

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(in thousands, except per share data)

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 167,594	\$ 149,640
Accounts receivable, net of allowance for doubtful accounts of \$250,067 and \$205,086 at December 31, 2007 and 2006, respectively	881,967	774,414
Inventories	95,234	78,564
Deferred income taxes	149,841	120,540
Prepaid expenses and other current assets	79,721	67,860
Total current assets	1,374,357	1,191,018
Property, plant and equipment, net	911,998	752,357
Goodwill, net	5,220,104	3,391,046
Intangible assets, net	886,733	193,346
Other assets	172,501	133,715
Total assets	<u>\$8,565,693</u>	<u>\$5,661,482</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$1,124,716	\$ 833,996
Short-term borrowings and current portion of long-term debt	163,581	316,874
Total current liabilities	1,288,297	1,150,870
Long-term debt	3,377,212	1,239,105
Other liabilities	575,942	252,336
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.01 per share; 600,000 shares authorized at both December 31, 2007 and 2006; 213,745 and 213,755 shares issued at December 31, 2007 and 2006, respectively	2,137	2,138
Additional paid-in capital	2,210,825	2,185,073
Retained earnings	2,057,744	1,800,255
Accumulated other comprehensive income (loss)	25,279	(65)
Treasury stock, at cost; 19,705 and 19,806 shares at December 31, 2007 and 2006, respectively	(971,743)	(968,230)
Total stockholders' equity	3,324,242	3,019,171
Total liabilities and stockholders' equity	<u>\$8,565,693</u>	<u>\$5,661,482</u>

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, 2007, 2006 AND 2005
(in thousands, except per share data)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net revenues	\$6,704,907	\$6,268,659	\$5,456,726
Operating costs and expenses:			
Cost of services	3,969,848	3,696,006	3,220,713
Selling, general and administrative	1,612,858	1,410,716	1,215,862
Amortization of intangible assets	27,904	10,843	4,637
Other operating expense, net	<u>2,961</u>	<u>23,017</u>	<u>7,966</u>
Total operating costs and expenses.....	<u>5,613,571</u>	<u>5,140,582</u>	<u>4,449,178</u>
Operating income	1,091,336	1,128,077	1,007,548
Other income (expense):			
Interest expense, net	(178,314)	(91,425)	(57,354)
Minority share of income	(26,510)	(23,900)	(19,495)
Equity earnings in unconsolidated joint ventures.....	26,969	28,469	26,185
Other expense, net.....	<u>(1,079)</u>	<u>(7,948)</u>	<u>(6,876)</u>
Total non-operating expenses, net.....	<u>(178,934)</u>	<u>(94,804)</u>	<u>(57,540)</u>
Income from continuing operations before taxes	912,402	1,033,273	950,008
Income tax expense	<u>358,574</u>	<u>407,581</u>	<u>376,812</u>
Income from continuing operations	553,828	625,692	573,196
Loss from discontinued operations, net of taxes	<u>(213,889)</u>	<u>(39,271)</u>	<u>(26,919)</u>
Net income	<u>\$ 339,939</u>	<u>\$ 586,421</u>	<u>\$ 546,277</u>
Earnings per common share – basic:			
Income from continuing operations	\$ 2.87	\$ 3.18	\$ 2.84
Loss from discontinued operations.....	<u>(1.11)</u>	<u>(0.20)</u>	<u>(0.13)</u>
Net income	<u>\$ 1.76</u>	<u>\$ 2.98</u>	<u>\$ 2.71</u>
Earnings per common share – diluted:			
Income from continuing operations	\$ 2.84	\$ 3.14	\$ 2.79
Loss from discontinued operations.....	<u>(1.10)</u>	<u>(0.20)</u>	<u>(0.13)</u>
Net income	<u>\$ 1.74</u>	<u>\$ 2.94</u>	<u>\$ 2.66</u>
Dividends per common share	\$ 0.40	\$ 0.40	\$ 0.36

