QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(in thousands, except per share data)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 149,640	$ 92,130
Accounts receivable, net of allowance for doubtful accounts of $205,086 and $193,754 at December 31, 2006 and 2005, respectively	774,414	732,907
Inventories	78,564	77,939
Deferred income taxes	120,540	107,442
Prepaid expenses and other current assets	67,860	59,079
Total current assets	1,191,018	1,069,497
Property, plant and equipment, net	752,357	753,663
Goodwill, net	3,391,046	3,197,227
Intangible assets, net	193,346	147,383
Other assets	133,715	138,345
Total assets	$5,661,482	$5,306,115
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 833,996	$ 764,453
Short-term borrowings and current portion of long-term debt	316,874	336,839
Total current liabilities	1,150,870	1,101,292
Long-term debt	1,239,105	1,255,386
Other liabilities	252,336	186,453
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.01 per share; 600,000 and 300,000 shares authorized at December 31, 2006 and 2005, respectively; 213,755 and 213,674 shares issued at December 31, 2006 and 2005, respectively	2,138	2,137
Additional paid-in capital	2,185,073	2,175,533
Retained earnings	1,800,255	1,292,510
Unearned compensation	-	(3,321)
Accumulated other comprehensive loss	(65)	(6,205)
Treasury stock, at cost; 19,806 and 15,219 shares at December 31, 2006 and 2005, respectively	(968,230)	(697,670)
Total stockholders' equity	3,019,171	2,762,984
Total liabilities and stockholders' equity	$5,661,482	$5,306,115

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands, except per share data)

	2006	2005	2004
Net revenues	$6,268,659	$5,456,726	$5,066,986
Operating costs and expenses:			
Cost of services	3,696,006	3,220,713	2,969,774
Selling, general and administrative	1,410,716	1,215,862	1,199,759
Amortization of intangible assets	10,843	4,637	6,378
Other operating expense, net	23,017	7,966	10,221
Total operating costs and expenses	5,140,582	4,449,178	4,186,132
Operating income	1,128,077	1,007,548	880,854
Other income (expense):			
Interest expense, net	(91,425)	(57,354)	(57,826)
Minority share of income	(23,900)	(19,495)	(19,353)
Equity earnings in unconsolidated joint ventures	28,469	26,185	21,049
Other (expense) income, net	(7,948)	(6,876)	162
Total non-operating expenses, net	(94,804)	(57,540)	(55,968)
Income from continuing operations before taxes	1,033,273	950,008	824,886
Income tax expense	407,581	376,812	332,471
Income from continuing operations	625,692	573,196	492,415
(Loss) income from discontinued operations, net of taxes	(39,271)	(26,919)	6,780
Net income	$ 586,421	$ 546,277	$ 499,195
Earnings per common share – basic:			
Income from continuing operations	$ 3.18	$ 2.84	$ 2.42
(Loss) income from discontinued operations	(0.20)	(0.13)	0.03
Net income	$ 2.98	$ 2.71	$ 2.45
Earnings per common share – diluted:			
Income from continuing operations	$ 3.14	$ 2.79	$ 2.32
(Loss) income from discontinued operations	(0.20)	(0.13)	0.03
Net income	$ 2.94	$ 2.66	$ 2.35
Dividends per common share	$ 0.40	$ 0.36	$ 0.30

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands)

	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 586,421	$ 546,277	$ 499,195
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	197,398	176,124	168,726
Provision for doubtful accounts	243,443	233,628	226,310
Provision for restructuring and other special charges	55,788	-	-
Deferred income tax (benefit) provision	(46,280)	661	52,451
Minority share of income	23,900	19,495	19,353
Stock compensation expense	55,478	2,037	1,384
Tax benefits associated with stock-based compensation plans	-	33,823	71,276
Excess tax benefits from stock-based compensation arrangements	(32,693)	-	-
Other, net	20,172	21,673	4,739
Changes in operating assets and liabilities:			
Accounts receivable	(273,232)	(238,421)	(266,404)
Accounts payable and accrued expenses	81,347	36,038	22,336
Integration, settlement and other special charges	(4,247)	(5,400)	(18,274)
Income taxes payable	45,330	15,382	1,163
Other assets and liabilities, net	(929)	10,266	16,525
Net cash provided by operating activities	951,896	851,583	798,780
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(236,543)	(814,219)	-
Capital expenditures	(193,422)	(224,270)	(176,125)
Decrease (increase) in investments and other assets	15,563	(41,304)	2,425
Net cash used in investing activities	(414,402)	(1,079,793)	(173,700)
Cash flows from financing activities:			
Proceeds from borrowings	375,000	1,100,186	304,921
Repayments of debt	(416,208)	(497,276)	(306,018)
(Decrease) increase in book overdrafts	(1,705)	33,384	-
Purchases of treasury stock	(472,325)	(390,163)	(734,577)
Exercise of stock options	102,324	98,335	109,116
Excess tax benefits from stock-based compensation arrangements	32,693	-	-
Dividends paid	(77,135)	(69,673)	(61,387)
Distributions to minority partners	(21,900)	(21,477)	(16,677)
Financing costs paid	(728)	(6,278)	(2,114)
Net cash (used in) provided by financing activities	(479,984)	247,038	(706,736)
Net change in cash and cash equivalents	57,510	18,828	(81,656)
Cash and cash equivalents, beginning of year	92,130	73,302	154,958
Cash and cash equivalents, end of year	$ 149,640	$ 92,130	$ 73,302

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compen-sation	Accumulated Other Compre-hensive (Loss) Income	Treasury Stock	Compre-hensive Income
Balance, December 31, 2003	205,627	$1,068	$2,267,014	$ 380,559	$(2,346)	$ 5,947	$(257,548)	
Net income				499,195				$499,195
Other comprehensive loss						(2,081)		(2,081)
Comprehensive income								$497,114
Dividends declared				(61,020)				
Issuance of common stock under benefit plans	404	1	1,314		951		12,623	
Exercise of stock options	6,949		(136,932)				246,048	
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(179)	(1)	(7,548)					
Tax benefits associated with stock-based compensation plans			71,276					
Conversion of contingent convertible debentures	74		222				3,102	
Amortization of unearned compensation					1,384			
Purchases of treasury stock	(16,655)						(734,577)	
Balance, December 31, 2004	196,220	1,068	2,195,346	818,734	(11)	3,866	(730,352)	
Net income				546,277				$546,277
Other comprehensive loss						(10,071)		(10,071)
Comprehensive income								$536,206
Adjustment for 2-for-1 stock split		1,068	(1,068)					
Dividends declared				(72,501)				
Issuance of common stock under benefit plans	516	1	4,620		(5,347)		17,683	
Exercise of stock options	3,893		(69,691)				168,026	
Shares to cover employee payroll tax withholdings on stock issued under benefit plans			(7)					
Tax benefits associated with stock-based compensation plans			33,823					
Conversion of contingent convertible debentures	5,632		12,510				237,136	
Amortization of unearned compensation					2,037			
Purchases of treasury stock	(7,806)						(390,163)	
Balance, December 31, 2005	198,455	2,137	2,175,533	1,292,510	(3,321)	(6,205)	(697,670)	
Net income				586,421				$586,421
Other comprehensive income						6,140		6,140
Comprehensive income								$592,561
Dividends declared				(78,676)				
Reclassification upon adoption of SFAS123R			(3,321)		3,321			
Issuance of common stock under benefit plans	598	1	(2,158)				23,838	
Stock-based compensation expense			55,478					
Exercise of stock options	3,782		(75,603)				177,927	
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(13)		(672)					
Tax benefits associated with stock-based compensation plans			35,816					
Purchases of treasury stock	(8,873)						(472,325)	
Balance, December 31, 2006	193,949	$2,138	$2,185,073	$1,800,255	$ -	$ (65)	$(968,230)	

The accompanying notes are an integral part of these statements.

1. DESCRIPTION OF BUSINESS

Quest Diagnostics Incorporated and its subsidiaries ("Quest Diagnostics" or the "Company") is the largest clinical laboratory testing business in the United States. Prior to January 1, 1997, Quest Diagnostics was a wholly owned subsidiary of Corning Incorporated ("Corning"). On December 31, 1996, Corning distributed all of the outstanding shares of common stock of the Company to the stockholders of Corning as part of the "Spin-Off Distribution".

As the nation's leading provider of diagnostic testing and services for the healthcare industry, Quest Diagnostics offers a broad range of clinical laboratory testing services to patients, physicians, hospitals, healthcare insurers, employers, governmental institutions and other commercial clinical laboratories. Quest Diagnostics is the leading provider of esoteric testing, including gene-based testing. The Company is also the leading provider of testing for drugs-of-abuse. Through the Company's national network of laboratories and patient service centers, and its esoteric testing laboratory and development facilities, Quest Diagnostics offers comprehensive and innovative diagnostic testing, information and services used by physicians and other healthcare professionals to make decisions to improve health. The Company is also a leading provider of anatomic pathology services, testing to support clinical trials of new pharmaceuticals worldwide and risk assessment services for the life insurance industry.

During 2006, Quest Diagnostics processed approximately 151 million requisitions through its extensive network of laboratories and patient service centers in virtually every major metropolitan area throughout the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of all entities controlled by the Company through its direct or indirect ownership of a majority voting interest and the accounts of any variable interest entities, as defined in Financial Accounting Standards Board ("FASB") Interpretation No. 46 "Consolidation of Variable Interest Entities", where the Company is subject to a majority of the risk of loss from the variable interest entity's activities, or entitled to receive a majority of the entity's residual returns or both. The Company's relationships with variable interest entities were not material at December 31, 2006. Investments in entities which the Company does not control, but in which it has a substantial ownership interest (generally between 20% and 49%) and can exercise significant influence, are accounted for using the equity method of accounting. As of December 31, 2006 and 2005, the Company's investments in affiliates accounted for under the equity method of accounting totaled $38.5 million and $36.5 million, respectively. The Company's share of equity earnings from investments in affiliates, accounted for under the equity method, totaled $28.5 million, $26.2 million and $21.0 million, respectively, for 2006, 2005 and 2004. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation

During the third quarter of 2006, the Company completed its wind-down of NID, a test kit manufacturing subsidiary, and classified the operations of NID as discontinued operations. The accompanying consolidated statements of operations and related disclosures have been restated to report the results of NID as discontinued operations for all periods presented. See Note 15 for a further discussion of discontinued operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company primarily recognizes revenue for services rendered upon completion of the testing process. Billings for services reimbursed by third-party payers, including Medicare and Medicaid, are recorded as revenues net of allowances for differences between amounts billed and the estimated receipts from such payers. Adjustments to the estimated receipts, based on final settlement with the third-party payers, are recorded upon settlement. In 2006, 2005 and 2004, approximately 17%, 18% and 17%, respectively, of net revenues were generated by Medicare and Medicaid programs. Under capitated arrangements with healthcare insurers, the Company recognizes revenue based on a predetermined monthly reimbursement rate for each member of an insurer's health plan regardless of the number or cost of services provided by the Company.

Taxes on Income

The Company uses the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted.

Earnings Per Share

Basic earnings per common share is calculated by dividing net income by the weighted average common shares outstanding. Diluted earnings per common share is calculated by dividing net income, adjusted for the after-tax impact of the interest expense associated with the Company's 1¾% contingent convertible debentures due 2021 (the "Debentures"), by the weighted average common shares outstanding after giving effect to all potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the dilutive effect of outstanding stock options, performance share units and restricted common shares granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Director Long-Term Incentive Plan and the Debentures. The Debentures were called for redemption by the Company in December 2004 and redeemed as of January 18, 2005.

