QUEST DIAGNOSTICS INC
Form 10-K
February 27, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2012
Commission File Number 001-12215

Quest Diagnostics Incorporated
3 Giralda Farms
Madison, New Jersey 07940
(973) 520-2700
Delaware
(State of Incorporation)
16-1387862
(I.R.S. Employer Identification Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No X

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 X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 X 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 X
As of June 30, 2012, the aggregate market value of the approximately 158 million shares of voting and non-voting common equity held by non-affiliates of the registrant was approximately $9.5 billion, based on the closing price on such date of the registrant's Common Stock on the New York Stock Exchange.
As of January 31, 2013, there were outstanding 158,217,052 shares of the registrant’s common stock, $.01 par value.

Documents Incorporated by Reference	Part of Form 10-K into which incorporated
Portions of the registrant's Proxy Statement to be filed by April 30, 2013	Part III

Such Proxy Statement, except for the portions thereof which have been specifically incorporated by reference, shall not be deemed “filed” as part of this report on Form 10-K.

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Item 1. Business

Quest Diagnostics Incorporated is the world's leading provider of diagnostic testing information services. We provide insights that empower and enable patients, physicians, hospitals, integrated delivery networks (each an "IDN"), health plans, employers and others to make better healthcare decisions.

Quest Diagnostics was incorporated in Delaware in 1990; its predecessor companies date back to 1967. We conduct business through our headquarters in Madison, New Jersey, and our laboratories, patient service centers, offices and other facilities around the United States and in selected locations outside the United States. Unless the context otherwise requires, the terms “Quest Diagnostics,” the “Company,” “we” and “our” mean Quest Diagnostics Incorporated and its consolidated subsidiaries.

During 2012, we generated net revenues of $7.4 billion and processed approximately 147 million test requisitions. Additional financial information concerning Quest Diagnostics, including our consolidated subsidiaries and business segments, for each of the years ended December 31, 2012, 2011 and 2010 is included in the consolidated financial statements and notes thereto in “Financial Statements and Supplementary Data” in Part II, Item 8.

OUR STRATEGY AND STRENGTHS

In 2012, Quest Diagnostics launched a new vision and strategy for our Company. Our new vision is: empowering better health with diagnostic insights. We have three aspirational goals: a healthier world; build a valuable company; and create an inspiring workplace. Our values remain unchanged: quality, integrity, accountability, integrity, innovation and leadership.

Our Strategy

In 2012, we introduced a five-point business strategy, grounded in today's realities, to help us achieve our vision and our goals.

1. Refocus on diagnostic information services. During 2012, we conducted a thorough review of our portfolio, to evaluate all assets to ensure a strong strategic fit. As a result of the review, we are refocusing on diagnostic information services, and retaining pathology services, where we will strive to improve performance, Berkeley Heartlab,™ Celera's discovery capabilities and our international assets. We also determined to evaluate options with respect to the Celera drug assets and the Celera products businesses. In addition, we determined to refocus our electronic health record business, including to pursue partnerships with top EHR vendors to jointly strengthen our value proposition. Finally, we sold our OralDNA salivary diagnostics business and have agreed to sell our HemoCue diagnostic products business.

2. Drive operational excellence. Improving our operations will yield many benefits, including: enhancing customer satisfaction, employee engagement and shareholder value; improving our competitiveness; and strengthening our foundation for growth. To drive operational excellence, we will focus on four strategic imperatives. These imperatives are to enhance our end-to-end customer value chain, enterprise information technology architecture, business performance tools and cost excellence.

Our cost excellence program, Invigorate, is now expected to deliver $500 million in annual savings in 2014 compared to the 2011 baseline, and $600 million run rate savings as the Company exits 2014. We are pursuing opportunities to increase this total to $1 billion beyond 2014. Invigorate consists of six flagship programs, with structured plans in each, to drive savings and improve performance across the customer value chain: organization excellence; information

technology excellence; procurement excellence; service excellence; lab excellence; and billing excellence.

3. Restore growth. We are pursuing seven tactical approaches to restore growth. Three of these approaches have a near-term focus: sales and marketing excellence; grow esoteric testing through a disease focus; and partner with hospitals and IDNs. The remaining four growth approaches have a long-term focus: succeed internationally; create value from information assets; lead in companion diagnostics; and extend in adjacent markets.

Our vision for sales and marketing excellence is to be the preferred partner for diagnostic information services to key segments through sales and marketing excellence, with a revitalized customer-focused culture. We will have one sales organization in our Diagnostic Information Services business, centrally led, and focused on local customer needs. We plan to have world-class management discipline around processes, tools and measurement. We expect to build a virtuous circle of

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talent acquisition and retention, and instill a winning culture. Our plan is that the combination of these elements will result in physicians, hospitals, health plans, IDNs and employers more eager than ever to partner with Quest Diagnostics.

We plan to grow esoteric testing revenues through science and innovation focused on value creation for major clinical opportunities, such as cardiovascular, cancer and neurology. Further, we plan to pursue opportunities to create value from the integration of lab testing and clinical information. We also plan to provide holistic solutions centered on evidence-supported standards of care, and to combine routine, guideline mandated testing with esoteric solutions.

In addition, we plan to grow by pursuing strategic partnerships with hospitals and IDNs. We believe that continued price and utilization pressure will drive demand for our expertise in a range of strategic partnerships, including lab management outsourcing, outreach acquisition and joint ventures. We can partner with hospitals to drive the success of accountable care organizations, including by consolidating data and delivering insights, delivering test management solutions to improve care and help control cost and by providing patient-focused programs to enable effective management of care. Our recent agreement with UMass Memorial Medical Center is but one example of the kinds of opportunities we see.

We recently launched a multi-year initiative called Project Restore. Project Restore is designed to complement the Invigorate program and will focus on identifying and implementing opportunities to drive profitable revenue growth across the organization.

4. Simplify the organization to enable growth and productivity. We concluded that our organization was not structured to align well with our objectives. Previously, the organization was too complex, and it failed to let the Company take advantage of its scale and capabilities. We are simplifying and restructuring the organization, including reducing management layers, so that we can better focus on our customers and speed decision-making. Our new organization is designed to align around future growth opportunities, to align upstream and downstream units in our business for seamless execution and to leverage our company-wide infrastructure to gain more capability, value and efficiency. The majority of the organizational changes began on January 1, 2013. In connection with these changes the Company expects to eliminate three management layers, and approximately 400 to 600 management positions, by the end of 2013.

The Company is made up of two businesses: Diagnostic Information Services and Diagnostic Solutions. Our Diagnostic Information Services business develops and delivers diagnostic testing, information and services to patients, physicians, health plans, hospitals, IDNs, employers and others. It is comprised of two parts. The value creation side of the business focuses on customer solutions for the marketplace, including new test development and upstream marketing. It is organized to focus on different clinical franchises, such as cardiovascular, infectious disease, cancer, neurology and general health and wellness. The value delivery side includes sales and downstream marketing; routine and esoteric laboratory operations; field operations; logistics and client services. Diagnostic Solutions includes our other businesses, including clinical trials testing, life insurer services, diagnostic products and healthcare information technology.

5. Deliver disciplined capital deployment and strategically aligned accretive acquisitions. We are focused on increasing shareholder returns and returns on invested capital (“ROIC”) through a framework that encompasses improving operating performance and disciplined capital deployment.

Our disciplined capital deployment framework includes dividends, share repurchases and investment in our business and is intended to improve ROIC. The framework is grounded in maintaining an investment grade credit rating. In 2012, the Company used the majority of its free cash flow to reduce its outstanding debt and achieve a debt/EBITDA ratio in the range of 2 - 2¼ times. Having achieved our targeted leverage ratio, we expect to return to investors

through a combination of dividends and share repurchases a majority of our free cash flow. Consistent with that expectation, we increased our quarterly common stock dividend by 76%, from $0.17 per common share to $0.30 per common share, in January 2013. This represents a three-fold increase in the dividend since 2011. We believe that the dividend can grow over time. We also believe that opportunities may arise to return incremental capital to shareholders from free cash flow as a result of portfolio actions.

We will continue to invest in our business in a disciplined manner. We believe that we have established a solid foundation of strategic assets and capabilities, and that it is unlikely that we will complete any large strategic acquisitions in the near term. Our near-term investments in growth are likely to focus on value-creating fold-in acquisitions using disciplined investment criteria, investments in science and innovation in the form of licensing, collaborations and internal development to grow esoteric testing, and tools to support commercial excellence. We will screen potential acquisitions using guidelines that assess strategic fit and financial considerations, including value creation, ROIC and impact on our earnings. We also expect to make investments to improve operational excellence, including, for example, systems standardization and automation, footprint optimization and Project Invigorate.

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Our Strengths

We offer high value diagnostic information services and diagnostic solutions that are attractive to patients, physicians, hospitals, health plans, IDNs, employers and others. Over the past several years, we have expanded our business in more complex and faster-growing testing areas, including gene-based and esoteric testing. We believe that customers and payers prefer providers that offer a comprehensive and innovative range of tests and services and the most convenient access to those services and that, by offering such services, we strengthen our market offering, market position and reputation.

Our assets and capabilities. We are the world leader in the diagnostic information services business. We offer the broadest test menu, with more than 3,000 tests, and are the leading provider in the United States of anatomic pathology, routine and gene-based and esoteric testing services. We offer national access and have the most extensive network in the United States. We operate a nationwide specimen collection network including over 2,100 of our own patient service centers and, in addition, approximately 3,000 phlebotomists in physician offices. We also operate many additional locations globally where thousands of contracted paramedical examiners coordinate the provision of paramedical examinations related to life insurance applications. We have a medical and scientific staff available for consultation including over 800 M.D.s and Ph.D.s, primarily located in the United States, many of whom are recognized leaders in their field. We serve approximately half of the physicians and half of the hospitals in the United States. We have strong logistics capabilities, including courier vehicles and aircraft that collectively make tens of thousands of stops daily.

Medical innovation. We are a leading innovator in diagnostic information services with outstanding medical and technical expertise. We collaborate with leading academic centers and maintain relationships with advisors and consultants that are leaders in key fields, such as cardiology, oncology, neurology and infectious disease. In connection with our research and development efforts, our medical and scientific experts publish in peer-reviewed journals research that demonstrates the clinical value and importance of diagnostic testing. In 2012, our experts authored more than 100 publications that support advancements and the latest thinking in laboratory testing and disease diagnosis.

We see significant opportunity to use diagnostic information services to personalize treatment options based on the individual genetic profile of each patient. For example, we can offer an “end-to-end” array of services for companion diagnostics. We have expertise dealing with biomarkers in clinical trials, have biomarker discovery capabilities, and can make available laboratory developed tests, in vitro diagnostics (“IVD”) test kits and late-stage commercialization support for companion diagnostics for new therapies that will foster personalized patient treatment. In 2012, the FDA granted our de novo classification petition for our STRATIFY JCV™ Antibody ELISA testing service. It is the first blood test to be FDA market authorized for the qualitative detection of antibodies to the polyomavirus JC virus for stratifying risk for progressive multifocal leukoencephalopathy, an infrequent but serious brain infection, in patients with multiple sclerosis receiving TYSABRI® (natalizumab), a therapy for relapsing forms of multiple sclerosis. STRATIFY JCV,™ which was developed under an exclusive collaboration for the United States market with the co-manufacturer of TYSABRI,® is to be performed only at Focus Diagnostics.

We continue to introduce new tests, technology and services, including many with a focus on personalized and targeted medicine. In addition, as an industry leader with the largest and broadest U.S. network and presence outside the United States, we believe we are the distribution channel of choice for developers of new tests to introduce their products to the marketplace. Through our relationships with the academic medical community and pharmaceutical and biotechnology firms, we believe that we are a leader in bringing technical innovation to the market.

Leading healthcare information technology solutions. We provide interoperable technologies that help healthcare organizations and physicians enter, share and access clinical information without costly IT implementation or

significant workflow disruption, including through our Care360® suite of products and our ChartMaxx® electronic document management system for hospitals. These solutions offer access to a large national healthcare provider network using Quest Diagnostics' Care360 connectivity products. The Care360 products, including Care360 Labs and Meds, enable physicians electronically to order diagnostic testing and review test results from Quest Diagnostics and electronically to prescribe medications. Our Care360 EHR product, which is certified as a complete electronic health record by the Certification Commission for Health Information Technology, allows physicians to generate a complete record of a clinical patient encounter, automates and streamlines the clinician's workflow, and allows for rapid deployment and implementation with minimal workflow disruption. We believe that these products enhance the value we provide to our customers and result in increased customer loyalty by providing more convenient ordering and reporting of diagnostic information services, greater convenience in electronically prescribing medication and better access to clinical information.

We are a leader in providing patients with tools to manage their healthcare and medical information. Our automated patient appointment scheduling enables patients to schedule appointments, including via mobile devices, at times that are

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convenient for them while reducing or eliminating their waiting time. We also offer TestMinder,® which sends email reminders to patients who require frequent testing, and Gazelle,® a secure mobile health platform that allows users to receive and archive their Quest Diagnostics test results, manage their personal health information, find a Quest Diagnostics location and schedule appointments directly from their smartphone.

Strong quality and a positive patient experience. We strive to provide the highest quality in all that we do. We build upon Six Sigma and Lean processes to continuously reduce defects, enhance quality and further increase the efficiency of our operations. Six Sigma is a management approach that utilizes a thorough understanding of customer needs and requirements, root cause analysis, process improvements and rigorous tracking and measuring to enhance quality. Lean is a management approach that seeks to streamline processes and eliminate waste. We also use Six Sigma and Lean principles to help standardize operations and processes across our Company and identify and adopt best practices. We believe our use of Six Sigma and Lean results in superior service to our customers and drives customer loyalty. The patient is at the center of everything we do. Patients have a choice when it comes to selecting a healthcare provider and we strive to give patients reason to put their trust in us. We have made significant investments in training our employees to provide a positive patient experience. We believe that this will drive patient and physician loyalty.

BUSINESS OPERATIONS

Our operations are organized in two business groups. Our activities are described below.

Our Diagnostics Information Services business is the leading provider of diagnostic information services, which includes providing clinical testing services such as routine testing, gene-based and esoteric testing, anatomic pathology services, and drugs-of-abuse testing, as well as related services and insights. We offer patients, physicians, hospitals, IDNs, health plans, employers and others the broadest access in the United States to diagnostic information services through our nationwide network of laboratories and Company-owned patient service centers. We provide interpretive consultation through the largest medical and scientific staff in the industry, including over 800 M.D.s and Ph.D.s, primarily located in the United States, many of whom are recognized leaders in their fields.

In our Diagnostic Solutions group, we offer a variety of solutions for insurers and healthcare providers. We are the leading provider of risk assessment services for the life insurance industry. In addition, we are a leading provider of testing for clinical trials. Our diagnostics products business manufactures and markets diagnostic test kits. In addition, we offer healthcare organizations and clinicians robust information technology solutions.

