result in or require the creation or imposition of any Lien upon or with respect to any of the properties of the Borrower or any of its Subsidiaries. None of the Borrower nor any of its Subsidiaries, is in violation of any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or in breach of any such contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, the violation or breach of which would be reasonably likely to have a Material Adverse Effect.

(d) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for (i) the due execution, delivery and performance by any Loan Party of any Loan Document to which it is or is to be a party or for the consummation of the other transactions contemplated hereby or (ii) the exercise by the Administrative Agent or any Lender of its rights under the Loan Documents, except for authorizations, approvals, actions, notices and filings which have been duly obtained, taken, given or made and are in full force and effect.

(e) This Agreement has been, and each other Loan Document when delivered hereunder will have been, duly executed and delivered by each Loan Party which is a party thereto. This Agreement is, and each other Loan Document when delivered will be, the legal, valid and binding obligations of each Loan Party which is a party thereto, enforceable against such Person, in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally and by general principles of equity.

(f) Each of the audited Consolidated balance sheet of the Borrower as at December 31, 1996 and the related audited Consolidated statements of earnings, cash flows and stockholders' equity of the Borrower for the fiscal year then ended, copies of all of which have been furnished to each Lender, fairly present the financial condition of the Borrower and its Subsidiaries as at such date and the results of the operations of the Borrower and its Subsidiaries for the period ended on such date, all in accordance with GAAP. Since December 31, 1996, there has been no Material Adverse Change relating to the Borrower.

(g) There is no pending or threatened action, proceeding, governmental investigation or arbitration affecting any Loan Party or any of their Subsidiaries before any court, governmental agency or arbitrator, which is reasonably likely to have a Material Adverse Effect or that purports to affect the legality, validity or enforceability of any Loan Document or the consummation of the transactions contemplated hereby.

(h) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock and no proceeds of any Advance will be used (i) to purchase or carry any Margin Stock, except in connection with Permitted Acquisitions and the repurchase by the Borrower of its capital stock, or (ii) to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

(i) Except as set forth on Schedule III hereto, the Borrower and each ERISA Affiliate of the Borrower are in compliance in all material respects with the applicable provisions of ERISA and the Code with respect to each Plan. No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan. The amount of all Unfunded Pension Liabilities under all current Plans does not exceed $25,000,000. Neither the Borrower nor any of its ERISA Affiliates has incurred any Withdrawal Liability to any Multiemployer Plan within the past five years, and it is not reasonably expected that contributions shall be made or required or that such liability shall be incurred in any case in amounts or under circumstances that would be reasonably likely to result in a material liability to the Borrower or any ERISA Affiliate of the Borrower. The consolidated financial statements of the Borrower and its Subsidiaries fully reflect any material liability with respect to "expected postretirement benefit obligations" within the meaning of Statement of Financial Accounting Standards No. 106.

Neither the Borrower nor any of its ERISA Affiliates would reasonably be expected to incur a material liability relating to the funding status of any RBLI Plan. No ERISA Affiliate of RBLI has incurred any liability under Title IV of ERISA arising in connection with the termination of, or complete or partial withdrawal from, any RBLI Plan or Multiemployer Plan that would reasonably be expected to become a material liability of the Borrower or any of its ERISA Affiliates.

(j) Except as set forth on Schedule III hereto, neither the Borrower nor any of its Subsidiaries currently maintains or contributes to any Welfare Plan which provides post-retirement medical or life insurance benefits other than pursuant to Section 4980B of the Code or Section 601 through 608 of ERISA.

(k) The operations and properties of the Borrower and each of its Subsidiaries comply with all Environmental Laws, all necessary Environmental Permits have been obtained and are in effect for the operations and properties of the Borrower and its Subsidiaries and the Borrower and each of its Subsidiaries are in compliance with all such Environmental Permits, except, as to all of the above, where the failure to do so would not be reasonably likely to have a Material Adverse Effect; and no circumstances exist that are reasonably likely to (i) form the basis of an Environmental Action against the Borrower or any of its Subsidiaries or any of their respective properties or (ii) cause any such property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law that would, in the case of either (i) or (ii) above, be reasonably likely to have a Material Adverse Effect.

(l) The Borrower and each of its Subsidiaries has filed, has caused to be filed or has been included in all tax returns (Federal, state, local and foreign) required to be filed and has paid all taxes shown thereon to be due, together with applicable interest and penalties.

(m) None of the Borrower or any of its Subsidiaries is an "investment company," or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended. Neither the making of any Advances, nor the application of the proceeds or repayment thereof by the Borrower, nor the consummation of the other transactions contemplated hereby, will violate any provision of such Act or any rule, regulation or order of the Securities and Exchange Commission thereunder.

(n) Each of the Borrower and each Subsidiary Guarantor is, individually and together with its Subsidiaries, Solvent.

(o) Neither (i) any information provided by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or any Lender nor (ii) the Rights Offering Registration Statement, contained or contains any material misstatement of fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading except that, as to any financial model provided to the Lenders, such model was prepared in good faith by the Borrower's management based on assumptions believed to be reasonable when made and because assumptions as to future results are inherently subject to uncertainty and contingencies beyond the Borrower's control, actual results of the Borrower may be higher or lower.

(p) Part A of Schedule IV hereto sets forth the name, amount and percent of class of each security of the Borrower beneficially owned on

the date hereof by Roche Holdings and its Affiliates and Part B of Schedule IV hereto sets forth the name, amount and percent of class of each security of the Borrower to be owned by Roche Holdings and its Affiliates as of the Amendment Effective Date.

(q) Set forth in Schedule V hereto is a complete and accurate list of all Debt of the Borrower and its Subsidiaries (other than Debt under this Agreement) with a principal or face amount in excess of $5,000,000 (the "Surviving Debt"), showing as of the date hereof the principal amount outstanding thereunder, the obligor and obligee thereof, the interest rate applicable thereto, the maturity dates thereof and a description of the security interests (if any) granted in respect thereof.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid, or any Lender shall have any Commitment hereunder, the Borrower will:

(a) Compliance with Laws, Etc Comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws, rules, regulations and orders (such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith), the failure to comply with which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

(b) Compliance with Environmental Laws. Comply and cause each of its Subsidiaries and all lessees and all other Persons occupying its properties to comply, in all material respects, with all Environmental Laws and Environmental Permits applicable to its operations and properties; obtain and renew all Environmental Permits necessary for its operations and properties; and conduct, and cause each of its Subsidiaries to conduct, any investigation, study, sampling and testing, and undertake any cleanup, removal, remedial or other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the requirements of all Environmental Laws; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

(c) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises, except for any merger or consolidation permitted under Section 5.02(c); provided that, neither the Borrower nor any of its Subsidiaries shall be required to preserve any right or franchise if the Board of Directors of the Borrower or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Borrower or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Borrower, such Subsidiary or the Lenders.

(e) Visitation Rights. At any reasonable time and from time to time, upon reasonable prior notice permit the Administrative Agent or any of the Lenders or any agents or representatives thereof, to the extent reasonably requested, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Subsidiaries with any of their officers or directors and with their independent certified public accountants.

(f) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary to the extent

necessary to permit the preparation of the financial statements required to be delivered hereunder.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that in its judgment are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(h) Interest Rate Hedging. Maintain until April 28, 1998, the interest rate Hedge Agreements in effect immediately prior to the Amendment Effective Date.

(i) Leverage Ratio. Maintain at the end of each four fiscal quarter period specified below a Leverage Ratio of not more than the ratio set forth below:

Four Fiscal Quarters Ending in	Ratio
March 1997	6.50:1.0
June 1997	5.00:1.0
September 1997	4.75:1.0
December 1997	4.75:1.0
March 1998	4.75:1.0
June 1998	4.50:1.0
September 1998	4.25:1.0
December 1998	4.00:1.0
March 1999	4.00:1.0
June 1999	3.75:1.0
September 1999	3.50:1.0
December 1999	3.00:1.0
March 2000	3.00:1.0
June 2000	2.75:1.0
September 2000	2.75:1.0
December 2000	2.50:1.0
March 2001	2.50:1.0
June 2001	2.25:1.0
September 2001	2.25:1.0
December 2001	2.00:1.0
March 2002	2.00:1.0
June 2002	1.75:1.0
September 2002	1.75:1.0

and 1.50:1.0 for each four fiscal quarter period thereafter.

