

**Quest Diagnostics Incorporated**  
**Calculation of Non-GAAP Financial Measures Included in the**  
**June 30, 2005 Earnings Release**

**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 and certain financing activities. 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>2005</b>	<b>2004</b>
	(in millions)	
Net cash provided by operating activities .....	\$ 370.5	\$ 318.1
Less: Capital expenditures .....	<u>123.9</u>	<u>90.8</u>
Free cash flow .....	<u>\$ 246.6</u>	<u>\$ 227.3</u>

## Net Income Before Special Charges For The Three and Six Months Ended June 30, 2004

Net income before special charges excludes the charges associated with the acceleration of certain pension obligations in connection with the succession of the Company's prior CEO 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 succession of the Company's prior CEO. 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 tables reconcile 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>
Earnings per common share:				
Basic .....	\$ 0.66	\$ (0.03)	\$ (0.01)	\$ 0.62
Diluted .....	\$ 0.63	\$ (0.03)	\$ (0.01)	\$ 0.59
Operating income as a percentage of net revenues <sup>A</sup>	18.5%			17.7%

<sup>A</sup> Calculated by dividing operating income by net revenues

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

(in millions, except per share amounts)

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**Special Charges Related to:**

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	<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) .....	<u>170.7</u>	<u>(4.1)</u>	<u>(1.2)</u>	<u>165.4</u>
Net income.....	<u>\$ 250.9</u>	<u>\$ (6.2)</u>	<u>\$ (1.7)</u>	<u>\$ 243.0</u>
Earnings per common share:				
Basic .....	\$ 1.22	\$ (0.03)	\$ (0.01)	\$ 1.18
Diluted .....	\$ 1.17	\$ (0.03)	\$ (0.01)	\$ 1.13
Operating income as a percentage of net revenues <sup>A</sup>	17.6%			17.2%

<sup>A</sup> Calculated by dividing operating income by net revenues

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