We leverage our diagnostic information capabilities and assets to serve multiple customer bases. Most of our services are provided in the United States. For the years ended December 31, 2012, 2011 and 2010, we derived approximately 2%, 3%, and 3%, respectively, of our revenues from continuing operations from foreign operations. For the year ended December 31, 2012, less than 1% of our long-lived assets (excluding the HemoCue assets held for sale) were held outside the United States, and for the years ended December 31, 2011 and 2010, approximately 6% and 7%, respectively, of our long-lived assets (including the HemoCue assets held for sale in 2012) were held outside the United States. The following chart shows the percentage of our 2012 net revenues generated by the activities identified.

Activity	Approximate Percentage of 2012 Net Revenues From Continuing Operations

Diagnostic information services	92
Routine clinical testing services	51
Anatomic pathology testing services	12
Gene-based and esoteric testing services	26
Drugs of abuse testing services	3
Diagnostic Solutions: Healthcare information technology, clinical trials testing, life insurer services and diagnostic products	8

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Diagnostic Information Services

Background - clinical testing.

Clinical testing is an essential element in the delivery of healthcare services. Physicians use clinical testing 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 generally is performed on whole blood, serum, plasma and other body fluids, such as urine, and specimens such as microbiology samples. Clinical laboratory tests which can be performed by most clinical laboratories are considered routine. Routine testing measures various important bodily health parameters such as the functions of the kidney, heart, liver, thyroid and other organs. Commonly ordered tests include blood chemistries, urinalysis, allergy tests and complete blood cell counts.

Esoteric tests are clinical laboratory tests typically that are not routine. Esoteric tests include procedures in the areas of molecular diagnostics, protein chemistry, cellular immunology and advanced microbiology. These tests may require professional “hands-on” attention from highly-skilled technical personnel, generally require more sophisticated technology, equipment or materials and may be performed less frequently than routine tests. Consequently, esoteric tests generally are reimbursed at higher levels than routine tests. It is not practical, from a cost-effectiveness or infrastructure perspective, for most hospitals, commercial laboratories or physician office laboratories to develop and perform a broad menu of esoteric tests, or to perform low-volume esoteric testing in-house. Such tests generally are outsourced to an esoteric clinical testing laboratory, which specializes in performing these complex tests. Commonly ordered esoteric tests include viral and bacterial detection tests, drug therapy monitoring tests, genetic tests, autoimmune panels and complex cancer evaluations. Gene-based and esoteric tests increasingly are ordered by physicians to assist them in the diagnostic process, to establish a prognosis and to choose or monitor a therapeutic regimen.

Anatomic pathology services are performed on tissues, such as biopsies, and other samples, such as human cells. Anatomic pathology involves the diagnosis of cancer and other diseases and medical conditions through examination of tissue and cell samples taken from patients.

Our services.

We are the world's largest provider of diagnostic information services. We provide information and insights based on clinical testing, and related services. The clinical testing that we perform includes routine testing, esoteric or gene-based testing and anatomic pathology testing. We are the leading provider of routine, esoteric and gene-based and anatomic pathology testing in the world, and offer customers the broadest access to the most extensive test menu. We also are a leader in providing testing for the detection of employee use of drugs of abuse, offering a full range of solutions, including urine, hair, blood and oral fluid tests. Our Quest Diagnostics Drug Testing Index,™ which is an annual report of our aggregate drug testing results, is cited by employers, the federal government and the media to help identify and quantify drug abuse among the nation's workforce. We also provide wellness testing and analytic services, such as our Blueprint for Wellness® program, to employers to enable them and their employees to take an active role in improving their health and containing costs.

We believe that offering services based on a full range of tests strengthens our market offering, market position and reputation. Our experienced medical staff has a passion for providing the highest quality service to patients. Our in-house experts, including medical directors, scientific directors, genetic counselors and board certified geneticists, provide medical and scientific consultation regarding our tests and test results, and help physicians and others best utilize these tests to improve patient outcomes and enhance patient satisfaction. Our approach fosters personalized

patient care.

As part of our 2011 acquisition of Celera Corporation ("Celera"), we gained access to a pipeline of biomarkers to drive growth in gene-based and esoteric testing services. Our esoteric laboratories provide reference testing services to physicians, large academic medical centers, hospitals and other commercial laboratories. Our esoteric testing laboratories perform hundreds of complex tests that are not routinely performed by our regional laboratories, including but not limited to the following fields:

- endocrinology and metabolism (the study of glands, their hormone secretions and their effects on body growth and metabolism);
- genetics (the study of chromosomes, genes and their protein products and effects);
- hematology (the study of blood and bone marrow cells) and coagulation (the process of blood clotting);
- neurology (the study of the nervous system, its structure and its diseases);

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- immunogenetics and human leukocyte antigens (solid organ and bone marrow transplantation, eligibility for vaccines, selection of pharmacotherapeutic agents and immunotherapy);
- immunology (the study of the immune system, including antibodies, cytokines, immune system cells and their effect, receptor systems and autoimmune diseases);
- microbiology and infectious diseases (the study of microscopic forms of life, including parasites, bacteria, viruses, fungi and other infectious agents);
- oncology (the study of abnormal cell growth, including benign tumors and cancer);
- serology (a science dealing with body fluids and their analysis, including antibodies, proteins and other characteristics); and
- toxicology (the study of chemicals and drugs and their adverse effects on the body).

We also offer gene-based testing services for the predisposition, diagnosis, treatment and monitoring of cancers. We provide integrated, comprehensive diagnostic information services that include both anatomic pathology and clinical pathology testing, enabling our pathologists to offer patients and physicians a complete analysis.

We provide our services through our nationwide network of major laboratories, anatomic pathology laboratories and rapid response laboratories. Rapid response laboratories are smaller facilities where we can quickly perform an abbreviated menu of routine tests for customers that require rapid turnaround times. We conduct complex and specialized testing, including molecular diagnostics, in our world renowned Quest Diagnostics Nichols Institute laboratory facilities and in other facilities, including Focus Diagnostics and Athena Diagnostics. We operate 24 hours a day, 365 days a year. We also provide routine testing services, and inpatient anatomic pathology and medical director services, at hospital laboratories.

Most of our services are provided under the Quest Diagnostics brand, but we also provide services under the AmeriPath,® Dermpath Diagnostics,® Focus Diagnostics® and Athena Diagnostics® brands. Focus Diagnostics® is a leading provider of infectious disease diagnostic information services and has established a reputation for being first to introduce new tests to the market, including diagnostic tests for Lyme disease, West Nile Virus, SARS and H1N1. Through Athena Diagnostics® we have the leading position in the growing neurology diagnostics market. We have a leading position in advanced cardiovascular diagnostic information services, including our Berkeley HeartLab offering. We have a strong history of leadership and innovation in cancer diagnostics, including introduction of the Leumeta® family of tests for leukemia and lymphoma.

International.

We provide diagnostic information services in several markets outside the United States. We have laboratory facilities in Gurgaon, India; Heston, England; Mexico City, Mexico; and San Juan, Puerto Rico. These laboratories support the provision of diagnostic information services in their local markets, and also may support our clinical trials business. We have an office in Ireland that supports our activities in that country. We see opportunities to bring our experience and expertise in diagnostic information services to markets outside the United States, including by leveraging existing facilities to serve new markets.

Connectivity.

We offer connectivity solutions that provide more convenient ordering and reporting of diagnostic information services, greater convenience in electronically prescribing medication and better access to information. We believe that our connectivity solutions enhance the value we provide, help differentiate us from the competition and result in increased customer loyalty.

The majority of diagnostic information that we provide is delivered electronically, including by taking advantage of our Care360® products. These products, including Care360 Labs and Meds, enable physicians electronically to order diagnostic testing and review test results from our Company and electronically to prescribe medication. Physicians also take advantage of our Care360 Mobile application that lets them review diagnostic information and order medications using their smartphones or mobile devices. There is a large national healthcare provider network using Quest Diagnostics' Care360 connectivity products.

We also provide patients with tools to manage their healthcare and medical information. Our automated patient appointment scheduling enables patients to schedule appointments, including via mobile devices, at times that are convenient for them while reducing or eliminating their waiting time. We also offer TestMinder,® which sends email reminders to patients who require frequent testing, and Gazelle,® a secure mobile health platform that allows users to receive and archive their Quest Diagnostics test results, manage their personal health information, find a Quest Diagnostics location and schedule appointments directly from their smartphone.

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Scientific Innovation.

We are a leading innovator in diagnostic information services. Our capabilities include early discovery, technology development and clinical validation of diagnostic tests. We develop tests at our laboratories, such as Quest Diagnostics Nichols Institute and Athena Diagnostics; we also develop innovative techniques and services in anatomic pathology. We collaborate with leading academic centers and maintain relationships with advisers and consultants who are leaders in key fields of science and medicine. In connection with our research and development efforts, our medical and scientific experts publish in peer-reviewed journals research that demonstrates the clinical value and importance of diagnostic testing. In 2012, they authored more than 100 publications that provided fundamental insights into the biology of diseases or introduced novel diagnostic testing approaches benefiting patients. They also help to shape the latest thinking as the authors of textbooks, or chapters therein, used by academic institutions to train healthcare providers, and participate on scientific committees determining guidelines for diagnostic usage in a number of fields, such as HIV, HCV and testosterone testing.

We successfully transfer technical innovations to the market through our relationships with technology developers, including the academic community and pharmaceutical and biotechnology firms, our in-house expertise and our collaborations with emerging medical technology companies that develop and commercialize novel diagnostics, pharmaceutical and device technologies. For example, through our multi-year exclusive collaboration with Genomic Vision, we have exclusive rights to develop and offer, in the United States, India and Mexico, clinical and research use laboratory testing services based on Genomic Vision's molecular combing technique to identify clinically significant DNA mutations which are not detected by more traditional techniques. Other examples are our collaboration with Somalogic on discovery and development of protein-based tests and with Clinical Genomics in the area of DNA methylation technology and colon cancer detection. We search for new opportunities and continue to build a robust pipeline of new tests. Through our strengths in assay development and the commercialization of test services, we believe that we are the partner of choice for developers of new technologies and tests to introduce their products to the marketplace.

We are organized to focus on key clinical franchises, including cancer, cardiovascular and metabolism, women's health and reproductive genetics, infectious disease and neurology. We seek technologies that help doctors care for their patients through better predisposition, screening, monitoring, diagnosis, prognosis and treatment choices. We seek to develop tests that help to determine a patient's genotype or gene expression profile relative to a particular disease and its potential therapies, because these tests can help physicians to determine a patient's susceptibility to disease or to tailor medical care to an individual's needs - such as determining if a medication might be an optimum choice for a particular person, or tailoring the right dosage once the proper medicine is prescribed. In addition, we aim to develop holistic solutions responsive to challenges that physicians face, by developing solutions of multiple tests, information and services focused on specific clinical challenges. We also look for tests that are less invasive than currently available options, to increase the choices that physicians and patients have for the collection of diagnostic samples. With these priorities in mind, during 2012 we introduced a number of new or enhanced tests, and disease area solutions, including those discussed below.

- Cancer.
  - We introduced our comprehensive thyroid cancer testing service, including cytology, mutation testing and a recurrence monitoring test by mass spectrometry.
  - We also introduced enhancements to our leukemia testing services and companion diagnostics for lung cancer and melanoma.

- Infectious Disease.
  - We developed and introduced a proprietary molecular test for renal transplant rejection monitoring.

- We also developed and introduced HIV tropism testing by advanced sequencing, which enables treatment selection for HIV infected patients with half the turn around time and cost compared to alternative tests. This test was developed and validated by Quest Diagnostics and was based on collaboration with Viiv Pharmaceuticals, and represents the first advanced sequencing laboratory test for HIV by a national laboratory in the U.S.

• Cardiovascular Disease.

- We released a test for therapeutic drug monitoring of dabigatran, a new oral anti-coagulant.
- Through Berkeley HeartLab, we introduced genetic testing for an additional mutation in the LPA gene which helps identify patients with risk of cardiovascular disease and likelihood to benefit from aspirin therapy, as well as 4q25 genotyping to determine risk of atrial fibrillation to aid in the diagnosis of cause of stroke and in helping to make decisions about the use of devices and anti-coagulation in patients with suspected atrial fibrillation.

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- We released novel testing for omega 3 fatty acids, as well as testing for adrenal hormones to aid in the diagnosis of metabolic diseases in women and children.
- In addition, we advanced our program in diabetes testing by releasing insulin testing by mass spectromotry, which helps address variability issues that previously have hindered the clinical use of testing for this analyte.

• Neurology.
- We launched molecular genetic testing to aid in the diagnosis of Parkinson's disease, ALS, muscular dystrophy and epilepsy.
- The FDA granted our de novo classification petition for our STRATIFY JCV™ Antibody ELISA testing service. It is the first blood test to be FDA market authorized for the qualitative detection of antibodies to the polyomavirus JC virus for stratifying risk for progressive multifocal leukoencephalopathy, an infrequent but serious brain infection, in patients with multiple sclerosis receiving TYSABRI®, a therapy for relapsing forms of multiple sclerosis.

• Women's Health.
- We further enhanced our SureSwab® Vaginosis/Vaginitis Plus test by expanding the organisms and sample types in the offering.
- We also delivered Spinal Muscular Atrophy (SMA) testing to all Quest Diagnostics customers along with Cystic Fibrosis Fragile X and other genetic testing services.
- Clinical validation studies of our proprietary hhCG test for early detection of pregnancy in In Vitro Fertilization patients demonstrated improvement over the standard of care.

Diagnostic Solutions

Clinical Trials Testing.

We are a leading provider of central laboratory testing performed in connection with clinical research trials on new drugs, vaccines and certain medical devices. Clinical research trials are required by the FDA and non-U.S. regulatory authorities to assess the safety and efficacy of new drugs, vaccines and some medical devices. We see opportunities to develop pharmacogenetic and pharmacogenomic tests to help speed drug approval processes for our clinical trials customers and, capitalizing on the trend to personalized medicine, to better focus patient therapy based on a patient's genetic markers. We have biomarker capabilities that advance our efforts to develop these tests, and offer an “end-to-end” array of services for companion diagnostics.

We have clinical trials testing centers in the United States, the United Kingdom and India, and we provide clinical trials testing in Argentina, Brazil, China and Singapore through affiliated laboratories. We serve most of the major pharmaceutical companies.

Life Insurer Services.

We are the largest provider of risk assessment services to the life insurance industry in North America. We also provide risk assessment services for insurance companies doing business in many countries outside the United States. We charge our life insurance customers on a fee-for-service basis, typically under multi-year agreements.

