

# Quest Diagnostics Incorporated

## Calculation of Non-GAAP Financial Measures Included in the June 30, 2004 Earnings Release

### Net Income and Operating Income Before Special Charges

Net income before special charges excludes the charges associated with the acceleration of certain pension obligations in connection with the recently completed CEO succession process and the second quarter 2004 refinancing of the Company's bank debt and credit facility. Operating income before special charge excludes the charge associated with the CEO succession process. Both operating income and net income before special charges, including per common share amounts, are presented because management believes that it is a useful adjunct to other measurements under accounting principles generally accepted in the United States, including reported operating income and net income since it is a meaningful measure of the Company's on-going operating performance and is on a basis consistent with prior reported results. Operating income before special charge and net income before special charges, including per common share amounts, are not measures of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to reported operating income and net income as an indicator of performance. The following table reconciles operating income and net income before special charges to reported results:

For the Three Months Ended June 30, 2004 (in millions, except per share amounts)				
Special Charges Related to:				
	Before Special Charges	Acceleration of Certain Pension Obligations	Debt Refinancing	As Reported
Net revenues .....	\$ 1,297.7	\$ -	\$ -	\$ 1,297.7
Operating income.....	\$ 240.4	\$ (10.3)	\$ -	\$ 230.1
Interest expense, net.....	(13.5)	-	(2.9)	(16.4)
Income before taxes .....	\$ 226.1	\$ (10.3)	\$ (2.9)	\$ 212.9
Income tax expense (benefit).....	91.3	(4.1)	(1.2)	86.0
Net income.....	<u>\$ 134.8</u>	<u>\$ (6.2)</u>	<u>\$ (1.7)</u>	<u>\$ 126.9</u>
Basic earnings per common share:				
Net income.....	\$ 1.31	\$ (0.06)	\$ (0.02)	\$ 1.23
Diluted earnings per common share:				
Net income.....	\$ 1.28	\$ (0.06)	\$ (0.02)	\$ 1.20
Operating income as a percentage of net revenues A	18.5%			17.7%

A Calculated by dividing operating income by net revenues

**For the Six Months Ended June 30, 2004**

(in millions, except per share amounts)

**Special Charges Related to:**

	<b>Before Special Charges</b>	<b>Acceleration of Certain Pension Obligations</b>	<b>Debt Refinancing</b>	<b>As Reported</b>
Net revenues .....	\$ 2,553.4	\$ -	\$ -	\$ 2,553.4
Operating income.....	\$ 449.2	\$ (10.3)	\$ -	\$ 438.9
Interest expense, net.....	(28.1)	-	(2.9)	(31.0)
Income before taxes .....	\$ 421.6	\$ (10.3)	\$ (2.9)	\$ 408.4
Income tax expense (benefit) .....	170.7	(4.1)	(1.2)	165.4
Net income.....	<u>\$ 250.9</u>	<u>\$ (6.2)</u>	<u>\$ (1.7)</u>	<u>\$ 243.0</u>
Basic earnings per common share:				
Net income.....	\$ 2.43	\$ (0.06)	\$ (0.02)	\$ 2.36
Diluted earnings per common share:				
Net income.....	\$ 2.38	\$ (0.06)	\$ (0.02)	\$ 2.30
Operating income as a percentage of net revenues A	17.6%			17.2%
A Calculated by dividing operating income by net revenues				

**Free Cash Flow**

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

	<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
	(in millions)	
Net cash provided by operating activities .....	\$ 318.1	\$ 227.7
Less: Capital expenditures .....	<u>90.8</u>	<u>75.8</u>
Free cash flow.....	<u>\$ 227.3</u>	<u>\$ 151.9</u>

## Estimated Comparable Diluted Earnings Per Common Share

Estimated comparable diluted earnings per common share represents management's estimate of diluted earnings per common share for the full year 2004 before charges associated with the acceleration of certain pension obligations in connection with the recently completed CEO succession process and the second quarter refinancing of the Company's bank debt and credit facility. Estimated comparable diluted earnings per common share is presented because management believes it is a useful adjunct to estimated diluted earnings per common share and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of the Company's ongoing operating performance and is on a basis consistent with previous estimates of diluted earnings per common share. Estimated comparable diluted earnings per common share is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to estimated diluted earnings per common share. The following table reconciles estimated diluted earnings per common share to estimated comparable diluted earnings per common share:

	<b>Twelve Months Ended December 31, 2004</b>
Estimated diluted earnings per common share.....	\$ 4.72 – \$4.82
Add:	
Charge related to acceleration of certain pension obligations....	0.06
Refinancing charge .....	<u>0.02</u>
Estimated comparable diluted earnings per common share .....	<u>\$ 4.80 – \$4.90</u>