(j) Interest Coverage Ratio. Maintain at the end of each four fiscal quarter period specified below an Interest Coverage Ratio of not less than the ratio set forth below:

Four Fiscal Quarters Ending in	Ratio
March 1997	2.25:1.0
June 1997	2.25:1.0
September 1997	2.50:1.0
December 1997	2.50:1.0
March 1998	2.50:1.0
June 1998	2.75:1.0
September 1998	2.75:1.0
December 1998	3.00:1.0
March 1999	3.00:1.0
June 1999	3.25:1.0
September 1999	3.25:1.0
December 1999	3.50:1.0
March 2000	3.50:1.0
June 2000	4.00:1.0
September 2000	4.00:1.0
December 2000	4.50:1.0
March 2001	4.50:1.0
June 2001	4.75:1.0
September 2001	4.75:1.0

and 5.00:1.0 for each four fiscal quarter period thereafter.

(k) Minimum Stockholders' Equity. Maintain Stockholders' Equity of not less than (i) on March 31, 1997, $190,000,000 and (ii) on the last day of each subsequent fiscal quarter, commencing with the fiscal

quarter ending June 30, 1997, a dollar amount equal to (A) if positive, 75% of Net Income for such fiscal quarter plus (B) the minimum amount of Stockholders' Equity required on the last day of the immediately preceding fiscal quarter; provided, however, that, the net amount (after provision for taxes) of non-cash write-offs or write-downs of goodwill during such period in connection with the contribution by the Borrower or any Subsidiary of assets to a joint venture permitted under Section 5.02(d) shall not be deducted from equity for the purposes of calculating Stockholder's Equity on such day for purposes of this Section 5.01(k).

(l) Reporting Requirements. Furnish to the Lenders through the Administrative Agent (in a quantity sufficient for all Lenders and the Administrative Agent):

(i) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Borrower, Consolidated balance sheets of the Borrower as of the end of such quarter, Consolidated statements of earnings and stockholders' equity of the Borrower for such quarter and Consolidated statements of earnings, cash flows and stockholders' equity of the Borrower for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified (subject to normal year-end audit adjustment and the absence of footnotes) on behalf of the Borrower by the chief financial officer of the Borrower;

(ii) as soon as available and in any event within 105 days after the end of each fiscal year of the Borrower, a copy of the annual report on Form 10-K for such year for the Borrower and its Subsidiaries, containing financial statements for such year certified in a manner reasonably acceptable to the Required Lenders by KPMG Peat Marwick or other independent public accountants reasonably acceptable to the Required Lenders;

(iii) together with each delivery of financial statements pursuant to clauses (i) and (ii) above, (A) a certificate executed on behalf of the Borrower by the chief financial officer of the Borrower (1) stating that no Default has occurred and is continuing or, if a Default has occurred and is continuing, a statement as to the nature thereof and the action that the Borrower has taken and proposes to take with respect thereto, (2) setting forth the aggregate amount of all Net Cash Proceeds of all Dispositions in excess of $1,000,000 received during (x) the period covered by such financial statements and (y) the period commencing on the Closing Date and ending on the last day of the period covered by such financial statements and (3) setting forth, to the best knowledge of the Borrower, the Investor Group Interest and (B) a schedule in form reasonably satisfactory to the Administrative Agent of the computations used by the Borrower in determining (1) compliance with the covenants contained in Sections 5.01(i), (j) and (k) and (2) the Leverage Ratio as of the end of the applicable fiscal quarter or fiscal year;

(iv) as soon as possible and in any event within five days after knowledge by an executive officer of the Borrower of the occurrence of each Default continuing on the date of such statement, a statement executed on behalf of the Borrower by the chief financial officer of the Borrower setting forth details of such Default and the action which the Borrower has taken and proposes to take with respect thereto;

(v) as soon as available and in any event no later than 50 days after the end of each fiscal year of the Borrower, financial models prepared by management of the Borrower, in form satisfactory to the Administrative Agent, of balance sheets, income statements and cash flow statements (including a narrative description of all assumptions made) on an annual basis for each fiscal year thereafter until the Termination Date (and, in the case of the financial models delivered in February 1998, February 1999 and February 2000, on a quarterly basis for the fiscal year following such fiscal year then ending);

(vi) promptly after the sending or filing thereof, copies of all reports which the Borrower sends to any of its public security holders, and copies of all Forms 10-K, 10-Q and 8-K, Schedules l3E4 (including in the case of such Schedules all exhibits filed therewith) and registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) that the Borrower or any Subsidiary files with the Securities and Exchange Commission or any national securities

exchange;

(vii) promptly and in any event within (A) ten days after the filing or receipt thereof, copies of all reports and notices with respect to each Plan of the Borrower or any of its ERISA Affiliates which the Borrower or any of its ERISA Affiliates files under ERISA with the Internal Revenue Service or the PBGC or the U.S. Department of Labor or which the Borrower or any of its ERISA Affiliates receives from the PBGC, other than a notice described in clause (D) of this Section 5.01(l)(vii), (B) ten days after the Borrower or any of its ERISA Affiliates knows or has reason to know that any ERISA Event with respect to the Borrower or any of its ERISA Affiliates has occurred, a statement of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, that the Borrower or such ERISA Affiliate proposes to take with respect thereto, (C) ten days after receipt thereof by the Borrower or any of its ERISA Affiliates from the sponsor of a Multiemployer Plan of the Borrower or any of its ERISA Affiliates, a copy of each notice received by any such Person concerning the imposition of Withdrawal Liability upon such Person, the reorganization or termination of such Multiemployer Plan, or the amount of the liability incurred, or that may be incurred, by the Borrower or any of its ERISA Affiliates in connection with any such event and (D) five Business Days after receipt thereof by the Borrower or any of its ERISA Affiliates, copies of each notice from the PBGC stating its intention to terminate any Plan of the Borrower or any of its ERISA Affiliates or to have a trustee appointed to administer any such Plan;

(viii) as promptly as practicable after any change in GAAP from the date of the financial statements referred to in Section 4.01(f), notice to the Administrative Agent describing the Borrower's adoption of such change in reasonable detail and, if requested by the Administrative Agent (A) as promptly as practicable following the Administrative Agent's receipt of such notice and (B) upon delivery of any financial statement required to be furnished under clauses (i) or (ii) of this Section 5.01(l), a statement of reconciliation conforming any information contained in such financial statement with GAAP as in effect on the date of the financial statements referred to in Section 4.01(f);

(ix) promptly upon any executive officer of the Borrower obtaining knowledge thereof, written notice of (A) the institution or non-frivolous threat of any action, suit, proceeding, governmental investigation or arbitration against or affecting the Borrower or any of its Subsidiaries or any property of the Borrower or any of its Subsidiaries (any such action, suit, proceeding, investigation or arbitration being a "Proceeding") or (B) any material development in any Proceeding that is already pending, in each case where such Proceeding or development has not previously been disclosed by the Borrower hereunder and would be reasonably likely to have a Material Adverse Effect;

(x) as promptly as practicable after request by the Administrative Agent, such information regarding the HLR Stockholder Agreement as the Administrative Agent may reasonably request;

(xi) promptly after the occurrence thereof, notice of any condition or occurrence on any property of the Borrower or any of its Subsidiaries that results in a material noncompliance by the Borrower or any of its Subsidiaries with any Environmental Law or Environmental Permit or would be reasonably likely to (i) form the basis of an Environmental Action against the Borrower or any of its Subsidiaries or any such property that would be reasonably likely to have a Material Adverse Effect or (ii) cause any such property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law or Environmental Permit;

(xii) (A) promptly upon any executive officer of the Borrower obtaining knowledge thereof, written notice of the effective date of any reduction of the Investor Group Interest to less than 25% and (B) as promptly as practicable, and in any event at least 15 days prior to the effectiveness of any amendment, supplement or other modification of the HLR Stockholder Agreement that would require the consent of the Required Lenders in accordance with Section 5.02(k), written notice thereof;

(xiii) as promptly as practicable, notice of any Disposition the Net Cash Proceeds of which would, if not reinvested, be

applied to prepay Term Advances and reduce the Revolving Credit Commitments in accordance with Section 2.05(b); and

(xiv) such other information respecting the condition (financial or otherwise), operations, assets or business of the Borrower or any of its Subsidiaries as any Lender through the Administrative Agent may from time to time reasonably request.

