

Quest Diagnostics Incorporated
Calculation of Non-GAAP Financial Measures Included in the December 31,
2002 Earnings Release and Subsequent Investor Relations Presentations

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA represents income (loss) before extraordinary loss, net interest expense, income taxes, depreciation, amortization and special items. Special items include the provisions for restructuring and other special charges reflected in the company's consolidated statements of operations.

EBITDA is presented and discussed because management believes that EBITDA is a useful adjunct to net income and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's performance and ability to meet its future debt service requirements, fund capital expenditures and meet working capital requirements.

EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to (i) net income (or any other measure of performance under generally accepted accounting principles) as a measure of performance or (ii) cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles reported net income to EBITDA:

	Year Ended December 31,				
	2002	2001	2000	1999	1998
			(in thousands)		
Net income (loss).....	\$ 322,154	\$ 162,303	\$ 102,052	\$ (3,413)	\$ 26,885
Add:					
Interest expense, net.....	53,673	70,523	113,092	61,450	33,403
Income tax expense.....	220,223	148,692	96,033	15,658	26,976
Depreciation	123,018	101,620	88,631	61,051	47,148
Amortization	8,373	46,107	45,665	29,784	21,697
Extraordinary loss, net of taxes.....	-	21,609	2,896	2,139	-
Provisions for restructuring and other special charges	-	5,997	2,100	73,385	-
EBITDA	<u>\$ 727,441</u>	<u>\$ 556,851</u>	<u>\$ 450,469</u>	<u>\$ 240,054</u>	<u>\$ 156,109</u>

Free Cash Flow

Free cash flow represents net cash provided by operating activities less capital expenditures. Free cash flow is presented because management believes it is a useful adjunct to cash flow from operating activities and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's performance and ability to fund investing activities and meet its future debt service requirements. Free cash flow is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles net cash provided by operating activities to free cash flow:

	Year Ended December 31,	
	2002	2001
	(in thousands)	
Net cash provided by operating activities.....	\$596,371	\$465,803
Less: Capital expenditures.....	<u>155,196</u>	<u>148,986</u>
Free cash flow	<u>\$441,175</u>	<u>\$316,817</u>

Comparable Diluted Earnings Per Common Share

Comparable diluted earnings per common share represents diluted earnings per common share adjusted for the required change in goodwill accounting (SFAS 142) and before extraordinary and special items. Comparable diluted earnings per common share is presented because management believes it is a useful adjunct to diluted earnings per common share and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's performance. Comparable diluted earnings per common share is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to diluted earnings per common share. The following table reconciles net income to comparable net income available to shareholders and diluted earnings per common share to comparable diluted earnings per common share:

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands, except per share data)				
Net income:					
Reported net income (loss).....	\$ 322,154	\$ 162,303	\$ 102,052	\$ (3,413)	\$ 26,885
Add:					
Provision for restructuring and special charge, net of taxes.....	-	3,598	1,271	44,246	-
Amortization of goodwill, net of taxes	-	<u>35,964</u>	<u>36,023</u>	<u>22,013</u>	<u>14,133</u>
Adjusted net income	322,154	201,865	139,346	62,846	41,018
Add: Extraordinary loss, net of taxes	-	<u>21,609</u>	<u>2,896</u>	<u>2,139</u>	-
Comparable net income before extraordinary loss, net of taxes.....	322,154	223,474	142,242	64,985	41,018
Preferred dividends	-	<u>118</u>	<u>118</u>	<u>118</u>	<u>118</u>
Income available to common shareholders	<u>\$ 322,154</u>	<u>\$ 223,356</u>	<u>\$ 142,124</u>	<u>\$ 64,867</u>	<u>\$ 40,900</u>
Diluted earnings per common share:					
Reported net income (loss).....	\$ 3.23	\$ 1.66	\$ 1.08	\$ (0.05)	\$ 0.44
Comparable net income before extraordinary loss	\$ 3.23	\$ 2.29	\$ 1.51	\$ 0.91	\$ 0.68
Weighted average number of common shares outstanding - diluted.....	99,790	97,610	94,300	71,655	60,458