Our risk assessment services comprise underwriting support services to the life insurance industry, including laboratory testing, electronic data collection, specimen collection and paramedical examinations, medical record retrieval, case management, motor vehicle reports, telephone inspections, prescription histories and credit checks. The laboratory tests that we perform and data we gather are designed to assist insurance companies objectively to evaluate the mortality risks of policy applicants. The majority of the testing is performed on specimens of life insurance applicants, but also includes specimens of applicants for other types of insurance. Factors such as the number of

applications for underwritten life insurance policies can affect the utilization of clinical testing and other services we provide to our insurance customers. Most of our specimen collections and paramedical examinations are performed by our network of approximately 5,000 contracted paramedical examiners at the applicant's home or workplace. We also offer paramedical examinations through approximately 600 of our patient service centers, and operate approximately 80 locations other than patient service centers in the United States and Canada where we provide paramedical examinations, bringing to approximately 680 the total number of sites where we can provide these examinations. We also contract with third parties at over an additional 200 locations globally to coordinate providing these exams.

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Diagnostic Products.

We develop and manufacture products that enable healthcare professionals to make healthcare diagnoses, including products for testing for the professional market. We offer these products in the United States and, through sales representatives dedicated to offering our diagnostic test products in other countries, outside the United States. We have several companies, including Focus Diagnostics, HemoCue and Celera, that serve these markets. We also manufacture and offer the InSure® fecal immunochemical test (FIT™) for screening for colorectal cancer. We are well positioned to offer options and integrated solutions to physicians, hospitals, IDNs and clinics for the testing methods that are most appropriate for each patient and practice.

Focus Diagnostics develops, manufactures and markets diagnostic products which can be performed on a variety of instrument platforms. Focus Diagnostics sells its diagnostic products to large academic medical centers, hospitals and commercial laboratories globally. Focus Diagnostics has an agreement with 3M Corporation for global human diagnostic rights to a compact integrated bench-top instrument for use with real time polymerase chain reaction assays. These tests are sold under the Simplexa® brand name.

HemoCue® innovates, manufactures and distributes point-of-care testing products globally. HemoCue is the leading global provider in point-of-care testing for hemoglobin, with a growing market share for glucose, microalbumin and white blood cell testing. HemoCue offers its White Blood Cell Differential System in Europe. The HemoCue handheld systems are used in physician's offices, blood banks, hospitals, diabetes clinics and public health clinics. Approximately sixty percent of HemoCue products are sold outside the United States. In the fourth quarter of 2012, the assets and liabilities of HemoCue were classified as held for sale. Accordingly, HemoCue is reported as discontinued operations in our consolidated financial statements. In February 2013, we entered into an agreement to sell HemoCue.

Celera offers a number of market-leading high complexity molecular diagnostic products in segments such as HIV-1 drug resistance testing, reproductive genetics and transplantation. Celera products, which are distributed by a third party worldwide, span the various levels of regulatory registrations and are sold to a broad spectrum of customers.

Healthcare Information Technology.

We provide interoperable technologies that help healthcare organizations and physicians enter, share and access clinical information without costly information technology implementation or significant workflow disruption.

Our Care360® EHR product, which is certified as a complete electronic health record by the Certification Commission for Health Information Technology, allows physicians to generate a complete record of a clinical patient encounter, automates and streamlines the clinician's workflow, and allows for rapid deployment and implementation with minimal workflow disruption. The solution allows doctors to electronically create, manage and distribute patient encounter notes, including vital signs and progress notes. It captures lab and radiology results, provides clinical decision support tools and allows doctors to send secure messages and clinical information to other practitioners and secure, Web-based laboratory results to their patients' personal health records.

ChartMaxx,® our electronic document management system for hospitals, is being used by over 500,000 clinical and administrative users in hospitals and other clinical locations.

Non-Commercial, Development State Drug Assets

As a result of its 2011 acquisition of Celera, the Company also has an interest in non-commercial, development state drug assets. The Company is evaluating options with respect to these assets.

We have an agreement with Merck & Co., Inc. (Merck) under which Merck has a license to our intellectual property for the development of small molecule inhibitors of cathepsin K for the treatment of osteoporosis. This agreement was entered into by a predecessor of Celera that Celera acquired in November 2001. Under the agreement, we are entitled to receive future milestone payments based on development progress for each potential product under the agreement. We are also entitled to receive single digit royalty payments from the sale of drugs, if any, resulting from the program. This drug development program entered Phase III clinical trials in September 2007 and Merck has disclosed its intent to file a New Drug Application in 2014. We do not control the development activities conducted by Merck. Merck may not successfully develop or commercialize any compounds covered by the agreement, may not obtain needed regulatory approvals, and we may not receive any further payments under this collaboration agreement.

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The Company may be entitled to milestone payments associated with the small molecule drug discovery and development programs sold by Celera to Pharmacyclics, Inc. in 2006. These programs are for the treatment of cancer and other diseases, including programs that target histone deactylase, or HDAC, selective HDAC enzymes, Factor VIIa, and B cell tyrosine kinases involved in immune function. In addition, we will be entitled to royalty payments in the single digits based on annual sales of any drugs commercialized from the three programs, if any. We have not received any royalty payments related to these programs.

We have no direct control over the amount or timing of resources devoted to any of these programs. The programs may never meet the specified milestones or the programs may be terminated, and therefore may never generate milestone payments. Also, even if some milestones are met, there is no assurance that these programs will result in any product sales that would generate royalty payments to us.

Our small molecule program agreements will remain in effect for as long as any royalties are payable under the respective agreements. The obligation to pay royalties generally coincides with the life of the underlying patents. Each of the third parties with which we have agreements are required to use commercially reasonable efforts to develop a therapeutic product and to pay us amounts due under the terms of the agreements, including milestone and/or royalty payments, promptly after the amounts become payable. These agreements generally are terminable upon an uncured material breach of the agreement by either party. In addition, Merck may terminate its collaboration agreement with us for any reason upon advance written notice, but would lose its license from us and would not be able to commercialize any product under the license.

THE UNITED STATES CLINICAL TESTING INDUSTRY

The U.S. clinical testing industry consists of two segments. One segment, which we believe makes up approximately 40% of the total industry, includes testing done within hospitals, including both inpatient and outpatient testing. The second segment, which we believe makes up approximately 60% of the total industry, includes testing done outside of hospitals, including hospital outreach testing and testing done in commercial clinical laboratories, physician-office laboratories and other locations. Within the second segment, we believe that hospital outreach has been increasing share in the last few years. We believe that hospital-affiliated laboratories account for approximately 60% of the total industry, commercial clinical laboratories approximately one-third and physician-office laboratories and other locations account for the balance.

Key Trends. There are a number of key trends that are having, and that we expect will continue to have, a significant impact on the diagnostic information services business in the United States and on our business. These trends present both opportunities and risks. However, because diagnostic information service is an essential healthcare service and because of the key trends discussed below, we believe that the industry will continue to grow over the long term and that we are well positioned to benefit from the long-term growth expected in the industry.

Demographics. The growing and aging population, the burden of chronic diseases and unmet diagnostic needs may increase the demand for diagnostic information service.

Prevention and wellness. We believe that the value of detection, prevention, wellness and personalized care now is well recognized. Consumers, employers, health plans and government agencies increasingly are focusing on helping the healthy stay healthy, detecting symptoms among those at risk and providing preventive care that helps avoid disease. Physicians increasingly are relying on diagnostic information services to help identify risk for a disease, to detect the symptoms of disease earlier, to aid in the choice of therapeutic regimen, to monitor patient compliance and to evaluate treatment results. There is an increased focus on a disease-oriented approach to diagnostics, treatment and management. Physicians, consumers and payers increasingly recognize the value of diagnostic information services as a means to improve health and reduce the overall cost of healthcare through early detection, prevention and treatment.

Federal healthcare reform legislation adopted in 2010 contained provisions eliminating patient cost-sharing for preventive services, and additional provisions that we believe will increase the number of patients that have health insurance, including Medicaid, and thus better access to diagnostic testing.

Science and technology advances. Medical advances allow for more accurate and earlier diagnosis and treatment of diseases. Continuing advances in genomics and proteomics is expected to yield new, more sophisticated and specialized diagnostic tests. These advances also are spurring interest in and demand for personalized or tailored medicine, which relies on diagnostic and prognostic testing. Pharmacogenomic testing increasingly is used as a parameter to help speed drug approval processes and to better focus therapy based on patient and tumor-specific genetic markers. Demand also is growing toward comprehensive care management solutions that serve patients, payers and practitioners by improving access to patient data, increasing patient participation in care management, reducing medical errors and improving clinical outcomes. There is an increasing focus on interconnectivity, and electronic medical records and patient health records continue to grow.

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Customers and payers. Our customers and payers, including physicians, health insurance plans, IDNs, employers, pharmaceutical companies and others, have been consolidating and diversifying. For example, an increased number of hospital systems are considering establishing or have established health insurance plans, and health insurance plans increasingly are considering providing or are providing healthcare services. Consolidation is increasing pricing transparency and bargaining power, enhancing purchasing sophistication and encouraging internalization of clinical testing. Physicians increasingly are employed by hospital systems or large group practices integrated with healthcare systems, instead of organizing physician-owned practices, which is changing the dynamics for whether clinical testing is performed by a hospital or a non-hospital. Patient-centered medical homes are increasingly being established to deliver patient care. In addition, federal healthcare reform legislation adopted in 2010 encourages the formation of accountable care organizations and requires implementation of health insurance exchanges, which may result in changes in the way that some healthcare services are purchased and delivered in the United States.

Competition. The clinical testing industry remains fragmented, is highly competitive and is subject to new competition. Competition is growing from non-traditional competitors. Increased hospital acquisitions of physician practices enhance physician ties to hospital-affiliated laboratories and may strengthen their competitive position. New industry entrants with extensive resources may make acquisitions or expand into our traditional areas of operations.

Reimbursement pressure. There is a strong focus in the United States on controlling the overall cost of healthcare. Healthcare market participants, including governments, are focusing on controlling costs, including potentially by changing reimbursement for healthcare services (including but not limited to a shift from fee for service to capitation), revising test coding, changing medical coverage policies (e.g., healthcare benefits design), pre-authorization of lab testing, requiring co-pays, introducing lab spend management utilities and payment and patient care innovations such as accountable care organizations and patient-centered medical homes. While pressure to control healthcare costs poses a risk to our Company, it creates an opportunity for increased utilization of testing as an efficient means to manage the total cost of healthcare. We believe that it also creates opportunities for low-cost providers, like our Company, as compared to other providers.

Healthcare Utilization. In the past few years, growth in healthcare utilization in the United States has slowed. There may be many factors contributing to this result, including sluggish employment growth, benefit plans imposing higher levels of patient responsibility, under-employment in the work force and patients delaying medical care.

Legislative, regulatory and policy environment. Government oversight of and attention to the healthcare industry in the United States is significant and increasing; healthcare payment reform is a top issue. The FDA has announced several regulatory and guidance initiatives that may impact the clinical laboratory testing business, including by increasing regulation of LDTs and analyte specific reagents. If finalized, these initiatives could have a significant impact on our business. Federal healthcare reform legislation adopted in 2010 has created significant uncertainty as healthcare markets react to potential and impending changes. For example, states may opt out of Medicaid expansion and employers may discontinue offering group health insurance to their employees, shifting more people to exchange products.

Globalization. There is a growing demand for healthcare services in emerging market countries. Opportunities are arising to participate in the restructuring or growth of the healthcare systems in these countries. Additionally, our customers are establishing positions outside the United States. Demographic changes globally also may create opportunities.

Customers and Payers. We provide diagnostic information services to a broad range of customers who order such services, including physicians, hospitals, IDNs and employers. In many cases, the customer that orders the services is not responsible for the payments for services. Depending on the billing arrangement and applicable law, the payer may be (1) a third party responsible for providing health insurance coverage to patients, such as a health insurance

plan, self-insured employer benefit fund, an accountable care organization, a patient-centered medical home or the traditional Medicare or Medicaid program, (2) the patient or (3) the physician or other party (such as a hospital, another laboratory or an employer) who send the testing to us.

Health Plans. Health plans, including managed care organizations and other health insurance providers, typically reimburse us as a contracted provider on behalf of their members for diagnostic information services performed. Reimbursement from our five largest health plans totaled less than 20% , and no one health plan accounted for 10%, of our consolidated net revenues in 2012.

Health plans typically negotiate directly or indirectly with a number of diagnostic information services providers, and represent approximately one-half of our total clinical testing volumes and one-half of our net revenues from diagnostic information services. The trend of consolidation among health plans has continued. In certain locations, such as California,

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health plans may delegate to independent physician associations ("IPAs") or other alternative delivery systems (e.g., physician hospital organizations) the ability to negotiate for diagnostic information services on behalf of certain members.

Health plans and IPAs often require that diagnostic information services providers accept discounted fee structures or assume all or a portion of the financial risk associated with providing such services through capitated payment arrangements and discounted fee-for-service arrangements. Under capitated payment arrangements, we provide services at a predetermined monthly reimbursement rate for each covered member, generally regardless of the number or cost of services provided by us. Health plans continue to offer preferred provider organization ("PPO") plans, point-of-service ("POS") plans, consumer driven health plans ("CDHPs") and limited benefit coverage programs. Reimbursement under these programs is typically negotiated on a fee-for-service basis. To the extent that plans and programs require greater levels of patient cost-sharing, this could negatively impact patient collection experience.

Most of our agreements with major health plans are non-exclusive arrangements. Certain health plans have limited their diagnostics information services network to only a single national provider, seeking to obtain improved pricing. Health plans also are narrowing their networks.

We also sometimes are a member of a "complementary network." A complementary network is generally a set of contractual arrangements that a third party will maintain with various providers that provide discounted fees for the benefit of its customers. A member of a health plan may choose to access a non-contracted provider that is a member of a complementary network; if so, the provider will be reimbursed at a rate negotiated by the complementary network.

We attempt to strengthen our relationships with health plans and increase the volume of our services for their members by offering to health plans services and programs that leverage our Company's expertise and resources, including our superior access, extensive test menu, medical staff and data, and in such areas as wellness and disease management.

Physicians. Physicians, including both primary care physicians and specialists, requiring diagnostic information services for patients are the primary referral source of our services. Physicians determine which laboratory to recommend or use based on a variety of factors, including: service; patient access and convenience, including participation in a health plan network; quality; price; and depth and breadth of test and service offering.

Hospitals. Hospitals generally maintain an on-site laboratory to perform the significant majority of clinical testing for their patients and refer less frequently needed and highly specialized procedures to outside service providers, which typically charge the hospitals on a negotiated fee-for-service basis. Fee schedules for hospital reference testing services often are negotiated on behalf of hospitals by group purchasing organizations. We provide services to hospitals throughout the United States, including esoteric testing services, in some cases helping manage their laboratories and serving as the medical directors of the hospital's histology or clinical laboratory. We believe that we are the industry's leader in servicing hospitals. Hospitals generally continue to look for ways to fully utilize their existing laboratory capacity: they perform testing their patients need and may compete with non-hospital providers for outreach (non-hospital patients) testing. Continuing to obtain referrals from hospitals depends on our ability to provide high quality services that are more cost-effective than if the hospitals were to perform the services themselves.

