

QUEST DIAGNOSTICS INC
Form 10-Q
April 26, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2010
Commission file number 001-12215

Quest Diagnostics Incorporated

Three Giralda Farms
Madison, NJ 07940
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 21, 2010, there were 179,928,849 outstanding shares of the registrant's common stock, \$.01 par value.

PART I - FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
Index to consolidated financial statements filed as part of this report:	
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009</u>	2
<u>Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	
<u>See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 4. Controls and Procedures	
Controls and Procedures	32

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(unaudited)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2010	2009
Net revenues	\$ 1,805,503	\$ 1,808,006
Operating costs and expenses:		
Cost of services	1,066,373	1,053,489
Selling, general and administrative	430,733	424,301
Amortization of intangible assets	9,359	9,005
Other operating expense, net	476	148
Total operating costs and expenses	1,506,941	1,486,943
Operating income	298,562	321,063
Other income (expense):		
Interest expense, net	(35,955)	(39,408)
Equity earnings in unconsolidated joint ventures	7,964	8,570
Other income (expense), net	6,012	(2,709)
Total non-operating expenses, net	(21,979)	(33,547)
Income from continuing operations before taxes	276,583	287,516
Income tax expense	105,378	110,189
Income from continuing operations	171,205	177,327
Loss from discontinued operations, net of taxes	(52)	(1,671)
Net income	171,153	175,656
Less: Net income attributable to noncontrolling interests	8,705	8,554
Net income attributable to Quest Diagnostics	\$ 162,448	\$ 167,102
Amounts attributable to Quest Diagnostics stockholders:		
Income from continuing operations	\$ 162,500	\$ 168,773
Loss from discontinued operations, net of taxes	(52)	(1,671)
Net income	\$ 162,448	\$ 167,102
Earnings per share attributable to Quest Diagnostics common stockholders - basic:		
Income from continuing operations	\$ 0.90	\$ 0.89
Loss from discontinued operations		(0.01)

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Net income	\$	0.90	\$	0.88
Earnings per share attributable to Quest Diagnostics common stockholders - diluted:				
Income from continuing operations	\$	0.89	\$	0.89
Loss from discontinued operations				(0.01)
Net income	\$	0.89	\$	0.88
Weighted average common shares outstanding:				
Basic		180,219		189,370
Diluted		182,383		190,698
Dividends per common share	\$	0.10	\$	0.10

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 MARCH 31, 2010 AND DECEMBER 31, 2009
 (in thousands, except per share data)

	March 31, 2010	December 31, 2009
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 463,239	\$ 534,256
Accounts receivable, net of allowance for doubtful accounts of \$239,875 and \$238,206 at March 31, 2010 and December 31, 2009, respectively	865,160	827,343
Inventories	79,462	91,386
Deferred income taxes	130,958	131,800
Prepaid expenses and other current assets	106,429	94,640
	<hr/>	<hr/>
Total current assets	1,645,248	1,679,425
Property, plant and equipment, net	811,875	825,946
Goodwill, net	5,082,253	5,083,944
Intangible assets, net	817,454	823,665
Other assets	159,379	150,663
	<hr/>	<hr/>
Total assets	\$ 8,516,209	\$ 8,563,643
	<hr/>	<hr/>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 906,094	\$ 888,705
Current portion of long-term debt	170,404	170,507
	<hr/>	<hr/>
Total current liabilities	1,076,498	1,059,212
Long-term debt	2,944,789	2,936,792
Other liabilities	565,707	556,175
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value \$0.01 per share; 600,000 shares authorized at both March 31, 2010 and December 31, 2009; 214,169 shares and 214,110 shares issued at March 31, 2010 and December 31, 2009, respectively	2,142	2,141
Additional paid-in capital	2,276,306	2,302,368
Retained earnings	3,361,029	3,216,639
Accumulated other comprehensive loss	(22,634)	(20,961)
Treasury stock, at cost; 34,303 shares and 30,817 shares at March 31, 2010 and December 31, 2009, respectively	(1,712,669)	(1,510,548)
	<hr/>	<hr/>
Total Quest Diagnostics stockholders' equity	3,904,174	3,989,639
Noncontrolling interests	25,041	21,825
	<hr/>	<hr/>
Total stockholders' equity	3,929,215	4,011,464
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 8,516,209	\$ 8,563,643
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 171,153	\$ 175,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,333	64,860
Provision for doubtful accounts	76,279	81,428
Deferred income tax provision	3,563	13,061
Stock-based compensation expense	11,127	14,091
Benefits from stock-based compensation arrangements	473	(1,062)
Other, net	8,708	(2,404)
Changes in operating assets and liabilities:		
Accounts receivable	(115,287)	(136,106)
Accounts payable and accrued expenses	(81,935)	(6,866)
Income taxes payable	98,413	63,900
Other assets and liabilities, net	3,388	6,205
Net cash provided by operating activities	239,215	272,763
Cash flows from investing activities:		
Business acquisitions, net of cash acquired		(1,429)
Capital expenditures	(39,763)	(39,610)
Increase in investments and other assets	(2,831)	(326)
Net cash used in investing activities	(42,594)	(41,365)
Cash flows from financing activities:		
Proceeds from borrowings		50,000
Repayments of debt	(699)	(50,597)
Purchases of treasury stock	(250,712)	(250,000)
Exercise of stock options	19,739	10,016
Benefits from stock-based compensation arrangements	(473)	1,062
Dividends paid	(18,372)	(19,041)
Distributions to noncontrolling interests	(5,489)	(5,007)
Other financing activities	(11,632)	(17,556)
Net cash used in financing activities	(267,638)	(281,123)
Net change in cash and cash equivalents	(71,017)	(49,725)
Cash and cash equivalents, beginning of period	534,256	253,946
Cash and cash equivalents, end of period	\$ 463,239	\$ 204,221

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, unless otherwise indicated)
(unaudited)