The computation of basic and diluted earnings per common share (using the if-converted method) was as follows (in thousands, except per share data):

	2006	2005	2004
Income from continuing operations – basic	$625,692	$573,196	$492,415
(Loss) income from discontinued operations – basic	(39,271)	(26,919)	6,780
Net income available to common stockholders – basic	586,421	546,277	499,195
Add: Interest expense associated with the Debentures, net of related tax effects	-	82	3,275
Net income available to common stockholders – diluted	$586,421	$546,359	$502,470
Weighted average common shares outstanding – basic	196,985	201,833	203,920
Effect of dilutive securities:			
Stock options	2,535	3,533	4,472
Restricted common shares and performance share units	22	11	39
Debentures	-	153	5,714
Weighted average common shares outstanding – diluted	199,542	205,530	214,145
Earnings per common share – basic:			
Income from continuing operations	$ 3.18	$ 2.84	$ 2.42
(Loss) income from discontinued operations	(0.20)	(0.13)	0.03
Net income	$ 2.98	$ 2.71	$ 2.45
Earnings per common share – diluted:			
Income from continuing operations	$ 3.14	$ 2.79	$ 2.32
(Loss) income from discontinued operations	(0.20)	(0.13)	0.03
Net income	$ 2.94	$ 2.66	$ 2.35

The following securities were not included in the diluted earnings per share calculation due to their antidilutive effect (in thousands):

	2006	2005	2004
Stock options	2,443	337	603
Restricted common shares and performance share units	786	-	-

Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" ("SFAS 148") encouraged, but did not require, companies to record compensation cost for stock-based compensation plans at fair value. In addition, SFAS 148 provided alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, and amended the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In December 2004, the FASB issued SFAS No. 123, revised 2004, "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires that companies recognize compensation cost relating to share-based payment transactions based on the fair value of the equity or liability instruments issued. SFAS 123R is effective for annual periods beginning after January 1, 2006. The Company adopted SFAS 123R effective January 1, 2006 using the modified prospective approach and therefore has not restated results for prior periods. Under this approach, awards that are granted, modified or settled after January 1, 2006 will be measured and accounted for in accordance with SFAS 123R. Unvested awards that were granted prior to January 1, 2006 will continue to be accounted for in accordance with SFAS 123, as amended by SFAS 148, except that compensation cost will be recognized in the Company's results of operations.

Pursuant to the provisions of SFAS 123R, the Company records stock-based compensation as a charge to earnings net of the estimated impact of forfeited awards. As such, the Company recognizes stock-based compensation cost only for those stock-based awards that are estimated to ultimately vest over their requisite service period, based on the vesting provisions of the individual grants. The cumulative effect on current and prior periods of a change in the estimated forfeiture rate is recognized as compensation cost in earnings in the period of the revision. The terms of the Company's performance share unit grants allow the recipients of such awards to earn a variable number of shares based on the achievement of the performance goals specified in the awards. The actual amount of any stock award is based on the Company's earnings per share growth as measured in accordance with its Amended and Restated Employee Long-Term Incentive Plan ("ELTIP") for the performance period compared to that of a peer group of companies. Stock-based compensation expense associated with performance share units is recognized based on management's best estimates of the achievement of the performance goals specified in such awards and the resulting number of shares that will be earned. The cumulative effect on current and prior periods of a change in the estimated number of performance share units expected to be earned is recognized as compensation cost in earnings in the period of the revision. The Company recognizes stock-based compensation expense related to the Company's Amended Employee Stock Purchase Plan ("ESPP") based on the 15% discount at purchase. See Note 12 for a further discussion of stock-based compensation.

In the fourth quarter of 2006, the Company revised its estimate of the number of performance share units expected to be earned at the end of the performance periods as a result of revising its estimates of projected performance and reduced stock-based compensation expense associated with performance share units by approximately $8 million. See Note 12 for further discussion.

Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations and chose to adopt the disclosure-only provisions of SFAS 123, as amended by SFAS 148. Under this approach, the cost of restricted stock awards was expensed over their vesting period, while the imputed cost of stock option grants and discounts offered under the Company's ESPP was disclosed, based on the vesting provisions of the individual grants, but not charged to expense. Stock-based

compensation expense recorded in accordance with APB 25, relating to restricted stock awards, was $2.0 million and $1.4 million in 2005 and 2004, respectively.

The Company has several stock ownership and compensation plans, which are described more fully in Note 12. The following pro forma information is presented for comparative purposes and illustrates the pro forma effect on net income and earnings per share for the periods presented, as if the Company had elected to recognize compensation cost associated with stock option awards and employee stock purchases under the Company's ESPP, consistent with the method prescribed by SFAS 123, as amended by SFAS 148 (in thousands, except per share data):

	2005	2004
Net income:		
Net income, as reported	$546,277	$499,195
Add: Stock-based compensation under APB 25	2,037	1,384
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(32,623)	(43,710)
Pro forma net income	$515,691	$456,869
Earnings per common share:		
Basic – as reported	$ 2.71	$ 2.45
Basic – pro forma	$ 2.56	$ 2.23
Diluted – as reported	$ 2.66	$ 2.35
Diluted – pro forma	$ 2.50	$ 2.13

Foreign Currency

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the year. The translation adjustments are recorded as a component of accumulated other comprehensive income within stockholders' equity. Gains and losses from foreign currency transactions are included within "other operating expense, net" in the consolidated statements of operations. Transaction gains and losses have not been material.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments with maturities, at the time acquired by the Company, of three months or less.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash, cash equivalents, short-term investments and accounts receivable. The Company's policy is to place its cash, cash equivalents and short-term investments in highly rated financial instruments and institutions. Concentration of credit risk with respect to accounts receivable is mitigated by the diversity of the Company's clients and their dispersion across many different geographic regions, and is limited to certain customers who are large buyers of the Company's services. To reduce risk, the Company routinely assesses the financial strength of these customers and, consequently, believes that its accounts receivable credit risk exposure, with respect to these customers, is limited. While the Company has receivables due from federal and state governmental agencies, the Company does not believe that such receivables represent a credit risk since the related healthcare programs are funded by federal and state governments, and payment is primarily dependent on submitting appropriate documentation.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period the related revenue is recorded. The Company has implemented a

standardized approach to estimate and review the collectibility of its receivables based on a number of factors, including the period they have been outstanding. Historical collection and payer reimbursement experience is an integral part of the estimation process related to allowances for doubtful accounts. In addition, the Company regularly assesses the state of its billing operations in order to identify issues which may impact the collectibility of receivables or reserve estimates. Revisions to the allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense within selling, general and administrative expenses. Receivables deemed to be uncollectible are charged against the allowance for doubtful accounts at the time such receivables are written-off. Recoveries of receivables previously written-off are recorded as credits to the allowance for doubtful accounts.

Inventories

Inventories, which consist principally of testing supplies and reagents, are valued at the lower of cost (first in, first out method) or market.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed as incurred. Costs incurred for computer software developed or obtained for internal use are capitalized for application development activities and expensed as incurred for preliminary project activities and post-implementation activities. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software project, and interest costs incurred, when material, while developing internal-use software. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Certain costs, such as maintenance and training, are expensed as incurred. The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. Depreciation and amortization are provided on the straight-line method over expected useful asset lives as follows: buildings and improvements, ranging from ten to thirty years; laboratory equipment and furniture and fixtures, ranging from three to seven years; leasehold improvements, the lesser of the useful life of the improvement or the remaining life of the building or lease, as applicable; and computer software developed or obtained for internal use, ranging from three to five years.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of assets acquired, including separately recognized intangible assets, less the fair value of liabilities assumed in a business combination. The Company uses a nonamortization approach to account for purchased goodwill. Under a nonamortization approach, goodwill is not amortized, but instead is periodically reviewed for impairment.

Intangible Assets

Intangible assets are recognized as an asset apart from goodwill if the asset arises from contractual or other legal rights, or if it is separable. Intangible assets, principally representing the cost of customer relationships, customer lists and non-competition agreements acquired, are capitalized and amortized on the straight-line method over their expected useful life, which generally ranges from five to twenty years. Intangible assets with indefinite useful lives, consisting principally of acquired tradenames, are not amortized, but instead are periodically reviewed for impairment.

Recoverability and Impairment of Goodwill

Under the nonamortization provisions of SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), goodwill and certain intangibles are not amortized into results of operations, but instead are periodically reviewed for impairment and an impairment charge is recorded in the periods in which the recorded carrying value of goodwill and certain intangibles is more than its estimated fair value. The provisions of SFAS 142 require that a goodwill impairment test be performed annually or in the case of other events that indicate a potential impairment. The annual impairment tests of goodwill were performed at the end of each of the

Company's fiscal years on December 31st and indicated that there was no impairment of goodwill as of December 31, 2006 or 2005.

The Company evaluates the recoverability and measures the potential impairment of its goodwill under SFAS 142. The annual impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment and the second step measures the amount of the impairment, if any. Management's estimate of fair value considers publicly available information regarding the market capitalization of the Company as well as (i) publicly available information regarding comparable publicly-traded companies in the clinical laboratory testing industry, (ii) the financial projections and future prospects of the Company's business, including its growth opportunities and likely operational improvements, and (iii) comparable sales prices, if available. As part of the first step to assess potential impairment, management compares the estimate of fair value for the reporting unit to the book value of the reporting unit. If the book value is greater than the estimate of fair value, the Company would then proceed to the second step to measure the impairment, if any. The second step compares the implied fair value of goodwill with its carrying value. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of the reporting unit's goodwill is greater than its implied fair value, an impairment loss will be recognized in the amount of the excess. Management believes its estimation methods are reasonable and reflective of common valuation practices.

On a quarterly basis, management performs a review of the Company's business to determine if events or changes in circumstances have occurred which could have a material adverse effect on the fair value of the Company and its goodwill. If such events or changes in circumstances were deemed to have occurred, the Company would perform an impairment test of goodwill as of the end of the quarter, consistent with the annual impairment test, and record any noted impairment loss.

Recoverability and Impairment of Intangible Assets and Other Long-Lived Assets

The Company evaluates the possible impairment of its long-lived assets, including intangible assets which are amortized pursuant to the provisions of SFAS 142, under SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. Evaluation of possible impairment is based on the Company's ability to recover the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted pretax cash flows are less than the carrying amount of such asset, an impairment loss is recognized for the difference between the estimated fair value and carrying amount of the asset.

Investments

The Company accounts for investments in equity securities, which are included in "other assets" in the consolidated balance sheet, in conformity with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which requires the use of fair value accounting for trading or available-for-sale securities. Both realized and unrealized gains and losses for trading securities are recorded currently in earnings as a component of non-operating expenses within "other (expense) income, net" in the consolidated statements of operations. Unrealized gains and losses, net of tax, for available-for-sale securities are recorded as a component of accumulated other comprehensive income within stockholders' equity. Recognized gains and losses for available-for-sale securities are recorded in "other (expense) income, net" in the consolidated statements of operations. Gains and losses on securities sold are based on the average cost method.

The Company periodically reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. The primary factors considered in the determination are: the length of time that the fair value of the investment is below carrying value; the financial condition, operating performance and near term prospects of the investee; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the cost basis of the security is written down to fair value.