Most physicians have admitting privileges or other relationships with hospitals as part of their medical practice. Hospitals may seek to leverage their relationships with community physicians by encouraging the physicians to send their outreach testing to the hospital's laboratory. In addition, hospitals that own physician practices may require the practices to refer testing to the hospital's affiliated laboratory. In recent years, there has been a trend of hospitals acquiring physician practices, and as a result, an increased percentage of physician practices are owned by hospitals.

Increased hospital acquisitions of physician practices enhance physician ties to hospital-affiliated laboratories and may strengthen their competitive position. Hospitals can have greater leverage with health insurers than do commercial clinical laboratories, particularly hospitals that have a significant market share; hospitals thus have been frequently able to negotiate higher reimbursement rates with health insurance plans than commercial clinical laboratories for comparable clinical testing services. In light of continued pressure to reduce systemic healthcare costs, it is not clear that hospitals will be able to maintain higher reimbursement rates in the future. We believe that our combination of services, including full-service, bi-coastal esoteric testing capabilities, medical and scientific professionals available for consultation, innovative connectivity products, point-of-care testing products, strong focus on quality and dedicated sales and service professionals has positioned us to be an attractive partner for hospitals, offering a full range of strategic relationships.

We also have joint venture arrangements with leading IDNs in several metropolitan areas. These joint venture arrangements, which provide diagnostic information services for affiliated hospitals as well as for unaffiliated physicians and

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other local healthcare providers, serve as our principal facilities in their service areas. Typically, we have either a majority ownership interest in, or day-to-day management responsibilities for, our joint venture relationships.

IDNs. An IDN is a network of providers and facilities working together in providing or arranging for the provision of healthcare. With the passage of 2010 federal healthcare reform legislation, IDNs are increasing in number and becoming more important constituents in delivering healthcare services. IDNS may exercise operational and financial control over providers across the continuum of care. IDNs also may function as a payer. Thus, IDNs may be able to manage the health of a population group within a defined geography, and also may be able to influence the cost and quality of healthcare delivery, for example though owned entities and through ancillary services. The impact of IDNs on the provision of healthcare services to date has varied. We are actively engaging with IDNs to demonstrate the value that our services can provide to them.

Employers. Employers use tests for drugs of abuse to determine an individual's employability and his or her “fitness for duty.” Companies with high employee turnover, safety conscious environments or regulatory testing requirements provide the highest volumes of testing. Factors such as the general economy and job market can impact the utilization of drugs of abuse testing. We seek to grow our employer volumes through offering new and innovative programs to help companies with their goal of maintaining a safe and productive workplace. We also offer employers our Blueprint for Wellness® program, providing wellness screening and analytic services to help employers and their employees manage increasing healthcare costs and capitalize on trends in personalized health.

Other Laboratories and Other Customers. We also provide diagnostic information services to federal, state and local governmental agencies and to other commercial clinical laboratories. These customers are charged on a fee-for-service basis.

GENERAL

Competition. While there has been significant consolidation in the diagnostic information services industry in recent years, our industry remains fragmented and highly competitive. We primarily compete with three types of clinical testing providers: commercial clinical laboratories, hospital-affiliated laboratories and physician-office laboratories. In recent years, competition from hospital-affiliated laboratories has increased. Our largest commercial clinical laboratory competitor is Laboratory Corporation of America Holdings, Inc. In addition, we compete with many smaller regional and local commercial clinical laboratories and specialized esoteric laboratories. In anatomic pathology, additional competitors include anatomic pathology practices, including those in academic institutions. In addition, there has been a trend among specialty physician practices to establish their own histology laboratory capabilities and/or bring pathologists into their practices, thereby reducing referrals from these practices.

We believe that healthcare providers traditionally consider a number of factors when selecting a diagnostic information services provider, including:

- service capability and quality;
- accuracy, timeliness and consistency in reporting test results;
- patient insurance coverage;
- number and type of tests performed;
- pricing;
- access to medical/scientific thought leaders for consultation;
- number, convenience and geographic coverage of patient service centers;
- reputation in the medical community;
- healthcare information technology solutions;
- qualifications of its staff; and

- ability to develop new and useful tests.

We believe that we are an effective competitor in each of these areas. We also believe that offering the most attractive service offering in the industry, including the most comprehensive test menu, innovative test and information technology offerings, a superior patient experience, a staff including medical and scientific experts, strong quality and unparalleled access and distribution, provides us with a competitive advantage.

We believe that large diagnostic information services providers may be able to increase their share of the overall diagnostic information services industry due to their large networks and lower cost structures. These advantages should enable larger providers to more effectively serve customers, including members of large health plans. In addition, we believe that consolidation in the diagnostic information services industry will continue. However, a significant portion of clinical testing is likely to continue to be performed by hospitals, which generally have affiliations with community physicians that refer testing

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to us. As a result of these affiliations, we compete against hospital-affiliated laboratories primarily on the basis of service capability and quality as well as other non-pricing factors. In addition, recent market activity may increase the competitive environment. For example, health plan actions to exclude large national providers from contracts may enhance the relative competitive position of regional providers. In addition, increased hospital acquisitions of physician practices enhance the ties of the physicians to hospital-affiliated laboratories, enhancing the competitive position of hospital-affiliated laboratories.

The diagnostic information services industry is faced with changing technology and new product introductions. Advances in technology may lead to the development of more cost-effective tests that can be performed outside of a commercial clinical laboratory such as (1) point-of-care testing that can be performed by physicians in their offices; (2) complex testing that can be performed by hospitals in their own laboratories; and (3) home testing that can be carried out without requiring the services of outside providers. Development of such technology and its use by our customers and patients could reduce the demand for our diagnostic information services and negatively impact our revenues.

The diagnostic products, life insurance risk assessment services, clinical trials and healthcare information technology industries are highly competitive. We have many competitors, some of which have much more extensive experience in these industries and some of which have greater resources. We compete in the diagnostic products industry by attempting to find and exploit unique and differentiated products, including products that take advantage of our healthcare information technology solutions. We compete in the life insurance risk assessment services business by seeking to provide a superior applicant experience, faster services completion and a wider array of highest quality, integrated services than our competitors. We compete in the clinical trials business by leveraging our strengths as the world's leading diagnostic testing company, including the depth and breadth of our testing menu, our superior scientific expertise, our ability to support complex global clinical trials and our lab management and information technology solutions. We compete in the healthcare information technology industry by offering solutions that foster better patient care and improve performance for healthcare institutions, patients and physician practices, particularly smaller and medium sized physician practices.

Sales and Marketing. Our Diagnostic Information Services business has a unified Commercial organization focused on the sales and downstream marketing of most of our services. The vision of the Commercial organization, which has a revitalized customer-focused culture, is to be the preferred partner for diagnostic information services to key segments through sales and marketing excellence. The organization is centrally led, and is organized regionally to, in conjunction with our Operations organization, ensure alignment on delivering for our customers. The Commercial organization also is organized to support each of our clinical franchises. We maintain a separate sales and marketing organization for our employer drugs-of-abuse testing business.

In Diagnostic Solutions, we maintain sales forces devoted to each of our businesses. We have sales organizations that focus on selling diagnostic products and our healthcare information technology solutions. We also have dedicated sales teams that focus on selling risk assessment services in the life insurance industry and clinical trials services.

Information Technology. We use information systems extensively in virtually all aspects of our business, including clinical testing, test reporting, billing, customer service, logistics and management of medical data. We believe that our healthcare information technology systems help differentiate us favorably. We endeavor to establish systems that create value and efficiencies for our Company, patients and customers. The successful delivery of our services depends, in part, on the continued and uninterrupted performance of our information technology systems. We have taken precautionary measures to prevent problems that could affect our information technology systems.

Some of our historic growth has come through acquisitions and, as a result, we continue to use multiple information systems. We have implemented some common systems, and are planning to implement more common laboratory

information and billing systems across our operations, to standardize our processes. We expect implementation will take several more years to complete, and will result in significantly more centralized systems, improved operating efficiency, more timely and comprehensive information for management and enhanced control over our operational environment.

Quality Assurance. In our diagnostic information services business, our goal is to continually improve the processes for collection, handling, storage and transportation of patient specimens, as well as the precision and accuracy of analysis and result reporting. Our quality assurance efforts focus on pre-analytic, analytic and post-analytic processes, including positive patient identification of specimens, report accuracy, proficiency testing, reference range relevance, process audits, statistical process control and personnel training for all of our laboratories and patient service centers. We also focus on the licensing, credentialing, training and competence of our professional and technical staff. We have implemented an enhanced specimen tracking system, with global positioning system capabilities, that enables us to better track specimens. We continue to implement our quality and standardization initiatives, building on our Six Sigma foundation, to help achieve our goal of becoming recognized as the undisputed quality leader in the diagnostics information services industry. In addition, some of our

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laboratories have achieved International Organization for Standardization, or ISO, certification for their quality management systems.

As part of our comprehensive quality assurance program, we utilize internal proficiency testing, extensive quality control and rigorous process audits for our diagnostic information services. For most clinical laboratory tests, quality control samples are processed in parallel with the analysis of patient specimens. The results of tests on these quality control samples are monitored to identify trends, biases or imprecision in our analytical processes.

We participate in external proficiency testing and have accreditation or licenses for our clinical laboratory operations from various regulatory agencies or accrediting organizations, such as the Centers for Medicare and Medicaid Services ("CMS"), the College of American Pathologists ("CAP") and certain states. All of our laboratories participate in various external quality surveillance programs. They include, but are not limited to, proficiency testing programs administered by CAP, as well as some state agencies. CAP is an independent, nongovernmental organization of board-certified pathologists approved by CMS to inspect clinical laboratories to determine compliance with the standards required by CLIA. CAP offers an accreditation program to which clinical laboratories may voluntarily subscribe. All of our major regional and esoteric laboratories, including our facility in India, and most of our rapid response laboratories, are accredited by CAP. Accreditation includes on-site inspections and participation in the CAP (or equivalent) proficiency testing program. Also, all of our cytotechnologists and pathologists participate in an individual proficiency testing program.

Our diagnostic products businesses maintain extensive quality assurance programs focused on ensuring that our products are safe and effective and that we comply with applicable regulatory requirements in the United States and other countries. They are regulated by the FDA and are required to be in compliance with the Quality Systems Regulations, 21 CFR part 820, and with applicable standards outside the United States. In addition, our manufacturing sites are certified in accordance with ISO 13485: 2003 standards. We endeavor to design and manufacture our diagnostics products in compliance with Quality Systems Regulations.

Intellectual Property Rights. We own significant intellectual property, including patents, patent applications, technology, trade secrets, know-how, copyrights and trademarks in the United States and other countries. From time to time, we also license U.S. and non-U.S. patents, patent applications, technology, trade secrets, know-how, copyrights or trademarks owned by others. In the aggregate, these intellectual property assets and licenses are of material importance to our business. We believe, however, that no single patent, technology, trademark, intellectual property asset or license is material to our business as a whole.

Our approach is to manage our intellectual property assets to safeguard them and to maximize their value to our enterprise. We actively defend our important intellectual property assets and pursue protection of our products, processes and other intellectual property where possible.

Our success in remaining a leading innovator in the diagnostic information services industry by continuing to introduce new tests, technology and services will depend, in part, on our ability to license new and improved technologies on favorable terms. Other companies or individuals, including our competitors, may obtain patents or other property rights on tests or processes that we may be performing, particularly in such emerging areas as gene-based testing and other specialty testing, that could prevent, limit or interfere with our ability to develop, perform or sell our tests or operate our business.

Employees. At December 31, 2012, we employed approximately 41,000 people. This total excludes employees of the joint ventures where we do not have a majority ownership interest. We have no collective bargaining agreements with unions covering employees in the United States, and we believe that our overall relations with our employees are good.

BILLING AND REIMBURSEMENT

Billing. We generally bill for diagnostic information services on a fee-for-service basis under one of two types of fee schedules. These fees may be negotiated or discounted. The types of fee schedules are:

- "Client" fees charged to physicians, hospitals, and institutions for which services are performed on a wholesale basis and which are billed on a monthly basis.
- "Patient" fees charged to individual patients and certain third-party payers on a claim-by-claim basis.

Billing for diagnostic information services is very complicated, and we maintain compliance policies and procedures for our billing. Patients, insurance companies, Medicare, Medicaid, physicians, hospitals, IDNs and employer groups all have different billing requirements. Some billing arrangements require us to bill multiple payers, and there are several other factors

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that complicate billing (e.g., disparity in coverage and information requirements among various payers; and incomplete or inaccurate billing information provided by ordering physicians). We incur additional costs as a result of our participation in Medicare and Medicaid programs because diagnostic testing services are subject to complex, stringent and frequently ambiguous federal and state laws and regulations, including those relating to coverage, billing and reimbursement. Changes in laws and regulations could further complicate our billing and increase our billing expense. CMS establishes procedures and continuously evaluates and implements changes to the reimbursement process and requirements for coverage.

As an integral part of our billing compliance program, we investigate reported failures or suspected failures to comply with federal and state healthcare reimbursement requirements. Any Medicare or Medicaid overpayments resulting from non-compliance are reimbursed by us. As a result of these efforts, we have periodically identified and reported overpayments, reimbursed the payers for overpayments and taken appropriate corrective action.

We believe that most of our bad debt expense is primarily the result of missing or incorrect billing information on requisitions and Advance Beneficiary Notices received from healthcare providers and the failure of patients to pay the portion of the receivable that is their responsibility, rather than credit related issues. Deteriorating economic conditions may adversely impact our bad debt expense. In general, due to the potentially critical nature of our services, we perform the requested testing and report test results regardless of whether the billing information is correct or complete. We subsequently attempt to contact the healthcare provider or patient to obtain any missing information and to rectify incorrect billing information. Missing or incorrect information on requisitions complicates and slows down the billing process, creates backlogs of unbilled requisitions and generally increases the aging of accounts receivable and bad debt expense. The increased use of electronic ordering reduces the incidence of missing or incorrect information.

Government Coverage and Reimbursements. Government payers, such as Medicare and Medicaid, have taken steps and can be expected to continue to take steps to control the cost, utilization and delivery of healthcare services, including clinical test services. For example, Medicare has adopted policies under which it does not pay for many commonly ordered clinical tests unless the ordering physician has provided an appropriate diagnosis code supporting the medical necessity of the test. Physicians are required by law to provide diagnostic information when they order clinical tests for Medicare and Medicaid patients.

