

LABORATORY CORP OF AMERICA HOLDINGS
Form 10-Q
October 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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
(State or other jurisdiction of incorporation or
organization)

13-3757370
(I.R.S. Employer Identification No.)

358 South Main Street,
Burlington, North Carolina
(Address of principal executive offices)

27215
(Zip Code)

(Registrant's telephone number, including area code) 336-229-1127

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

The number of shares outstanding of the issuer's common stock is 106.2 million shares, net of treasury stock as of October 22, 2009.

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PART I – FINANCIAL INFORMATION

Item 1. – Financial Statements

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$126.8	\$219.7
Accounts receivable, net of allowance for doubtful accounts of \$178.7 and \$161.0 at September 30, 2009 and December 31, 2008, respectively	636.9	631.6
Supplies inventories	81.6	91.0
Prepaid expenses and other	96.3	83.8
Deferred income taxes	35.9	6.7
Total current assets	977.5	1,032.8
Property, plant and equipment, net	493.5	496.4
Goodwill, net	1,854.9	1,772.2
Intangible assets, net	1,342.1	1,222.6
Investments in joint venture partnerships	75.2	72.0
Other assets, net	86.9	73.5
Total assets	\$4,830.1	\$4,669.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$174.6	\$159.7
Accrued expenses and other	307.2	266.4
Short-term borrowings and current portion of long-term debt	120.8	120.8
Total current liabilities	602.6	546.9
Long-term debt, less current portion	1,280.0	1,600.5
Deferred income taxes and other tax liabilities	578.1	522.9
Other liabilities	200.2	189.6
Total liabilities	2,660.9	2,859.9
Commitments and contingent liabilities	--	--
Noncontrolling interest	140.4	121.3
Shareholders' equity		
Common stock, 106.5 and 108.2 shares outstanding at September 30, 2009 and December 31, 2008, respectively	12.6	12.8
Additional paid-in capital	128.4	237.4
Retained earnings	2,785.2	2,384.6

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Less common stock held in treasury	(932.5)	(929.8)
Accumulated other comprehensive income (loss)	35.1	(16.7)
Total shareholders' equity	2,028.8	1,688.3
Total liabilities and shareholders' equity	\$4,830.1	\$4,669.5

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS(in millions, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$1,185.1	\$1,135.1	\$3,529.6	\$3,386.1
Cost of sales	687.0	673.5	2,034.7	1,962.2
Gross profit	498.1	461.6	1,494.9	1,423.9
Selling, general and administrative expenses	247.3	227.1	718.4	708.7
Amortization of intangibles and other assets	15.9	14.6	46.2	43.0
Restructuring and other special charges	--	17.7	10.2	33.7
Operating income	234.9	202.2	720.1	638.5
Other income (expenses):				
Interest expense	(15.0)	(16.8)	(48.2)	(54.0)
Income from joint venture partnerships, net	4.2	3.7	10.9	11.7
Investment income	0.3	1.0	1.1	2.1
Other, net	(1.3)	(0.2)	(2.5)	(1.5)
Earnings before income taxes	223.1	189.9	681.4	596.8
Provision for income taxes	88.5	75.0	271.6	240.2
Net earnings	134.6	114.9	409.8	356.6
Less: Net earnings attributable to the noncontrolling interest	(3.2)	(3.0)	(9.2)	(10.2)
Net earnings attributable to Laboratory Corporation of America Holdings	\$131.4	\$111.9	\$400.6	\$346.4
Basic earnings per common share	\$1.22	\$1.02	\$3.71	\$3.14
Diluted earnings per common share	\$1.21	\$1.00	\$3.67	\$3.06

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

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LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

(in millions)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE AT DECEMBER						
31, 2007	\$ 13.2	\$ 460.9	\$ 2,028.3	\$ (897.1)	\$ 120.0	\$ 1,725.3
Comprehensive earnings:						
Net earnings attributable to Laboratory Corporation of America Holdings	--	--	346.4	--	--	346.4
Other comprehensive earnings:						
Foreign currency translation adjustments	--	--	--	--	(46.6)	(46.6)
Interest rate swap adjustments	--	--	--	--	6.4	6.4
Tax effect of other comprehensive earnings adjustments	--	--	--	--	15.4	15.4
Comprehensive earnings						321.6
Issuance of common stock under employee stock plans	0.1	53.2	--	--	--	53.3
Surrender of restricted stock awards and performance shares	--	--	--	(32.7)	--	(32.7)
Conversion of zero-coupon convertible debt	--	0.1	--	--	--	0.1
Stock compensation	--	27.0	--	--	--	27.0
Value of noncontrolling interest put	--	(123.0)	--	--	--	(123.0)
Income tax benefit from stock options exercised	--	19.1	--	--	--	19.1
Purchase of common stock	(0.5)	(221.9)	(108.2)	--	--	(330.6)
BALANCE AT SEPTEMBER						
30, 2008	\$ 12.8	\$ 215.4	\$ 2,266.5	\$ (929.8)	\$ 95.2	\$ 1,660.1
BALANCE AT DECEMBER						
31, 2008	\$ 12.8	\$ 237.4	\$ 2,384.6	\$ (929.8)	\$ (16.7)	\$ 1,688.3
Comprehensive earnings:						