1. BASIS OF PRESENTATION

Background

Quest Diagnostics Incorporated and its subsidiaries (Quest Diagnostics or the Company) is the world's leading provider of diagnostic testing, information and services, providing insights that enable patients, physicians and others to make decisions to improve health. Quest Diagnostics offers patients and physicians the broadest access to diagnostic laboratory services through the Company's nationwide network of laboratories and patient service centers. The Company provides interpretive consultation through the largest medical and scientific staff in the industry, with approximately 900 M.D.s and Ph.D.s primarily located in the United States. Quest Diagnostics is the leading provider of clinical testing, including gene-based testing and other esoteric testing, anatomic pathology services and testing for drugs-of-abuse, and the leading provider of risk assessment services for the life insurance industry. The Company is also a leading provider of testing for clinical trials. The Company's diagnostics products business manufactures and markets diagnostic test kits and specialized point-of-care testing. Quest Diagnostics empowers healthcare organizations and clinicians with state-of-the-art information technology solutions that can improve patient care and medical practice.

Basis of Presentation

The interim consolidated financial statements reflect all adjustments which in the opinion of management are necessary for a fair statement of financial condition, results of operations, and cash flows for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. The interim consolidated financial statements have been compiled without audit. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K.

The year-end balance sheet data was derived from the audited financial statements as of December 31, 2009, but does not include all the disclosures required by accounting principles generally accepted in the United States (GAAP).

Certain reclassifications have been made to prior year amounts in the statement of cash flows to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

Earnings Per Share

The Company's unvested restricted common stock and unvested restricted stock units that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in the earnings allocation in computing earnings per share using the two-class method. Basic earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of 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 and performance share units granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Non-Employee Director Long-Term Incentive Plan.

The computation of basic and diluted earnings per common share was as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2010	2009
Amounts attributable to Quest Diagnostics stockholders:		
Income from continuing operations	\$ 162,500	\$ 168,773
Loss from discontinued operations, net of taxes	(52)	(1,671)
	<u>162,448</u>	<u>167,102</u>
Net income available to Quest Diagnostics common stockholders	\$ 162,448	\$ 167,102
	<u>162,500</u>	<u>168,773</u>
Income from continuing operations	\$ 162,500	\$ 168,773
Less: Earnings allocated to participating securities	660	326
	<u>161,840</u>	<u>168,447</u>
Earnings available to Quest Diagnostics common stockholders basic and diluted	\$ 161,840	\$ 168,447
	<u>180,219</u>	<u>189,370</u>
Weighted average common shares outstanding basic	180,219	189,370
Effect of dilutive securities:		
Stock options and performance share units	2,164	1,328
	<u>182,383</u>	<u>190,698</u>
Weighted average common shares outstanding diluted	182,383	190,698
Earnings per share attributable to Quest Diagnostics common stockholders - basic:		
Income from continuing operations	\$ 0.90	\$ 0.89
Loss from discontinued operations		(0.01)
	<u>0.90</u>	<u>0.88</u>
Net income	\$ 0.90	\$ 0.88
Earnings per share attributable to Quest Diagnostics common stockholders - diluted:		
Income from continuing operations	\$ 0.89	\$ 0.89
Loss from discontinued operations		(0.01)

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Net income	\$ 0.89	\$ 0.88
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Stock options and performance share units of 2.7 million shares and 5.1 million shares for the three months ended March 31, 2010 and March 31, 2009, respectively, were not included due to their antidilutive effect.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting standards related to the consolidation of variable interest entities (VIE). This standard provides a new approach for determining which entity should consolidate a VIE, how and when to reconsider the consolidation or deconsolidation of a VIE and requires disclosures about an entity's significant judgments and assumptions used in its decision to consolidate or not consolidate a VIE. Under this standard, the new consolidation model is a more qualitative assessment of power and economics that considers which entity has the power to direct the activities that most significantly impact the VIE's economic performance and has the obligation to absorb losses of, or the right to receive benefits that could be potentially significant to, the VIE. The adoption of this standard on January 1, 2010 was not material to the Company's consolidated financial statements.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard, for which the Company is currently assessing the impact, will become effective for the Company on January 1, 2011.

In October 2009, the FASB issued an amendment to the accounting standards related to certain revenue arrangements that include software elements. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product's essential functionality, shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition accounting standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. This standard, for which the Company is currently assessing the impact, will become effective for the Company on January 1, 2011.

In January 2010, the FASB issued an amendment to the accounting standards related to the disclosures about an entity's use of fair value measurements. Among these amendments, entities will be required to provide enhanced disclosures about transfers into and out of the Level 1 (fair value determined based on quoted prices in active markets for identical assets and liabilities) and Level 2 (fair value determined based on significant other observable inputs) classifications, provide separate disclosures about purchases, sales, issuances and settlements relating to the tabular reconciliation of beginning and ending balances of the Level 3 (fair value determined based on significant unobservable inputs) classification and provide greater disaggregation for each class of assets and liabilities that use fair value measurements. Except for the detailed Level 3 roll-forward disclosures, the new standard is effective for the Company for interim and annual reporting periods beginning after December 31, 2009. The adoption of this accounting standards amendment did not have a material impact on the Company's consolidated financial statements. The requirement to provide detailed disclosures about the purchases, sales, issuances and settlements in the roll-forward activity for Level 3 fair value measurements is effective for the Company for interim and annual reporting periods beginning after December 31, 2010. The Company does not expect that the adoption of these new disclosure requirements will have a material impact on its consolidated financial statements.