The healthcare industry has experienced significant changes in reimbursement practices during the past several years. Historically, many different local carriers administered Medicare Part B, which covers services provided by commercial clinical laboratories. They often had inconsistent policies, increasing the complexity of the billing process for clinical testing services providers. They are being replaced with contractors who will administer both Part B and Medicare Part A benefits for beneficiaries in larger regional areas. It is expected that the revised system will reduce the administrative complexity of billing for services provided to Medicare beneficiaries.

With regard to the clinical testing services performed on behalf of Medicare beneficiaries, we must bill the Medicare program directly and must accept the carrier's fee schedule amount for covered services as payment in full. In addition, state Medicaid programs are prohibited from paying more (and in most instances, pay significantly less) than Medicare. Currently, Medicare does not require the beneficiary to pay a co-payment for diagnostic information services reimbursed under the Clinical Laboratory Fee Schedule, but generally does require co-payments for anatomic pathology services. Certain Medicaid programs require Medicaid recipients to pay co-payment amounts for diagnostic information services.

Part B of the Medicare program contains fee schedule payment methodologies for clinical testing services performed for covered patients, including a national ceiling on the amount that carriers could pay under their local Medicare clinical testing fee schedules. The Medicare Clinical Laboratory Fee Schedule for 2013 is decreased by 2.95%

(excluding sequestration) from 2012 levels. In December 2012, Congress delayed by one year a potential decrease of approximately 26% in the physician fee schedule that otherwise would have become effective January 1, 2013, but implemented relative value unit changes significantly impacting physician fee schedule reimbursement for tissue biopsies that are expected to reduce reimbursement for tissue biopsy services. Also, an additional 2% reduction in the Medicare Clinical Laboratory Fee Schedule for 2013, associated with sequestration, was delayed until April 1, 2013. The following table sets forth the percentage of our consolidated net revenues reimbursed under Medicare attributable to the clinical testing and physician fee schedules in 2012.

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Medicare Part B Reimbursements	% of our 2012 Consolidated Net Revenues From Continuing Operations
Clinical Laboratory Fee Schedule	13
Physician Fee Schedule	3

Penalties for violations of laws relating to billing government healthcare programs and for violations of federal and state fraud and abuse laws include: (1) exclusion from participation in Medicare/Medicaid programs; (2) asset forfeitures; (3) civil and criminal fines and penalties; and (4) the loss of various licenses, certificates and authorizations necessary to operate our business. Civil monetary penalties for a wide range of violations may be assessed on a per violation basis. A parallel civil remedy under the federal False Claims Act provides for penalties on a per violation basis, plus damages of up to three times the amount claimed.

Historically, most Medicare and Medicaid beneficiaries were covered under the traditional Medicare and Medicaid programs administered by the federal government. Over the last several years, the federal government has continued to expand its contracts with private health insurance plans for Medicare beneficiaries and has encouraged such beneficiaries to switch from the traditional programs to the private programs, called “Medicare Advantage” programs. There has been continued growth of health insurance plans offering Medicare Advantage programs and of beneficiary enrollment in these plans. In recent years, in an effort to control costs, states also have increasingly mandated that Medicaid beneficiaries enroll in private managed care arrangements. The 2010 federal healthcare reform legislation is intended to control the growth of Medicare Advantage programs, encourage beneficiaries to switch back to traditional Medicare programs and expand the eligibility for traditional Medicaid programs.

REGULATION

Our businesses are subject to or impacted by extensive and frequently changing laws and regulations in the United States (at both the federal and state levels) and the other jurisdictions in which we conduct business. These laws and regulations include regulations particular to our business, and laws and regulations relating to conducting business generally (e.g., export controls laws, U.S. Foreign Corrupt Practices Act and similar laws of other jurisdictions), including in the United States and in other jurisdictions. We also are subject to inspections and audits by governmental agencies. Set forth below are highlights of the key regulatory schemes applicable to our businesses.

CLIA and State Clinical Laboratory Licensing. All of our laboratories and, where applicable, patient service centers, are licensed and accredited as required by the appropriate federal and state agencies. CLIA regulates virtually all clinical laboratories by requiring that they be certified by the federal government and comply with various technical, operational, personnel and quality requirements intended to ensure that the services provided are accurate, reliable and timely. The cost of compliance with CLIA makes it cost prohibitive for many physicians to operate clinical laboratories in their offices. However, manufacturers of laboratory equipment and test kits could seek to increase their sales by marketing point-of-care test equipment to physicians and by selling to both physicians and patients test kits approved by the FDA for home use. Diagnostic tests approved or cleared by the FDA for home use are automatically deemed to be “waived” tests under CLIA and may be performed in physician office laboratories with minimal regulatory oversight under CLIA as well as by patients in their homes.

CLIA does not preempt state laws that are more stringent than federal law. State laws may require additional personnel qualifications, quality control, record maintenance and/or proficiency testing. State laws also may require detailed review of our scientific validations and technical procedures for tests.

Fraud and Abuse. Federal anti-kickback laws and regulations prohibit making payments or furnishing other benefits to influence the referral of tests billed to Medicare, Medicaid or certain other federal or state healthcare programs. The penalties for violation of these laws and regulations may include monetary fines, criminal and civil penalties and/or suspension or exclusion from participation in Medicare, Medicaid and other federal healthcare programs. Several states have similar laws.

In addition, federal and state anti-self-referral laws generally prohibit Medicare and Medicaid payments for clinical tests referred by physicians who have a personal investment in, or a compensation arrangement with, the testing laboratory. Some states also have similar laws that are not limited to Medicare and Medicaid referrals and could also affect investment and compensation arrangements with physicians.

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FDA. The FDA has regulatory responsibility over, among other areas, instruments, test kits, reagents and other devices used by clinical laboratories to perform diagnostic testing in the United States. The FDA also regulates clinical trials (and, therefore, may conduct inspections related to testing that we perform for sponsors of those trials), drugs of abuse testing for employers, testing for blood bank purposes and testing of donors of human cells for purposes such as in vitro fertilization. A number of esoteric tests we develop internally are offered as laboratory-developed tests ("LDTs"). The FDA has claimed regulatory authority over all LDTs, but has exercised enforcement discretion with regard to most LDTs performed by high complexity CLIA-certified laboratories. The FDA has announced several regulatory and guidance initiatives that may impact the clinical laboratory testing business, including by increasing regulation of LDTs and analyte specific reagents. If finalized, these initiatives could have a significant impact on our business. The regulatory approach adopted by the FDA may lead to an increased regulatory burden on our Company. The approach may hinder our ability to develop and market new products or services, cause an increase in the cost of our products or services, delay our ability to introduce new tests or hinder our ability to perform testing. The approach also may result in increased product cost, a delay in obtaining needed supplies, or, if a manufacturer withdraws its products from the market, an inability to obtain needed supplies. These matters could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows.

Our diagnostic product business is subject to regulation by the FDA, as well as by foreign governmental agencies, including countries within the European Union who have adopted the Directive on In Vitro Diagnostic Medical Devices ("IVDD"). These agencies enforce laws and regulations that govern the development, testing, manufacturing, labeling, advertising, marketing, distribution and post-market surveillance of diagnostic products. Prior to commercially marketing or selling most diagnostic products in the United States, we are required to secure clearance or approval from the FDA. Similarly, we may need to obtain a license or certification such as a CE mark in order to sell diagnostic products outside of the United States. Compliance with the IVDD allows us to market in Europe once we obtain a CE mark (obtainable where the manufacturer certifies that the device conforms to the regulatory and quality requirements for the device). Following the introduction of a diagnostic product into the market, the FDA and non-U.S. agencies engage in periodic inspections and reviews of the manufacturing processes and product performance. Compliance with these regulatory controls can affect the time and cost associated with the development, introduction and continued availability of new products. These agencies possess the authority to take various administrative and legal actions against us for non-compliance, such as fines, product suspensions, submission of warning letters, recalls, product seizures, injunctions and other civil and criminal sanctions.

Environmental, Health and Safety. We are subject to laws and regulations related to the protection of the environment, the health and safety of employees and the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials. For example, the U.S. Occupational Safety and Health Administration ("OSHA") has established extensive requirements relating specifically to workplace safety for healthcare employers in the U.S. This includes requirements to develop and implement multi-faceted programs to protect workers from exposure to blood-borne pathogens, such as HIV and hepatitis B and C, including preventing or minimizing any exposure through needle stick injuries. For purposes of transportation, some biological materials and laboratory supplies are classified as hazardous materials and are subject to regulation by one or more of the following agencies: the U.S. Department of Transportation, the U.S. Public Health Service, the United States Postal Service and the International Air Transport Association. We generally use third-party vendors to dispose of regulated medical waste, hazardous waste and radioactive materials and contractually require them to comply with applicable laws and regulations.

Physicians. Many of our pathologists enter into an employment agreement. These agreements have varying terms, but generally can be terminated at any time, upon advance notice. Most of the agreements contain covenants generally limiting the activities of the pathologist within a defined geographic area for a limited period of time after termination of employment. The agreements may be subject to limitations under state law that may limit the enforceability of

these covenants.

Our pathologists are required to hold a valid license to practice medicine in the jurisdiction in which they practice. If they provide inpatient services, they must become a member of the medical staff at the relevant hospital, with privileges in pathology.

Several states, including some in which our businesses are located, prohibit business corporations from engaging in the practice of medicine. In certain states, business corporations are prohibited from employing licensed healthcare professionals to provide services on behalf of the corporation; these laws vary from state to state. The manner in which licensed physicians can be organized to perform medical services may be governed by the laws of the state in which medical services are provided and by the medical boards or other entities authorized by these states to oversee the practice of medicine. In some states, anatomic pathology services are delivered through physician-owned entities that employ the practicing pathologists.

Privacy and Security of Health and Personal Information. We are required to comply with laws and regulations in the United States (at the federal and state levels) and jurisdictions outside the United States in which we conduct business,

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including the European Union, India and Mexico, regarding protecting the security and privacy of certain healthcare and personal information. These privacy and security laws include the federal Health Insurance Portability and Accountability Act, as amended, and the regulations thereunder (collectively, "HIPAA"). The HIPAA security regulations establish requirements for safeguarding protected health information. The HIPAA privacy regulations establish comprehensive federal standards regarding the uses and disclosures of protected health information. Together, these laws and regulations establish a complex regulatory framework on a variety of subjects, provide for penalties for non-compliance, and may require a healthcare provider to notify individuals or the government if the provider discovers certain breaches of unsecured personal or a patient's protected health information. The regulations were revised in early 2013. We have maintained policies and practices designed to meet applicable requirements, and plan to update them to address the new regulations.

Drug Testing; Controlled Substances. All U.S. laboratories that perform drug testing for certain public sector employees and employees of certain federally regulated businesses are required to be certified as meeting the detailed performance and quality standards of the Substance Abuse and Mental Health Services Administration. To obtain access to controlled substances used to perform drugs of abuse testing in the United States, laboratories must be licensed by the Drug Enforcement Administration. All of our laboratories that perform such testing or that utilize controlled substances are so certified or so licensed, respectively.

Compliance. We seek to conduct our business in compliance with all applicable laws and regulations. Many of the laws and regulations applicable to us, however, including many of those relating to billing, reimbursement of tests and relationships with physicians and hospitals, are vague or indefinite or have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations, including our pricing and/or billing practices. The applicability or interpretation of laws and regulations also may not be clear in light of emerging changes in clinical testing science and healthcare technology. Such occurrences, regardless of their outcome, could, among other things:

- increase our operating costs including, but not limited to, those costs associated with providing diagnostic information services or manufacturing or distributing products, and administrative requirements related to billing;
- decrease the amount of reimbursement related to diagnostic information services performed;
- damage our reputation; and/or
- adversely affect important business relationships with third parties.

If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, fines, exclusion from participation in governmental healthcare programs and the loss of various licenses, certificates and authorizations necessary to operate our business, as well as incur additional liabilities from third party claims, all of which could have a material adverse effect on our business. Certain federal and state statutes, regulations and other laws, including the qui tam provisions of the federal False Claims Act, allow private individuals to bring lawsuits against healthcare companies on behalf of government payers, private payers and/or patients alleging inappropriate billing practices.

The federal or state governments may bring claims based on theories as to our current practices that we believe are lawful. The federal and state governments have substantial leverage in negotiating settlements since the amount of potential damages far exceeds the rates at which we are reimbursed, and the government has the remedy of excluding a non-compliant provider from participation in the Medicare and Medicaid programs. Reimbursement from traditional Medicare and Medicaid programs represented approximately 19% of our net revenues during 2012. We believe that, based on our experience with settlements and public announcements by various government officials, the federal and state governments continue to strengthen their enforcement efforts against healthcare fraud. In addition, legislative provisions relating to healthcare fraud and abuse provide government enforcement personnel substantially increased funding, powers, penalties and remedies to pursue suspected cases of fraud and abuse.

We have a long-standing and well-established compliance program. The Quality, Safety & Compliance Committee of our Board of Directors oversees our compliance program and requires periodic management reports regarding our compliance program. Our program includes detailed policies and procedures and training programs intended to ensure the strict implementation and observance of all applicable laws, regulations and Company policies. Further, we conduct in-depth reviews of procedures and facilities to assure regulatory compliance throughout our operations. We conduct annual training of our employees on these compliance policies and procedures.

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AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). You may read and copy any document that we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information regarding the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Quest Diagnostics) file electronically with the SEC. Our electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

Our internet site is www.QuestDiagnostics.com. You can access Quest Diagnostics' Investor Relations webpage at www.QuestDiagnostics.com/investor. The information on our website is not incorporated by reference into this Report. We make available free of charge, on or through our Investor Relations webpage, our proxy statements, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practical after such material is filed with, or furnished to, the SEC. We also make available, through our Investor Relations webpage, statements of beneficial ownership of our equity securities filed by our directors, officers and others under Section 16 of the Exchange Act.

We have a corporate governance webpage. You can access information regarding our corporate governance at www.QuestDiagnostics.com/governance. We post the following on our corporate governance webpage:

- Directors
- Management
- Code of Business Ethics
- Integrity Commitment
- Values
- Corporate Governance Guidelines
- Charters for the following committees of our Board of Directors: Audit and Finance; Compensation; Executive; Governance; and Quality, Safety and Compliance
- Certificate of Incorporation
- Bylaws

EXECUTIVE OFFICERS OF THE COMPANY

The following persons serve as executive officers of the Company.

Stephen H. Rusckowski (55) is President and Chief Executive Officer. Prior to joining the Company in May 2012, since October 2006, he was Chief Executive Officer of Philips Healthcare, the largest unit of Royal Philips Electronics, and a member of the Board of Management of Royal Philips Electronics and its Executive Committee. Previously, he was CEO of the Imaging Systems business within Royal Phillips Electronics. Before joining Philips in 2001, Mr. Rusckowski held numerous management positions with the healthcare division of Hewlett-Packard/Agilent Technologies. Mr. Rusckowski has been a director of the Company since May 2012.