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Net earnings attributable to Laboratory Corporation of America Holdings	--	--	400.6	--	--	400.6
Other comprehensive earnings:						
Foreign currency translation adjustments	--	--	--	--	83.7	83.7
Interest rate swap adjustments	--	--	--	--	1.1	1.1
Tax effect of other comprehensive earnings adjustments	--	--	--	--	(33.0)	(33.0)
Comprehensive earnings						452.4
Issuance of common stock under employee stock plans	--	18.1	--	--	--	18.1
Surrender of restricted stock awards	--	--	--	(2.7)	--	(2.7)
Conversion of zero-coupon convertible debt	0.1	11.3	--	--	--	11.4
Stock compensation	--	26.1	--	--	--	26.1
Income tax benefit from stock options exercised	--	0.3	--	--	--	0.3
Purchase of common stock	(0.3)	(164.8)	--	--	--	(165.1)
BALANCE AT SEPTEMBER 30, 2009	\$12.6	\$128.4	\$2,785.2	\$(932.5)	\$ 35.1	\$ 2,028.8

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$409.8	\$356.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	145.3	133.5
Stock compensation	26.1	27.0
Loss on sale of assets	1.5	0.7
Accreted interest on zero-coupon subordinated notes	6.8	8.5
Cumulative earnings in excess of distribution from joint venture partnerships	(0.2)	(0.9)
Deferred income taxes	9.9	28.6
Change in assets and liabilities (net of effects of acquisitions):		
(Increase) decrease in accounts receivable (net)	14.0	(0.1)
(Increase) decrease in inventories	3.3	(4.8)
Decrease in prepaid expenses and other	11.4	6.4
Increase in accounts payable	14.4	10.6
Decrease in accrued expenses and other	(4.6)	(0.5)
Net cash provided by operating activities	637.7	565.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(77.1)	(120.4)
Proceeds from sale of assets	0.9	0.4
Deferred payments on acquisitions	(1.3)	(3.7)
Purchases of short-term investments	--	(72.8)
Proceeds from sale of short-term investments	--	182.7
Acquisition of licensing technology	--	(0.8)
Investment in equity affiliate	(4.3)	--
Acquisition of businesses, net of cash acquired	(168.0)	(336.6)
Net cash used for investing activities	(249.8)	(351.2)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facilities	--	135.8
Payments on revolving credit facilities	--	(65.0)
Principal payments on term loan	(37.5)	(18.7)
Payments on zero-coupon subordinated notes	(289.4)	--
Payments on vendor-financed equipment	(1.5)	--
Increase (decrease) in bank overdraft	(5.0)	2.5
Payments on long-term debt	--	(0.1)
Noncontrolling interest distributions	(7.7)	(10.9)
Excess tax benefits from stock based compensation	--	15.7
Net proceeds from issuance of stock to employees	18.1	53.3
Purchase of common stock	(159.1)	(333.6)
Net cash used for financing activities	(482.1)	(221.0)

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Effect of exchange rate changes on cash and cash equivalents	1.3	(0.4)	
Net decrease in cash and cash equivalents	(92.9)	(7.0)
Cash and cash equivalents at beginning of period	219.7	56.4		
Cash and cash equivalents at end of period	\$ 126.8	\$ 49.4		

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

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

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of Laboratory Corporation of America Holdings (the “Company”) and its majority-owned subsidiaries over which it exercises control. Long-term investments in affiliated companies in which the Company exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which the Company does not exercise significant influence (generally, when the Company has an investment of less than 20% and no representation on the investee’s board of directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. The Company does not have any variable interest entities or special purpose entities whose financial results are not included in the condensed consolidated financial statements.

The financial statements of the Company’s foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the period. Resulting translation adjustments are included in “Accumulated other comprehensive income.”

The accompanying condensed consolidated financial statements of the Company are unaudited. In the opinion of management, all adjustments necessary for a fair statement of results of operations, cash flows and financial position have been made. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The Company evaluated events occurring subsequent to September 30, 2009 for potential recognition or disclosure in the condensed consolidated financial statements through October 27, 2009.

The financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company’s 2008 annual report on Form 10-K. Therefore, the interim statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s annual report.

2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net earnings including the impact of dilutive adjustments by the weighted average number of common shares outstanding plus potentially dilutive shares, as if they had been issued at the beginning of the period presented. Potentially dilutive common shares result primarily from the Company’s outstanding stock options, restricted stock awards, performance share awards, and shares issuable upon conversion of zero-coupon subordinated notes.

The following represents a reconciliation of basic earnings per share to diluted earnings per share:

		Three Months Ended September 30,				Nine Months Ended September 30,			
		2009		2008		2009		2008	
		Per		Per		Per		Per	
		Share		Share		Share		Share	
Income	Shares	Amount	Income	Shares	Amount	Income	Shares	Amount	Income

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Basic earnings per share:

Net earnings	\$131.4	107.6	\$1.22	\$111.9	109.6	\$1.02	\$400.6	108.0	\$3.71	\$346.4	110.4	\$3.14
Dilutive effect of employee stock plans and awards	--	0.7	--	0.7	--	0.6	--	1.1				
Effect of convertible debt, net of tax	--	0.5	--	1.7	--	0.5						