Investments at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Available-for-sale equity securities	$10,106	$20,429
Trading equity securities	29,969	25,738
Other investments	13,290	29,726
Total	$53,365	$75,893

Investments in available-for-sale equity securities consist of equity securities in public corporations. Investments in trading equity securities represent participant directed investments of deferred employee compensation and related Company matching contributions held in a trust pursuant to the Company's supplemental deferred compensation plan (see Note 12). Other investments do not have readily determinable fair values and consist of investments in preferred and common shares of privately held companies and are accounted for under the cost method.

As of December 31, 2006 and 2005, the Company had gross unrealized losses from available-for-sale equity securities of $4.7 million and $11.1 million, respectively. For the year ended December 31, 2006, "other (expense) income, net", within the consolidated statements of operations, includes $16.2 million of charges associated with the write-down of available-for-sale equity securities, $10.0 million of charges associated with the write-down of other investments and a $15.8 million gain associated with other investments. For the year ended December 31, 2005, "other (expense) income, net" includes a $7.1 million charge associated with the write-down of other investments. For the years ended December 31, 2006, 2005 and 2004, gains from trading equity securities totaled $3.2 million, $1.6 million and $1.8 million, respectively, and are included in "other (expense) income, net".

Financial Instruments

The Company's policy for managing exposure to market risks may include the use of financial instruments, including derivatives. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These policies prohibit holding or issuing derivative financial instruments for speculative purposes.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value based on the short maturity of these instruments. At both December 31, 2006 and 2005, the fair value of the Company's debt was estimated at $1.6 billion, using quoted market prices and yields for the same or similar types of borrowings, taking into account the underlying terms of the debt instruments. At December 31, 2006 and 2005, the estimated fair value exceeded the carrying value of the debt by $0.4 million and $39 million, respectively.

Comprehensive (Loss) Income

Comprehensive (loss) income encompasses all changes in stockholders' equity (except those arising from transactions with stockholders) and includes net income, net unrealized capital gains or losses on available-for-sale securities, foreign currency translation adjustments and deferred gains related to the settlement of certain treasury lock agreements (see Note 10).

New Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is effective for the Company as of January 1, 2007. FIN 48 clarifies the accounting for

uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109 "Accounting for Income Taxes". FIN 48 provides guidance on recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that a company has taken or expects to take on a tax return. The Company has identified and categorized its uncertain tax positions and these positions have been evaluated and assessed for recognition and measurement under the guidelines of FIN 48. The adoption of FIN 48 will not impact the consolidated statement of operations, however, FIN 48 may create some volatility in the effective tax rate in future periods. While the Company's analysis is still underway and not yet completed, at this point it is not anticipated that the adoption of FIN 48 will have a material impact on the consolidated balance sheet. The transition adjustments for FIN 48 primarily relate to uncertainties associated with the realization of tax benefits derived from certain state net operating loss carryforwards, the allocation of income and expense among state jurisdictions, the characterization and timing of certain tax deductions associated with business combinations and employee compensation, and income and expenses associated with certain intercompany licensing arrangements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for the Company as of January 1, 2008. The Company is currently assessing the impact, if any, of SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized as a component of accumulated other comprehensive income (loss) within stockholders' equity, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date and the date at which plan assets and the benefit obligation are measured, are required to be the company's fiscal year end. SFAS 158 is effective for the Company as of December 31, 2006, except for the measurement date provisions, which are effective December 31, 2008. The adoption of SFAS 158 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the SEC released Staff Accounting Bulletin No. 108 "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the "roll-over" method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the "iron curtain" method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 is effective for the Company as of December 31, 2006. The adoption of SAB 108 did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to irrevocably elect to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis with the resulting changes in fair value recorded in earnings. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by using different measurement attributes for financial assets and liabilities. The Company is currently evaluating the impact of SFAS 159 to determine the effect, if any, it will have on the consolidated financial position and results of operations. The Company is required to adopt SFAS 159 as of January 1, 2008.

3. BUSINESS ACQUISITIONS

2006 Acquisitions

Acquisition of Focus Diagnostics

On July 3, 2006, the Company completed its acquisition of Focus Technologies Holding Company ("Focus Diagnostics") in an all-cash transaction valued at $208 million, including approximately $3 million of assumed debt. Focus Diagnostics is a leading provider of infectious and immunologic disease testing and develops and markets diagnostic products. It offers its reference testing services and diagnostic products to large academic medical centers, hospitals and commercial laboratories. The Company financed the aggregate purchase price of $205 million, which includes $0.5 million of related transaction costs, and the repayment of substantially all of Focus Diagnostics' outstanding debt with $135 million of borrowings under its secured receivables credit facility and with cash on hand.

The acquisition of Focus Diagnostics was accounted for under the purchase method of accounting. As such, the cost to acquire Focus Diagnostics was allocated to the respective assets and liabilities acquired based on their estimated fair values as of the closing date. A preliminary allocation of the cost to acquire Focus Diagnostics has been made to certain of its assets and liabilities based on preliminary estimates. The Company is continuing to assess the estimated fair values of certain assets and liabilities acquired. The consolidated financial statements include the results of operations of Focus Diagnostics subsequent to the closing of the acquisition.

Of the aggregate purchase price of $205 million, $142 million was allocated to goodwill, $33 million was allocated to customer relationships that are being amortized over 10-15 years and $9.1 million was allocated to trade names that are not subject to amortization. Substantially all of the goodwill is not expected to be deductible for tax purposes.

Supplemental pro forma combined financial information has not been presented as the acquisition is not material to the Company's consolidated financial statements.

Acquisition of Enterix

On August 31, 2006, the Company completed its acquisition of Enterix Inc. ("Enterix"), a privately held Australia-based company that developed and manufactures the InSure™ Fecal Immunochemical Test, a Food and Drug Administration ("FDA")-cleared test for use in screening for colorectal cancer and other sources of lower gastrointestinal bleeding, for approximately $44 million in cash. The acquisition is not material to the Company's consolidated financial statements.

2005 Acquisition

Acquisition of LabOne, Inc.

On November 1, 2005, the Company completed its acquisition of Lab*One*, Inc. ("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.

Under the terms of the merger agreement, the Company paid $43.90 per common share in cash or $768 million in total to acquire all of the outstanding common shares of LabOne. In addition, the Company paid $33 million in cash for outstanding stock options of LabOne. Pursuant to the terms of the merger agreement, upon the change in control of LabOne, LabOne's outstanding stock options became fully vested and exercisable and were cancelled in exchange for the right to receive an amount, for each share subject to the stock option, equal to the excess of $43.90 per share over the exercise price per share of each option. The aggregate purchase price of $810 million includes transaction costs of approximately $9 million.

In conjunction with the acquisition of LabOne, the Company repaid approximately $127 million of debt, representing substantially all of LabOne's existing outstanding debt as of November 1, 2005.

The Company financed the all cash purchase price and related transaction costs associated with the LabOne acquisition, and the repayment of substantially all of LabOne's outstanding debt with the net proceeds from a $900 million private placement of senior notes (see Note 10) and cash on hand.

Through the acquisition of LabOne, the Company acquired all of LabOne's operations, including its health screening and risk assessment services for life insurance companies, its clinical diagnostic testing services, and its drugs-of-abuse testing for employers. LabOne had 3,100 employees and principal laboratories in Lenexa, Kansas, as well as in Cincinnati, Ohio.

The acquisition of LabOne was accounted for under the purchase method of accounting. As such, the cost to acquire LabOne was allocated to the respective assets and liabilities acquired based on their estimated fair values as of the closing date. During 2006, the Company adjusted its purchase price allocation for the LabOne acquisition based on the finalized fair value estimates for certain assets and liabilities acquired, primarily associated with property, plant and equipment, net of related deferred income taxes, and recorded additional goodwill of approximately $10 million. The consolidated financial statements include the results of operations of LabOne subsequent to the closing of the acquisition.

The following table summarizes the Company's purchase price allocation of the cost to acquire LabOne:

	Fair Values as of November 1, 2005
Current assets	$ 135,452
Property, plant and equipment	75,692
Intangible assets	139,500
Goodwill	690,554
Other assets	4,813
Total assets acquired	1,046,011
Current liabilities	51,125
Long-term liabilities	50,024
Long-term debt	135,079
Total liabilities assumed	236,228
Net assets acquired	$ 809,783

Of the $139 million of acquired intangible assets, $130 million was assigned to customer relationships that are being amortized over 20 years and $9 million was assigned to trade names that are not subject to amoritization. Of the $691 million allocated to goodwill, approximately $47 million is expected to be deductible for tax purposes.

Pro Forma Combined Financial Information

The following unaudited pro forma combined financial information for the years ended December 31, 2005 and 2004 assumes that the LabOne acquisition was completed on January 1, 2004.

	2005	2004
Net revenues	$5,889,615	$5,551,304
Net income	547,643	497,758
Basic earnings per common share:		
Net income	$ 2.71	$ 2.44
Weighted average common shares outstanding – basic	201,833	203,920
Diluted earnings per common share:		
Net income	$ 2.66	$ 2.34
Weighted average common shares outstanding – diluted	205,530	214,145

The unaudited pro forma combined financial information presented above reflects certain reclassifications to the historical financial statements of LabOne to conform the acquired company's accounting policies and classification of certain costs and expenses to that of Quest Diagnostics. These adjustments had no impact on pro forma net income. Pro forma results for the year ended December 31, 2005 exclude $14.3 million of transaction related costs, which were incurred and expensed by LabOne in conjunction with its acquisition by Quest Diagnostics.

4. INTEGRATION OF ACQUIRED BUSINESS

During the first quarter of 2006, the Company finalized its plan related to the integration of LabOne. The plan focuses on rationalizing the Company's testing capacity, infrastructure and support services in markets which are served by both LabOne and Quest Diagnostics.

In conjunction with finalizing the LabOne integration, the Company recorded $23 million of costs during the first quarter of 2006. The majority of these costs relate to employee severance. Employee groups affected as a result of this plan included those involved in the testing of specimens, as well as administrative and other support functions. Of the total costs indicated above, $21 million related to actions that impact Quest Diagnostics' employees and its operations and were comprised principally of employee severance benefits for approximately 600 employees. These costs were accounted for as a charge to earnings and included in "other operating expense, net" within the consolidated statements of operations.

In addition, $2.6 million of integration costs, related to actions that impact the employees and operations of LabOne, were accounted for as a cost of the LabOne acquisition and included in goodwill during the first quarter of 2006. Of the $2.6 million, $1.2 million related to asset write-offs with the remainder primarily associated with employee severance benefits for approximately 95 employees.

As of December 31, 2006, accruals related to the LabOne integration plan totaled $22 million. While the majority of the accrued integration costs are expected to be paid in 2007, there are certain severance costs that have payment terms extending into 2008.

In addition, during the first quarter of 2006, the Company recorded a $4.1 million charge related to consolidating its operations in California into a new facility. The costs, comprised primarily of employee severance costs and the write-off of certain operating assets, were accounted for as a charge to earnings and included in "other operating expense, net" within the consolidated statements of operations.

5. TAXES ON INCOME

The Company's pretax income from continuing operations consisted of $1.02 billion, $943 million and $817 million from U.S. operations and approximately $8.6 million, $7.2 million and $8.1 million from foreign operations for the years ended December 31, 2006, 2005 and 2004, respectively.