Jon R. Cohen, M.D. (58) is Senior Vice President and Chief Medical Officer. Dr. Cohen joined the company in March 2009 and served as Chief Medical Officer. From May 2011 to January 2013, he also had responsibility for Hospital Services. In January 2013, Dr. Cohen also assumed responsibility in the Company's Diagnostic Information Services business for cancer diagnostic solutions and hospital professional services. He served as the Senior Advisor to New York Governor David Patterson from 2008 to 2009, where he was responsible for all policy and strategic planning.

From 2007 to 2008, Dr. Cohen was a managing director, health industries advisory services at PricewaterhouseCoopers LLP. Prior to that, he spent 21 years with North Shore-Long Island Jewish Health System, one of the nation's largest not-for-profit health systems, including serving as its Chief Medical Officer from 2000 to 2006.

Everett V. Cunningham (46) is Senior Vice President, Commercial. Mr. Cunningham is responsible for the commercial organization for the Company's Diagnostic Information Services business. Mr. Cunningham joined the Company October 2012. Previously, Mr. Cunningham was with Pfizer, Inc., where he served in a series of sales and leadership and general management roles for 21 years. From June 2011 to October 2012, he served as Regional President, Established Products, Asia. From 2009 to 2011, Mr. Cunningham served as Regional President, West Business Unit, Primary Care. From 2007 to 2009, he served as Vice President, Human Resources, Corporate Groups. From 2003 to 2007, Mr. Cunningham was Vice President, Sales, U.S. Pharmaceuticals, Pain and Musculoskeletal Division.

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Catherine T. Doherty (50) is Senior Vice President, Clinical Franchises. She is responsible for overseeing the development of service offerings in the areas of cardiovascular, infectious disease, neurology, prescription drugs monitoring, women's' health and general wellness. She also is responsible for the Care 360 connectivity program. From May 2011 to January 2013, she served as Senior Vice President, Physician services. From 2008 through May 2011 Ms. Doherty served as Vice President, Hospital Services. Prior to 2008, Ms. Doherty held a variety of positions of increasing responsibility since joining the Company in 1990, including Vice President, Office of the Chairman; Vice President, Finance and Administration for the Hospital business; Vice President, Investor Relations; and Chief Accounting Officer.

Robert A. Hagemann (56) is Senior Vice President and Chief Financial Officer. He joined Corning Life Sciences, Inc. in 1992, where he held a variety of senior financial positions before being named Vice President and Corporate Controller of the Company in 1996. Mr. Hagemann has served as Chief Financial Officer since August 1998. Prior to joining the Company, he was employed by Prime Hospitality, Inc. and Crompton and Knowles in senior financial positions, and was associated with Ernst & Young. He is a director of Zimmer Holdings, Inc.

John B. Haydon (51) is Senior Vice President, Operations. Mr. Haydon is responsible for operations for the Company's Diagnostic Information Services business. He joined the Company in October 2012. Prior to joining Quest Diagnostics, from May 2009 until October 2012, Mr. Haydon was employed by Royal Philips Electronics, serving as Executive Vice President and Group Head of Global Operations and Business Excellence, and by Philips Healthcare, where he served as Executive Vice President and Chief Supply Officer. From February 2009 to April 2009, Mr. Haydon was President and Chief Executive Officer of Global Point Consulting, a global supply chain consulting company. From January 2008 until June 2008, he served as Senior Vice President, Global Operations, and from July 2008 until February 2009, President and Chief Operating Officer, of BTI Systems, an optical networking company. From September 2007 to November 2007, Mr. Haydon was President and Chief Operating Officer of BreconRidge Manufacturing Corporation, an electronics manufacturing services company. Previously, Mr. Haydon worked for Nortel Networks and Northern Telecom for 25 years in roles of increasing responsibility, including with significant focus on operations and supply chain management globally.

Kathy Ordoñez (62) is Senior Vice President, Diagnostic Solutions. In this role, Ms. Ordoñez has responsibility for the Company's Diagnostic Solutions businesses, including diagnostic products, life insurer services, clinical trials and healthcare information technology products. Ms. Ordoñez also has responsibility in the Company's Diagnostic Information Services business for drugs of abuse testing. From the time she joined the Company as part of its acquisition of Celera in May 2011 until January 2013, Ms. Ordoñez was responsible for managing the Company's innovation pipeline and diagnostic products businesses, for leading Celera, including Berkeley HeartLab, and for driving the Company's focus on personalizing disease management through diagnostic products and services. Ms. Ordoñez served as Chief Executive Officer of Celera and was a founder of Celera Diagnostics. Prior to joining Celera's parent company, Applera, in December 2000, Ms. Ordoñez held a number of senior positions over a 15-year period with Hoffmann La-Roche. She oversaw the formation of Roche Molecular Systems, serving as President and Chief Executive Officer, and led the application of polymerase chain reaction technology to the diagnostic, research and forensic fields.

Michael E. Prevoznik (51) is Senior Vice President and General Counsel. Mr. Prevoznik joined the Company as Vice President and General Counsel in August 1999. In 2003, he assumed responsibility for governmental affairs. From 1999 until April 2009, Mr. Prevoznik also had responsibility for the Company's Compliance Department. Since April 2011, in addition to serving as General Counsel, Mr. Prevoznik has had management responsibility for the Company's diagnostic information services activities outside the U.S. In addition, from April 2011 to January 2013, Mr. Prevoznik had management responsibility for the Company's clinical trials business. Prior to joining the Company, Mr. Prevoznik served in positions of increasing responsibility within the compliance organization at SmithKline Beecham, most recently as Vice President, Compliance, with responsibility for coordinating all SmithKline Beecham

compliance activities worldwide.

Item 1A. Risk Factors

You should carefully consider all of the information set forth in this Report, including the following risk factors, before deciding to invest in any of our securities. The risks below are not the only ones that we face. Additional risks not presently known to us, or that we presently deem immaterial, may also negatively impact us. Our business, financial condition, results of operations or cash flows could be materially impacted by any of these factors.
This Report also includes forward-looking statements that involve risks or uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face described below and elsewhere. See “Cautionary Factors that May Affect Future Results” on page 31.

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U.S. healthcare reform legislation may result in significant changes, and our business could be adversely impacted if we fail to adapt.

Government oversight of and attention to the healthcare industry in the United States is significant and increasing. In March 2010, U.S. federal legislation was enacted to reform healthcare. The legislation provides for reductions in the Medicare clinical laboratory fee schedule of 1.75% for five years beginning in 2011 and also includes a productivity adjustment that reduces the CPI market basket update beginning in 2011. The legislation imposes an excise tax on the seller for the sale of certain medical devices in the United States, including those purchased and used by laboratories, beginning in 2013. The legislation establishes the Independent Payment Advisory Board, which will be responsible, beginning in 2014, annually to submit proposals aimed at reducing Medicare cost growth while preserving quality. These proposals automatically will be implemented unless Congress enacts alternative proposals that achieve the same savings targets. Further, the legislation calls for a Center for Medicare and Medicaid Innovation that will examine alternative payment methodologies and conduct demonstration programs. The legislation provides for extensive health insurance reforms, including the elimination of pre-existing condition exclusions and other limitations on coverage, fixed percentages on medical loss ratios, expansion in Medicaid and other programs, employer mandates, individual mandates, creation of state and regional health insurance exchanges, and tax subsidies for individuals to help cover the cost of individual insurance coverage. The legislation also permits the establishment of accountable care organizations. While the ultimate impact of the legislation on the healthcare industry is unknown, it is likely to be extensive and may result in significant change. Our failure to adapt to these changes could have a material adverse effect on our business.

The clinical testing business is highly competitive, and if we fail to provide an appropriately priced level of service or otherwise fail to compete effectively it could have a material adverse effect on our revenues and profitability.

The clinical testing business remains a fragmented and highly competitive industry.

We primarily compete with three types of clinical testing providers: other commercial clinical laboratories, hospital-affiliated laboratories and physician-office laboratories. We also compete with anatomic pathology practices and large physician group practices. Hospitals generally maintain on-site laboratories to perform testing on their patients (inpatient or outpatient). In addition, many hospitals compete with commercial clinical laboratories for outreach (non-hospital patients) testing. Most physicians have admitting privileges or other relationships with hospitals as part of their medical practice and hospitals may seek to leverage their relationships with community physicians and encourage the physicians to send their outreach testing to the hospital's laboratory. In addition, hospitals that own physician practices may require the practices to refer testing to the hospital's laboratory. In recent years, there has been a trend of hospitals acquiring physician practices, and as a result, an increased percentage of physician practices are owned by hospitals. Increased hospital acquisitions of physician practices enhance physician ties to hospital-affiliated laboratories and may strengthen their competitive position. As a result of this affiliation between hospitals and community physicians, we compete against hospital-affiliated laboratories primarily based on quality and scope of service. Increased hospital acquisitions of physician practices enhance physician ties to hospital-affiliated laboratories and may strengthen their competitive position. Our failure to provide a broad test menu or services superior to hospital-affiliated laboratories and other laboratories could have a material adverse effect on our business. If we fail to compete effectively, our business could be adversely affected and our revenues and profitability could be damaged.

Our new strategic plan may be difficult to implement, and may not be successful, and in either case, it could adversely impact our business and results of operations.

In November 2012, we announced a new strategic plan for our Company, including: refocusing on diagnostic information services; driving operational excellence; restoring growth; simplifying our organization to enable growth

and productivity; and delivering disciplined capital management and strategically aligned accretive acquisitions. The success of our new strategy is subject to both the risks affecting our business generally and the inherent difficulty associated with implementing our new strategies and is dependent upon the skills, experience and efforts of our management and other employees and our success with third parties. Restructuring activities involve risks, significant costs and potential liabilities. Among the risks are the following: disruption of our business or distraction of our employees and management; customer attrition; difficulty recruiting, hiring, motivating and retaining talented and skilled personnel; increased stock price volatility and changes to our stock price that may be unrelated to our current results of operations; and executing the strategy in a timely or efficient manner. There is no assurance that we will be able to successfully implement these strategic initiatives or that implementation of changes will result in benefits or cost savings at the levels that we anticipate or at all.

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Our business could be negatively affected if we are unable to continue to improve our efficiency.

Government payers and health insurers have taken steps to control the utilization and reimbursement of healthcare services, including diagnostic information services; such steps may continue. If we are unable to continue to improve our efficiency to enable us to mitigate the impact on our profitability of these activities, our business could be negatively affected.

Continued weakness in U.S., global, or regional economic conditions could have an adverse effect on our businesses.

The economies of the United States and other regions of the world in which we do business continue to experience significant weakness which, in the case of the U.S., has resulted in significant unemployment and reduced economic activity. Continued weakness or a further decline in economic conditions may adversely affect demand for our services and products, thus reducing our revenue. These conditions also could impair the ability of those with whom we do business to satisfy their obligations to us.

Our business could be adversely impacted by the FDA's approach to regulation.

The FDA has regulatory responsibility over, among other areas, instruments, test kits, reagents and other devices used by clinical laboratories to perform diagnostic testing in the United States. A number of esoteric tests we develop internally are offered as laboratory-developed tests (“LDTs”). The FDA has claimed regulatory authority over all LDTs, but has exercised enforcement discretion with regard to most LDTs performed by high complexity CLIA-certified laboratories. The FDA has announced several regulatory and guidance initiatives that may impact the clinical laboratory testing business, including by increasing regulation of LDTs and analyte specific reagents. If finalized, these initiatives could have a significant impact on our business. The regulatory approach adopted by the FDA may lead to an increased regulatory burden on our Company. The approach may hinder our ability to develop and market new products or services, cause an increase in the cost of our products or services, delay our ability to introduce new tests or hinder our ability to perform testing. The approach also may result in increased product cost, a delay in obtaining needed supplies, or, if a manufacturer withdraws its products from the market, an inability to obtain needed supplies. These matters could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows.

Government payers, such as Medicare and Medicaid, have taken steps to control the utilization and reimbursement of healthcare services, including clinical testing services.

We face efforts by government payers to reduce utilization and reimbursement for diagnostic information services.

From time to time, Congress has legislated reductions in, or frozen updates to, the Medicare Clinical Laboratory Fee Schedule. In addition, CMS has adopted policies limiting or excluding coverage for clinical tests that we perform. We also provide physician services which are reimbursed by Medicare under a physician fee schedule, which is subject to adjustment on an annual basis. Medicaid reimbursement varies by state and is subject to administrative and billing requirements and budget pressures. The 2010 federal healthcare reform legislation includes further provisions that are designed to control utilization and payment levels.

In addition, over the last several years, the federal government has continued to expand its contracts with private health insurance plans for Medicare beneficiaries, called “Medicare Advantage” programs, and has encouraged such beneficiaries to switch from the traditional programs to the private programs. There has been continued growth of health insurance plans offering Medicare Advantage programs, and of beneficiary enrollment in these programs. Also in recent years, states have increasingly mandated that Medicaid beneficiaries enroll in private managed care arrangements. The 2010 federal healthcare reform legislation is intended to control the growth of Medicare Advantage

programs, encourage beneficiaries to switch back to traditional Medicare programs and expand the eligibility for traditional Medicaid programs. Recently, state budget pressures have encouraged states to consider several courses of action that may impact our business, such as delaying payments, reducing reimbursement, restricting coverage eligibility, service coverage restrictions and imposing taxes on our services.

From time to time, the federal government has considered whether competitive bidding can be used to provide clinical testing services for Medicare beneficiaries at attractive rates while maintaining quality and access to care. If competitive bidding were implemented on a regional or national basis for clinical testing, it could materially adversely affect us. Congress periodically considers cost-saving initiatives as part of its deficit reduction discussions. These initiatives have included coinsurance for clinical laboratory services, co-payments for clinical laboratory testing and further laboratory fee schedule reductions. If any of these initiatives were implemented, it could materially affect us.

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The American Medical Association CPT® Editorial Panel is continuing its process of establishing analyte specific billing codes to replace codes that describe procedures used in performing molecular testing. The 2012 CPT manual adopted approximately 100 of such codes. The 2013 CPT manual adopted additional codes and there are now CPT codes covering over 300 molecular tests. While CMS deferred adoption of the 2012 molecular codes until January 2013, a handful of commercial health plans implemented them in 2012. The adoption of analyte specific codes will allow payers to better determine tests being performed. This could lead to limited coverage decisions or payment denials. Further, in late 2012, CMS delegated the payment level determination for the new codes to the Medicare contractors. Currently, some contractors are beginning to issue payment and coverage decisions, but the payment levels and the methodology for determining how payment will be determined by CMS and commercial health plans still remains largely unresolved. If reimbursement levels for the new codes do not recognize the value of the molecular genetic testing we perform, our revenues and earnings could be adversely impacted.

