

and design changes in healthcare plans which impact the number of physician office and hospital visits, can impact the utilization of laboratory testing.

While the diagnostic testing industry in the United States may be impacted by a number of factors, we believe it will continue to grow over the long term as a result of the following:

- the growing and aging population;
- continuing research and development in the area of genomics (the study of DNA, genes and chromosomes) and proteomics (the analysis of individual proteins and collections of proteins), which is expected to yield new, more sophisticated and specialized diagnostic tests;
- increasing recognition by consumers and payers of the value of laboratory testing as a means to improve health and reduce the overall cost of healthcare through early detection and prevention; and
- increasing affordability of, and access to, tests due to advances in technology and cost efficiencies.

### **Corporate Strategy and Growth Opportunities**

Our mission is to be the undisputed world leader in diagnostic testing, information and services. We focus on Patients, Growth and People to help achieve our goals.

**Patients** are at the center of everything we do. Increasingly, patients and their doctors have a choice when it comes to selecting a healthcare provider, and we strive to give them new and compelling reasons to put their trust in us. We differentiate our Company to patients and doctors by:

- *Providing the Highest Quality Services:* We strive to provide the highest quality in all that we do including: phlebotomy and specimen transport services; analytical testing processes in our laboratories; providing accurate and timely lab reports; and billing information. We use Six Sigma processes to continuously reduce defects and enhance quality, and we are utilizing Lean Six Sigma principles to further increase the efficiency of our operations. Six Sigma is a management approach that utilizes a thorough understanding of customer needs and requirements, root cause analysis, process improvements and rigorous tracking and measuring to enhance quality. Lean Six Sigma streamlines processes and eliminates waste. We also use Six Sigma and Lean principles to help to standardize operations and processes across the Company and adopt identified Company best practices.
- *Offering Unparalleled Access and Distribution:* We offer the broadest test menu and national access to testing services, with facilities in substantially all of the major metropolitan areas in the United States. We operate a nationwide network of greater than 2,000 patient service centers, principal laboratories located in more than 35 major metropolitan areas throughout the United States and about 150 smaller “rapid response” laboratories that enable us to serve patients, physicians, hospitals, employers and other healthcare providers throughout the United States. We believe that customers will increasingly seek to utilize laboratory-testing providers that offer a comprehensive range of tests and services and the most convenient access to those services.

**Growth** is driven organically and through acquisition. We expect to grow organically at or above the industry growth rate by gaining more customers and selling more to existing customers. Historically, our industry has focused primarily on service levels and aggressive pricing to drive organic volume growth. We believe that the differentiation we are creating through our focus on Six Sigma quality, unparalleled access and distribution, the most comprehensive test menu and innovative test and information technology offerings will provide us with a competitive advantage and enable us to maintain pricing discipline as we drive profitable organic growth. Additionally, we are investing in sales and marketing, providing the sales force with better tools and training and adding innovative new products to sell. We are specifically focused on driving profitable organic growth in higher-growth areas by being a leading innovator. Our principal areas of focus include:

- *Physician Sub Specialties:* While we provide a strong value proposition in routine and esoteric clinical testing, we have not been the provider of choice for certain pathology testing needs. We are enhancing our test menu and service capabilities to more effectively compete in several physician sub specialties, including urology, gastroenterology, dermatology and oncology, where we have had a smaller market share.
- *Anatomic Pathology:* Of the total United States clinical laboratory testing market, which we believe exceeded \$40 billion in annual revenues in 2005, we estimate that the current United States market for

anatomic pathology services is approximately \$7 billion per year. We estimate that cytology represents approximately \$1 billion per year of this market, and that tissue pathology represents approximately \$6 billion per year of this market. With the aging of the population and the increased incidence of cancer, we believe that the tissue pathology business is growing more rapidly and is more profitable than the cytology business. We are one of the leading providers of anatomic pathology services in the United States. We have traditionally been strongest in cytology, specifically in the analysis of Pap tests to detect cervical cancer. We led the industry in converting Pap testing to the use of liquid-based technology, a more effective means of screening for cervical cancer. We are also leading the industry in educating physicians about human papilloma virus (HPV) molecular testing. The American College of Obstetricians and Gynecologists (ACOG) and the American Cancer Society recommend women over 30 are screened for HPV in addition to a Pap test. We intend to continue to expand our anatomic pathology business, particularly in tissue pathology. In conjunction with our physician sub-specialty focus, we have been enhancing our anatomic pathology capabilities and service offerings and are adding specially trained sales representatives. We generated approximately \$550 million in net revenues from anatomic pathology services during 2005.

- *Innovation Leadership:* We intend to build upon our reputation as a leading innovator in the clinical laboratory industry by continuing to introduce new tests, technology and services. As the industry leader with the largest and broadest network and the leading provider of esoteric testing, we believe that we are the best partner for developers of new technologies and tests to introduce their products to the marketplace. Through our relationships with the academic community, pharmaceutical and biotechnology firms and emerging medical technology companies that develop and commercialize novel diagnostics, pharmaceutical and device technologies, we believe that we are one of the leaders in transferring technical innovation to the market. Our innovation activities are focused on:

