

LABORATORY CORP OF AMERICA HOLDINGS
Form 10-Q
October 28, 2013

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, 2013
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 87.4 million shares, net of treasury stock as of
October 23, 2013.

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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, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$174.1	\$466.8
Accounts receivable, net of allowance for doubtful accounts of \$201.5 and \$191.5 at September 30, 2013 and December 31, 2012, respectively	813.2	718.5
Supplies inventories	126.5	121.0
Prepaid expenses and other	79.9	74.6
Deferred income taxes	19.2	10.9
Total current assets	1,212.9	1,391.8
Property, plant and equipment, net	672.6	630.8
Goodwill, net	2,990.9	2,901.7
Intangible assets, net	1,601.4	1,667.7
Joint venture partnerships and equity method investments	86.8	78.1
Other assets, net	122.1	124.9
Total assets	\$6,686.7	\$6,795.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$262.0	\$236.9
Accrued expenses and other	308.2	311.6
Short-term borrowings and current portion of long-term debt	110.4	480.0
Total current liabilities	680.6	1,028.5
Long-term debt, less current portion	2,553.5	2,175.0
Deferred income taxes and other tax liabilities	563.3	546.0
Other liabilities	303.7	307.4
Total liabilities	4,101.1	4,056.9
Commitments and contingent liabilities		
Noncontrolling interest	20.0	20.7
Shareholders' equity:		
Common stock, 87.8 and 93.5 shares outstanding at September 30, 2013 and December 31, 2012, respectively	10.7	11.3
Additional paid-in capital	—	—
Retained earnings	3,461.7	3,588.5
Less common stock held in treasury	(958.9	) (951.8
Accumulated other comprehensive income	52.1	69.4
Total shareholders' equity	2,565.6	2,717.4
Total liabilities and shareholders' equity	\$6,686.7	\$6,795.0

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

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

(in millions, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net sales	\$1,462.2	\$1,419.4	\$4,371.3	\$4,266.1
Cost of sales	914.6	863.3	2,674.2	2,554.4
Gross profit	547.6	556.1	1,697.1	1,711.7
Selling, general and administrative expenses	279.0	285.1	843.1	835.8
Amortization of intangibles and other assets	20.3	21.1	60.3	63.1
Restructuring and other special charges	3.7	4.8	17.8	4.6
Operating income	244.6	245.1	775.9	808.2
Other income (expenses):				
Interest expense	(24.7	) (24.1	) (72.3	) (66.9
Equity method income, net	3.6	5.1	12.3	17.4
Investment income	1.8	0.3	2.2	0.7
Other, net	4.7	0.5	3.3	(6.7
Earnings before income taxes	230.0	226.9	721.4	752.7
Provision for income taxes	81.3	78.5	272.7	288.5
Net earnings	148.7	148.4	448.7	464.2
Less: Net earnings attributable to the noncontrolling interest	(0.4	) (0.4	) (1.2	) (1.3
Net earnings attributable to Laboratory Corporation of America Holdings	\$148.3	\$148.0	\$447.5	\$462.9
Basic earnings per common share	\$1.66	\$1.56	\$4.90	\$4.81
Diluted earnings per common share	\$1.63	\$1.53	\$4.81	\$4.72

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		Nine Months Ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Net earnings	\$ 148.7	\$ 148.4	\$ 448.7	\$ 464.2	
Foreign currency translation adjustments	22.4	32.7	(36.7	) 39.1
Net benefit plan adjustments	2.5	—	9.0	—	
Other comprehensive earnings (loss) before tax	24.9	32.7	(27.7	) 39.1
Provision for income tax related to items of comprehensive earnings	(9.5) (12.5) 10.4	(15.0)
Other comprehensive earnings (loss), net of tax	15.4	20.2	(17.3	) 24.1
Comprehensive earnings	164.1	168.6	431.4	488.3	
Less: Net earnings attributable to the noncontrolling interest	(0.4) (0.4) (1.2) (1.3)
Comprehensive earnings attributable to Laboratory Corporation of America Holdings	\$ 163.7	\$ 168.2	\$ 430.2	\$ 487.0	