The components of income tax expense (benefit) for 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Current:			
Federal	$360,806	$304,117	$231,514
State and local	93,292	63,652	49,939
Foreign	4,586	2,081	(807)
Deferred:			
Federal	(26,897)	2,614	40,827
State and local	(24,206)	4,348	10,998
Total	$407,581	$376,812	$332,471

A reconciliation of the federal statutory rate to the Company's effective tax rate for 2006, 2005 and 2004 was as follows:

	2006	2005	2004
Tax provision at statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	4.3	4.6	4.6
Impact of foreign operations	0.3	-	0.2
Non-deductible expenses, primarily meals and entertainment expenses	0.3	0.2	0.4
Other, net	(0.5)	(0.1)	0.1
Effective tax rate	39.4%	39.7%	40.3%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at December 31, 2006 and 2005 were as follows:

	2006	2005
Current deferred tax asset:		
Accounts receivable reserve	$ 36,888	$ 32,598
Liabilities not currently deductible	83,652	74,844
Total current deferred tax asset	$ 120,540	$ 107,442
Non-current deferred tax asset (liability):		
Liabilities not currently deductible	$ 85,821	$ 69,071
Stock-based compensation	19,896	-
Net operating loss carryforwards	18,229	9,663
Depreciation and amortization	(128,814)	(100,752)
Total non-current deferred tax liability	$ (4,868)	$ (22,018)

At December 31, 2006, non-current deferred tax assets of $16 million are included in other long-term assets in the consolidated balance sheet. At December 31, 2006 and 2005, non-current deferred tax liabilities of $21 million and $22 million, respectively, are included in other long-term liabilities in the consolidated balance sheet.

As of December 31, 2006, the Company had estimated net operating loss carryforwards for federal and state income tax purposes of $16 million and $411 million, respectively, which expire at various dates through 2026. As of December 31, 2006 and 2005, deferred tax assets associated with net operating loss carryforwards for federal and state income tax purposes of $29 million and $22 million, respectively, have each been reduced by a valuation allowance of $11 million and $14 million, respectively.

Income taxes payable including those classified in other long-term liabilities in the consolidated balance sheet at December 31, 2006 and 2005, were $36 million and $29 million, respectively.

The Company provides reserves for potential tax exposures that may arise from examinations by federal or state tax authorities. Management believes that while the ultimate resolution of these matters will not be material to the Company's financial position, resolution of these matters could be material to the Company's results of operations or cash flows in the period in which the resolution of such matters is determined.

In conjunction with the Spin-Off Distribution, the Company entered into a tax sharing agreement with its former parent and a former subsidiary, that provide the parties with certain rights of indemnification against each other. In conjunction with its acquisition of SmithKline Beecham Clinical Laboratories, Inc. ("SBCL"), which operated the clinical laboratory testing business of SmithKline Beecham plc ("SmithKline Beecham"), the Company entered into a tax indemnification arrangement with SmithKline Beecham that provides the parties with certain rights of indemnification against each other.

6. SUPPLEMENTAL CASH FLOW AND OTHER DATA

	2006	2005	2004
Depreciation expense	$184,844	$ 166,546	$156,955
Interest expense	(96,454)	(61,443)	(60,152)
Interest income	5,029	4,089	2,326
Interest, net	(91,425)	(57,354)	(57,826)
Interest paid	102,055	49,976	51,781
Income taxes paid	381,348	314,534	209,156
Businesses acquired:			
Fair value of assets acquired	$278,078	$1,039,300	$ -
Fair value of liabilities assumed	28,453	230,235	-
Non-cash financing activities:			
Conversion of contingent convertible debentures	$ -	$ 244,338	$ 3,197

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Land	$ 36,272	$ 36,255
Buildings and improvements	332,610	329,441
Laboratory equipment, furniture and fixtures	886,065	823,799
Leasehold improvements	264,096	190,329
Computer software developed or obtained for internal use	189,083	171,724
Construction-in-progress	58,273	98,897
	1,766,399	1,650,445
Less: accumulated depreciation and amortization	(1,014,042)	(896,782)
Total	$ 752,357	$ 753,663

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Goodwill	$3,572,238	$3,385,280
Less: accumulated amortization	(181,192)	(188,053)
Goodwill, net	$3,391,046	$3,197,227

The changes in the gross carrying amount of goodwill for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Balance as of January 1	$3,385,280	$2,695,003
Goodwill acquired during the year	196,222	697,766
Other	(9,264)	(7,489)
Balance as of December 31	$3,572,238	$3,385,280

For the year ended December 31, 2006, the increase in goodwill was primarily related to the acquisitions of Focus Diagnostics and Enterix, and adjustments associated with the LabOne purchase price allocation and the LabOne integration plan. These additions were $142 million, $40 million and $10 million, respectively. In connection with the Company's decision to discontinue the operations of NID in the second quarter of 2006, the Company eliminated the goodwill and related accumulated amortization associated with NID, which had no impact on goodwill, net. In addition, goodwill was reduced $2.4 million primarily related to the favorable resolution of certain pre-acquisition tax contingencies associated with businesses acquired.

For the year ended December 31, 2005, the increase in goodwill was primarily related to the acquisition of LabOne. During the fourth quarter of 2005, the Company recorded a $7.5 million charge, which was included in "other operating expense, net" in the consolidated statement of operations, to write off all of the goodwill associated with NID.

Intangible assets at December 31, 2006 and 2005 consisted of the following:

	Weighted Average Amortization Period	December 31, 2006			December 31, 2005		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:							
Customer-related intangibles	18 years	$206,880	$(48,010)	$158,870	$172,522	$(39,297)	$133,225
Non-compete agreements	5 years	47,165	(45,261)	1,904	45,707	(44,221)	1,486
Other	10 years	15,372	(3,500)	11,872	7,044	(3,772)	3,272
Total	18 years	269,417	(96,771)	172,646	225,273	(87,290)	137,983
Intangible assets not subject to amortization:							
Tradenames		20,700	-	20,700	9,400	-	9,400
Total intangible assets		$290,117	$(96,771)	$193,346	$234,673	$(87,290)	$147,383

Amortization expense related to intangible assets was $10,843, $4,637 and $6,378 for the years ended December 31, 2006, 2005 and 2004, respectively.

The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of December 31, 2006 is as follows:

Fiscal Year Ending December 31,	
2007	$ 11,882
2008	11,743
2009	11,329
2010	11,071
2011	10,849
Thereafter	115,772
Total	$172,646

For the year ended December 31, 2006, the increase in intangible assets not subject to amortization was due to tradenames resulting from the acquisitions of Focus Diagnostics, $9.1 million, and Enterix, $2.2 million (see Note 3).

For the year ended December 31, 2005, the increase in intangible assets not subject to amortization was due to tradenames resulting from the acquisition of LabOne, $9.4 million (see Note 3).

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Trade accounts payable	$215,721	$193,385
Accrued wages and benefits	321,539	275,709
Accrued expenses	296,736	295,359
Total	$833,996	$764,453

10. DEBT

Short-term borrowings and current portion of long-term debt at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Borrowings under Secured Receivables Credit Facility	$300,000	$ 60,000
Senior Notes due July 2006	-	274,844
Current portion of long-term debt	16,874	1,995
Total short-term borrowings and current portion of long-term debt	$316,874	$336,839

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Industrial Revenue Bonds due September 2009	$ 5,376	$ 7,200
Term loan due December 2008	75,000	75,000
Senior Notes due November 2010	399,423	399,273
Senior Notes due July 2011	274,503	274,392
Senior Notes due November 2015	498,587	498,427
Debentures due June 2034	2,957	2,858
Other	133	231
Total	1,255,979	1,257,381
Less: current portion	16,874	1,995
Total long-term debt	$1,239,105	$1,255,386

2004 Debt Refinancings

On April 20, 2004, the Company entered into a $500 million senior unsecured revolving credit facility (the "Credit Facility") which replaced a $325 million unsecured revolving credit facility. Under the Credit Facility, which matures in April 2009, interest is based on certain published rates plus an applicable margin that will vary over an approximate range of 90 basis points based on changes in the Company's public debt rating. At the option of the Company, it may elect to enter into LIBOR-based interest rate contracts for periods up to 180 days. Interest on any outstanding amounts not covered under the LIBOR-based interest rate contracts is based on an alternate base rate, which is calculated by reference to the prime rate or federal funds rate. As of December 31, 2006 and 2005, the Company's borrowing rate for LIBOR-based loans was LIBOR plus 0.50%. The Credit Facility is guaranteed by the Company's wholly owned subsidiaries that operate clinical laboratories in the United States (the "Subsidiary Guarantors"). The Credit Facility contains various covenants, including the maintenance of certain financial ratios, which could impact the Company's ability to, among other things, incur additional indebtedness. At both December 31, 2006 and 2005, there are no borrowings outstanding under the Credit Facility.

In addition, on April 20, 2004, the Company entered into a new $300 million receivables securitization facility (the "Secured Receivables Credit Facility") which replaced a $250 million receivables securitization facility that matured in April 2004. The Secured Receivables Credit Facility matures in July 2007. Interest on the Secured Receivables Credit Facility is based on rates that are intended to approximate commercial paper rates for highly rated issuers. At December 31, 2006 and 2005, the Company's borrowing rate under the Secured Receivables Credit Facility was 5.6% and 4.7%, respectively. The Secured Receivables Credit Facility is supported by one-year back-up facilities provided by two banks on a committed basis. Borrowings outstanding under the Secured Receivables Credit Facility, if any, are classified as a current liability on the Company's consolidated balance sheets due to the term of the one-year back-up facilities described above.

In conjunction with the debt refinancings, the Company recorded a $2.9 million charge to earnings in the second quarter of 2004 representing the write-off of deferred financing costs associated with the debt that was refinanced. The $2.9 million charge was included in interest expense, net within the consolidated statements of operations for the year ended December 31, 2004.

Industrial Revenue Bonds

In connection with the acquisition of LabOne in November 2005, the Company assumed $7.2 million of Industrial Revenue Bonds. Principal is payable annually in equal installments through September 1, 2009. Interest is payable monthly at a rate adjusted weekly based on LIBOR plus approximately 0.08%. At December 31, 2006 and 2005, the rate was 5.4% and 4.5%, respectively. At December 31, 2006, the remaining principal outstanding was $5.4 million. The bonds are secured by the Lenexa, Kansas laboratory facility and an irrevocable bank letter of credit.

Term Loan due December 2008

On December 19, 2003, the Company entered into a $75 million amortizing term loan facility (the "term loan due December 2008"), which was funded on January 12, 2004. Interest under the term loan due December 2008 is based on LIBOR plus an applicable margin that can fluctuate over a range of up to 119 basis points, based on changes in the Company's public debt rating. At the option of the Company, it may elect to enter into LIBOR-based interest rate contracts for periods up to 180 days. Interest on any outstanding amounts not covered under the LIBOR-based interest rate contracts is based on an alternate base rate, which is calculated by reference to the prime rate or federal funds rate. As of December 31, 2006 and 2005, the Company's borrowing rate for LIBOR-based loans was LIBOR plus 0.50%. The term loan due December 2008 requires principal repayments of the initial amount borrowed equal to 20% on each of the third and fourth anniversary dates of the funding and the remainder of the outstanding balance on December 31, 2008. The term loan due December 2008 is guaranteed by the Subsidiary Guarantors and contains various covenants similar to those under the Credit Facility.

