

## ***New Test Introductions***

We intend to build upon our reputation as a leading innovator in the clinical laboratory industry by continuing to introduce new diagnostic tests. As the industry leader with the largest and broadest laboratory network and the leading provider of esoteric testing, we believe that we are the best partner for developers of new technology and tests to introduce their products to the marketplace.

We continued to be a leading innovator in the industry in 2005, through tests that we developed at Quest Diagnostics Nichols Institute, the largest provider of molecular diagnostic testing in the United States, as well as through relationships with technology developers. We believe that we are one of the leaders in transferring technical innovations to the market, through our relationships with the academic community and pharmaceutical and biotechnology firms, as well as collaborations with emerging medical technology companies that develop and commercialize novel diagnostics, pharmaceutical and device technologies.

We primarily focus our resources on three disease states, cardiovascular disease, cancer and infectious disease, as well as on continued advancements in molecular diagnostics. During 2005, we introduced approximately 75 new and improved assays, including:

- The initial two tests in a family of new plasma-based tests for leukemia and lymphoma. We believe that these tests, which are based on technology licensed from M.D. Anderson Cancer Center, will reduce and, in the future, might replace the need for painful bone marrow biopsies.
- A gene-based assay to help physicians identify metastatic Cancers of Unknown Primary origin. Cancer of unknown primary origin refers to metastatic cancer in which cancer cells are found somewhere in the body, but the place of origin where they first started growing cannot be identified from physical examination, pathologic analysis or other forms of diagnostic testing. This test is intended to aid physicians in identifying the primary site of origin of cancer, establishing prognosis and determining appropriate therapy.
- We also added tests to support our leadership in infectious diseases and endocrinology, including testing using liquid chromatography-tandem mass spectrometry (LC-MS/MS), as well as tests in immunology, particularly autoimmune disorders and coagulation, an increasingly important factor in cancer treatment, cardiovascular health and pre-surgical preparation.

We proactively search for new opportunities in screening, diagnosis, prognosis, treatment choice and treatment monitoring. We believe that, with the unveiling of the human genome, and its extension into proteomics, new genes and combinations of proteins will continue to be discovered at an accelerating pace and will result in ever more complex and thorough predictive and diagnostic testing. We believe that we are well positioned to benefit from these advances.

As testing methods become more complex, we believe that it is also important to provide sound medical and scientific consultation to ensure the correct application and interpretation of the test results. Our medical and scientific directors are always available for consultation to our customers. In 2005, we further enhanced our consultation programs, supported with our enhanced reporting initiatives, particularly in the complex areas of hematopathology and coagulation. We believe consultation services will provide higher confidence in the adoption of the new tests we develop and lead to improved client satisfaction and improved patient outcomes.

## ***Risk Assessment Services***

We believe that we are the largest provider of risk assessment services to the life insurance industry in the United States. Our risk assessment services comprise underwriting support services to the life insurance industry including teleunderwriting, specimen collection and paramedical examinations, laboratory testing, medical record retrieval, motor vehicle reports, telephone inspections and credit checks. The laboratory tests performed and data gathered by us are specifically designed to assist an insurance company in objectively evaluating the mortality and morbidity risks posed by policy applicants. The majority of the testing is performed on specimens of individual life insurance policy applicants, but also includes specimens of individuals applying for individual and group medical and disability policies. We also provide risk assessment services in Canada.

## ***Clinical Trials Testing***

We believe that we are the world's second largest provider of clinical laboratory testing performed in connection with clinical research trials on new drugs. Clinical research trials are required by the Food and Drug

Administration, or FDA, and other international regulatory authorities to assess the safety and efficacy of new drugs. We have clinical trials testing centers in the United States and in the United Kingdom. We also provide clinical trials testing in Australia, Singapore and South Africa through arrangements with third parties. Clinical trials involving new drugs are increasingly being performed both inside and outside the United States. Approximately 50% of our net revenues from clinical trials testing in 2005 represented testing for GlaxoSmithKline plc, or GSK. We currently have a long-term contractual relationship with GSK, under which we are the primary provider of testing to support GSK's clinical trials testing requirements worldwide.

### ***Other Services and Products***

We manufacture and market diagnostic test kits and systems primarily for esoteric testing through our Nichols Institute Diagnostics subsidiary. These are sold principally to hospitals, clinical laboratories and dialysis centers, both domestically and internationally.

Our MedPlus subsidiary is a developer and integrator of clinical connectivity and data management solutions for healthcare organizations, physicians and clinicians primarily through its ChartMaxx® electronic medical record system for hospitals and our Care360 suite of products. The Care360 Physician Portal was developed by MedPlus and enables physicians to order diagnostic tests and review laboratory results from Quest Diagnostics online. In addition, the Care360 Physician Portal enables physicians to electronically prescribe medications, view clinical and administrative information from multiple sources, file certain documents into a patient-centric health record maintained in our repository and share confidential patient information with medical colleagues in a manner that is consistent with HIPAA privacy and security requirements.

### **Payers and Customers**

We provide testing services to a broad range of healthcare providers. We consider a "payer" as the party that pays for the test and a "customer" as the party who refers the test to us. Depending on the billing arrangement and applicable law, the payer may be (1) the physician or other party (such as a hospital, another laboratory or an employer) who referred the testing to us, (2) the patient, or (3) a third party who pays the bill for the patient, such as an insurance company, Medicare or Medicaid. Some states, including New York, New Jersey and Rhode Island, prohibit us from billing physician clients. During 2005, only three customers accounted for 5% or more of our net revenues, and no single customer accounted for more than 8% of our net revenues. We believe that the loss of any one of our customers would not have a material adverse effect on our financial condition, results of operations or cash flows.

The following table shows current estimates of the breakdown of the percentage of our total volume of requisitions and net revenues associated with our clinical laboratory testing business during 2005 applicable to each payer group:

	<b>Requisition Volume as % of Total Volume</b>	<b>Net Revenues as % of Total Clinical Laboratory Testing Net Revenues</b>
Patient .....	2% – 5%	5% – 10%
Medicare and Medicaid.....	15% – 20%	15% – 20%
Physicians, Hospitals, Employers and Other Monthly-Billed Clients .....	30% – 35%	20% – 25%
Healthcare Insurers-Fee-for-Service .....	30% – 35%	40% – 45%
Healthcare Insurers-Capitated.....	15% – 20%	5% – 10%

### ***Physicians***

Physicians requiring testing for patients are the primary referral source of our clinical laboratory testing volume. Testing referred by physicians is typically billed to healthcare insurers, government programs such as Medicare and Medicaid, patients and physicians. Physicians are typically billed on a fee-for-service basis based on negotiated fee schedules. Fees billed to patients and healthcare insurers are based on the laboratory's patient fee schedule, subject to any limitations on fees negotiated with the healthcare insurers or with physicians on