In February 2010, the FASB issued an amendment to the accounting standards related to the accounting for, and disclosure of, subsequent events in an entity's consolidated financial statements. This standard amends the authoritative guidance for subsequent events that was previously issued and among other things exempts Securities and Exchange Commission registrants from the requirement to disclose the date through which it has evaluated subsequent events for either original or restated financial statements. This standard does not apply to subsequent

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

events or transactions that are within the scope of other applicable GAAP that provides different guidance on the accounting treatment for subsequent events or transactions. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

2. FAIR VALUE MEASUREMENTS

The Company determines fair value measurements used in its consolidated financial statements based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs, as determined by either the principal market or the most advantageous market. The principal market is the market with the greatest level of activity and volume for the asset or liability. Absent a principal market to measure fair value, the Company has used the most advantageous market, which is the market in which the Company would receive the highest selling price for the asset or pay the lowest price to settle the liability, after considering transaction costs. However, when using the most advantageous market, transaction costs are only considered to determine which market is the most advantageous and these costs are then excluded when applying a fair value measurement.

Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table provides a summary of the recognized assets and liabilities that are measured at fair value on a recurring basis.

		Basis of Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets / Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
March 31, 2010				
Assets:				
Trading securities	\$ 35,016	\$ 35,016	\$	\$
Cash surrender value of life insurance policies	18,476		18,476	
Stock warrants	4,003			4,003
Foreign currency forward contracts	2,153		2,153	
Total	\$ 59,648	\$ 35,016	\$ 20,629	\$ 4,003
Liabilities:				
Deferred compensation liabilities	\$ 56,358	\$	\$ 56,358	\$
Interest rate swaps	5,994		5,994	
Foreign currency forward contracts	639		639	
Total	\$ 62,991	\$	\$ 62,991	\$

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

	Basis of Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets / Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
December 31, 2009				
Assets:				
Trading securities	\$ 33,871	\$ 33,871	\$	\$
Cash surrender value of life insurance policies	15,873		15,873	
Foreign currency forward contracts	2,357		2,357	
Total	\$ 52,101	\$ 33,871	\$ 18,230	\$
Liabilities:				
Interest rate swaps	\$ 14,398	\$	\$ 14,398	\$
Foreign currency forward contracts	311		311	
Deferred compensation liabilities	53,919		53,919	
Total	\$ 68,628	\$	\$ 68,628	\$

The Company offers certain employees the opportunity to participate in a supplemental deferred compensation plan. A participant's deferrals, together with Company matching credits, are invested in a variety of participant-directed stock and bond mutual funds that are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation. The deferred compensation liabilities are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the trading securities.

The Company offers certain employees the opportunity to participate in a non-qualified deferred compensation program. A participant's deferrals, together with Company matching credits, are invested at the direction of the employee in a hypothetical portfolio of investments which are tracked by an administrator. The Company purchases life insurance policies, with the Company named as beneficiary of the policies, for the purpose of funding the program's liability. Changes in the cash surrender value of the life insurance policies are based upon earnings and changes in the value of the underlying investments. Changes in the fair value of the deferred compensation obligation are derived using quoted prices in active markets based on the market price per unit multiplied by the number of units. The cash surrender value and the deferred compensation obligations are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the hypothetical investments.

The fair value measurements of foreign currency forward contracts are obtained from a third-party pricing service and are based on market prices in actual transactions and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value measurements of the Company's interest rate swaps are model-derived valuations as of a given date in which all significant inputs are observable in active markets including certain financial information and certain assumptions regarding past, present and future market conditions. The Company does not believe that the changes in the fair values of its foreign currency forward contracts and interest rate swaps will materially differ from the amounts that could be realized upon settlement or maturity or that the changes in fair value will have a material effect on its results of operations, liquidity and capital resources.

The stock warrants are a derivative financial instrument that gives the Company the right to purchase unregistered common shares of a publicly-held company. The fair value measurements of the warrants are derived from an option pricing model that includes certain unobservable inputs and assumptions by the Company's management for an asset with limited market activity and are therefore classified within

Level 3. The tabular

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

reconciliation of beginning and ending balances and activities of this Level 3 asset have been omitted due to its immateriality.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value based on the short maturities of these instruments. At March 31, 2010 and December 31, 2009, the fair value of the Company's debt was estimated at \$3.3 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 March 31, 2010 and December 31, 2009, the estimated fair value exceeded the carrying value of the debt by \$144 million and \$151 million, respectively.

3. GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill, net for the three months ended March 31, 2010 and for the year ended December 31, 2009 are as follows:

	March 31, 2010	December 31, 2009
	<u> </u>	<u> </u>
Balance at beginning of period	\$ 5,083,944	\$ 5,054,926
Goodwill acquired during the year		25,973
Other purchase accounting adjustments	246	(21,195)
(Decrease) increase related to foreign currency translation	(1,937)	24,240
	<u> </u>	<u> </u>
Balance at end of period	<u>\$ 5,082,253</u>	<u>\$ 5,083,944</u>

Approximately 90% of the Company's goodwill as of March 31, 2010 and December 31, 2009 was associated with its clinical testing business.

For the year ended December 31, 2009, goodwill acquired during the year was associated with several immaterial acquisitions. For the three months ended March 31, 2010, other purchase accounting adjustments were primarily related to a milestone payment on an acquisition from 2008. For the year ended December 31, 2009, other purchase accounting adjustments were primarily related to a payment received from an escrow fund established at the time of an acquisition in 2007.