Senior Notes

In conjunction with its 2001 debt refinancing, the Company completed a $550 million senior notes offering in June 2001 (the "2001 Senior Notes"). The 2001 Senior Notes were issued in two tranches: (a) $275 million aggregate principal amount of 6¾% senior notes due 2006 ("Senior Notes due 2006"), issued at a discount of approximately $1.6 million and (b) $275 million aggregate principal amount of 7½% senior notes due 2011 ("Senior Notes due 2011"), issued at a discount of approximately $1.1 million. On July 12, 2006, the Company repaid the $275 million outstanding under the Senior Notes due 2006. After considering the discount, the effective interest rates on the Senior Notes due 2011 is 7.6%. The Senior Notes due 2011 require semiannual interest payments. The Senior Notes due 2011 are unsecured obligations of the Company and rank equally with the Company's other unsecured senior obligations. The Senior Notes due 2011 are guaranteed by the Subsidiary Guarantors and do not have a sinking fund requirement.

On October 31, 2005, the Company completed its $900 million private placement of senior notes (the "2005 Senior Notes"). The 2005 Senior Notes were priced in two tranches: (a) $400 million aggregate principal amount of 5.125% senior notes due November 1, 2010 ("Senior Notes due 2010"); and (b) $500 million aggregate principal amount of 5.45% senior notes due November 1, 2015 ("Senior Notes due 2015"). The Company used the net proceeds from the 2005 Senior Notes, together with cash on hand, to pay the cash purchase price and transaction costs of the LabOne acquisition and to repay $127 million of LabOne's debt. The Senior Notes due 2010 and 2015 were issued at a discount of $0.8 million and $1.6 million, respectively. After considering the discounts, the effective interest rates on the Senior Notes due 2010 and 2015 are approximately 5.3% and 5.6%, respectively. The 2005 Senior Notes require semiannual interest payments, which commenced on May 1, 2006. The 2005 Senior Notes are unsecured obligations of the Company and rank equally with the Company's other unsecured senior obligations. The 2005 Senior Notes are guaranteed by the Subsidiary Guarantors. Under a registration rights agreement executed in connection with the offering and sale of the 2005 Senior Notes and related guarantees, the Company filed a registration statement which was declared effective on February 16, 2006, to enable the holders of the 2005 Senior Notes to exchange the notes and guarantees for publicly registered notes and guarantees and all the holders exchanged the notes and guarantees for publicly registered notes and guarantees.

Treasury Lock Agreements

In October 2005, the Company entered into interest rate lock agreements with two financial institutions for a total notional amount of $300 million to lock the U.S. treasury rate component of a portion of the Company's offering of its debt securities in the fourth quarter of 2005 (the "Treasury Lock Agreements"). The Treasury Lock

Agreements, which had an original maturity date of November 9, 2005, were entered into to hedge part of the Company's interest rate exposure associated with the minimum amount of debt securities that were issued in the fourth quarter of 2005. In connection with the Company's private placement of its Senior Notes due 2015 on October 25, 2005, the Treasury Lock Agreements were settled and the Company received $2.5 million, representing the gain on the settlement of the Treasury Lock Agreements. These gains are deferred in stockholders' equity (as a component of comprehensive income) and amortized as an adjustment to interest expense over the term of the Senior Notes due 2015.

Debentures due June 2034

In connection with the acquisition of LabOne in November 2005, the Company assumed $103.5 million of 3.50% convertible senior debentures of LabOne due June 15, 2034 (the "Debentures due June 2034"). As a result of the change in control of LabOne, the holders of the debentures had the right from November 1, 2005 to December 1, 2005 to: (i) have their debentures repurchased by LabOne for 100% of the principal amount of the debentures, plus accrued and unpaid interest thereon through November 30, 2005; or (ii) have their debentures converted into the amount the respective holder would have received if the holder had converted the debentures prior to November 1, 2005, plus an additional premium. As a result of the change in control of LabOne, and as provided in the indenture to the debentures, the conversion rate increased so that each $1,000 principal amount of the debentures was convertible into cash in the amount of $1,280.88 if converted by December 1, 2005. As a result of the change in control of LabOne, of the total outstanding principal balance of the Debentures due June 2034 of $103.5 million, $99 million of principal was converted for $126.8 million in cash, reflecting a premium of $27.8 million. The remaining outstanding principal of the Debentures due June 2034 totaling $4.5 million was adjusted to its estimated fair value of $2.9 million, reflecting a discount of $1.6 million based on the net present value of the estimated remaining obligations, at current interest rates. The Debentures due June 2034 are no longer convertible into shares of common stock of LabOne or the Company. The Debentures due June 2034 require semi-annual interest payments in June and December.

Letter of Credit Lines

The Company has two lines of credit with two financial institutions totaling $85 million for the issuance of letters of credit (the "letter of credit lines"). The letter of credit lines mature in December 2007 and are guaranteed by the Subsidiary Guarantors. As of December 31, 2006, there are $67 million of outstanding letters of credit under the letter of credit lines.

As of December 31, 2006 long-term debt, maturing in each of the years subsequent to December 31, 2007, is as follows:

Year ending December 31,	
2008	$ 61,797
2009	1,788
2010	399,473
2011	274,503
2012	-
Thereafter	501,544
Total long-term debt	$1,239,105

11. PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY

Series Preferred Stock

Quest Diagnostics is authorized to issue up to 10 million shares of Series Preferred Stock, par value $1.00 per share. The Company's Board of Directors has the authority to issue such shares without stockholder approval and to determine the designations, preferences, rights and restrictions of such shares. Of the authorized shares, 1,300,000 shares have been designated Series A Preferred Stock and 1,000 shares have been designated Voting Cumulative Preferred Stock. No shares are currently outstanding.

Preferred Share Purchase Rights

Through December 31, 2006, each share of Quest Diagnostics common stock traded with a preferred share purchase right, which entitled stockholders to purchase one-hundredth of a share of Series A Preferred Stock upon the occurrence of certain events. In conjunction with the SBCL acquisition, the Board of Directors of the Company approved an amendment to the preferred share purchase rights. The amended rights entitled stockholders to purchase shares of Series A Preferred Stock at a predefined price in the event a person or group (other than SmithKline Beecham) acquires 20% or more of the Company's outstanding common stock. The preferred share purchase rights expired December 31, 2006.

Common Stock

On May 4, 2006 the Company's Restated Certificate of Incorporation was amended to increase the number of shares of common stock, par value $0.01 per share, from 300 million shares to 600 million shares.

Accumulated Other Comprehensive (Loss) Income

The components of accumulated other comprehensive (loss) income for 2006, 2005 and 2004 were as follows:

	Foreign Currency Translation Adjustment	Market Value Adjustment	Deferred Gain	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2003	$ (311)	$ 6,258	$ -	$ 5,947
Translation adjustment	1,650	-	-	1,650
Market value adjustment, net of tax benefit of $2,515	-	(3,731)	-	(3,731)
Balance, December 31, 2004	1,339	2,527	-	3,866
Translation adjustment	(3,287)	-	-	(3,287)
Market value adjustment, net of tax benefit of $6,057	-	(9,238)	-	(9,238)
Deferred gain, less reclassifications	-	-	2,454	2,454
Balance, December 31, 2005	(1,948)	(6,711)	2,454	(6,205)
Translation adjustment	2,460	-	-	2,460
Market value adjustment, net of tax benefit of $2,501	-	(3,815)	-	(3,815)
Reversal of market value adjustment, net of tax expense of $(5,053)	-	7,707	-	7,707
Deferred gain reclassifications	-	-	(212)	(212)
Balance, December 31, 2006	$ 512	$(2,819)	$2,242	$ (65)

The market value adjustments for 2006, 2005 and 2004 represented unrealized holding gains (losses), net of taxes. The reversal of market value adjustments for 2006 represents prior periods unrealized holding losses for investments where the decline in fair value was deemed to be other than temporary in 2006 and the resulting loss was recognized in the consolidated statements of operations. (See Note 2). The deferred gain for 2005

represented the $2.5 million the Company received upon the settlement of its Treasury Lock Agreements, net of amounts reclassified as a reduction to interest expense (see Note 10).

Dividend Program

During each of the quarters of 2006, 2005 and 2004, the Company's Board of Directors has declared a quarterly cash dividend of $0.10, $0.09 and $0.075 per common share, respectively.

Share Repurchase Plan

In 2003, the Company's Board of Directors authorized a share repurchase program, which permitted the Company to purchase up to $600 million of its common stock. In July 2004, January 2005 and January 2006, the Company's Board of Directors authorized the Company to purchase up to an additional $300 million, $350 million and $600 million, respectively, of its common stock. Under a separate authorization from the Board of Directors, in December 2004 the Company repurchased 5.4 million shares of its common stock for approximately $254 million from GlaxoSmithKline plc. For the year ended December 31, 2006, the Company repurchased 8.9 million shares of its common stock at an average price of $53.23 per share for $472 million. For the year ended December 31, 2006, the Company reissued 4.2 million shares in connection with employee benefit plans. For the year ended December 31, 2005, the Company repurchased 7.8 million shares of its common stock at an average price of $49.98 per share for $390 million. For the year ended December 31, 2005, the Company reissued 5.6 million shares and 4.3 million shares, respectively, in connection with the conversion of its Debentures and for employee benefit plans. At December 31, 2006, $250 million of the share repurchase authorization remained available.

12. STOCK OWNERSHIP AND COMPENSATION PLANS

For the year ended December 31, 2006, the stock-based compensation expense recorded in accordance with SFAS 123R totaled $55 million. In addition, in connection with the adoption of SFAS 123R, net cash provided by operating activities decreased and net cash provided by financing activities increased for the year ended December 31, 2006 by $33 million related to excess tax benefits from stock-based compensation arrangements.

Employee and Non-employee Directors Stock Ownership Programs

In 2005, the Company established the ELTIP to replace the Company's prior Employee Equity Participation Programs established in 1999 (the "1999 EEPP") and 1996 (the "1996 EEPP"). The ELTIP provides for three types of awards: (a) stock options, (b) stock appreciation rights and (c) incentive stock awards. The ELTIP provides for the grant to eligible employees of either non-qualified or incentive stock options, or both, to purchase shares of Quest Diagnostics common stock at a price of no less than the fair market value on the date of grant. The stock options are subject to forfeiture if employment terminates prior to the end of the prescribed vesting period, as determined by the Board of Directors. The stock options expire on the date designated by the Board of Directors but in no event more than seven years from date of grant for those granted subsequent to January 1, 2005. Grants of stock appreciation rights allow eligible employees to receive a payment based on the appreciation of Quest Diagnostics common stock in cash, shares of Quest Diagnostics common stock or a combination thereof. The stock appreciation rights are granted at an exercise price at no less than the fair market value of Quest Diagnostics common stock on the date of grant. Stock appreciation rights expire on the date designated by the Board of Directors but in no event more than seven years from date of grant. No stock appreciation rights have been granted under the ELTIP or the 1999 EEPP. Under the incentive stock provisions of the plan, the ELTIP allows eligible employees to receive awards of shares, or the right to receive shares, of Quest Diagnostics common stock, the equivalent value in cash or a combination thereof. These shares are generally earned on achievement of financial performance goals and are subject to forfeiture if employment terminates prior to the end of the prescribed vesting period, as determined by the Board of Directors. The actual amount of performance share awards is based on the Company's earnings per share growth for the performance period compared to that of a peer group of companies. Key executive, managerial and technical employees are eligible to participate in the ELTIP. The provisions of the 1999 EEPP and the 1996 EEPP were similar to those

outlined above for the ELTIP. Certain options granted under the 1999 EEPP and the 1996 EEPP remain outstanding.