(m) Monthly Summary Financial Reports. During the period from the Closing Date through December 31, 1998, furnish to the Administrative Agent (in a quantity sufficient for all Lenders and the Administrative Agent) as soon as available, and in any event within 50 days after the end of each calendar month, a summary financial report as to the Borrower and its Subsidiaries, in the form of Exhibit F, for the period commencing at the end of the previous month and ending with the end of such month, signed on behalf of the Borrower by its chief financial officer.

(n) Transactions with Affiliates. Conduct, and cause each of its Subsidiaries to conduct, all transactions otherwise permitted under this Agreement with any of their Affiliates (other than the Borrower or any of its Subsidiaries) on terms that are fair and reasonable and no less favorable to the Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person that is not an Affiliate.

(o) Use of Proceeds. Use the proceeds of the Advances for general corporate purposes of the Borrower and its Subsidiaries.

(p) Subsidiary Guaranty. Cause each Person that becomes a Material Subsidiary of the Borrower to become party to the Subsidiary Guaranty as promptly as practicable after becoming a Material Subsidiary.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid, or any Lender shall have any Commitment hereunder, the Borrower will not:

(a) Liens, Etc Create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien, upon or with respect to any of its properties (other than treasury stock and Margin Stock), whether now owned or hereafter acquired, or sign or file, or permit its Subsidiaries to sign or file, under the Uniform Commercial Code of any jurisdiction, a financing statement that names the Borrower or any of its Subsidiaries as debtor, or sign, or permit any of its Subsidiaries to sign, any security agreement authorizing any secured party thereunder to file such financing statement, or assign, or permit any of its Subsidiaries to assign, any right to receive income, other than the following Liens with respect to the Borrower and its Subsidiaries: (i) Liens existing on the Amendment Effective Date securing Debt outstanding at the close of business on the Amendment Effective Date in an aggregate principal or face amount not exceeding $15,000,000 in the aggregate for the Borrower and its Subsidiaries; (ii) Liens existing on such property at the time of its acquisition (directly or indirectly) (other than any such Lien created in contemplation of such acquisition); (iii) Liens on such property securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property or improvements thereto, provided that such Liens attach to such property or improvements concurrently with or within 90 days after the acquisition thereof or completion of improvements thereon; (iv) Liens securing Debt incurred to refinance Debt referred to in clause (ii) or (iii) above, provided that such Liens are limited to the same property securing the Debt so refinanced, the principal amount of such Debt shall not be greater than the principal amount of the Debt so refinanced, and any direct or contingent obligor of the Debt secured thereby has not been changed; (v) mechanics', materialmen's, carriers' and similar Liens arising in the ordinary course of business securing obligations that are not overdue for a period of more than 60 days or which are being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained; (vi) deposits or Liens to secure the performance of letters of credit, statutory obligations, surety and appeal bonds, performance bonds and other obligations of like nature incurred in the ordinary course of business; (vii) Liens securing Capitalized Leases permitted by this Agreement; (viii) Liens for taxes, assessments and governmental charges or levies not yet due and payable or which are being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained; (ix) judgment or other similar Liens, provided that there shall be no period of more than 30 consecutive days during which a stay of enforcement of the related judgment shall not be in effect; (x) Liens

on cash and Cash Equivalents securing Obligations under Hedge Agreements, provided that the aggregate amount of cash and Cash Equivalents subject to such Liens may at no time exceed $20,000,000 in the aggregate for the Borrower and its Subsidiaries; and (xi) Liens not otherwise permitted by the foregoing clauses of this subsection (a) securing Debt otherwise permitted by this Agreement in an aggregate principal or face amount at any date not to exceed 5% of Consolidated Net Tangible Assets of the Borrower.

(b) Lease Obligations. Create, incur, assume or suffer to exist, or permit any of its Subsidiaries to create, incur, assume or suffer to exist, any obligations as lessee (i) for the rental or hire of real or personal property in connection with any sale and leaseback transaction, or (ii) for the rental or hire of other real or personal property of any kind under leases or agreements to lease having an original term of one year or more that would cause the direct and contingent liabilities of the Borrower and its Subsidiaries, on a Consolidated basis, in respect of all such obligations in any period set forth below to exceed the amount set forth below for such period:

Year Ending in	Amount
December 1997	$65,000,000
December 1998	$70,000,000
December 1999	$75,000,000
December 2000	$80,000,000
December 2001	$85,000,000
December 2002	$90,000,000
December 2003	$95,000,000
December 2004	$100,000,000

(c) Mergers, Etc. Merge or liquidate into or consolidate with any Person or permit any Person to merge or liquidate into it, or permit any of its Subsidiaries to do so, except that (i) solely if required to effect a Permitted Acquisition, the Borrower may merge with another corporation organized under the laws of a State of the United States, if the Borrower is the corporation surviving such merger, and (ii) any wholly-owned Subsidiary of the Borrower may merge or liquidate into or consolidate with the Borrower or any other Subsidiary of the Borrower provided that, in the case of any such consolidation, the Person formed by such consolidation shall be the Borrower or a wholly-owned Subsidiary of the Borrower and provided that if any Subsidiary Guarantor is a party to any such merger or consolidation, the Person surviving such merger or formed by such consolidation shall be a Subsidiary Guarantor; provided, however, that in each case, immediately after giving effect thereto, no event shall occur and be continuing that constitutes a Default.

(d) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets or grant any option or other right to purchase, lease or otherwise acquire any assets, except (i) sales in the ordinary course of its business, (ii) dispositions of obsolete, worn out or surplus property disposed of in the ordinary course of business, (iii) sales, leases, transfers or other dispositions of assets by a wholly-owned Subsidiary of the Borrower with any other wholly-owned Subsidiary of the Borrower (provided that if such disposition is by a Subsidiary Guarantor, the recipient of such assets is also a Subsidiary Guarantor), (iv) sales, leases, transfers or other dispositions of assets by the Borrower to any wholly-owned Subsidiary Guarantor, or by any wholly-owned Subsidiary to the Borrower, (v) in a transaction authorized by subsection (c) of this Section, (vi) the disposition of Margin Stock for cash in an amount equal to the fair value of such Margin Stock on the date of such disposition, (vii) sales of assets for cash and for fair value in an aggregate amount not to exceed $1,000,000 in any year, (viii) sales, leases, transfers or other dispositions of assets by the Borrower or any Subsidiary not exceeding $70,000,000 in the aggregate fair market value by contributing such assets to a joint venture; provided, however, that contributions of assets to a joint venture in which the Borrower holds less than a 50% interest shall not exceed $35,000,000 in aggregate fair value in any year, or (ix) exchanges of assets for assets of equal fair market value which do not constitute Materially Different Businesses (in each case as determined by the board of directors of the Borrower), (x) the sale of any asset not exceeding an amount equal to five percent of the Borrower's Net Tangible Assets at the time of such sale and not otherwise permitted by this subsection (d) by the Borrower or any Subsidiary of the Borrower (other than a bulk sale of inventory and a sale of receivables other than delinquent accounts for collection purposes only) so long as (A) the purchase price paid to the Borrower or such Subsidiary for such asset shall be no less than the fair market

value of such asset at the time of such sale, (B) the purchase price for such asset shall be paid to the Borrower or such Subsidiary solely in cash payable at closing or instruments obligating the obligors with respect thereto to make cash payments within one year of closing, in the aggregate amount of all such instruments at any one time held by the Borrower and its Subsidiaries for all such sales not to exceed $10,000,000 and (C) the Borrower shall prepay the Advances to the extent required by, and in the order of priority set forth in, Section 2.05(b)(i) and (xi) so long as no Default shall occur and be continuing, the grant of any option or other right to purchase any asset in a transaction which would be permitted under the provisions of the next preceding clause (x).