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:			
Net income	\$ 339,939	\$ 586,421	\$ 546,277
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	237,879	197,398	176,124
Provision for doubtful accounts	300,226	243,443	233,628
Provision for restructuring and other special charges	238,781	55,788	-
Deferred income tax provision (benefit)	(1,575)	(46,280)	661
Minority share of income	26,510	23,900	19,495
Stock compensation expense	56,853	55,478	2,037
Tax benefits associated with stock-based compensation plans	-	-	33,823
Excess tax benefits from stock-based compensation arrangements	(13,981)	(32,693)	-
Other, net	8,310	20,172	21,673
Changes in operating assets and liabilities:			
Accounts receivable	(265,347)	(273,232)	(238,421)
Accounts payable and accrued expenses	(5,431)	81,347	36,038
Integration, settlement and other special charges	(14,013)	(4,247)	(5,400)
Income taxes payable	3,213	45,330	15,382
Other assets and liabilities, net	15,560	(929)	10,266
Net cash provided by operating activities	<u>926,924</u>	<u>951,896</u>	<u>851,583</u>
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(1,535,826)	(236,543)	(814,219)
Capital expenditures	(219,101)	(193,422)	(224,270)
(Increase) decrease in investments and other assets	(4,266)	15,563	(41,304)
Net cash used in investing activities	<u>(1,759,193)</u>	<u>(414,402)</u>	<u>(1,079,793)</u>
Cash flows from financing activities:			
Proceeds from borrowings	3,754,490	375,000	1,100,186
Repayments of debt	(2,705,369)	(416,208)	(497,276)
(Decrease) increase in book overdrafts	(24,950)	(1,705)	33,384
Purchases of treasury stock	(145,660)	(472,325)	(390,163)
Exercise of stock options	80,928	102,324	98,335
Excess tax benefits from stock-based compensation arrangements	13,981	32,693	-
Dividends paid	(77,327)	(77,135)	(69,673)
Distributions to minority partners	(24,678)	(21,900)	(21,477)
Financing costs paid	(21,192)	(728)	(6,278)
Net cash provided by (used in) financing activities	<u>850,223</u>	<u>(479,984)</u>	<u>247,038</u>
Net change in cash and cash equivalents	17,954	57,510	18,828
Cash and cash equivalents, beginning of year	149,640	92,130	73,302
Cash and cash equivalents, end of year	<u>\$ 167,594</u>	<u>\$ 149,640</u>	<u>\$ 92,130</u>

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, 2007, 2006 AND 2005
(in thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Compre- hensive Income
Balance, December 31, 2004	196,220	\$1,068	\$2,195,346	\$ 818,734	\$ (11)	\$ 3,866	\$(730,352)	
Net income				546,277				\$546,277
Currency translation						(3,287)		(3,287)
Market valuation, net of tax benefit of \$6,057						(9,238)		(9,238)
Deferred gain, less reclassifications						2,454		2,454
Comprehensive income								<u>\$536,206</u>
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
Currency translation						2,460		2,460
Market valuation, net of tax benefit of \$2,501						(3,815)		(3,815)
Reversal of market adjustment, net of tax expense of \$(5,053)						7,707		7,707
Deferred gain reclassifications						(212)		(212)
Comprehensive income								<u>\$592,561</u>
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)	
Net income				339,939				\$339,939
Currency translation						30,820		30,820
Market valuation, net of tax benefit of \$24						(36)		(36)
Reversal of market adjustment, net of tax expense of \$(510)						802		802
Deferred loss, less reclassifications						(6,242)		(6,242)
Comprehensive income								<u>\$365,283</u>
Dividends declared				(77,304)				
Issuance of common stock under benefit plans	462		(1,974)				21,989	
Stock-based compensation expense			56,853					
Exercise of stock options	2,447		(39,230)				120,158	
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(24)	(1)	(1,229)					
Tax benefits associated with stock-based compensation plans			16,703					
Purchases of treasury stock	(2,794)						(145,660)	
Adjustments upon adoption of FASB Interpretation No. 48			(10,441)	(5,146)				
Reimbursement from Corning Incorporated			2,345					
Other			2,725					
Balance, December 31, 2007	194,040	\$2,137	\$2,210,825	\$2,057,744	\$ —	\$25,279	\$(971,743)	

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