The ELTIP increased the maximum number of shares of Quest Diagnostics common stock that may be optioned or granted to 48 million shares. In addition, any remaining shares under the 1996 EEPP are available for issuance under the ELTIP.

In 2005, the Company established the Amended and Restated Director Long-Term Incentive Plan (the "DLTIP"), to replace the Company's prior plan established in 1998. The DLTIP provides for the grant to non-employee directors of non-qualified stock options to purchase shares of Quest Diagnostics common stock at no less than the fair market value on the date of grant and incentive stock awards. The incentive stock awards are generally earned on achievement of certain performance goals specified in the awards. The maximum number of shares that may be issued under the DLTIP is 2 million shares. The stock options expire seven years from date of grant and generally become exercisable in three equal annual installments beginning on the first anniversary date of the grant of the option regardless of whether the optionee remains a director of the Company. During 2006, 2005 and 2004, grants under the DLTIP totaled 95, 110 and 180 thousand shares, respectively.

In general, the Company's practice has been to issue shares related to its stock-based compensation program from shares of its common stock held in treasury. See Note 11 for further information regarding the Company's share repurchase program.

The fair value of each option granted prior to January 1, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of each stock option award granted subsequent to January 1, 2005 was estimated on the date of grant using a lattice-based option valuation model. Management believes a lattice-based option valuation model provides a more accurate measure of fair value. The expected volatility in connection with the Black-Scholes option-pricing model was based on the historical volatility of the Company's stock, while the expected volatility under the lattice-based option-valuation model was based on the current and the historical implied volatilities from traded options of the Company's stock. The dividend yield was based on the approved annual dividend rate in effect and current market price of the underlying common stock at the time of grant. The risk-free interest rate of each option granted prior to January 1, 2005 was estimated using the time applicable U.S. Treasury rate in effect at the time of grant. The risk-free interest rate of each stock option granted subsequent to January 1, 2005 was based on the U.S. Treasury yield curve in effect at the time of grant for bonds with maturities ranging from one month to seven years. The expected holding period of the options granted was estimated using the historical exercise behavior of employees. The weighted average assumptions used in valuing options granted in the periods presented are:

	2006	2005	2004
Weighted average fair value of options at grant date	$13.91	$14.17	$17.23
Expected volatility	18.2%	23.0%	47.2%
Dividend yield	0.7%	0.7%	0.7%
Risk-free interest rate	4.6%	3.9% - 4.0%	2.8% - 4.0%
Expected holding period, in years	5.6 - 6.2	5.4 - 5.9	5.0

The fair value of restricted stock awards and performance share units is the average market price of the Company's common stock at the date of grant.

Transactions under the stock option plans for 2006, 2005 and 2004 were as follows:

	2006				2005		2004	
	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)	Shares (in thousands)	Weighted Average Exercise Price	Shares (in thousands)	Weighted Average Exercise Price
Options outstanding, beginning of year	15,048	$34.33			16,752	$29.49	20,480	$22.43
Options granted	2,501	52.57			2,777	49.66	4,428	40.85
Options exercised	(3,835)	27.40			(3,990)	25.87	(7,042)	16.06
Options forfeited and canceled	(465)	45.90			(491)	24.48	(1,114)	29.65
Options outstanding, end of year	13,249	$39.44	5.8	$180	15,048	$34.33	16,752	$29.49
Exercisable, end of year	8,154	$33.50	5.6	$159	8,660	$28.81	8,516	$23.95
Vested and expected to vest at December 31, 2006	13,006	$39.21	5.8	$180				

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing common stock price on the last trading day of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2006. This amount changes, based on the fair market value of the Company's common stock. Total intrinsic value of options exercised in 2006 and 2005 was $106 million and $98 million, respectively.

As of December 31, 2006, there was $19 million of unrecognized stock-based compensation cost related to stock options which is expected to be recognized over a weighted average period of 1.7 years.

The following relates to options outstanding at December 31, 2006:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Shares (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares (in thousands)	Weighted Average Exercise Price
$ 3.97 - $ 4.44	44	1.2	$ 4.06	44	$ 4.06
$ 6.46 - $ 9.58	394	2.7	6.91	394	6.91
$15.03 - $22.38	214	3.4	15.30	214	15.30
$23.27 - $34.79	3,129	5.4	26.91	3,129	26.91
$35.01 - $52.50	8,773	6.2	44.97	4,204	41.33
$52.62 - $61.68	695	5.7	54.16	169	53.27

The following summarizes the activity relative to incentive stock awards, including restricted stock awards and performance share units, for 2006, 2005 and 2004:

	2006		2005	2004
	Shares (in thousands)	Weighted Average Grant Date Fair Value	Shares (in thousands)	Shares (in thousands)
Incentive shares outstanding, beginning of year	107	$49.71	-	576
Incentive shares granted	1,020	52.32	113	-
Incentive shares vested	(39)	50.26	(1)	(538)
Incentive shares forfeited and canceled	(56)	51.92	(5)	(38)
Adjustment to estimate of performance share units to be earned	(582)	51.94	-	-
Incentive shares outstanding, end of year	450	$52.41	107	-

In the fourth quarter of 2006, the Company revised its estimate of the number of performance share units expected to be earned at the end of the performance periods as a result of revising its estimates of projected performance and reduced the number of performance share units by 0.6 million.

As of December 31, 2006, there was $12 million of unrecognized stock-based compensation cost related to nonvested incentive stock awards, which is expected to be recognized over a weighted average period of 1.9 years. Total fair value of shares vested was $2.1 million and less than $0.1 million for the year ended December 31, 2006 and 2005, respectively. The amount of unrecognized stock-based compensation cost is subject to change based on revisions, if any, to management's best estimates of the achievement of the performance goals specified in such awards and the resulting number of shares that will be earned at the end of the performance periods.

For the years ended December 31, 2006, 2005 and 2004, stock-based compensation expense totaled $55 million, $2.0 million and $1.4 million, respectively. Income tax benefits related to stock-based compensation expense totaled $22 million for the year ended December 31, 2006. Income tax benefits related to stock-based compensation for 2005 and 2004 were not material.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP"), which was approved by the Company's shareholders at the 2006 Annual Meeting of Shareholders, substantially all employees can elect to have up to 10% of their annual wages withheld to purchase Quest Diagnostics common stock. The purchase price of the stock is 85% of the market price of the Company's common stock on the last business day of each calendar month. Under the ESPP, the maximum number of shares of Quest Diagnostics common stock which may be purchased by eligible employees is 5 million. Approximately 474, 409 and 460 thousand shares of common stock were purchased by eligible employees in 2006, 2005 and 2004, respectively.

Defined Contribution Plan

The Company maintains a qualified defined contribution plan covering substantially all of its employees, and matches employee contributions up to a maximum of 6%. The Company's expense for contributions to its defined contribution plan aggregated $69 million, $64 million and $62 million for 2006, 2005 and 2004, respectively.

Supplemental Deferred Compensation Plan

The Company's supplemental deferred compensation plan is an unfunded, non-qualified plan that provides for certain management and highly compensated employees to defer up to 50% of their eligible compensation in excess of their defined contribution plan limits. In addition, certain members of senior management have an additional opportunity to defer up to 95% of their variable incentive compensation. The compensation deferred under this plan, together with Company matching amounts, are credited with earnings or losses measured by the mirrored rate of return on investments elected by plan participants. Each plan participant is fully vested in all deferred compensation, Company match and earnings credited to their account. Although the Company is currently contributing all participant deferrals and matching amounts to a trust, the funds in the trust, totaling $30.0 million and $25.7 million at December 31, 2006 and 2005, respectively, are general assets of the Company and are subject to any claims of the Company's creditors. The Company's expense for matching contributions to this plan were approximately $1 million for 2006, 2005 and 2004.

13. RELATED PARTY TRANSACTIONS

At December 31, 2006, GlaxoSmithKline plc ("GSK"), the result of the merger of Glaxo Wellcome and SmithKline Beecham in December 2000, beneficially owned approximately 19% of the outstanding shares of Quest Diagnostics common stock.

Quest Diagnostics is the primary provider of testing to support GSK's clinical trials testing requirements worldwide (the "Clinical Trials Agreements"). Net revenues, primarily derived under the Clinical Trials Agreements were $87 million, $69 million and $74 million for 2006, 2005 and 2004, respectively.

In addition, under the SBCL acquisition agreements, SmithKline Beecham has agreed to indemnify Quest Diagnostics, on an after tax basis, against certain matters primarily related to taxes and billing and professional liability claims.

At December 31, 2006 and 2005, liabilities included $27 million and $28 million, respectively, due to SmithKline Beecham, primarily related to tax benefits associated with indemnifiable matters.

14. COMMITMENTS AND CONTINGENCIES

Minimum rental commitments under noncancelable operating leases, primarily real estate, in effect at December 31, 2006 are as follows:

Year ending December 31,	
2007	$154,046
2008	127,787
2009	104,911
2010	76,971
2011	52,466
2012 and thereafter	139,991
Minimum lease payments	656,172
Noncancelable sub-lease income	(102)
Net minimum lease payments	$656,070

Operating lease rental expense for 2006, 2005 and 2004 aggregated $153 million, $140 million and $133 million, respectively. Rent expense associated with operating leases that include scheduled rent increases and tenant incentives, such as rent holidays, is recorded on a straight-line basis over the term of the lease.

The Company is subject to contingent obligations under certain leases and other instruments incurred in connection with real estate activities and other operations associated with LabOne and certain of its predecessor companies. The contingent obligations arise out of certain land leases with two Hawaiian trusts relating to land in Waikiki upon which a hotel is built and a land lease for a parking garage in Reno, Nevada. While its title and interest to the subject leases have been transferred to third parties, the land owners have not released the original obligors, including predecessors of LabOne, from their obligations under the leases. In February 2006, the subtenant of the hotel in Waikiki filed for Chapter 11 bankruptcy protection in Honolulu. The subtenant has publicly indicated that the filing will have no impact on the operations of the hotel and therefore, the Company believes the subtenant will continue to pay the rent and real estate taxes on the subject leased property. Should the current subtenants of the leased properties fail to pay their rent and real estate taxes for the subject leased property, the default could trigger liability for LabOne as well as other sublessors. The rent payments under the Hawaiian land leases are subject to market value adjustments every ten years beginning in 2007. Given that the Hawaiian land leases are subject to market value adjustments, the total contingent obligations under such leases cannot be precisely estimated, but are likely to total several hundred million dollars. The contingent obligation of the Nevada lease is estimated to be approximately $6 million. The Company believes that the leasehold improvements on the leased properties are significantly more valuable than the related lease obligations. Based on the circumstances above, no liability has been recorded for any potential contingent obligations related to the land leases.

The Company has certain noncancelable commitments to purchase products or services from various suppliers, mainly for telecommunications and standing orders to purchase reagents and other laboratory supplies. At December 31, 2006, the approximate total future purchase commitments are $72 million, of which $31 million are expected to be incurred in 2007.

In support of its risk management program, the Company has standby letters of credit issued under its letter of credit lines to ensure its performance or payment to third parties, which amounted to $67 million at December 31, 2006. The letters of credit, which are renewed annually, primarily represent collateral for current and future automobile liability and workers' compensation loss payments.

The Company has in the past entered into several settlement agreements with various government and private payers relating to industry-wide billing and marketing practices that had been substantially discontinued.