(e) Dividends, Repurchases, Etc. Declare or pay any dividends, purchase, redeem, retire, defease or otherwise acquire for value any of its capital stock or any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, return any capital to its stockholders as such, make any distribution of assets, capital stock, warrants, rights, options, obligations or securities to its stockholders as such or issue or sell any capital stock or warrants, rights or options to acquire such capital stock, or permit any of its Subsidiaries to purchase, redeem, retire, defease or otherwise acquire for value any capital stock of the Borrower or any warrants, rights or options to acquire such capital stock or to issue or sell any capital stock or any warrants, rights or options to acquire such capital stock (other than to the Borrower), except that:

(i) the Borrower may declare and deliver dividends and distributions payable only in Borrower Common Stock or warrants, rights or options to acquire Borrower Common Stock;

(ii) after the second anniversary of the Amendment Effective Date if (A) the Borrower's Capital Ratio is equal to or less than 50% on the last day of the most recently ended fiscal quarter and (B) the Leverage Ratio for the most recently ended four fiscal quarter period is less than or equal to 2.5:1.0, the Borrower may, during any single fiscal year, declare and pay cash dividends to holders of Borrower Common Stock in an amount not to exceed ten percent of the Borrower's Net Income for the fiscal year immediately preceding the fiscal year in which such dividend is declared or paid;

(iii) the Borrower may purchase options or warrants to purchase shares of Borrower Common Stock granted by the Borrower to employees of the Borrower or any of its Subsidiaries, for an aggregate purchase price, for all such purchases during any single fiscal year, of not more than $1,000,000;

(iv) the Borrower may, during any single fiscal year, declare and pay cash dividends to holders of Borrower Series A Preferred Stock at a rate not to exceed 10% per annum and at any time after the third anniversary of the Amendment Effective Date, the Borrower may, during any such fiscal year, pay cash dividends to holders of Borrower Series B Preferred Stock at a rate not to exceed 10% per annum; and

(v) the Borrower may declare and pay dividends to holders of Borrower Series B Preferred Stock payable in shares of Borrower Series B Preferred Stock.

provided, however, that, at the time of any payment referred to above and after giving effect to such payment, no Default shall have occurred and be continuing.

(f) Investments. Make or hold, or permit any of its Subsidiaries to make or hold, any Investment in any Person, other than Investments (i) by the Borrower in any of its respective wholly-owned Subsidiaries or by any wholly-owned Subsidiary of the Borrower in any other wholly-owned Subsidiary of the Borrower, (ii) that are Permitted Acquisitions, (iii) Investments by the Borrower and its Subsidiaries in Cash Equivalents and in Hedge Agreements in an aggregate notional amount not to exceed at any time outstanding an amount equal to 100% of the aggregate outstanding Advances at such time, (iv) Investments permitted by subsections 5.02(d)(viii), (ix) and (x) (B) and (v) other Investments in an aggregate amount invested at any one time outstanding not to exceed $25,000,000.

(g) Change in Nature of Business. Make, or permit any of its Subsidiaries to make, any material change in the nature of the business carried on at the date hereof by the Borrower and its Subsidiaries taken as a whole, except that, subject to the limitations set forth in

Sections 5.02(f) and 5.02(h), the Borrower and its Subsidiaries may acquire (i) Control of any Person, or all or substantially all of the assets of any Person, substantially all the business of which consists of businesses that are not Materially Different Businesses, (ii) any other assets which the Borrower or such Subsidiary would not use in a Materially Different Business, or (iii) Control of any Person, substantially all the business of which consists of Materially Different Businesses, or other assets which constitute or would be used by the Borrower or such Subsidiary in a Materially Different Business, as long as (x) the consideration paid by the Borrower for any such acquisition pursuant to this clause (iii), together with the aggregate consideration paid for all previous acquisitions pursuant to this clause (iii) during the term of this Agreement, does not exceed 20% of Consolidated Net Tangible Assets of the Borrower as of the last day of the fiscal quarter next preceding the date of such acquisition and (y) after giving effect thereto, no Default shall have occurred and be continuing.

(h) Acquisitions. Make or permit any of its Subsidiaries to make acquisitions outside the ordinary course of business of assets of or equity in any Person ("Acquisitions") except that the Borrower may make or permit any of its Subsidiaries to make the following Acquisitions: (i) Investments permitted by the terms of Sections 5.02(d)(viii) and 5.02(f) (other than clause (ii) thereof); (ii) Acquisitions permitted by the terms of Section 5.02(d)(ix); and (iii) other Acquisitions if the sum of the Purchase Price for such Acquisitions plus the aggregate Purchase Price for all other Acquisitions made in the immediately preceding 12 calendar months period, does not exceed (A) $25,000,000 plus (B) Available Excess Cash Flow; provided that if the Purchase Price for any such Acquisition is greater than $10,000,000 and less than $25,000,000, then the Borrower shall give the Administrative Agent and the Lenders at least five Business Days' notice thereof, and if the Purchase Price is $25,000,000 or more, the following conditions must be met: (A) at least ten Business Days prior to such proposed Acquisition, the Borrower shall have delivered to the Administrative Agent and the Lenders Consolidated modeled financial statements of the Borrower (including a balance sheet and statements of earnings, cash flows and stockholders' equity) as at the end of and for the most recent period of four fiscal quarters ending at least 45 days prior to the delivery of such financial statements, which financial statements shall (a) be certified (subject to normal year-end audit adjustments and the absence of footnotes) on behalf of the Borrower by the chief financial officer of the Borrower, (b) give effect to all Acquisitions (including such proposed Acquisition) made or proposed to be made since the end of such period and (c) show the Borrower would be in compliance with the Interest Coverage Ratio and Leverage Ratio for such period; provided further that, at the time of the making of any Acquisition and after giving effect to such Acquisition, no Default shall have occurred and be continuing.

(i) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies affecting (i) the presentation of financial statements or (ii) reporting practices, except in either case as required or permitted by GAAP.

(j) Debt. Create, incur, assume or suffer to exist, or permit any of its Subsidiaries to create, incur, assume or suffer to exist, any Debt other than:

(i) Debt under the Loan Documents;

(ii) in the case of (A) the Borrower, Debt in respect of Junior Obligations, the proceeds of which are applied to prepay the Obligations of the Borrower under the Loan Documents in accordance with Section 2.05(b)(ii) and (B) the Borrower and its Subsidiaries, Debt, not exceeding at any one time $20,000,000 in the aggregate, in respect of Obligations incurred pursuant to credit card services agreements providing for processing services in connection with credit card transactions by customers of the Borrower and its Subsidiaries;

(iii) the Surviving Debt outstanding as of the Closing Date;

(iv) unsecured contingent obligations arising in connection with Permitted Acquisitions in an aggregate principal amount not to exceed $50,000,000 at any time outstanding in the aggregate for the Borrower and its Subsidiaries, provided that no such contingent obligation shall exceed an amount equal to 75% of the Purchase Price of the related Permitted Acquisition;

(v) Debt owed by a Subsidiary to the Borrower or to a wholly-owned Subsidiary of the Borrower, or by the Borrower to a Subsidiary in connection with the Borrower's cash management program;

(vi) Debt secured by Liens permitted by Section 5.02(a)(ii) and (iv) not to exceed $20,000,000 in the aggregate for the Borrower and its Subsidiaries;

(vii) endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(viii) unsecured trade payables of the kind included in clause (b) of the definition of Debt;

(ix) Subordinated Debt incurred on or before March 31, 1999;

(x) if the Borrower shall have received gross cash proceeds from the sale of the Borrower Preferred Stock in an aggregate amount of more than $250,000,000 and less than $440,000,000, the Roche Debt;

(xi) Obligations to redeem the Preferred Stock; and

(xii) Debt not otherwise permitted pursuant to this Section 5.02(j), in an aggregate principal amount not to exceed $32,000,000 at any time outstanding in the aggregate for the Borrower and its Subsidiaries.