Intangible assets at March 31, 2010 and December 31, 2009 consisted of the following:

	Weighted Average Amortization Period	March 31, 2010			December 31, 2009		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:							
Customer-related intangibles	19 years	\$ 600,214	\$ (137,632)	\$ 462,582	\$ 600,460	\$ (129,994)	\$ 470,466
Non-compete agreements	5 years	54,869	(50,713)	4,156	54,854	(50,252)	4,602
Other	10 years	72,604	(20,038)	52,566	68,896	(18,867)	50,029
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	18 years	727,687	(208,383)	519,304	724,210	(199,113)	525,097
Intangible assets not subject to amortization:							
Tradenames		298,150		298,150	298,568		298,568

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	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total intangible assets	\$ 1,025,837	\$ (208,383)	\$ 817,454	\$ 1,022,778	\$ (199,113)	\$ 823,665
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Amortization expense related to intangible assets was \$9.4 million and \$9.0 million for the three months ended March 31, 2010 and 2009, respectively.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

The estimated amortization expense related to intangible assets for each of the five succeeding fiscal years and thereafter as of March 31, 2010 is as follows:

Fiscal Year Ending December 31,	
Remainder of 2010	\$ 33,161
2011	40,301
2012	38,354
2013	36,778
2014	36,083
2015	33,832
Thereafter	300,795
Total	\$ 519,304

4. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to market risks for changes in interest rates and foreign currency. This strategy includes the use of interest rate swap agreements, forward starting interest rate swap agreements and foreign currency forward contracts to manage its exposure to movements in interest and currency rates. 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 or trading purposes. The Company does not enter into derivative financial instruments that contain credit-risk-related contingent features or requirements to post collateral.

A summary of the fair values of derivative instruments in the consolidated balance sheets is stated in the table below (in thousands):

	March 31, 2010		December 31, 2009	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives Designated as Hedging Instruments				
Liability Derivatives:				
Interest rate swaps	Other liabilities	\$ 5,994	Other liabilities	\$ 14,398
Total		5,994		14,398
Derivatives Not Designated as Hedging Instruments				
Asset Derivatives:				
Foreign currency forward contracts	Other current assets	2,153	Other current assets	2,357
Stock warrants	Other assets	4,003		
Total		6,156		2,357
Liability Derivatives:				
	Other current		Other current	

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Foreign currency forward contracts	liabilities	639	liabilities	311
		<u> </u>		<u> </u>
Total		<u>639</u>		<u>311</u>
Total Net Derivatives Liability		\$ 477		\$ 12,352
		<u> </u>		<u> </u>

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its debt obligations. Interest income earned on cash and cash equivalents may fluctuate as interest rates change, however, due to their relatively short maturities, the Company does not hedge these assets and the impact of interest rate risk is not material. The Company's debt obligations consist of fixed-rate and variable-rate debt instruments. The Company's objective is to mitigate the variability in cash outflows that result from changes in interest rates by maintaining a balanced mix of fixed-rate and variable-rate debt obligations. In order to achieve these objectives, the Company has entered into interest rate swaps. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net payments are recognized as an adjustment to interest expense.

The Company formally documents its hedge relationships, including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. On the date the derivative is entered into, the Company designates the type of derivative as a fair value hedge or cash flow hedge, and accounts for the derivative in accordance with its designation as prescribed by the FASB standards on accounting for derivative instruments and hedging activities. At inception and at least quarterly thereafter, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative financial instrument's gain or loss are included in the assessment of hedge effectiveness.

In November 2009, the Company entered into various fixed-to-variable interest rate swap agreements (the Fixed-to-Variable Interest Rate Swap Agreements) which have a notional amount totaling \$350 million and a variable interest rate based on one-month LIBOR plus 1.33%. These derivative financial instruments are accounted for as fair value hedges of a portion of our Senior Notes due 2020 and effectively convert that portion of the debt into variable interest rate debt. Accordingly, the Company recognizes the changes in the fair value of both the Fixed-to-Variable Interest Rate Swap Agreements and the underlying debt obligation in other income (expense), net as equal and offsetting gains and losses. The fair value of the Fixed-to-Variable Interest Rate Swap Agreements was a liability of \$6.0 million and \$14.4 million, respectively, at March 31, 2010 and December 31, 2009. Since inception, the fair value hedges were effective; therefore, there is no impact on earnings for the three months ended March 31, 2010 as a result of hedge ineffectiveness.

In previous years, the Company entered into various forward starting interest rate swap agreements and treasury-lock agreements that were accounted for as cash flow hedges. The effective portions of the changes in fair value of these derivatives represent deferred gains or losses that are recorded in accumulated other comprehensive loss. These deferred gains or losses are reclassified from accumulated other comprehensive loss to the statement of operations in the same period or periods during which the hedged transaction affects earnings, which is when the Company recognizes interest expense on the hedged cash flows. The total loss, net of tax benefit, recognized in accumulated other comprehensive loss on these cash flow hedges as of March 31, 2010 and December 31, 2009 was \$7.2 million and \$7.3 million, respectively. The net amount of deferred gains and losses on cash flow hedges that is expected to be reclassified from accumulated other comprehensive loss into earnings within the next 12 months is \$1.1 million.

Foreign Currency Risk

The Company is exposed to market risk for changes in foreign exchange rates primarily under certain intercompany receivables and payables. Foreign exchange forward contracts are used to mitigate the exposure of the eventual net cash inflows or outflows resulting from these intercompany transactions. The objective is to hedge a portion of the forecasted foreign currency risk over a rolling 12-month time horizon to mitigate the eventual impacts of changes in foreign exchange rates on the cash flows of the intercompany transactions. As of March 31, 2010, the total notional amount of foreign currency forward contracts in U.S. dollars was \$76.6 million and principally consists of contracts in Swedish krona and British pounds. Notional amounts represent the face amount of contractual arrangements and the basis on which currencies are exchanged and are not a measure of market or credit risk exposure. The Company does not designate these derivative instruments as hedges under current

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

accounting standards unless the benefits of doing so are material. The Company's foreign exchange exposure is not material to the Company's consolidated financial condition or results of operations. The Company does not hedge its net investment in non-U.S. subsidiaries because it views those investments as long-term in nature.

Stock Warrants

The stock warrants are a derivative financial instrument that gives the Company the right to purchase unregistered common shares of a publicly-held company and the value is derived from an option pricing model.