The federal or state governments may bring additional claims based on new theories as to the Company's practices which management believes to be in compliance with law. In addition, certain federal and state statutes, including the qui tam provisions of the federal False Claims Act, allow private individuals to bring lawsuits against healthcare companies on behalf of government or private payers alleging inappropriate billing practices. The Company is aware of certain pending lawsuits related to billing practices filed under the qui tam provisions of the False Claims Act and other federal and state statutes. These lawsuits include class action and individual claims by patients arising out of the Company's billing practices. In addition, the Company is involved in various legal proceedings arising in the ordinary course of business. Some of the proceedings against the Company involve claims that are substantial in amount.

During the fourth quarter of 2004, the Company and NID each received a subpoena from the United States Attorney's Office for the Eastern District of New York. The subpoenas request a wide range of business records, including documents regarding testing and test kits related to parathyroid hormone ("PTH") testing. The Company is cooperating with the United States Attorney's Office. The Company has voluntarily provided information, witnesses and business records of NID and the Company, including documents related to testing and various test kits other than PTH tests, which were not requested in the initial subpoenas. During the third quarter of 2006, the government issued two additional subpoenas, one to NID and one to the Company. The subpoenas cover various records, including records related to test kits in addition to PTH. The government may issue additional subpoenas in the course of its investigation. This investigation could lead to civil and criminal damages, fines and penalties and additional liabilities from third party claims. In the second and third quarters of 2005, the FDA conducted an inspection of NID and issued a Form 483 listing the observations made by the FDA during the course of the inspection. NID responded to the Form 483. Noncompliance with the FDA regulatory requirements or failure to take adequate and timely corrective action could lead to regulatory or enforcement action against NID and/or the Company, including, but not limited to, a warning letter, injunction, fines or penalties, recommendation against award of governmental contracts and criminal prosecution. On April 19, 2006, the Company decided to discontinue the operations of NID. See Note 15 for further details.

During the second quarter of 2005, the Company received a subpoena from the United States Attorney's Office for the District of New Jersey. The subpoena seeks the production of business and financial records regarding capitation and risk sharing arrangements with government and private payers for the years 1993 through 1999. Also, during the third quarter of 2005, the Company received a subpoena from the U.S. Department of Health and Human Services, Office of the Inspector General. The subpoena seeks the production of various business records including records regarding our relationship with health maintenance organizations, independent physician associations, group purchasing organizations, and preferred provider organizations from 1995 to the present. The Company is cooperating with the United States Attorney's Office and the Office of the Inspector General.

During the second quarter of 2006, the Company received a subpoena from the California Attorney General's Office. The subpoena seeks various documents including documents relating to billings to MediCal, the California Medicaid program. The subpoena seeks documents from various time frames ranging from three to ten years. The Company is cooperating with the California Attorney General's Office.

Several of the proceedings discussed above are in their early stages of development and involve responding to and cooperating with various government investigations and related subpoenas. While the Company believes that at least a reasonable possibility exists that losses may have been incurred, based on the nature and status of the investigations, the losses are either currently not probable or cannot be reasonably estimated.

Management has established reserves in accordance with generally accepted accounting principles for the matters discussed above. Such reserves totaled less than $5 million as of December 31, 2006. Although management cannot predict the outcome of such matters, management does not anticipate that the ultimate outcome of such matters will have a material adverse effect on the Company's financial condition but may be material to the Company's results of operations or cash flows in the period in which the impact of such matters is determined or paid. However, the Company understands that there may be pending qui tam claims brought by former employees or other "whistle blowers", or other pending claims as to which the Company has not been provided with a copy of the complaint and accordingly cannot determine the extent of any potential liability.

As a general matter, providers of clinical laboratory testing services may be subject to lawsuits alleging negligence or other similar legal claims. These suits could involve claims for substantial damages. Any

professional liability litigation could also have an adverse impact on the Company's client base and reputation. The Company maintains various liability insurance coverage for claims that could result from providing or failing to provide clinical laboratory testing services, including inaccurate testing results and other exposures. The Company's insurance coverage limits its maximum exposure on individual claims; however, the Company is essentially self-insured for a significant portion of these claims. The basis for claims reserves considers actuarially determined losses based upon the Company's historical and projected loss experience. Management believes that present insurance coverage and reserves are sufficient to cover currently estimated exposures. Although management cannot predict the outcome of any claims made against the Company, management does not anticipate that the ultimate outcome of any such proceedings or claims will have a material adverse effect on the Company's financial condition but may be material to the Company's results of operations or cash flows in the period in which the impact of such claims is determined or paid.

15. DISCONTINUED OPERATIONS

During the fourth quarter of 2005, NID instituted its second voluntary product hold within a six-month period, due to quality issues, which adversely impacted the operating performance of NID. As a result, the Company evaluated a number of strategic options for NID. On April 19, 2006, the Company decided to discontinue NID's operations. During the third quarter of 2006, the Company completed its wind down of NID and classified the operations of NID as discontinued operations. The accompanying consolidated statements of operations and related disclosures have been restated to report the results of NID as discontinued operations for all periods presented. In connection with the Company's wind-down of NID's operations, for the year ended December 31, 2006, the Company recorded pretax charges of $32 million comprised of: $7 million related to the write-off of inventories; asset impairment charges of $6 million; employee severance costs of $6 million; contract termination costs of $6 million; $2 million related to facility closure charges; and $5 million of costs to support activities to wind-down the business, principally comprised of employee costs and professional fees.

The ongoing government investigation and regulatory review of NID continue (see Note 14). While management does not believe that these matters will have a material adverse impact on the Company's overall financial condition, their final resolution could be material to the Company's results of operations or cash flows in the period in which the impact of such matters is determined or paid.

Summarized financial information for the discontinued operations of NID is set forth below (amounts in thousands):

	2006	2005	2004
Net revenues	$ 3,610	$ 46,985	$59,615
(Loss) income from discontinued operations before income taxes	(59,169)	(39,554)	10,240
Income tax (benefit) expense	(19,898)	(12,635)	3,460
(Loss) income from discontinued operations, net of taxes	$(39,271)	$(26,919)	$ 6,780

Balance sheet information related to NID was not material at December 31, 2006 or 2005.

16. BUSINESS SEGMENT INFORMATION

Clinical laboratory testing is an essential element in the delivery of healthcare services. Physicians use laboratory tests to assist in the detection, diagnosis, evaluation, monitoring and treatment of diseases and other medical conditions. Clinical laboratory testing is generally categorized as clinical testing and anatomic pathology testing. Clinical testing is performed on body fluids, such as blood and urine. Anatomic pathology testing is performed on tissues, including biopsies, and other samples, such as human cells. Customers of the clinical laboratory testing business include patients, physicians, hospitals, employers, governmental institutions and other commercial clinical laboratories.

All other operating segments include the Company's non-clinical laboratory testing businesses and consist of its risk assessment services business, its clinical trials testing business, its healthcare information technology business, MedPlus and its diagnostics products businesses. The Company's risk assessment business, acquired as part of the LabOne acquisition in 2005 (see Note 3), provides underwriting support services to the life insurance industry including teleunderwriting, paramedical examinations, laboratory testing and medical record retrieval. The

Company's clinical trials testing business provides clinical laboratory testing performed in connection with clinical research trials on new drugs. MedPlus is a developer and integrator of clinical connectivity and data management solutions for healthcare organizations, physicians and clinicians. The Company's diagnostics products business manufactures and markets diagnostic test kits and systems. On April 19, 2006, the Company decided to discontinue NID's operations and results of operations for NID have been classified as discontinued operations for all years presented (see Note 15). During the third quarter of 2006, the Company acquired Focus Diagnostics and Enterix, (see Note 3), both of which develop and market diagnostic products.

At December 31, 2006, substantially all of the Company's services are provided within the United States, and substantially all of the Company's assets are located within the United States.

The following table is a summary of segment information for the three years ended December 31, 2006, 2005 and 2004. Segment asset information is not presented since it is not reported to or used by the chief operating decision maker at the operating segment level. Operating earnings (loss) of each segment represents net revenues less directly identifiable expenses to arrive at operating income for the segment. General management and administrative corporate expenses, including amortization of intangible assets, are included in general corporate expenses below. The accounting policies of the segments are the same as those of the Company as set forth in Note 2.

	2006	2005	2004
Net revenues:			
Clinical laboratory testing business	$5,785,311	$5,247,465	$4,910,753
All other operating segments	483,348	209,261	156,233
Total net revenues	$6,268,659	$5,456,726	$5,066,986
Operating earnings (loss):			
Clinical laboratory testing business	$1,236,446 (a)(b)	$1,083,395 (e)	$ 971,395
All other operating segments	12,693 (c)	8,594	8,642
General corporate expenses	(121,062)(d)	(84,441)	(99,183)(f)
Total operating income	1,128,077	1,007,548	880,854
Non-operating expenses, net	(94,804)	(57,540)	(55,968)
Income from continuing operations before income taxes	1,033,273	950,008	824,886
Income tax expense	407,581	376,812	332,471
Income from continuing operations	625,692	573,196	492,415
(Loss) income from discontinued operations, net of taxes	(39,271)(g)	(26,919)(g)	6,780 (g)
Net income	$ 586,421	$ 546,277	$ 499,195

(a) Operating income for the year ended 2006 includes $33.7 million of stock-based compensation expense.

(b) Operating income for the year ended 2006 includes $27 million of special charges, primarily associated with integration activities (see Note 4).

(c) Operating income for the year ended 2006 includes $3.8 million of stock-based compensation expense.

(d) Operating income for the year ended 2006 includes $17.9 million of stock-based compensation expense.

(e) During 2005, the Company recorded a $6.2 million charge primarily related to forgiving amounts owed by patients and physicians, and related property damage as a result of the hurricanes in the Gulf Coast.

(f) During 2004, the Company recorded a $10.3 million charge associated with the acceleration of certain pension obligations in connection with the succession of the Company's prior CEO.

(g) See Note 15.

	2006	2005	2004
Depreciation and amortization:			
Clinical laboratory testing business	$167,672	$156,920	$148,804
All other operating segments	16,375	8,441	6,919
General corporate	11,640	5,822	7,610
Discontinued operations	1,711	4,941	5,393
Total depreciation and amortization	$197,398	$176,124	$168,726
Capital expenditures:			
Clinical laboratory testing business	$168,636	$204,469	$167,203
All other operating segments	17,291	13,445	3,657
General corporate	6,722	3,912	2,379
Discontinued operations	773	2,444	2,886
Total capital expenditures	$193,422	$224,270	$176,125

17. SUBSEQUENT EVENT

Acquisition of HemoCue

On January 31, 2007, the Company acquired POCT Holding AB ("HemoCue"), a Sweden-based company specializing in point-of-care testing, also referred to as near patient testing, in an all-cash transaction valued at approximately $420 million, including $123 million of assumed debt of HemoCue. The transaction, which has been financed through a new credit facility, is not expected to have a material impact on the Company's 2007 financial results.

HemoCue is the leading international provider in near patient testing for hemoglobin, with a growing share in professional glucose and microalbumin testing. In addition, HemoCue is currently developing new tests including a near patient test to determine white blood cell counts.

New Credit Facility

On January 31, 2007, the Company entered into an Interim Credit Agreement ("Interim Credit Facility") for a $450 million senior unsecured loan and borrowed $450 million to acquire HemoCue, and to pay fees, costs and expenses incurred in connection with the acquisition.