(k) HLR Stockholder Agreement Amendments. Amend, supplement or otherwise modify, or consent to the amendment, supplement or other modification of, Sections 2.1 through 2.10, Article 3 or Section 8.2, 9.2(a), 9.4, 9.5 or 9.10 of the HLR Stockholder Agreement, or any definition related to the foregoing set forth in Article 1 of the HLR Stockholder Agreement, if such amendment, supplement or other modification would materially adversely affect the rights of Roche Holdings thereunder, taken as a whole, unless the Required Lenders have consented to such amendment, supplement or other modification, which consent shall not be unreasonably withheld; provided that if the Borrower has provided the Administrative Agent and the Lenders with copies of a proposed amendment, supplement or other modification (together with written notice referencing this Section 5.02(k) and the 15-day consent period required immediately below) and has not been notified by the Administrative Agent within 15 days of receipt by the Lenders thereof that the Required Lenders have disapproved such amendment, supplement or other modification in writing, the Lenders shall be deemed to have consented thereto.

(l) Prepayments, Etc. of Debt. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, any Debt, other than (i) the prepayment of the Advances in accordance with the terms of this Agreement and (ii) regularly scheduled or required repayments or redemptions of Debt permitted pursuant to subsection (j) of this Section, or amend, modify or change in any manner any term or condition of any such Debt, or permit any of its Subsidiaries to do any of the foregoing other than to prepay any Debt payable to the Borrower.

(m) No Negative Pledge. Enter into or suffer to exist, or permit any of its Subsidiaries to enter into or suffer to exist, any agreement prohibiting or conditioning the creation or assumption of any Lien upon any of its property or assets or, in the case of a Subsidiary, any agreement limiting or preventing any payments by such Subsidiary to the Borrower, other than (i) in favor of the Administrative Agent and the Lenders or (ii) in connection with (A) with respect to the Borrower any Surviving Debt or (B) any Debt permitted by Section 5.02(j) secured by a Lien on specific property so long as such prohibition or conditions relates solely to the specific property securing such Debt.

(n) Capital Expenditures. Not make, or permit any of its Subsidiaries to make, any Capital Expenditures that would cause the aggregate of all such Capital Expenditures made by the Borrower and its Subsidiaries in any period set forth below to exceed the amount set forth below for such period:

Year Ending in	Amount
December 1997	$70,000,000
December 1998	$70,000,000

December 1999	$72,500,000
December 2000	$77,500,000
December 2001	$82,500,000
December 2002	$87,500,000
December 2003	$90,000,000
December 2004	$22,500,000;

provided, however, that if in any period specified above the amount of Capital Expenditures set forth above for such period exceeds the amount of Capital Expenditures actually made by the Borrower and its Subsidiaries in such period, the Borrower and its Subsidiaries shall be entitled to make additional Capital Expenditures in the next period specified above in an amount of up to (i) the lesser of (a) the amount of such excess and (b) $20,000,000 plus (ii) Available Excess Cash Flow.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to (i) pay any principal of any Advance when the same becomes due and payable, (ii) reimburse any L/C Issuer for any payment made by such L/C Issuer under or in respect of any L/C Obligations when the same becomes due and payable by the Borrower or (iii) pay any interest on any Advance, or any fees payable to the Administrative Agent, any Lender or any L/C Issuer hereunder within five Business Days after the same becomes due and payable; or any Loan Party shall fail to make any other payment hereunder within five Business Days after the same becomes due and payable; or

(b) Any representation or warranty made by any Loan Party under or in connection with any Loan Document shall prove to have been incorrect in any material respect when made or deemed made; or

(c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in 5.01(i) [Leverage Ratio], 5.01(j) [Interest Coverage Ratio], 5.01(k) [Minimum Stockholders' Equity], 5.01(l) [Reporting Requirements], 5.01(m) [Monthly Summary Financial Reports] or 5.02, or (ii) any Loan Party shall fail to perform or observe any other term, covenant or agreement contained in any Loan Document on its part to be performed or observed if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender; or

(d) The Borrower or any of its Subsidiaries shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least $25,000,000 in the aggregate (but excluding Debt outstanding hereunder) of the Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof and not at the option of the Borrower or such Subsidiary; or

(e) The Borrower or any of its Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such

proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this Section 6.01(e); or

(f) Any judgment or order for the payment of money in excess of (x) $25,000,000 in any individual case, or (y) $50,000,000 in the aggregate at any one time, shall be rendered against the Borrower or any of its Subsidiaries and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect unless such judgment or order shall have been vacated, satisfied or dismissed or bonded pending appeal; provided, however, that any such judgment or order shall not be an Event of Default under this Section 6.01(f) if and for so long as (i) the entire amount of such judgment or order is covered by a valid and binding policy of insurance between the defendant and the insurer covering payment thereof and (ii) such insurer, which shall be rated at least "A" by A.M. Best Company, has been notified of, and has not disputed the claim made for payment of the amount of such judgment or order; or

(g) Any non-monetary judgment or order shall be rendered against the Borrower or any of its Subsidiaries that is reasonably likely to have a Material Adverse Effect and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect unless such judgment or order shall have been vacated, satisfied, discharged or bonded pending appeal; or

(h) A Change of Control shall occur or the Borrower shall fail (i) to own, directly or indirectly (A) through one or more Subsidiary Guarantors, 100% of the capital stock (by vote and value) of NHL or (B) subject to transactions permitted pursuant to Section 5.02(c), 100% of the capital stock (by vote and value) of each other Material Subsidiary of the Borrower existing on the date hereof or (ii) subject to transactions permitted pursuant to Section 5.02(c), to maintain Control of each other Person that shall qualify as a Material Subsidiary of the Borrower from time to time; or

(i) Any ERISA Event shall have occurred with respect to the Borrower or any of its ERISA Affiliates and such ERISA Event, together with any and all other ERISA Events that shall have occurred with respect to the Borrower or any of its ERISA Affiliates, is reasonably likely to result in a liability of the Borrower and its ERISA Affiliates with respect to any Plan of the Borrower or any of its ERISA Affiliates in excess of $25,000,000; or

(j) The Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan of the Borrower or any of its ERISA Affiliates that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount that, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Borrower and its ERISA Affiliates as Withdrawal Liability (determined as of the date of such notification), exceeds $25,000,000 or requires payments exceeding $5,000,000 per annum; or

(k) The Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan of the Borrower or any of its ERISA Affiliates that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of the Borrower and its ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization or termination occurs by an amount exceeding $5,000,000; or

(l) Any material provision of any Loan Document shall be determined by any court, administrative agency or arbitrator to be invalid, not binding or unenforceable, or any Loan Party or any Affiliate thereof shall so assert in writing;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances to be

terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that, in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

SECTION 6.02. Cash Collateral. (a) If any Event of Default described in Section 6.01(e) shall occur or the Notes shall have otherwise been accelerated or the obligation of each Lender to make Advances been terminated pursuant to Section 6.01, then without any request or the taking of any other action by the Administrative Agent or any of the Lenders, the Borrower shall be obligated forthwith to pay to the Administrative Agent an amount in immediately available funds equal to the aggregate L/C Outstandings (regardless of whether any conditions to any drawing can then be met), to be held by the Administrative Agent as cash collateral as provided below.

(b) All amounts required to be deposited as cash collateral with the Administrative Agent pursuant to Section 6.02 shall be deposited in a cash collateral account (the "Cash Collateral Account") established by the Borrower with the Administrative Agent, to be held, applied or released for application as provided in this Section 6.02.

(c) If any Event of Default occurs resulting from the issuance of an L/C which does not comply with the terms of Section 2.03A(a)(i) or (ii), the Borrower may cure such Event of Default by depositing in the Cash Collateral Account within two (2) Business Days after the Borrower has received written notice thereof an amount equal to the aggregate L/C Outstandings with respect to such L/C, such amount to be held, applied or released for application as provided in this Section 6.02.