5. STOCKHOLDERS' EQUITY

Changes in stockholders' equity for the three months ended March 31, 2010 were as follows:

Quest Diagnostics Stockholders' Equity									
	Shares of Common Stock Outstand- -ing	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- -hensive Loss	Treasury Stock, at Cost	Compre- -hensive Income	Non- -controlling Interests	Total Stock- -holders Equity
Balance, December 31, 2009	183,293	\$ 2,141	\$ 2,302,368	\$ 3,216,639	\$ (20,961)	\$ (1,510,548)		\$ 21,825	\$ 4,011,464
Net income				162,448			\$ 162,448	8,705	171,153
Currency translation					(1,854)		(1,854)		(1,854)
Deferred loss, less reclassifications					181		181		181
Comprehensive income							\$ 160,775		
Dividends declared				(18,058)					(18,058)
Distributions to noncontrolling interests								(5,489)	(5,489)
Issuance of common stock under benefit plans	747	2	(25,090)			29,773			4,685
Stock-based compensation expense			10,296			831			11,127
Exercise of stock options	553		(7,863)			27,602			19,739
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(267)	(1)	(5,280)			(9,615)			(14,896)
Tax benefits associated with stock-based compensation plans			1,875						1,875
Purchases of treasury stock	(4,460)					(250,712)			(250,712)
Balance, March 31, 2010	179,866	\$ 2,142	\$ 2,276,306	\$ 3,361,029	\$ (22,634)	\$ (1,712,669)		\$ 25,041	\$ 3,929,215

The deferred loss primarily represents deferred losses on the Company's interest rate swap and forward starting interest rate swap agreements, net of amounts reclassified to interest expense. Foreign currency translation adjustments are not adjusted for income taxes since they relate to indefinite investments in non-U.S. subsidiaries.

Dividend Program

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During each of the quarters of 2010 and 2009, the Company's Board of Directors has declared a quarterly cash dividend of \$0.10 per common share.

Share Repurchase Plan

In January 2010, the Company's Board of Directors authorized the Company to repurchase an additional \$750 million of the Company's common stock. The share repurchase authorization has no set expiration or termination date.

In January 2010, the Company executed an accelerated share repurchase transaction with a bank to repurchase 4.5 million shares of the Company's outstanding common stock for an initial purchase price of \$56.05

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

per share. The purchase price of these shares was subject to an adjustment based on the volume weighted average price of the Company's common stock during a period following execution of the agreement. The total cost of the initial purchase was \$250 million. The purchase price adjustment was settled in the first quarter of 2010 and resulted in an additional cash payment of \$0.7 million, for a final purchase price of \$250.7 million, or \$56.21 per share. For the three months ended March 31, 2010, the Company reissued 1.0 million shares for employee benefit plans. At March 31, 2010, \$499 million of share repurchase authorization remained available.

Changes in stockholders' equity for the three months ended March 31, 2009 were as follows:

	Quest Diagnostics Stockholders' Equity								
	Shares of Common Stock Outstand- -ing	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre- -hensive Loss	Treasury Stock, at Cost	Compre- -hensive Income	Non- -controlling Interests	Total Stock- -holders Equity
Balance, December 31, 2008	190,374	\$ 2,141	\$ 2,262,065	\$ 2,561,679	\$ (68,068)	\$ (1,152,921)		\$ 20,238	\$ 3,625,134
Net income				167,102			\$ 167,102	8,554	175,656
Currency translation					(20,094)		(20,094)		(20,094)
Market valuation, net of tax expense of \$(190)					290		290		290
Deferred loss, less reclassifications					330		330		330
Comprehensive income							\$ 147,628		
Dividends declared				(18,611)					(18,611)
Distributions to noncontrolling interests								(5,007)	(5,007)
Issuance of common stock under benefit plans	373		25			4,425			4,450
Stock-based compensation expense			2,739			11,352			14,091
Exercise of stock options	327		(5,840)			15,856			10,016
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(119)		(1,298)			(3,996)			(5,294)
Tax benefits associated with stock-based compensation plans			1,370						1,370
Purchase of treasury stock	(5,620)					(250,000)			(250,000)
Balance, March 31, 2009	185,335	\$ 2,141	\$ 2,259,061	\$ 2,710,170	\$ (87,542)	\$ (1,375,284)		\$ 23,785	\$ 3,532,331

The market valuation adjustment represents the reversal of prior period unrealized holding losses for investments, net of taxes, where the decline in fair value was deemed to be other than temporary and the resulting loss was recognized in the consolidated statement of operations. The deferred loss primarily represents deferred losses on the Company's interest rate swap agreements, net of amounts reclassified to interest expense. Foreign currency translation adjustments are not adjusted for income taxes since they relate to indefinite investments in non-U.S. subsidiaries.

For the three months ended March 31, 2009, the Company repurchased approximately 5.6 million shares of its common stock at an average price of \$44.48 per share for \$250 million, including 4.5 million shares repurchased from SB Holdings Capital Inc., a wholly-owned subsidiary of GlaxoSmithKline plc., at an average price of \$44.33 per share, for \$200 million. For the three months ended March 31, 2009, the Company reissued 0.6 million shares for employee benefit plans.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

6. SUPPLEMENTAL CASH FLOW & OTHER DATA

	Three Months Ended March 31,	
	2010	2009
Depreciation expense	\$ 53,974	\$ 55,855
Interest expense	(36,530)	(39,844)
Interest income	575	436
	(35,955)	(39,408)
Interest paid	35,312	47,137
Income taxes paid	6,829	31,347

7. COMMITMENTS AND CONTINGENCIES

The Company has a line of credit with a financial institution totaling \$85 million for the issuance of letters of credit (the Letter of Credit Line). The Letter of Credit Line, which is renewed annually, matures on November 19, 2010 and is guaranteed by certain of the Company's domestic, wholly-owned subsidiaries (the Subsidiary Guarantors).

In support of its risk management program, to ensure the Company's performance or payment to third parties, \$72 million in letters of credit were outstanding at March 31, 2010. The letters of credit primarily represent collateral for current and future automobile liability and workers' compensation loss payments. In addition, \$6.4 million of bank guarantees were outstanding at March 31, 2010 in support of certain foreign operations.