- *Gene-Based and Other Esoteric Testing Capabilities:* We intend to remain a leading innovator in the diagnostic testing industry by continuing to introduce new tests, technology and services. We believe that gene-based and other esoteric tests are the fastest growing area within the diagnostic testing industry. We believe that we have the largest gene-based testing business in the United States, with over \$660 million in net revenues during 2005, and that this business is growing approximately 10% per year. We believe that the unveiling of the human genome, the discovery of new genes and the linkages of these genes and the proteins they produce with disease will result in more complex and thorough predictive and diagnostic testing. We believe that we are well positioned to benefit from this growth. We intend to focus on commercializing diagnostic applications of discoveries in the areas of functional genomics and proteomics.
- *Information Technology:* We continue to invest in the development and improvement of information technology products for customers and healthcare providers. We develop differentiated products that provide more convenient ordering and reporting of laboratory tests and better access to patient-centric information. We believe that these products enhance the value we provide to our customers and result in increased customer loyalty. Our Care360™ products, including our Care360 Physician Portal, enable doctors to order diagnostic tests and review laboratory results from Quest Diagnostics online. In addition, the Care360 Physician Portal enables doctors to electronically prescribe medication, view clinical and administrative information from various sources, file certain documents into a patient-centric health record maintained in our repository and share confidential information with medical colleagues in a manner consistent with the Health Insurance Portability and Accountability Act of 1996, or HIPAA. The Care360 Physician Portal and related Care360 products allow us to replace older technology products that we currently provide to many physicians and thereby streamline our support structure. Demand has been growing for our information technology solutions as physicians have expanded their usage of the Internet. By the end of 2005, approximately 45% of our orders were being transmitted via the Internet.

The Care360 Physician Portal was developed by MedPlus Inc., or MedPlus, our wholly owned healthcare information technology subsidiary. MedPlus' ChartMaxx® patient record systems and Care360 connectivity system are designed to support the creation and management of electronic patient records, by bringing together, in one patient-centric view, information from various sources, including physician's records and laboratory and hospital data. We intend to expand the services offered through our portal over time through both internal development and the formation of strategic relationships.

We expect to continue pursuing growth through acquisitions. Historically, as the clinical laboratory industry consolidated, acquisitions contributed a significant portion of our growth. We believe that organic growth will become more significant, while acquisitions will continue to be an important contributor to growth.

The clinical laboratory industry remains highly fragmented. We expect to continue to selectively evaluate potential acquisitions of regional clinical laboratories that can be integrated into our existing laboratories, thereby increasing access for patients and enabling us to reduce costs and improve efficiencies. See “Recent Acquisition” for a discussion of our recent acquisitions. We will also selectively assess potential acquisition opportunities that will increase clinical capabilities, geographic presence, or move us into related adjacent spaces, both domestically and internationally. During 2005, through the acquisition of LabOne, we entered into a new testing-related field, providing laboratory testing and risk assessment services to the life insurance industry.

Rapid development of new tests and technologies continues. In addition, hospitals and physician office laboratories increasingly are internalizing testing, moving testing closer to the patient. As a result, we will consider acquiring or exclusively licensing selective products to complement the services we provide.

Technology is making possible the convergence of various healthcare disciplines. Information technology will eventually enable doctors to diagnose and treat disease by aggregating a patient’s genetic predisposition, diagnostic test results and diagnostic images into a patient-centric electronic medical record available in a timely fashion at the point of care. Having such clinical data in one easily accessed place will enable better decision-making and drive improved outcomes for patients. Accordingly, potential acquisitions in adjacent industries such as healthcare information technology and diagnostic imaging may also be considered. Our acquisition of MedPlus in 2001 was our first acquisition of a healthcare information technology company.

*People* enable us to realize our mission. In this regard, an important challenge is to prepare our workforce for the future. Our people strategy is built on concepts of stringent employee selection, effective engagement and ongoing development resulting in a staff of highly qualified and motivated employees who are committed to our goals. In addition, we are committed to improving the health of our employees and reducing healthcare costs for them and our Company. Through our HealthyQuest initiative, we provide employees with the opportunity to lose weight, quit smoking and generally pursue healthier lifestyles. Quest Diagnostics is recognized as a “best place to work” in numerous locales as a consequence of our workplace initiatives that reflect our belief that people are our most important asset. We take diversity seriously, believing that our organization should reasonably reflect the communities that we serve. We strive to make all of our employees effective ambassadors of our Company.

## **Recent Acquisition**

On November 1, 2005, we acquired LabOne, Inc., or LabOne, in a transaction valued at approximately \$947 million, including approximately \$138 million of assumed debt of LabOne. LabOne provides health screening and risk assessment services to life insurance companies, as well as clinical diagnostic testing services to healthcare providers and drugs-of-abuse testing to employers. LabOne operates major laboratories in Lenexa, Kansas, and Cincinnati, Ohio, as well as a state-of-the-art call center in Lee’s Summit, Missouri, and provides paramedical examination services throughout the United States and Canada to serve the life insurance industry. The acquisition of LabOne supports our growth strategy in a number of ways, including: solidifying our leadership position in diagnostic testing by expanding access for physicians and patients and giving us added presence in several geographic areas; strengthening our drugs-of-abuse testing business and establishing us as the leader in a new testing net related business, providing health screening and risk assessment services to the life insurance industry.

## **Our Services**

For 2005, our clinical laboratory testing business accounted for approximately 95% of our net revenues, with the balance derived from clinical trials testing, risk assessment services and other services and products. Laboratory testing includes routine testing and gene-based and esoteric testing, which generated approximately 78% and 17%, respectively, of our net revenues. Clinical trials testing generated less than 3% of our net revenues and risk assessment services generated less than 1% of our net revenues. We derive approximately 2% of our net revenues from foreign operations. We expect that the risk assessment business will represent approximately 4% of our net revenues in 2006, bringing the total net revenues attributable to our non-clinical testing businesses to approximately 8% of our consolidated net revenues.