(d) If and when any portion of the L/C Obligations on which any deposit of cash collateral was based (the "Relevant Contingent Exposure") shall become fixed (a "Direct Exposure") as a result of the payment by a L/C Issuer of a draft presented under any relevant L/C, the amount of such Direct Exposure (but not more than the amount in the Cash Collateral Account at the time) shall be withdrawn by the Administrative Agent from the Cash Collateral Account and shall be paid to the relevant L/C Issuer to be applied against such Direct Exposure and the Relevant Contingent Exposure shall thereupon be reduced by such amount. If at any time the amount in the Cash Collateral Account exceeds the Relevant Contingent Exposure, such excess amount shall be retained in the Cash Collateral Account and, if and when requested by the Required Lenders, shall be withdrawn by the Administrative Agent and applied first to repay the Advances, L/C Obligations and other due and unpaid amounts required to be paid by the Borrower hereunder and second any remaining excess shall be paid to the Borrower; provided however, that (x) if at any time there is no Relevant Contingent Exposure, such excess amount shall be paid to the Borrower and (y) so long as no Event of Default shall have occurred and be continuing, a portion of such excess amount up to the amount deposited and held pursuant to Section 6.02(c) shall be paid to the Borrower. If at any time the amount in the Cash Collateral Account is less than the Relevant Contingent Exposure, the Borrower shall promptly deposit in the Cash Collateral Account additional cash collateral in the amount of such shortfall.

(e) Interest and other payments and distributions made on or with respect to the cash collateral held by the Administrative Agent shall be for the account of the Borrower and shall constitute cash collateral to be held by the Administrative Agent or returned to the Borrower in accordance with subsection (d) of this Section 6.02; provided that the Administrative Agent shall have no obligation to invest any cash collateral on behalf of the Borrower or any other Person (except that the Administrative Agent shall invest such cash collateral in Cash Equivalents pursuant to the Administrative Agent's customary practices if so directed by the Borrower). Beyond the exercise of reasonable care in the custody thereof, the Administrative Agent shall have no duty as to any cash collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of the cash collateral in its possession if the cash collateral is accorded treatment substantially equal to that which it accords its own

property, and shall not be liable or responsible for any loss or damage to any of the cash collateral, or for any diminution in the value thereof, by reason of the act or omission of any agent or bailee selected by the Administrative Agent in good faith. All reasonable expenses and liabilities incurred by the Administrative Agent in connection with taking, holding and disposing of any cash collateral (including customary custody and similar fees with respect to any cash collateral held directly by the Administrative Agent) shall be paid by the Borrower from time to time upon demand. The Administrative Agent shall be entitled to apply (and, at the request of the Required Lenders but subject to applicable law, shall apply) cash collateral or the proceeds thereof to payment of any such expenses, liabilities and fees.

ARTICLE VII

THE ADMINISTRATIVE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable law. The Administrative Agent agrees to give to each Lender prompt notice of each notice and other report given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Administrative Agent's Reliance, Etc. Neither the Administrative Agent nor any of its directors, officers, agents or employees, shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Documents or any L/C, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Administrative Agent: (i) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents or any L/C; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Loan Documents or any L/C on the part of the Borrower or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with the Loan Documents, any L/C or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of the Loan Documents or any L/C by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. CSFB and Affiliates. With respect to its Commitments, the Advances made by it, the Notes issued to it or in its favor and any L/Cs issued by it, CSFB shall have the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include CSFB hereunder in its individual capacity. CSFB and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if CSFB were not the Administrative Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges

that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on the financial statements referred to in Section 4.01(f) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify the Administrative Agent and its affiliates (to the extent not reimbursed by or on behalf of the Borrower), ratably according to the respective principal amounts of the Advances then owing to each of them (or if no Advances are at the time outstanding or if any Advances are then owing to Persons which are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent or any such affiliate in any way relating to or arising out of the Loan Documents, any L/C or any action taken or omitted by the Administrative Agent under the Loan Documents or any L/C, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's or any such affiliate's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of unpaid fees owing to the Administrative Agent, and any out-of-pocket expenses (including counsel fees) incurred by the Administrative Agent and any such affiliate, in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, any Loan Document or any L/C, to the extent that the Administrative Agent is not paid such fees, or the Administrative Agent or any such affiliate is not reimbursed for such expenses, by the Borrower.

SECTION 7.06. Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint, with the consent of the Borrower, a successor Administrative Agent which shall be a Lender, or if no Lender consents to act as Administrative Agent hereunder, a commercial bank organized or licensed under the laws of the United States or of any State thereof and having a combined capital and surplus of at least $500,000,000 (a "Qualified Bank"). If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a Qualified Bank that is acceptable to the Borrower (which shall not unreasonably withhold its approval). Upon the acceptance of any appointment as Administrative Agent thereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under the Loan Documents. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Term Notes or the Revolving Credit Notes, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that (a) no amendment, waiver or consent shall, unless in writing and signed by each of the Lenders affected thereby (other than any Lender which is, at such time, a Defaulting Lender), do any of the following: (i) waive any of the conditions specified in Section 3.01 or, in the case of the Borrowing on or immediately after the Amendment Effective Date, Section 3.02, (ii) change the definition of the term "Required Lenders" or (iii)

amend this Section 8.01 and (b) no amendment, waiver or consent shall, unless in writing and signed by the Required Lenders and each Lender that has an Advance or Commitment affected by such amendment, waiver or consent, (i) increase the Commitment of such Lender or subject such Lender to any additional obligations, (ii) reduce the principal of, or interest on, the Term Notes or the Revolving Credit Notes held by such Lender or any fees or other amounts payable hereunder to such Lender, (iii) release any Subsidiary Guarantor or any rights under the Subsidiary Guaranty (except, in the case of this clause (iii), by operation of law as a consequence of a transaction permitted by Section 5.02(c)) or (iv) postpone the Revolving Credit Termination Date, any L/C Expiration Date or the Termination Date or any date fixed for any payment of principal of or interest on the Term Notes or the Revolving Credit Notes held by such Lender or any fees or other amounts payable hereunder to such Lender; provided, further, that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any Note.

SECTION 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Borrower, at its address at 358 South Main Street, Burlington, North Carolina 27215, Attention: each of Chief Financial Officer (fax no. (910) 222-1568) and General Counsel (fax no. (910) 226-3835); if to any Bank at its Domestic Lending Office on Schedule I hereto; if to any other Lender, at the address specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Administrative Agent, at its address at 11 Madison Avenue, 21st floor, New York, New York 10010, Attention: Syndicated Finance/Agency (fax no. (212) 325-8304); or, as to the Borrower or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Administrative Agent. All such notices and communications shall be effective (i) when received, if mailed or delivered or telecopied (if telecopied, only when non-machine confirmation of receipt is received), or (ii) when confirmed by telex answerback, except that notices and communications to the Administrative Agent pursuant to Article II or VII shall not be effective until received by the Administrative Agent.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender, or the Administrative Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs; Expenses. (a) The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent and its affiliates in connection with the preparation, execution, delivery, administration, modification and amendment of, or waiver under, the Loan Documents, any L/C and the other documents to be delivered hereunder (including, without limitation, (A) all reasonable due diligence, transportation, computer, duplication, appraisal, audit and insurance expenses and fees and expenses of consultants engaged with the prior consent of the Borrower (which consent shall not be unreasonably withheld) and (B) the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect thereto, with respect to advising the Administrative Agent as to its rights and responsibilities, or the protection or preservation of rights or interests, under the Loan Documents or any L/C, with respect to negotiations with the Borrower or with other creditors of the Borrower arising out of any Default or any events or circumstances that may give rise to a Default and with respect to presenting claims in, monitoring or otherwise participating in any bankruptcy, insolvency or other similar proceeding affecting creditors' rights generally and any proceeding ancillary thereto). The Borrower further agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent and the Lenders in connection with the enforcement of the Loan Documents and the other documents to be delivered hereunder, whether in action, suit, litigation, any bankruptcy, insolvency or other similar proceeding affecting creditors' rights generally or otherwise (including, without limitation, the reasonable fees and reasonable expenses of counsel for the Administrative Agent and each Lender with respect thereto) and expenses in connection with the enforcement of rights under this Section 8.04(a).