Contingent Lease Obligations

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, Inc., which the Company acquired in 2005, and certain of its predecessor companies. No liability has been recorded for any of these potential contingent obligations. See Note 15 to the Consolidated Financial Statements contained in the Company's 2009 Annual Report on Form 10-K for further details.

Legal Matters

The Company is involved in various legal proceedings. Some of the proceedings against the Company involve claims that are substantial in amount.

In 2005, the Company received a subpoena from the U. S. 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. The Company cooperated with the U. S. Attorney's Office.

In 2005, the Company received a subpoena from the U. S. Department of Health and Human Services, Office of the Inspector General, seeking business records including records regarding the Company's relationship with health maintenance organizations, independent physician associations, group purchasing organizations, and preferred provider organizations relating back to 1995. The Company has cooperated with the investigation. Subsequently, in November 2009, the U.S. District Court for the Southern District of New York partially unsealed a civil complaint, U. S. ex rel. Fair Laboratory Practices Associates v. Quest Diagnostics Incorporated, filed against the Company under the whistleblower provisions of the federal False Claims Act. The complaint alleges, among other things, violations of the federal Anti-Kickback Statute and the federal False Claims Act in connection with the

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

Company's pricing of laboratory services. The complaint seeks damages for alleged false claims associated with laboratory tests reimbursed by government payors, treble damages and civil penalties.

In 2006 and 2008, the Company and several of its subsidiaries received subpoenas from the California Attorney General's Office seeking documents relating to the Company's billings to MediCal, the California Medicaid program. The Company has cooperated with the government's requests. Subsequently, the State of California intervened as plaintiff in a civil lawsuit, California ex rel. Hunter Laboratories, LLC v. Quest Diagnostics Incorporated., et al., filed in California Superior Court against a number of clinical laboratories, including the Company and several of its subsidiaries. The complaint alleges, among other things, overcharging of MediCal for testing services. The complaint was originally filed by a competitor laboratory in California under the whistleblower provisions of the California False Claims Act. The complaint was unsealed on March 20, 2009.

In June 2009, a shareholder plaintiff filed a purported derivative action in the Superior Court of New Jersey, Morris County, on behalf of the Company against certain present and former directors and officers of the Company based on, among other things, their alleged breaches of fiduciary duties in connection with the manufacture, marketing, sale and billing related to certain test kits manufactured by NID. The complaint includes claims for, among other things, breach of fiduciary duty and waste of corporate assets and seeks, among other things, damages and remission of compensation received by the individual defendants.

In April 2010, a putative class action was filed against the Company and NID in the U.S. District Court for the Eastern District of New York on behalf of entities that allegedly purchased or paid for certain of NID's test kits. The complaint alleges that certain of NID's test kits were defective and that defendants, among other things, violated RICO and state consumer protection laws. The complaint alleges an unspecified amount of damages.

The Company and certain of its subsidiaries have received subpoenas from state agencies in four states which seek documents relating to the Company's Medicaid billing practices in those states. The Company is cooperating with the requests.

The federal or state governments may bring 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. The Company is aware of certain pending individual or class action lawsuits, and has received several subpoenas, related to billing practices filed under the qui tam provisions of the Civil False Claims Act and/or other federal and state statutes, regulations or other laws. The Company understands that there may be other pending qui tam claims brought by former employees or other whistle blowers as to which the Company cannot determine the extent of any potential liability.

Several of these matters 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 approximately \$10 million as of March 31, 2010. 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.

As a general matter, providers of clinical 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 coverages for, among other things, claims that could result from providing, or failing to provide, clinical testing services, including inaccurate testing results, and other exposures. The Company's

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
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insurance coverage limits its maximum exposure on individual claims; however, the Company is essentially self-insured for a significant portion of these claims. Reserves for such matters are established by considering 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.

8. 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. Results of operations for NID have been reported as discontinued operations in the accompanying consolidated statements of operations and related disclosures for all periods presented.

During the third quarter of 2007, the government and the Company began settlement discussions with respect to the government's investigation involving NID and the Company. Based on the status of settlement discussions, during 2007 the Company established a reserve, in accordance with generally accepted accounting principles, reflected in discontinued operations, of \$241 million in connection with these claims.

During the third quarter of 2008, the Company and NID reached an agreement in principle with the United States Attorney's Office to settle the federal government investigation involving NID and the Company regarding NID test kits and tests performed using those test kits. As a result of the agreement in principle in 2008, the Company recorded charges of \$75 million in discontinued operations to increase its reserve for the settlement and related matters.

On April 15, 2009, the Company finalized the resolution of the federal government investigation related to NID and entered into a final settlement agreement with the federal government. In the second quarter of 2009, the Company paid \$268 million to settle the civil allegations. The Company also entered into a five-year corporate integrity agreement with the Office of Inspector General for the United States Department of Health and Human Services. In addition, NID pled guilty to a single count of felony misbranding and paid a \$40 million fine. These second quarter payments totaling \$308 million, which had been previously reserved, were funded out of cash on-hand and available credit facilities. During the third quarter of 2009, the Company finalized separate settlement agreements with certain states and paid approximately \$6 million, which had been previously reserved for.

Summarized financial information for the discontinued operations of NID is set forth below:

	Three Months Ended March 31,	
	2010	2009
Net revenues	\$	\$
Income (loss) from discontinued operations before income taxes	15	(2,820)
Income tax (expense) benefit	(67)	1,149
Loss from discontinued operations, net of taxes	\$ (52)	\$ (1,671)

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

The balance sheet information related to NID was not material at March 31, 2010 and December 31, 2009.