Under the Interim Credit Facility, which matures on January 31, 2008, interest is based on certain published rates plus an applicable margin that will vary over an approximate range of 45 basis points based on changes in the Company's public debt rating. At its option, the Company may elect to enter into LIBOR-based interest rate contracts for periods up to six months. Interest on any outstanding amounts not covered under the LIBOR-based interest rate contracts is based on an alternate base rate, which is calculated by reference to the prime rate or federal funds rate. The Interim Credit Facility is guaranteed by the Company's domestic wholly owned operating subsidiaries. The Interim Credit Facility contains various covenants similar to those under the Credit Facility. In addition, the Interim Credit Facility provides for the mandatory pre-payment of the loan in the event of a debt or equity issuance by the Company, subject to certain limited exceptions as set forth in the Interim Credit Agreement.

18. SUMMARIZED FINANCIAL INFORMATION

As described in Note 10, the 2005 Senior Notes, the 2001 Senior Notes and the Debentures are fully and unconditionally guaranteed by the Subsidiary Guarantors. With the exception of Quest Diagnostics Receivables Incorporated (see paragraph below), the non-guarantor subsidiaries are primarily foreign and less than wholly owned subsidiaries. In January 2005, the Company completed its redemption of all of its outstanding Debentures. In July 2006, the Company repaid at maturity the $275 million outstanding under its Senior Notes due 2006.

In conjunction with the Company's Secured Receivables Credit Facility described in Note 10, the Company maintains a wholly owned non-guarantor subsidiary, Quest Diagnostics Receivables Incorporated ("QDRI"). The

Company and certain of its Subsidiary Guarantors transfer all private domestic receivables to QDRI. QDRI utilizes the transferred receivables to collateralize borrowings under the Company's Secured Receivables Credit Facility. The Company and the Subsidiary Guarantors provide collection services to QDRI. QDRI uses cash collections principally to purchase new receivables from the Company and the Subsidiary Guarantors.

The following condensed consolidating financial data illustrates the composition of the combined guarantors. Investments in subsidiaries are accounted for by the parent using the equity method for purposes of the supplemental consolidating presentation. Earnings (losses) of subsidiaries are therefore reflected in the parent's investment accounts and earnings. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. LabOne and Focus have been included in the accompanying condensed consolidating financial data, subsequent to the closing of the acquisitions, as Subsidiary Guarantors.

Condensed Consolidating Balance Sheet
December 31, 2006

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 134,598	$ 7,661	$ 7,381	$ -	$ 149,640
Accounts receivable, net	4,380	139,934	630,100	-	774,414
Other current assets	55,213	124,104	87,647	-	266,964
Total current assets	194,191	271,699	725,128	-	1,191,018
Property, plant and equipment, net	215,224	520,184	16,949	-	752,357
Goodwill and intangible assets, net	152,903	3,365,359	66,130	-	3,584,392
Intercompany receivable (payable)	124,698	(9,576)	(115,122)	-	-
Investment in subsidiaries	3,685,481	-	-	(3,685,481)	-
Other assets	133,051	6,748	38,909	(44,993)	133,715
Total assets	$4,505,548	$4,154,414	$ 731,994	$(3,730,474)	$5,661,482
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 444,326	$ 363,074	$ 26,596	$ -	$ 833,996
Short-term borrowings and current portion of long-term debt	-	16,874	300,000	-	316,874
Total current liabilities	444,326	379,948	326,596	-	1,150,870
Long-term debt	933,272	304,854	979	-	1,239,105
Other liabilities	108,779	159,199	29,351	(44,993)	252,336
Stockholders' equity	3,019,171	3,310,413	375,068	(3,685,481)	3,019,171
Total liabilities and stockholders' equity	$4,505,548	$4,154,414	$ 731,994	$(3,730,474)	$5,661,482

Condensed Consolidating Balance Sheet
December 31, 2005

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 76,941	$ 4,759	$ 10,430	$ -	$ 92,130
Accounts receivable, net	31,611	152,314	548,982	-	732,907
Other current assets	43,932	116,099	84,429	-	244,460
Total current assets	152,484	273,172	643,841	-	1,069,497
Property, plant and equipment, net	200,438	523,907	29,318	-	753,663
Goodwill and intangible assets, net	156,314	3,142,702	45,594	-	3,344,610
Intercompany receivable (payable)	418,892	(14,091)	(404,801)	-	-
Investment in subsidiaries	3,199,319	-	-	(3,199,319)	-
Other assets	94,050	7,754	37,784	(1,243)	138,345
Total assets	$4,221,497	$3,933,444	$ 351,736	$(3,200,562)	$5,306,115
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 433,310	$ 293,705	$ 37,438	$ -	$ 764,453
Short-term borrowings and current portion of long-term debt	35,306	240,553	60,980	-	336,839
Total current liabilities	468,616	534,258	98,418	-	1,101,292
Long-term debt	932,950	321,458	978	-	1,255,386
Other liabilities	56,947	107,121	23,628	(1,243)	186,453
Stockholders' equity	2,762,984	2,970,607	228,712	(3,199,319)	2,762,984
Total liabilities and stockholders' equity	$4,221,497	$3,933,444	$ 351,736	$(3,200,562)	$5,306,115

Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2006

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	$ 942,692	$4,995,640	$710,692	$(380,365)	$6,268,659
Operating costs and expenses:					
Cost of services	501,942	2,958,591	235,473	-	3,696,006
Selling, general and administrative	147,862	1,020,774	264,488	(22,408)	1,410,716
Amortization of intangible assets	1,451	8,924	468	-	10,843
Royalty (income) expense	(394,693)	394,693	-	-	-
Other operating expense, net	(3,358)	24,704	1,671	-	23,017
Total operating costs and expenses	253,204	4,407,686	502,100	(22,408)	5,140,582
Operating income	689,488	587,954	208,592	(357,957)	1,128,077
Non-operating income (expense), net	(160,244)	(295,672)	3,155	357,957	(94,804)
Income from continuing operations before taxes	529,244	292,282	211,747	-	1,033,273
Income tax expense	201,426	118,441	87,714	-	407,581
Income from continuing operations	327,818	173,841	124,033	-	625,692
Loss from discontinued operations, net of taxes	-	(28,980)	(10,291)	-	(39,271)
Equity earnings from subsidiaries	258,603	-	-	(258,603)	–
Net income	$ 586,421	$ 144,861	$113,742	$(258,603)	$ 586,421

Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2005

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	$ 874,113	$4,319,625	$544,174	$(281,186)	$5,456,726
Operating costs and expenses:					
Cost of services	491,029	2,540,063	189,621	-	3,220,713
Selling, general and administrative	102,040	879,544	254,912	(20,634)	1,215,862
Amortization of intangible assets	1,628	2,991	18	-	4,637
Royalty (income) expense	(352,743)	352,743	-	-	-
Other operating expense, net	8,288	(13)	(309)	-	7,966
Total operating costs and expenses	250,242	3,775,328	444,242	(20,634)	4,449,178
Operating income	623,871	544,297	99,932	(260,552)	1,007,548
Non-operating expenses, net	(97,718)	(219,652)	(722)	260,552	(57,540)
Income from continuing operations before taxes	526,153	324,645	99,210	-	950,008
Income tax expense	206,703	129,987	40,122	-	376,812
Income from continuing operations	319,450	194,658	59,088	-	573,196
Loss from discontinued operations, net of taxes	-	(26,437)	(482)	-	(26,919)
Equity earnings from subsidiaries	226,827	-	-	(226,827)	-
Net income	$ 546,277	$ 168,221	$ 58,606	$(226,827)	$ 546,277

Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2004

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	$ 822,020	$3,994,982	$500,511	$(250,527)	$5,066,986
Operating costs and expenses:					
Cost of services	460,768	2,335,662	173,344	-	2,969,774
Selling, general and administrative	108,401	863,505	246,953	(19,100)	1,199,759
Amortization of intangible assets	1,399	4,944	35	-	6,378
Royalty (income) expense	(330,751)	330,751	-	-	-
Other operating expense (income), net	9,883	9	329	-	10,221
Total operating costs and expenses	249,700	3,534,871	420,661	(19,100)	4,186,132
Operating income	572,320	460,111	79,850	(231,427)	880,854
Non-operating expenses, net	(70,821)	(212,659)	(3,915)	231,427	(55,968)
Income from continuing operations before taxes	501,499	247,452	75,935	-	824,886
Income tax expense	204,280	98,736	29,455	-	332,471
Income from continuing operations	297,219	148,716	46,480	-	492,415
Income from discontinued operations, net of taxes	-	4,386	2,394	-	6,780
Equity earnings from subsidiaries	201,976	-	-	(201,976)	-
Net income	$ 499,195	$ 153,102	$ 48,874	$(201,976)	$ 499,195

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2006

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 586,421	$ 144,861	$ 113,742	$(258,603)	$ 586,421
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	46,674	140,103	10,621	-	197,398
Provision for doubtful accounts	5,934	51,258	186,251	-	243,443
Provision for restructuring and other special charges	-	47,868	7,920	-	55,788
Other, net	(316,207)	55,233	22,948	258,603	20,577
Changes in operating assets and liabilities	200,269	(129,327)	(222,673)	-	(151,731)
Net cash provided by operating activities	523,091	309,996	118,809	-	951,896
Net cash used in investing activities	(13,177)	(120,444)	(9,748)	(271,033)	(414,402)
Net cash used in financing activities	(452,257)	(186,650)	(112,110)	271,033	(479,984)
Net change in cash and cash equivalents	57,657	2,902	(3,049)	-	57,510
Cash and cash equivalents, beginning of year	76,941	4,759	10,430	-	92,130
Cash and cash equivalents, end of year	$ 134,598	$ 7,661	$ 7,381	$ -	$ 149,640

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2005

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 546,277	$ 168,221	$ 58,606	$(226,827)	$ 546,277
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	51,943	113,506	10,675	-	176,124
Provision for doubtful accounts	5,659	43,669	184,300	-	233,628
Other, net	(203,458)	33,809	20,511	226,827	77,689
Changes in operating assets and liabilities	174,884	(214,707)	(142,312)	-	(182,135)
Net cash provided by operating activities	575,305	144,498	131,780	-	851,583
Net cash used in investing activities	(1,020,236)	(176,202)	(15,243)	131,888	(1,079,793)
Net cash provided by (used in) financing activities	465,448	30,405	(116,927)	(131,888)	247,038
Net change in cash and cash equivalents	20,517	(1,299)	(390)	-	18,828
Cash and cash equivalents, beginning of year	56,424	6,058	10,820	-	73,302
Cash and cash equivalents, end of year	$ 76,941	$ 4,759	$ 10,430	$ -	$ 92,130

Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2004

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 499,195	$ 153,102	$ 48,874	$(201,976)	$ 499,195
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	56,399	101,856	10,471	-	168,726
Provision for doubtful accounts	4,940	43,638	177,732	-	226,310
Other, net	(71,374)	1,754	16,847	201,976	149,203
Changes in operating assets and liabilities	163,057	(118,129)	(289,582)	-	(244,654)
Net cash provided by (used in) operating activities	652,217	182,221	(35,658)	-	798,780
Net cash used in investing activities	(150,826)	(105,597)	(7,841)	90,564	(173,700)
Net cash provided by (used in) financing activities	(586,555)	(72,557)	42,940	(90,564)	(706,736)
Net change in cash and cash equivalents	(85,164)	4,067	(559)	-	(81,656)
Cash and cash equivalents, beginning of year	141,588	1,991	11,379	-	154,958
Cash and cash equivalents, end of year	$ 56,424	$ 6,058	$ 10,820	$ -	$ 73,302