(b) If any payment of principal of any Eurodollar Rate Advance or LIBO CB Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a

result of a payment or Conversion pursuant to Section 2.05, 2.11 or 2.15, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, or if for any reason any Advance to be Converted to a Eurodollar Rate Advance on the date specified in the notice of conversion with respect thereto is not so Converted, the Borrower shall, within ten days after demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment or failure to Convert, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance; provided that such Lender shall have delivered to the Borrower a written notice setting forth the amount and calculation of such loss or expense.

(c) The Borrower agrees to indemnify and hold harmless the Administrative Agent and each Lender and each of their affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (or in connection with the preparation for a defense of) any investigation, litigation or proceeding arising out of, related to or in connection with the Loan Documents and the transactions contemplated thereby or any L/C, whether or not an Indemnified Party is a party thereto, whether or not the transactions contemplated hereby are consummated and whether or not any such claim, investigation, litigation or proceeding is brought by the Borrower or any other person, except (i) to the extent such claim, damage, loss, liability or expense (x) is found in a final, non-appealable judgment by a court of competent jurisdiction (a "Final Judgment") to have resulted from such Indemnified Party's gross negligence or willful misconduct or (y) arises from any legal proceedings commenced against any Lender by any other Lender (in its capacity as such and not as Administrative Agent), and (ii) in the case of any litigation brought by the Borrower (A) seeking a judgment against any Indemnified Party for any wrongful act or omission of such Indemnified Party and (B) in which a Final Judgment is rendered in the Borrower's favor against such Indemnified Party, the provisions of this paragraph will not be available to provide indemnification for any damage, loss, liability or expense incurred by such Indemnified Party in connection with such litigation.

SECTION 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request, or the granting of the consent, of the Required Lenders specified by Section 6.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 6.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower to such Lender now or hereafter existing under this Agreement and the Note or Notes held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note or Notes and although such obligations may be unmatured. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application shall be made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender under this Section 8.05 are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Lender may have.

SECTION 8.06. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent and each Lender and their respective successors and permitted assigns.

SECTION 8.07. Assignments and Participations. (a) The Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Administrative Agent and each Lender. Each Lender may and, if demanded by the Borrower pursuant to Section 2.14, will assign to one or more banks or other entities all or a proportionate part of all of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitments, L/C Obligations, the Committed Advances owing to it and the Term Notes or the Revolving Credit Notes held by it, but excluding such Lender's Competitive Bid Advances); provided, however, that (i) each such assignment shall be of a uniform, and not a varying, percentage of all rights and obligations under and in respect of the Facilities, (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined

as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $5,000,000 and shall be an integral multiple of $1,000,000 in excess thereof, or shall be an assignment to another Lender or an assignment of all of the assigning Lender's rights and obligations hereunder and under the Notes, (iii) each such assignment shall be to another Lender, an Affiliate of the assigning Lender or, subject (at all times prior to the occurrence and continuance of an Event of Default) to the consent of the Borrower (such consent not to be unreasonably withheld), to an Eligible Assignee, (iv) each such assignment made as a result of a demand by the Borrower pursuant to Section 2.14 shall be arranged by the Borrower after consultation with the Administrative Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (v) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrower pursuant to Section 2.14 unless and until such Lender shall have received one or more payments from either the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement and (vi) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Term Notes or Revolving Credit Notes subject to such assignment and a processing and recordation fee of $3,500 from the assignee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) The Administrative Agent will maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Committed Advances owing under each Facility to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Term Notes or Revolving Credit Notes subject to such assignment if the assigning Lender is assigning all of its rights and obligations under this Agreement, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit B hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent a new Term Note or Revolving Credit Note to the order of such Eligible Assignee if it is not already a Lender. Such new Term Note or Revolving Credit Note shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A-1 or Exhibit A-2, as the case may be. No assignment shall be effective unless the Assignment and Acceptance has been registered in the Register as provided in this Section 8.07(c).

(d) Each Lender may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, L/C Obligations, the Committed Advances and the Competitive Bid Advances owing to it, the Term Notes or Revolving Credit Notes held by it and its interests in the Competitive Bid Note); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender

shall remain the holder of any such Term Note or Revolving Credit Note, and a beneficiary of the Competitive Bid Note, for all purposes of this Agreement, (iv) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of any Loan Document, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce or postpone any date fixed for payment of principal of, or interest on, the Term Notes, Revolving Credit Notes or Competitive Bid Note or any fees or other amounts payable hereunder or extend any L/C Expiration Date in each case to the extent subject to such participation.

(e) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree pursuant to an agreement substantially in the form of Exhibit G to preserve the confidentiality of any confidential information relating to the Borrower received by it from such Lender.

(f) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Committed Advances and Competitive Bid Advances owing to it and the Term Notes or Revolving Credit Notes held by it, and its interests in the Competitive Bid Note) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.08. Governing Law; Submission to Jurisdiction. (a) This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflicts of law principles thereof.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Subject to the foregoing and to paragraph (c) below, nothing in this Agreement shall affect any right that any party hereto may otherwise have to bring any action or proceeding relating to this Agreement against any other party hereto in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any New York State or Federal court and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) The Borrower agrees that service of process may be made on the Borrower by personal service of a copy of the summons and complaint or other legal process in any such suit, action or proceeding, or by registered or certified mail (postage prepaid) to the address of the Borrower specified in Section 8.02, or by any other method of service provided for under the applicable laws in effect in the State of New York.

SECTION 8.09. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.10. WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN

DOCUMENTS, THE ADVANCES, ANY L/C OR THE ACTIONS OF THE ADMINISTRATIVE AGENT, THE BORROWER OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

SECTION 8.11. Confidentiality. Each Lender acknowledges that it has been and will be furnished non-public information concerning the Borrower and its Subsidiaries in connection with the Loan Documents (all such non-public information, whether furnished before or after the date of this Agreement, collectively the "Transaction Information"). Each Lender agrees to keep confidential (and to cause its affiliates, officers, directors, employees, agents and representatives to keep confidential) all Transaction Information, except that each Lender shall be permitted to disclose details of the Transaction Information (a) to such of its affiliates, officers, directors, employees, agents and representatives (which agents and representatives shall not include any non-affiliated financial institutions) and legal or other advisors who need to know such information in connection with its role as a Lender (or as Administrative Agent) hereunder and who receive such information with the understanding that it is confidential; (b) to the extent required by applicable laws and regulations or by any subpoena or similar legal process (provided that, to the extent permitted by applicable law, such Lender will promptly notify the Borrower of such requirement as far in advance of its disclosure as is practicable to enable the Borrower to seek a protective order and, to the extent practicable, such Lender will cooperate with the Borrower in seeking any such order), or requested by any governmental agency or authority having jurisdiction over such Lender (provided that, to the extent permitted by applicable law, such Lender will first inform the Borrower of any such request) other than those from bank regulatory authorities or examiners; (c) to the extent the Borrower shall have consented to such disclosure in writing; and (d) to the extent that a public announcement or dissemination of such Transaction Information shall have been made other than as a result of a breach of this Section 8.11. Each Lender will use the Transaction Information only in connection with its role as a Lender (or as Administrative Agent) hereunder.

SECTION 8.12. Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Agreement or any other Loan Document shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement, the Notes or any other Loan Document or of such provision or obligation in any other jurisdiction.

SECTION 8.13. AMENDMENT OF NOTES. ON AND AS OF THE AMENDMENT EFFECTIVE DATE, THE NOTES OF EACH LENDER ARE HEREBY AMENDED BY CHANGING THE RESPECTIVE MATURITY DATES SET FORTH BELOW, AND EACH LENDER IS HEREBY AUTHORIZED TO STRIKE OUT THE MATURITY DATE INDICATED ON EACH OF SUCH LENDER'S (I) TERM NOTES AND MARK THE DATE "MARCH 31, 2004" AS THE AMENDED MATURITY DATE IN LIEU THEREOF AND (II) COMPETITIVE BID NOTES AND REVOLVING CREDIT NOTES AND MARK THE DATE "MARCH 31, 2002" AS THE AMENDED MATURITY DATE IN LIEU THEREOF.