9. BUSINESS SEGMENT INFORMATION

Clinical testing is an essential element in the delivery of healthcare services. Physicians use clinical tests to assist in the detection, diagnosis, evaluation, monitoring and treatment of diseases and other medical conditions. Clinical testing is generally categorized as clinical laboratory testing and anatomic pathology services. Clinical laboratory testing is performed on whole blood, serum, plasma and other body fluids, such as urine, and specimens such as microbiology samples. Anatomic pathology services are principally for the detection of cancer and are performed on tissues, such as biopsies, and other samples, such as human cells. Customers of the clinical testing business include patients, physicians, hospitals, employers, governmental institutions and other commercial clinical laboratories. The clinical testing business accounted for greater than 90% of net revenues from continuing operations in 2010 and 2009.

All other operating segments include the Company's non-clinical testing businesses and consist of its risk assessment services, clinical trials testing, healthcare information technology and diagnostics products businesses. The Company's risk assessment business 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 testing performed in connection with clinical research trials on new drugs and vaccines. The Company's healthcare information technology business 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.

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 periods presented (see Note 8).

At March 31, 2010, 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 months ended March 31, 2010 and 2009. Segment asset information is not presented since it is not 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 to the Consolidated Financial Statements contained in the Company's 2009 Annual Report on Form 10-K and Note 1 to the interim consolidated financial statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Net revenues:		
Clinical laboratory testing business	\$ 1,657,067	\$ 1,663,633
All other operating segments	148,436	144,373
	\$ 1,805,503	\$ 1,808,006
Operating earnings (loss):		
Clinical laboratory testing business	\$ 340,884	\$ 343,411
All other operating segments	2,400	12,863
General corporate expenses	(44,722)	(35,211)
	298,562	321,063
Non-operating expenses, net	(21,979)	(33,547)
	276,583	287,516
Income from continuing operations before income taxes		
	276,583	287,516
Income tax expense	105,378	110,189
	171,205	177,327
Income from continuing operations		
	171,205	177,327
Loss from discontinued operations, net of taxes	(52)	(1,671)
	171,153	175,656
Net income		
	171,153	175,656
Less: Net income attributable to noncontrolling interests	8,705	8,554
	\$ 162,448	\$ 167,102

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
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10. SUMMARIZED FINANCIAL INFORMATION

The Company's Senior Notes due 2010, Senior Notes due 2011, Senior Notes due 2015, Senior Notes due 2017, Senior Notes due 2020, Senior Notes due 2037 and Senior Notes due 2040 are fully and unconditionally guaranteed, jointly and severally, by the Subsidiary Guarantors. With the exception of Quest Diagnostics Receivables Incorporated (QDRI) (see paragraph below), the non-guarantor subsidiaries are primarily foreign subsidiaries and less than wholly-owned subsidiaries.

In conjunction with the Company's secured receivables credit facility, the Company maintains a wholly-owned non-guarantor subsidiary, QDRI. The Company and certain of its Subsidiary Guarantors transfer certain 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.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

Condensed Consolidating Statement of Operations
 Three Months Ended March 31, 2010

	Parent	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	\$ 211,221	\$ 1,482,590	\$ 192,336	\$ (80,644)	\$ 1,805,503
Operating costs and expenses:					
Cost of services	122,587	879,787	63,999		1,066,373
Selling, general and administrative	23,078	314,118	100,868	(7,331)	430,733
Amortization of intangible assets	17	7,631	1,711		9,359
Royalty (income) expense	(101,492)	101,492			
Other operating expense (income), net	1,025	233	(782)		476
Total operating costs and expenses	45,215	1,303,261	165,796	(7,331)	1,506,941
Operating income	166,006	179,329	26,540	(73,313)	298,562
Non-operating (expense) income, net	(30,559)	(66,445)	1,712	73,313	(21,979)
Income from continuing operations before taxes	135,447	112,884	28,252		276,583
Income tax expense	51,485	45,747	8,146		105,378
Income from continuing operations	83,962	67,137	20,106		171,205
Loss from discontinued operations, net of taxes		(52)			(52)
Equity earnings from subsidiaries	78,486			(78,486)	
Net income	162,448	67,085	20,106	(78,486)	171,153
Less: Net income attributable to noncontrolling interests			8,705		8,705
Net income attributable to Quest Diagnostics	\$ 162,448	\$ 67,085	\$ 11,401	\$ (78,486)	\$ 162,448

Condensed Consolidating Statement of Operations
 Three Months Ended March 31, 2009

	Parent	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	\$ 210,052	\$ 1,495,917	\$ 171,559	\$ (69,522)	\$ 1,808,006
Operating costs and expenses:					
Cost of services	126,963	868,087	58,439		1,053,489
Selling, general and administrative	32,672	306,970	91,977	(7,318)	424,301
Amortization of intangible assets	26	7,848	1,131		9,005
Royalty (income) expense	(96,340)	96,340			
Other operating (income) expense, net	(979)	211	916		148

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Total operating costs and expenses	62,342	1,279,456	152,463	(7,318)	1,486,943
Operating income	147,710	216,461	19,096	(62,204)	321,063
Non-operating (expense) income, net	(41,806)	(56,464)	2,519	62,204	(33,547)
Income from continuing operations before taxes	105,904	159,997	21,615		287,516
Income tax expense	41,290	63,794	5,105		110,189
Income from continuing operations	64,614	96,203	16,510		177,327
Loss from discontinued operations, net of taxes		(1,671)			(1,671)
Equity earnings from subsidiaries	102,488			(102,488)	
Net income	167,102	94,532	16,510	(102,488)	175,656
Less: Net income attributable to noncontrolling interests			8,554		8,554
Net income attributable to Quest Diagnostics	\$ 167,102	\$ 94,532	\$ 7,956	\$ (102,488)	\$ 167,102

