

LABORATORY CORP OF AMERICA HOLDINGS
Form 10-Q
April 29, 2014

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 March 31, 2014
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

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

Accelerated Filer

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 [X].

The number of shares outstanding of the issuer's common stock is 84.8 million shares, net of treasury stock as of
April 24, 2014.

INDEX

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets 2
March 31, 2014 and December 31, 2013

Condensed Consolidated Statements of Operations 3
Three months ended March 31, 2014 and 2013

Condensed Consolidated Statements of Comprehensive Earnings 4
Three months ended March 31, 2014 and 2013

Condensed Consolidated Statements of Changes in Shareholders' Equity 5
Three months ended March 31, 2014 and 2013

Condensed Consolidated Statements of Cash Flows 6
Three months ended March 31, 2014 and 2013

Notes to Unaudited Condensed Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 20

Item 3. Quantitative and Qualitative Disclosures about Market Risk 27

Item 4. Controls and Procedures 28

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 29

Item 1A. Risk Factors 29

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 29

Item 6. Exhibits 29

INDEX

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

(unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$338.9	\$404.0
Accounts receivable, net of allowance for doubtful accounts of \$200.8 and \$198.3 at March 31, 2014 and December 31, 2013, respectively	822.0	784.7
Supplies inventories	134.8	136.5
Prepaid expenses and other	125.2	106.9
Total current assets	1,420.9	1,432.1
Property, plant and equipment, net	733.1	707.4
Goodwill, net	3,067.1	3,022.8
Intangible assets, net	1,538.4	1,572.0
Joint venture partnerships and equity method investments	87.3	88.5
Other assets, net	145.6	143.1
Total assets	\$6,992.4	\$6,965.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$281.9	\$304.5
Accrued expenses and other	358.0	310.0
Deferred income taxes	8.4	9.9
Short-term borrowings and current portion of long-term debt	105.3	111.3
Total current liabilities	753.6	735.7
Long-term debt, less current portion	2,903.0	2,889.1
Deferred income taxes and other tax liabilities	561.9	563.9
Other liabilities	254.0	266.5
Total liabilities	4,472.5	4,455.2
Commitments and contingent liabilities		
Noncontrolling interest	18.6	19.4
Shareholders' equity:		
Common stock, 84.8 and 85.7 shares outstanding at March 31, 2014 and December 31, 2013, respectively	10.4	10.5
Additional paid-in capital	—	—
Retained earnings	3,408.9	3,373.5
Less common stock held in treasury	(963.5) (958.9
Accumulated other comprehensive income	45.5	66.2
Total shareholders' equity	2,501.3	2,491.3
Total liabilities and shareholders' equity	\$6,992.4	\$6,965.9

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

2

INDEXLABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended		
	March 31,		
	2014	2013	
Net sales	\$1,430.7	\$1,440.9	
Cost of sales	913.9	868.7	
Gross profit	516.8	572.2	
Selling, general and administrative expenses	284.9	283.2	
Amortization of intangibles and other assets	21.0	19.5	
Restructuring and other special charges	7.6	7.5	
Operating income	203.3	262.0	
Other income (expenses):			
Interest expense	(25.7) (24.5)
Equity method income, net	3.0	4.3	
Investment income	0.2	0.2	
Other, net	6.9	(0.6)
Earnings before income taxes	187.7	241.4	
Provision for income taxes	74.2	93.8	
Net earnings	113.5	147.6	
Less: Net earnings attributable to the noncontrolling interest	(0.4) (0.4)
Net earnings attributable to Laboratory Corporation of America Holdings	\$113.1	\$147.2	
Basic earnings per common share	\$1.33	\$1.58	
Diluted earnings per common share	\$1.31	\$1.56	

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

INDEXLABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(in millions, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
Net earnings	\$113.5	\$147.6
Foreign currency translation adjustments	(36.0)	(27.7)
Net benefit plan adjustments	2.3	3.2
Investment adjustments	(0.6)	—
Other comprehensive loss before tax	(34.3)	(24.5)
Provision for income tax related to items of comprehensive earnings	13.6	8.9
Other comprehensive loss, net of tax	(20.7)	(15.6)
Comprehensive earnings	92.8	132.0
Less: Net earnings attributable to the noncontrolling interest	(0.4)	(0.4)
Comprehensive earnings attributable to Laboratory Corporation of America Holdings	\$92.4	\$131.6

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

INDEXLABORATORY 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	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2012	\$11.3	\$—	\$3,588.5	\$(951.8)	\$69.4	\$2,717.4
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	147.2	—	—	147.2
Other comprehensive earnings, net of tax	—	—	—	—	(15.6)	(15.6)
Issuance of common stock under employee stock plans	—	28.8	—	—	—	28.8
Surrender of restricted stock and performance share awards	—	—	—	(2.4)	—	(2.4)
Conversion of zero-coupon convertible debt	—	3.1	—	—	—	3.1
Stock compensation	—	11.3	—	—	—	11.3
Income tax benefit from stock options exercised	—	2.4	—	—	—	2.4
Purchase of common stock	(0.1)	(45.6)	(68.2)	—	—	(113.9)
BALANCE AT MARCH 31, 2013	\$11.2	\$—	\$3,667.5	\$(954.2)	\$53.8	\$2,778.3
BALANCE AT DECEMBER 31, 2013	\$10.5	\$—	\$3,373.5	\$(958.9)	\$66.2	\$2,491.3
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	113.1	—	—	113.1
Other comprehensive earnings, net of tax	—	—	—	—	(20.7)	(20.7)
Issuance of common stock under employee stock plans	—	16.4	—	—	—	16.4
Surrender of restricted stock and performance share awards	—	—	—	(4.6)	—	(4.6)
Conversion of zero-coupon convertible debt	—	1.2	—	—	—	1.2
Stock compensation	—	11.7	—	—	—	11.7
Income tax benefit from stock options exercised	—	0.6	—	—	—	0.6
Purchase of common stock	(0.1)	(29.9)	(77.7)	—	—	(107.7)
BALANCE AT MARCH 31, 2014	\$10.4	\$—	\$3,408.9	\$(963.5)	\$45.5	\$2,501.3

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

5

INDEXLABORATORY CORPORATION OF AMERICA HOLDINGS AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$113.5	\$147.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	60.7	55.5
Stock compensation	11.7	11.3
(Gain)/loss on sale of assets	(7.1) 0.2
Accrued interest on zero-coupon subordinated notes	0.5	0.6
Earnings in excess of distributions from equity method investments	(1.3) (0.6
Deferred income taxes	10.1	10.3
Change in assets and liabilities (net of effects of acquisitions):		