SECTION 8.14. Termination of Waivers. All prior waivers of any provision of the Existing Credit Agreement shall terminate on and as of the Amendment Effective Date.

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

BORROWER:

LABORATORY CORPORATION OF AMERICA HOLDINGS

By:/s/ WESLEY R. ELINGBURG
Name: Wesley R. Elingburg
Title: Executive Vice President
Chief Financial Officer
and Treasurer

ADMINISTRATIVE AGENT:

CREDIT SUISSE FIRST BOSTON,
as Administrative Agent

By:/s/ KARL STUDER
Name: Karl Studer
Title: Director

By:/s/ HEATHER RIEKENBERG
Name: Heather Riekenberg
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By:/s/ KARL STUDER

Name: Karl Studer
Title: Director

By:/s/ MARTIN P. LASANCE

Name: Martin P. Lasance
Title: Associate

BANK OF AMERICA ILLINOIS

By:/s/ WENDY L. LORING

Name: Wendy L. Loring
Title: Vice President

BANQUE NATIONALE DE PARIS

By:/s/ RICHARD L. STED

Name: Richard L. Sted
Title: Senior Vice President

By:/s/ BONNIE G. EISENSTAT

Name: Bonnie G. Eisenstat
Title: Vice President
Corporate Banking Director

BAYERISCHE LANDESBANK GIROZENTRALE

By:/s/ PETER OBERMANN

Name: Peter Obermann
Title: Senior Vice President
Manager Lending Division

By:/s/ MARTHA ASMA

Name: Martha Asma
Title: Vice President

THE CHASE MANHATTAN BANK

By:/s/ SCOTT S. WARD

Name: Scott S. Ward
Title: Vice President

CREDIT LYONNAIS (NEW YORK BRANCH)

By:/s/ JOHN OBERLE

Name: John Oberle
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH
and/or CAYMAN ISLANDS BRANCH

By:/s/ WOLF A. KLUGE

Name: Wolf A. Kluge
Title: Vice President

By:/s/ SHERINE FANOUS

Name: Sherine Fanous
Title: Assistant Vice President

FIRST UNION NATIONAL BANK
OF NORTH CAROLINA

By:/s/ JOSEPH H. TOWELL

Name: Joseph H. Towell
Title: Senior Vice President

THE FUJI BANK, LTD. (NEW YORK BRANCH)

By:/s/ TOSHIAKI YAKURA

Name: Toshiaki Yakura
Title: Senior Vice President

NATIONSBANK, N.A.

By:/s/ MICHAEL A. CRABB, III

Name: Michael A. Crabb, III
Title: Vice President

SOCIETE GENERALE

By:/s/ GEORG L. PETERS

Name: Georg L. Peters
Title: Vice President

THE SUMITOMO BANK, LIMITED
(NEW YORK BRANCH)

By:/s/ JOHN C. KISSINGER

Name: John C. Kissinger
Title: Joint General Manager

SWISS BANK CORPORATION

By:/s/ PAOLO SEIFERLE

Name: Paolo Seiferle
Title: Associate Director
Corporate Clients
Switzerland

By:/s/ DOROTHY L. MCKINLEY

Name: Dorothy L. McKinley
Title: Associate Director
Banking Finance
Support, N.A.

WACHOVIA BANK OF GEORGIA, N.A.

By:/s/ LISA M. SHAWL

Name: Lisa M. Shawl
Title: Vice President

WESTDEUTSCHE LANDESBANK

By:/s/ DONALD F. WOLF

Name: Donald F. Wolf
Title: Vice President

By:/s/ C. RUSHLAND

Name: C. Rushland
Title: Vice President

COMMERZBANK AKTIENGESELLSCHAFT,
Atlanta Agency

By:/s/ A. BREMER

Name: A. Bremer
Title: Sen. Vice President

By: /s/ D. SUTTLES

Name: D. Suttles
Title: Vice President

BANK BRUSSELS LAMBERT,
New York Branch

By:/s/ MARIA LAUDICINA BOYER

Name: Maria Laudicina Boyer
Title: Assistant Vice President

By: /s/ DOMINICK H.J. VANGAEVER

Name: Dominick H.J. Vangaever
Title: Senior Vice President Credit

FIRST AMENDMENT TO PROMISSORY NOTE GIVEN BY
LABORATORY CORPORATION OF AMERICA HOLDINGS TO
ROCHE HOLDINGS INC. DATED DECEMBER 30, 1996

This First Amendment shall document the agreement to amend the above-referenced Promissory Note (the "Note") as follows:

The Maturity Date set forth in the Note shall be extended from March 31, 1997 to March 31, 1998.

Except as expressly modified above, all terms and conditions set forth in the Note shall remain unchanged and in full force and effect.

Agreed to and accepted:

ROCHE HOLDINGS INC.

By:/s/ HENRI MEIER

Henri Meier

LABORATORY CORPORATION OF AMERICA HOLDINGS

By:/s/ WESLEY R. ELINGBURG

Wesley R. Elingburg

LABORATORY CORPORATION OF AMERICA HOLDINGS

LIST OF SUBSIDIARIES

Laboratory Corporation of America a Delaware company

Executive Tower Travel Inc. a Delaware company

Tower Collection Center, Inc. a Delaware company

National Laboratory Center Inc. d/b/a/ MedExpress a Tennessee company

CompuChem Corporation a Massachusetts company

CompuChem Laboratories, Inc. a Delaware company

ChemWest Analytical Laboratories, Inc. a Delaware company

LabCorp Limited a United Kingdom company

Lab Delivery Service of New York City, Inc. a New York company

EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors
Laboratory Corporation of America Holdings:

We consent to incorporation by reference in the registration statements (No. 33-29182 and No. 33-43006) as amended, and registration statements (No. 33-55065, No. 33-62913 and No. 333-17793) on Form S-8 and registration statement (No. 33-58307) on Form S-3/S-4 of Laboratory Corporation of America Holdings of our report dated February 14, 1997, except for notes 9 and 10 as to which the date is March 31, 1997, relating to the consolidated balance sheets of Laboratory Corporation of America Holdings and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996, and the related schedule, which report appears in the December 31, 1996 annual report on Form 10-K of Laboratory Corporation of America Holdings.

KPMG Peat Marwick LLP

Raleigh, North Carolina
April 4, 1997

EXHIBIT 24.1

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

By:/s/ JEAN-LUC BELINGARD

Jean-Luc Belingard

EXHIBIT 24.2

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

By:/s/ WENDY E. LANE

Wendy E. Lane

EXHIBIT 24.3

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 19th day of March, 1997.

By:/s/ ROBERT E. MITTELSTAEDT, JR.
Robert E. Mittelstaedt, Jr.

EXHIBIT 24.4

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 19th day of March, 1997.

By:/s/ JAMES B. POWELL, M.D.
James B. Powell, M.D.

EXHIBIT 24.5

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

By:/s/ DAVID B. SKINNER

David B. Skinner

EXHIBIT 24.6

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints Bradford T. Smith his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the Laboratory Corporation of America Holdings (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document, or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

By:/s/ ANDREW G. WALLACE, M.D.

Andrew G. Wallace, M.D.

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

0000920148
LABORATORY CORPORATION OF AMERICA HOLDINGS
1000

YEAR	
DEC-31-1996	
DEC-31-1996	
29,300	
0	
617,200	
111,600	
44,300	
721,500	
457,600	
174,700	
1,917,000	
252,800	
1,270,500	
0	
0	
1,200	
256,900	
1,917,000	
1,607,700	
1,607,700	
1,183,800	
1,183,800	
542,600	
0	
71,700	
(188,278)	
(34,800)	
(153,500)	
0	
0	
0	
(153,500)	
(1.25)	
(1.25)	