We expect efforts to reduce reimbursements, to impose more stringent cost controls and to reduce utilization of clinical test services will continue. These efforts, including changes in law or regulations, may have a material adverse impact on our business.

Health plans have taken steps to control the utilization and reimbursement of health services, including clinical testing services.

We also face efforts by non-governmental third party payers, including health plans, to reduce utilization and reimbursement for clinical testing services.

The healthcare industry has experienced a trend of consolidation among health insurance plans, resulting in fewer but larger insurance plans with significant bargaining power to negotiate fee arrangements with healthcare providers, including clinical testing providers. These health plans, and independent physician associations, may demand that clinical testing providers accept discounted fee structures or assume all or a portion of the financial risk associated with providing testing services to their members through capitated payment arrangements. In addition, some health plans have been willing to limit the PPO or POS laboratory network to only a single national laboratory to obtain improved fee-for-service pricing. Some health plans also are considering steps such as requiring preauthorization of testing. There are also an increasing number of patients enrolling in consumer driven products and high deductible plans that involve greater patient cost-sharing.

The increased consolidation among health plans also has increased the potential adverse impact of ceasing to be a contracted provider with any such insurer. The 2010 federal healthcare reform legislation includes provisions, including ones regarding the creation of healthcare exchanges, that may encourage health insurance plans to increase exclusive contracting.

We expect continuing efforts to reduce reimbursements, to impose more stringent cost controls and to reduce utilization of clinical test services. These efforts, including future changes in third-party payer rules, practices and policies, or ceasing to be a contracted provider to a health plan, may have a material adverse effect on our business.

Business development activities are inherently risky, and integrating our operations with businesses we acquire may be difficult and, if unsuccessfully executed, may have a material adverse effect on our business.

We plan selectively to enhance our business from time to time through business development activities, such as acquisitions, licensing, investments and alliances. However, these plans are subject to the availability of appropriate opportunities and competition from other companies seeking similar opportunities. Moreover, the success of any such effort may be affected by a number of factors, including our ability to properly assess and value the potential business opportunity, and to integrate it into our business. The success of our strategic alliances depends not only on our

contributions and capabilities, but also on the property, resources, efforts and skills contributed by our strategic partners. Further, disputes may arise with strategic partners, due to conflicting priorities or conflicts of interests.

Each acquisition involves the integration of a separate company that has different systems, processes, policies and cultures. Integration of acquisitions involves a number of risks including the diversion of management's attention to the assimilation of the operations of businesses we have acquired, difficulties in the integration of operations and systems and the realization of potential operating synergies, the assimilation and retention of the personnel of the acquired companies, challenges in retaining the customers of the combined businesses, and potential adverse effects on operating results. The process of combining companies may be disruptive to our businesses and may cause an interruption of, or a loss of momentum in, such businesses as a result of the following difficulties, among others:

- loss of key customers or employees;
- difficulty in standardizing information and other systems;

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- difficulty in consolidating facilities and infrastructure;
- failure to maintain the quality or timeliness of services that our Company has historically provided;
- diversion of management's attention from the day-to-day business of our Company as a result of the need to deal with the foregoing disruptions and difficulties; and
- the added costs of dealing with such disruptions.

If we are unable successfully to integrate strategic acquisitions in a timely manner, our business and our growth strategies could be negatively affected. Even if we are able to successfully complete the integration of the operations of other companies or businesses we may acquire in the future, we may not be able to realize all or any of the benefits that we expect to result from such integration, either in monetary terms or in a timely manner.

We are subject to numerous legal and regulatory requirements governing our activities, and we may face substantial fines and penalties, and our business activities may be impacted, if we fail to comply.

Our business is subject to or impacted by extensive and frequently changing laws and regulations in the United States (including at both the federal and state levels) and the other jurisdictions in which we engage in business. While we seek to conduct our business in compliance with all applicable laws, many of the laws and regulations applicable to us are vague or indefinite and have not been interpreted by the courts, including many of those relating to:

- billing and reimbursement of clinical testing;
- certification or licensure of clinical laboratories;
- the anti-self-referral and anti-kickback laws and regulations;
- the laws and regulations administered by the FDA;
- the corporate practice of medicine;
- operational, personnel and quality requirements intended to ensure that clinical testing services are accurate, reliable and timely;
- physician fee splitting;
- relationships with physicians and hospitals;
- safety and health of laboratory employees; and
- handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials.

These laws and regulations may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations, including our pricing and/or billing practices. We may not be able to maintain, renew or secure required permits, licenses or any other regulatory approvals needed to operate our business or commercialize our products. If we fail to comply with applicable laws and regulations, or if we fail to maintain, renew or obtain necessary permits, licenses and approvals, we could suffer civil and criminal penalties, fines, exclusion from participation in governmental healthcare programs and the loss of various licenses, certificates and authorizations necessary to operate our business, as well as incur additional liabilities from third party claims. If any of the foregoing were to occur, our reputation could be damaged, important business relationships with third parties could be adversely affected and it could have a material adverse effect on our business.

We regularly receive requests for information, and occasionally subpoenas, from governmental authorities. We also are subject from time to time to qui tam claims brought by former employees or other “whistleblowers.” The federal and state governments continue to strengthen their position and scrutiny over healthcare fraud. In addition, legislative provisions relating to healthcare fraud and abuse provide federal and state enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse. The government has substantial leverage in negotiating settlements since the amount of potential damages far exceeds the rates at which we are reimbursed for our products and services, and the government has the remedy of excluding a non-compliant provider

from participation in the Medicare and Medicaid programs. Regardless of merit or eventual outcome, these types of investigations and related litigation can result in:

- diversion of management time and attention;
- expenditure of large amounts of cash on legal fees, costs and payment of damages;
- limitations on our ability to continue some of our operations;
- enforcement actions, fines and penalties or the assertion of private litigation claims and damages;
- decreased demand for our services and products; and/or
- injury to our reputation.

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Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion. Any noncompliance by us with applicable laws and regulations could have a material adverse effect on our results of operations. Moreover, even when an investigation is resolved favorably, the process may be time-consuming and the legal costs and diversion of management focus may be extensive.

We believe that, based on our experience with settlements and public announcements by various government officials, the federal and state governments continue to strengthen their enforcement efforts against healthcare fraud. In addition, legislative provisions relating to healthcare fraud and abuse provide government enforcement personnel substantially increased funding, powers, penalties and remedies to pursue suspected cases of fraud and abuse.

Changes in applicable laws and regulations may result in existing practices becoming more restricted, or subject our existing or proposed services and products to additional costs, delay, modification, withdrawal or reconsideration. Such changes could require us to modify our business objectives and could have a material adverse effect on our business.

Failure to timely or accurately bill for our services could have a material adverse effect on our business.

Billing for diagnostic information services is extremely complicated and is subject to extensive and non-uniform rules and administrative requirements. Depending on the billing arrangement and applicable law, we bill various payers, such as patients, insurance companies, Medicare, Medicaid, physicians, hospitals and employer groups. Changes in laws and regulations could increase the complexity and cost of our billing process. Additionally, auditing for compliance with applicable laws and regulations as well as internal compliance policies and procedures adds further cost and complexity to the billing process. Further, our billing systems require significant technology investment and, as a result of marketplace demands, we need to continually invest in our billing systems.

Missing or incorrect information on requisitions adds complexity to and slows the billing process, creates backlogs of unbilled requisitions, and generally increases the aging of accounts receivable and bad debt expense. We believe that much of our bad debt expense in recent years is attributable to the lack of, or inaccurate, billing information. Failure to timely or correctly bill may lead to our not being reimbursed for our services or an increase in the aging of our accounts receivable, which could adversely affect our results of operations and cash flows. Failure to comply with applicable laws relating to billing government healthcare programs could lead to various penalties, including: (1) exclusion from participation in Medicare/Medicaid programs; (2) asset forfeitures; (3) civil and criminal fines and penalties; and (4) the loss of various licenses, certificates and authorizations necessary to operate our business, any of which could have a material adverse effect on our results of operations or cash flows.

Attacks on our information technology systems, or failure in these systems, including failures resulting from our systems conversions, could disrupt our operations and cause the loss of confidential information, customers and business opportunities.

Information technology (“IT”) systems are used extensively in virtually all aspects of our business, including clinical testing, test reporting, billing, customer service, logistics and management of medical data. Our success depends, in part, on the continued and uninterrupted performance of our IT systems. IT systems may be vulnerable to damage, disruptions and shutdown from a variety of sources, including telecommunications or network failures, human acts and natural disasters. Moreover, despite the security measures we have implemented, our IT systems may be subject to physical or electronic intrusions, computer viruses, unauthorized tampering and similar disruptive problems. We have taken precautionary measures to prevent unanticipated problems that could affect our IT systems. Our information technology systems from time to time have experienced minor attacks, minor viruses, attempted intrusions or similar problems, like other major companies, but each was mitigated, and none materially disrupted,

interrupted, damaged or shutdown the Company's information technology systems, materially disrupted the Company's performance of its business or, to the Company's knowledge, resulted in material unauthorized access to data.

We are planning to implement common laboratory information and billing systems, which will promote standardized processes. We expect that this effort will take several years to complete. Failure to properly implement this process could materially adversely affect our business. During system conversions of this type, workflow is re-engineered to take advantage of best practices and enhanced system capabilities, which may cause temporary disruptions in service. In addition, the implementation process, including the transfer of databases and master files to new data centers, presents significant conversion risks that need to be managed carefully.

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If we experience systems problems, including with our implementation of common laboratory or billing systems, they may interrupt our ability to operate. For example, the problems may impact our ability to process test orders, deliver test results or perform or bill for testing in a timely manner.

If we experience systems problems, or if we experience unauthorized disclosure of confidential information, it could adversely affect our reputation, result in a loss of customers and revenues and cause us to suffer financial damage, including significant costs to alleviate or eliminate the problem.

Failure to develop, or acquire licenses for, new tests, technology and services, could negatively impact our testing volume and revenues.

The clinical testing industry is faced with changing technology and new product introductions. Other companies or individuals, including our competitors, may obtain patents or other property rights that would prevent, limit or interfere with our ability to develop, perform or sell our tests or operate our business or increase our costs. In addition, they could introduce new tests, technologies or services that may result in a decrease in the demand for our services or cause us to reduce the prices of our services. Our success in continuing to introduce new tests, technology and services will depend, in part, on our ability to license new and improved technologies on favorable terms. We may be unable to develop or introduce new tests or services. We also may be unable to continue to negotiate acceptable licensing arrangements, and arrangements that we do conclude may not yield commercially successful clinical tests. If we are unable to license these testing methods at competitive rates, our research and development costs may increase as a result. In addition, if we are unable to develop and introduce, or license, new tests, technology and services to expand our esoteric testing business, our services may become outdated when compared with our competition and our revenue may be materially and adversely affected.

We may be unable to obtain, maintain or enforce our intellectual property rights and may be subject to intellectual property litigation that could adversely impact our business.

We may be unable to obtain or maintain adequate patent or other proprietary rights for our products and services or to successfully enforce our proprietary rights. In addition, we may be subject to intellectual property litigation and we may be found to infringe on the proprietary rights of others, which could force us to do one or more of the following:

- cease developing, performing or selling products or services that incorporate the challenged intellectual property;
- obtain and pay for licenses from the holder of the infringed intellectual property right;
- redesign or reengineer our tests;
- change our business processes; or
- pay substantial damages, court costs and attorneys' fees, including potentially increased damages for any infringement held to be willful.

The development of new, more cost-effective tests that can be performed by our customers or by patients, and the continued internalization of testing by hospitals or physicians, could negatively impact our testing volume and revenues.

Advances in technology may lead to the development of more cost-effective tests that can be performed outside of a commercial clinical laboratory such as (1) point-of-care testing that can be performed by physicians in their offices, (2) esoteric testing that can be performed by hospitals in their own laboratories or (3) home testing that can be performed by patients in their homes or by physicians in their offices. Advances in technology also may lead to the need for less frequent testing. Although physicians operating in-office laboratories incur additional costs for CLIA compliance, manufacturers of laboratory equipment and test kits seek to increase their sales by marketing to physicians point-of-care test equipment and test kits that require minimal regulatory oversight. Further, diagnostic

tests approved or cleared by the FDA for home use are automatically deemed to be “waived” tests under CLIA and may be performed by patients in their homes; test kit manufacturers could seek to increase sales to patients of such test kits. Development of such technology and its use by our customers would reduce the demand for our laboratory-based testing services and negatively impact our revenues.

Some traditional customers for anatomic pathology services have added in-office histology labs or have retained pathologists to read cases on site, thus allowing them to bill for services previously referred to outside pathology service providers, such as the Company. These customers include specialty physicians that generate biopsies through surgical procedures, such as dermatologists, gastroenterologists, urologists and oncologists. If our customers continue to internalize testing that we currently perform, the demand for our testing services may be reduced and our revenues may be materially adversely impacted.

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Our outstanding debt may impair our financial and operating flexibility.

As of December 31, 2012, we had approximately $3.4 billion of debt outstanding. Except for operating leases, we do not have any off-balance sheet financing arrangements in place or available. Our debt agreements contain various restrictive covenants. These restrictions could limit our ability to use operating cash flow in other areas of our business because we must use a portion of these funds to make principal and interest payments on our debt. We have obtained ratings on our debt from Standard and Poor's, Moody's Investor Services and Fitch Ratings. There can be no assurance that any rating so assigned will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in that rating agency's judgment future circumstances relating to the basis of the rating, such as adverse changes in our Company or our industry, so warrant. If such ratings are lowered, the borrowing costs on our senior unsecured revolving credit facility, secured receivables facility and term loan could increase. Changes in our credit ratings, however, do not require repayment or acceleration of any of our debt.

We or our subsidiaries may incur additional indebtedness in the future. Our ability to make principal and interest payments will depend on our ability to generate cash in the future. If we incur additional debt, a greater portion of our cash flows may be needed to satisfy our debt service obligations and if we do not generate sufficient cash to meet our debt service requirements, we may need to seek additional financing. In that case, it may be more difficult, or we may be unable, to obtain financing on terms that are acceptable to us. As a result, we would be more vulnerable to general adverse economic, industry and capital markets conditions as well as the other risks associated with indebtedness.

Our ability to attract and retain qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance.

Our people are a critical resource. The supply of qualified personnel may be limited and competition for qualified employees is strong. If we were to lose, or to fail to attract and retain, key management personnel, or qualified skilled technical or professional employees at our clinical laboratories, research centers or manufacturing facilities, our earnings and revenues could be adversely affected. Attracting and retaining qualified personnel may be more difficult than normal as we simplify and restructure the Company. In addition, if we were to fail to attract and retain skilled pathologists, particularly those with subspecialties, with positive relationships with their respective local medical communities, our earnings and revenues could be adversely affected.