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

Condensed Consolidating Balance Sheet
March 31, 2010

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 374,387	\$ 22,033	\$ 66,819	\$	\$ 463,239
Accounts receivable, net	27,203	129,830	708,127		865,160
Other current assets	72,789	163,458	99,029	(18,427)	316,849
	<u>474,379</u>	<u>315,321</u>	<u>873,975</u>	<u>(18,427)</u>	<u>1,645,248</u>
Total current assets	474,379	315,321	873,975	(18,427)	1,645,248
Property, plant and equipment, net	177,625	599,289	34,961		811,875
Goodwill and intangible assets, net	156,143	5,302,152	441,412		5,899,707
Intercompany receivable (payable)	465,450	(89,347)	(376,103)		
Investment in subsidiaries	5,860,723			(5,860,723)	
Other assets	166,122	10,918	55,969	(73,630)	159,379
	<u>7,300,442</u>	<u>6,138,333</u>	<u>1,030,214</u>	<u>(5,952,780)</u>	<u>8,516,209</u>
Total assets	\$ 7,300,442	\$ 6,138,333	\$ 1,030,214	\$ (5,952,780)	\$ 8,516,209
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	\$ 675,619	\$ 201,460	\$ 47,442	\$ (18,427)	\$ 906,094
Current portion of long-term debt	165,772	2,376	2,256		170,404
	<u>841,391</u>	<u>203,836</u>	<u>49,698</u>	<u>(18,427)</u>	<u>1,076,498</u>
Total current liabilities	841,391	203,836	49,698	(18,427)	1,076,498
Long-term debt	2,457,487	145,700	341,602		2,944,789
Other liabilities	97,390	490,731	51,216	(73,630)	565,707
Stockholders' equity:					
Quest Diagnostics stockholders' equity	3,904,174	5,298,066	562,657	(5,860,723)	3,904,174
Noncontrolling interests			25,041		25,041
	<u>3,904,174</u>	<u>5,298,066</u>	<u>587,698</u>	<u>(5,860,723)</u>	<u>3,929,215</u>
Total stockholders' equity	3,904,174	5,298,066	587,698	(5,860,723)	3,929,215
Total liabilities and stockholders' equity	\$ 7,300,442	\$ 6,138,333	\$ 1,030,214	\$ (5,952,780)	\$ 8,516,209

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(in thousands, unless otherwise indicated)
(unaudited)

Condensed Consolidating Balance Sheet
December 31, 2009

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 464,958	\$ 17,457	\$ 51,841	\$	\$ 534,256
Accounts receivable, net	3,461	156,102	667,780		827,343
Other current assets	64,354	169,233	99,109	(14,870)	317,826
	<u>532,773</u>	<u>342,792</u>	<u>818,730</u>	<u>(14,870)</u>	<u>1,679,425</u>
Total current assets	532,773	342,792	818,730	(14,870)	1,679,425
Property, plant and equipment, net	181,790	607,951	36,205		825,946
Goodwill and intangible assets, net	153,145	5,308,433	446,031		5,907,609
Intercompany receivable (payable)	471,421	(137,227)	(334,194)		
Investment in subsidiaries	5,790,333			(5,790,333)	
Other assets	194,990	11,428	49,970	(105,725)	150,663
	<u>7,324,452</u>	<u>6,133,377</u>	<u>1,016,742</u>	<u>(5,910,928)</u>	<u>8,563,643</u>
Total assets	\$ 7,324,452	\$ 6,133,377	\$ 1,016,742	\$ (5,910,928)	\$ 8,563,643
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	\$ 641,964	\$ 239,417	\$ 22,194	\$ (14,870)	\$ 888,705
Current portion of long-term debt	165,661	2,436	2,410		170,507
	<u>807,625</u>	<u>241,853</u>	<u>24,604</u>	<u>(14,870)</u>	<u>1,059,212</u>
Total current liabilities	807,625	241,853	24,604	(14,870)	1,059,212
Long-term debt	2,430,806	146,556	359,430		2,936,792
Other liabilities	96,382	513,987	51,531	(105,725)	556,175
Stockholders' equity:					
Quest Diagnostics stockholders' equity	3,989,639	5,230,981	559,352	(5,790,333)	3,989,639
Noncontrolling interests			21,825		21,825
	<u>3,989,639</u>	<u>5,230,981</u>	<u>581,177</u>	<u>(5,790,333)</u>	<u>4,011,464</u>
Total stockholders' equity	3,989,639	5,230,981	581,177	(5,790,333)	4,011,464
Total liabilities and stockholders' equity	\$ 7,324,452	\$ 6,133,377	\$ 1,016,742	\$ (5,910,928)	\$ 8,563,643

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 (in thousands, unless otherwise indicated)
 (unaudited)

Condensed Consolidating Statement of Cash Flows
 Three Months Ended March 31, 2010

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net income	\$ 162,448	\$ 67,085	\$ 20,106	\$ (78,486)	\$ 171,153
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	12,348	46,853	4,132		63,333
Provision for doubtful accounts	1,471	12,107	62,701		76,279
Other, net	(22,721)	(22,860)	(9,034)	78,486	23,871
Changes in operating assets and liabilities	67,891	(106,426)	(56,886)		(95,421)
Net cash provided by (used in) operating activities	221,437	(3,241)	21,019		239,215
Net cash used in investing activities	(50,483)	(29,595)	(1,189)	38,673	(42,594)
Net cash (used in) provided by financing activities	(261,525)	37,412	(4,852)	(38,673)	(267,638)
Net change in cash and cash equivalents	(90,571)	4,576	14,978		(71,017)
Cash and cash equivalents, beginning of period	464,958	17,457	51,841		534,256
Cash and cash equivalents, end of period	\$ 374,387	\$ 22,033	\$ 66,819	\$	\$ 463,239

Condensed Consolidating Statement of Cash Flows
 Three Months Ended March 31, 2009

	<u>Parent</u>	<u>Subsidiary Guarantors</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net income	\$ 167,102	\$ 94,532	\$ 16,510	\$ (102,488)	\$ 175,656
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	14,226	47,237	3,397		64,860
Provision for doubtful accounts	1,430	16,715	63,283		81,428
Other, net	(58,962)	(13,545)	(6,295)	102,488	23,686