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, 2011	\$11.7	\$—	\$3,387.2	\$(940.9)	\$45.5	\$2,503.5
Net earnings attributable to Laboratory Corporation of America Holdings	—	—	462.9	—	—	462.9
Other comprehensive earnings, net of tax	—	—	—	—	24.1	24.1
Issuance of common stock under employee stock plans	0.1	75.0	—	—	—	75.1
Surrender of restricted stock and performance share awards	—	—	—	(10.9)	—	(10.9)
Stock compensation	—	34.8	—	—	—	34.8
Income tax benefit from stock options exercised	—	7.7	—	—	—	7.7
Purchase of common stock	(0.4)	(117.5)	(262.6)	—	—	(380.5)
BALANCE AT SEPTEMBER 30, 2012	\$11.4	\$—	\$3,587.5	\$(951.8)	\$69.6	\$2,716.7
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	—	—	447.5	—	—	447.5
Other comprehensive earnings, net of tax	—	—	—	—	(17.3)	(17.3)
Issuance of common stock under employee stock plans	0.2	148.4	—	—	—	148.6
Surrender of restricted stock and performance share awards	—	—	—	(7.1)	—	(7.1)
Conversion of zero-coupon convertible debt	—	4.7	—	—	—	4.7
Stock compensation	—	28.9	—	—	—	28.9
Income tax benefit from stock options exercised	—	8.4	—	—	—	8.4
Purchase of common stock	(0.8)	(190.4)	(574.3)	—	—	(765.5)
BALANCE AT SEPTEMBER 30, 2013	\$10.7	\$—	\$3,461.7	\$(958.9)	\$52.1	\$2,565.6

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

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

(in millions)

(unaudited)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$448.7	\$464.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	170.3	170.4
Stock compensation	28.9	34.8
(Gain)/loss on sale of assets	(4.3)	) 5.3
Accrued interest on zero-coupon subordinated notes	1.8	2.0
Earnings in excess of distributions from equity method investments	(1.7)	) (2.7)
Deferred income taxes	28.3	44.9
Change in assets and liabilities (net of effects of acquisitions):		
Increase in accounts receivable (net)	(95.5)	) (49.2)
Increase in inventories	(5.6)	) (4.3)
(Increase) decrease in prepaid expenses and other	(5.3)	) 3.5
Increase (decrease) in accounts payable	25.2	(19.4)
Decrease in accrued expenses and other	(20.8)	) (62.3)
Net cash provided by operating activities	570.0	587.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(142.6)	) (112.4)
Proceeds from sale of assets	0.6	2.9
Proceeds from sale of investment	7.5	—
Acquisition of licensing technology	—	(2.1)
Investments in equity affiliates	(3.3)	) (14.9)
Acquisition of businesses, net of cash acquired	(109.0)	) (285.8)
Net cash used for investing activities	(246.8)	) (412.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior note offerings	—	1,000.0
Proceeds from revolving credit facilities	412.0	305.0
Payments on revolving credit facilities	(40.0)	) (865.0)
Payments on zero-coupon subordinated notes	(21.3)	) (2.5)
Payments on long-term debt	(350.0)) —
Payment of debt issuance costs	—	(8.9)
Noncontrolling interest distributions	(0.6)	) (0.9)
Deferred payments on acquisitions	(5.6)) —
Excess tax benefits from stock based compensation	8.7	7.6
Net proceeds from issuance of stock to employees	148.6	75.1
Purchase of common stock	(765.5)	) (380.5)
Net cash (used for) provided by financing activities	(613.7)	) 129.9
Effect of exchange rate changes on cash and cash equivalents	(2.2)	) 1.9
Net increase (decrease) in cash and cash equivalents	(292.7)	) 306.7
Cash and cash equivalents at beginning of period	466.8	159.3
Cash and cash equivalents at end of period	\$ 174.1	\$ 466.0

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 for 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 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 2012 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.

New Accounting Pronouncements:

In February 2013, the Financial Accounting Standards Board ("FASB") issued an amendment to existing guidance regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires an entity to present information about reclassification adjustments from accumulated other comprehensive income in its annual financial statements in a single note or on the face of the financial statements. The amendment is effective prospectively for reporting periods beginning after December 15, 2012. See Note 7 (Preferred Stock and Common Shareholders' Equity) for presentation of reclassification adjustments from accumulated other comprehensive income.

2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings attributable to Laboratory Corporation of America Holdings 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 earlier of the date of issuance or the

beginning of the period presented. Potentially dilutive common shares result primarily from the Company's outstanding stock options, restricted stock awards, restricted stock units, performance share awards, and shares issuable upon conversion of zero-coupon subordinated notes.

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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)

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,						
	2013		2012			2013		2012				
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share:												
Net earnings	\$148.3	89.2	\$1.66	\$148.0	95.1	\$1.56	\$447.5	91.4	\$4.90	\$462.9	96.3	\$4.81
Dilutive effect of employee stock options and awards	—	1.1	—	—	1.0	—	—	1.0	—	—	1.1	—
Effect of convertible debt	—	0.6	—	—	0.7	—	—	0.6	—	—	—	—