Failure to establish, and perform to, appropriate quality standards to assure that the highest level of quality is observed in the performance of our diagnostic information services and in the design, manufacture and marketing of our products could adversely affect the results of our operations and adversely impact our reputation.

The provision of diagnostic information services and the design, manufacture and marketing of diagnostic products involve certain inherent risks. The services that we provide and the products that we design, manufacture and market are intended to provide information for healthcare providers in providing patient care. Therefore, users of our services and products may have a greater sensitivity to errors than the users of services or products that are intended for other purposes.

Manufacturing or design defects, unanticipated use of our products, or inadequate disclosure of risks relating to the use of the products can lead to injury or other adverse events. These events could lead to recalls or safety alerts relating to our products (either voluntary or required by governmental authorities) and could result, in certain cases, in the removal of a product from the market. Any recall could result in significant costs as well as negative publicity that could reduce demand for our products. Personal injuries relating to the use of our products can also result in product liability claims being brought against us. In some circumstances, such adverse events could also cause delays in new product approvals.

Similarly, negligence in performing our services can lead to injury or other adverse events. We may be sued under physician liability or other liability law for acts or omissions by our pathologists, laboratory personnel and hospital employees who are under the supervision of our hospital-based pathologists. We are subject to the attendant risk of substantial damages awards and risk to our reputation.

Our operations and reputation may be impaired if we do not comply with privacy laws or information security policies.

In our business, we generate or maintain sensitive information, such as patient data and other personal information. If we do not adequately safeguard that information and it were to become available to persons or entities that should not have access to it, our business could be impaired, our reputation could suffer and we could be subject to fines, penalties and litigation.

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We are subject to numerous political, legal, operational and other risks as a result of our international operations which could impact our business in many ways.

Although we conduct most of our business in the United States, our international operations increase our exposure to the inherent risks of doing business in international markets. Depending on the market, these risks include, without limitation:

- changes in the local economic environment;
- political instability;
- social changes;
- intellectual property legal protections and remedies;
- trade regulations;
- procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services;
- exchange controls;
- attracting and retaining qualified employees;
- local market practices;
- export and import controls;
- weak legal systems which may affect our ability to enforce contractual rights;
- changes in local laws or regulations; and
- potentially longer payment and collection cycles.

International operations also require us to devote significant management resources to implement our controls and systems in new markets, to comply with the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws in non-U.S. jurisdictions and to overcome challenges based on differing languages and cultures.

If we do not successfully navigate these risks, our financial condition or results of operations could be materially adversely affected.

Our medical diagnostic products business is subject to numerous governmental regulations and it can be costly to comply with these regulations and to develop compliant diagnostic products.

Our medical diagnostic products are subject to extensive regulation by numerous governmental authorities in the United States, including the FDA, and by regulatory authorities outside the United States, including the European Commission. The process of obtaining regulatory clearance or approval to market a medical diagnostic product can be costly and time-consuming, and clearance or approval for future products is never certain. Securing regulatory clearance or approval of additional indications or uses of existing products is not predictable. Delays in the receipt of, or failure to obtain clearance or approval for, future products, or new indications or uses, could result in delayed realization of product revenues and in substantial additional costs.

In addition, no assurance can be given that we will remain in compliance with applicable regulations once clearance or approval has been obtained for a product. These requirements include, among other things, regulations regarding manufacturing practices, product labeling and advertising and postmarket reporting, including adverse event reports and field alerts due to manufacturing quality concerns. Our diagnostic product facilities and procedures and those of our suppliers are subject to ongoing regulation, including periodic inspection by the FDA and other regulatory authorities. Failure to comply with applicable rules could result in, among other things, substantial modifications to our business practices and operations; refunds, recalls or seizures of our products or products of our suppliers; a total or partial shutdown of production in one or more of our facilities while we or our suppliers remedy the alleged violation; the inability timely to obtain future pre-market clearances or approvals; and withdrawals or suspensions of

current products from the market. Any of these events could disrupt our business and have a material adverse effect on our reputation, revenues, profitability or financial condition.

Our efforts to develop commercially successful medical diagnostic products may not succeed.

We may commit substantial efforts, funds and other resources to developing commercially successful medical diagnostic products. A high rate of failure, or costly delay, is inherent in the development of new medical diagnostic products. There is no assurance that our efforts to develop these products will be commercially successful. Failure can occur at any point in the development process, including after significant funds have been invested.

Promising new product candidates may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals,

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failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, the failure to establish or maintain intellectual property rights, or the infringement of intellectual property rights of others. Even if we successfully develop new products or enhancements or new generations of our existing products, they may be quickly rendered obsolete by newer products, changing customer preferences or changing industry standards. Innovations may not be accepted quickly in the marketplace because of, among other things, entrenched patterns of clinical practice or uncertainty over third party reimbursement. We cannot state with certainty when or whether any of our medical diagnostic products under development will be launched, whether we will be able to develop, license or otherwise acquire products, or whether any diagnostic products will be commercially successful. Failure to launch successful new products or new indications for existing products may cause our products to become obsolete.

Our operations may be adversely impacted by the effects of natural disasters such as hurricanes and earthquakes, health pandemics, hostilities or acts of terrorism and other criminal activities.

Our operations may be adversely impacted by the effects of natural disasters such as hurricanes and earthquakes, health pandemics, hostilities or acts of terrorism or other criminal activities. Such events may result in a temporary decline in the number of patients who seek clinical testing services or in our employees' ability to perform their job duties. In addition, such events may temporarily interrupt our ability to transport specimens, to receive materials from our suppliers or otherwise to provide our services.

Our business could be adversely impacted by CMS' adoption of the new coding set for diagnoses.

CMS has adopted a new coding set for diagnosis, commonly known as ICD-10, which significantly expands the coding set for diagnoses. The new coding set is currently required to be implemented by October 1, 2014. We may be required to incur significant expense in implementing the new coding set, and if we do not adequately implement it, our business could be adversely impacted. In addition, if as a result of the new coding set physicians fail to provide appropriate codes for desired tests, we may not be reimbursed for such tests.

Our business could be adversely impacted by adoption of new coding for molecular genetic tests.

The American Medical Association CPT® Editorial Panel is continuing its process of establishing analyte specific billing codes to replace codes that describe procedures used in performing molecular testing. The 2012 CPT manual adopted approximately 100 of such codes. The 2013 CPT manual adopted additional codes and there are now CPT codes covering over 300 molecular tests. While CMS deferred adoption of the 2012 molecular codes until January 2013, a handful of commercial health plans implemented them in 2012. The adoption of analyte specific codes will allow payers to better determine tests being performed. This could lead to limited coverage decisions or payment denials. Further, in late 2012, CMS delegated the payment level determination for the new codes to the Medicare contractors. Currently, some contractors are beginning to issue payment and coverage decisions, but the payment levels and the methodology for determining how payment will be determined by CMS and commercial health plans still remains largely unresolved. If reimbursement levels for the new codes do not recognize the value of the molecular genetic testing we perform, our revenues and earnings could be adversely impacted.

Adverse results in material litigation could have an adverse financial impact and an adverse impact on our client base and reputation.

We are involved in various legal proceedings arising in the ordinary course of business including, among other things, disputes as to intellectual property, professional liability and employee-related matters, as well as inquiries from governmental agencies and Medicare or Medicaid carriers. Some of the proceedings against us involve claims that are substantial in amount and could divert management's attention from operations. The proceedings also may result in substantial monetary damages, as well as damage to our reputation, and decrease the demand for our services and

products, all of which could have a material adverse effect on our business. We do not have insurance or are substantially self-insured for a significant portion of any liabilities with respect to some of these claims. The ultimate outcome of the various proceedings or claims could have a material adverse effect on our financial condition, results of operations or cash flows in the period in which the impact of such matters is determined or paid.

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In November 2011, the Senate Finance Committee and the Senate Judiciary Committee commenced an inquiry into certain alleged practices in the laboratory testing and managed care businesses.

In November 2011, we received a letter from Senator Charles E. Grassley, ranking member of the U.S. Senate Committee on the Judiciary and Senator Max Baucus, Chairman of the U.S. Senate Committee on Finance, requesting information regarding certain alleged practices in the laboratory testing and managed care businesses. A similar letter was sent to other companies that sponsor managed care organizations or which are engaged in the laboratory testing business. The Company has cooperated with the request. The Company is unable to predict the timing or outcome of this inquiry, or its impact on our business. Similar inquiries may be made by other governmental authorities regarding this or other topics. We may experience negative publicity with respect to these matters.

Such inquiries may result in a finding of failure to comply with laws or regulations, changes in laws or regulations, the commencement of civil or criminal proceedings, substantial fines, penalties or administrative remedies, including the loss of the right to participate in the Medicare and Medicaid programs, or the imposition of additional and costly compliance obligations. If the inquiries continue over a long period of time, they could divert the attention of management from the day-to-day operations of our business and impose significant administrative burdens on our Company.

These matters could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows.

Our operations may be adversely impacted by the effect of trends in utilization of the U.S. healthcare system.

Our operations may be adversely impacted by the effects of trends in the utilization of the healthcare system in the United States. Trends in the utilization of the U.S. healthcare system can be influenced by such factors as unemployment, under-employed workers and decisions to delay medical care. Declining utilization of the U.S. healthcare system may result in a decline in the number of patients who seek clinical testing services. These matters could have a material adverse effect on our business and our consolidated financial condition, results of operations and cash flows.

If we fail to comply with the requirements of our Corporate Integrity Agreement, we could be subject to suspension or termination from participation in federal healthcare programs and substantial monetary penalties.

As part of a settlement with the U.S. Department of Justice and other federal government agencies, in April 2009 we entered into a five-year Corporate Integrity Agreement with the U.S. Department of Health and Human Services Office of Inspector General. If we fail to comply with our obligations under the Corporate Integrity Agreement, we could be suspended or terminated from participating in certain federal healthcare programs and subject to substantial monetary penalties.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Some statements and disclosures in this document are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as “may”, “believe”, “will”, “expect”, “project”, “estimate”, “anticipate”, “plan” or “continue.” These forward-looking sta are based on our current plans and expectations and are subject to a number of risks and uncertainties that could cause our plans and expectations, including actual results, to differ materially from the forward-looking statements. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this document. The following important factors could cause our actual financial results to differ materially from those projected, forecasted or estimated by us in forward-looking statements:

(a) Heightened competition from commercial clinical testing companies, hospitals and physicians.
(b) Increased pricing pressure from customers and payers.
(c) A decline or continued weakness in economic conditions.
(d) Impact of changes in payer mix, including any shift from fee-for-service to discounted or capitated fee arrangements.
(e) Adverse actions by government or other third-party payers, including healthcare reform that focuses on reducing healthcare costs but does not recognize the value and importance to healthcare of diagnostic testing, unilateral reduction of fee schedules payable to us, competitive bidding, and an increase in the practice of negotiating for exclusive arrangements that involve aggressively priced capitated or fee-for-service payments by health insurers or other payers.

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(f) The impact upon our testing volume and collected revenue or general or administrative expenses resulting from our compliance with Medicare and Medicaid administrative policies and requirements of third party payers. These include:

(1) the requirements of Medicare carriers to provide diagnosis codes for many commonly ordered tests (and the transition to a new coding set) and the possibility that third party payers will increasingly adopt similar requirements;

(2) continued inconsistent practices among the different local carriers administering Medicare;

(3) inability to obtain from patients a valid advance beneficiary notice form for tests that cannot be billed without prior receipt of the form;

(4) increased challenges in operating as a non-contracted provider with respect to health plans;

(5) the impact of additional or expanded limited coverage policies and limits on the allowable number of test units; and

(6) the impact of increased prior authorization programs for clinical testing.

(g) Adverse results from pending or future government investigations, lawsuits or private actions. These include, in particular, monetary damages, loss or suspension of licenses, and/or suspension or exclusion from the Medicare and Medicaid programs and/or criminal penalties.

(h) Failure to efficiently integrate acquired businesses and to manage the costs related to any such integration, or to retain key technical, professional or management personnel.

(i) Denial, suspension or revocation of CLIA certification or other licenses for any of our clinical laboratories under the CLIA standards, revocation or suspension of the right to bill the Medicare and Medicaid programs or other adverse regulatory actions by federal, state and local agencies.

(j) Changes in federal, state or local laws or regulations, including changes that result in new or increased federal or state regulation of commercial clinical laboratories, tests developed by commercial clinical laboratories or other products or services that we offer or activities in which we are engaged, including regulation by the FDA.

(k) Inability to achieve expected benefits from our acquisitions of other businesses.

(l) Inability to achieve additional benefits from our Six Sigma and efficiency initiatives.

(m) Adverse publicity and news coverage about the clinical testing industry or us.

(n) Computer or other IT system failures that affect our ability to perform testing, report test results or properly bill customers, or result in the disclosure of confidential information, including potential failures resulting from implementing common IT systems and other system conversions, telecommunications failures, malicious human acts (such as electronic break-ins or computer viruses) or natural disasters.

(o) Development of technologies that substantially alter the practice of clinical test medicine, including technology changes that lead to the development of more cost-effective tests such as (1) point-of-care testing that can be performed by physicians in their offices, (2) esoteric testing that can be performed by hospitals in their own laboratories or (3) home testing that can be carried out without requiring the services of clinical laboratories.

(p) Negative developments regarding intellectual property and other property rights that could prevent, limit or interfere with our ability to develop, perform or sell our tests or operate our business. These include:

(1) Issuance of patents or other property rights to our competitors or others; and

(2) Inability to obtain or maintain adequate patent or other proprietary rights for our products and services or to successfully enforce our proprietary rights.

(q) Development of tests by our competitors or others which we may not be able to license, or usage of our technology or similar technologies or our trade secrets or other intellectual property by competitors, any of which could negatively affect our competitive position.

(r) Regulatory delay or inability to commercialize newly developed or licensed products, tests or technologies or to obtain appropriate reimbursements for such tests.

(s) Inability to promptly or properly bill for our services or to obtain appropriate payments for services that we do bill.

(t) Changes in interest rates and changes in our credit ratings from Standard & Poor's, Moody's Investor Services or Fitch Ratings causing an unfavorable impact on our cost of and access to capital.

(u) Inability to hire and retain qualified personnel or the loss of the services of one or more of our key senior management personnel.

(v) Terrorist and other criminal activities, hurricanes, earthquakes or other natural disasters, and health pandemics, which could affect our customers, transportation or systems, or our facilities, and for which insurance may not adequately reimburse us.

(w) Difficulties and uncertainties in the discovery, development, regulatory environment and/or marketing of new products or new uses of existing products.

(x) Failure to comply with the requirements of our Corporate Integrity Agreement that could subject us to suspension or termination from participation in federal healthcare programs and substantial monetary penalties.

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(y) Failure to adapt to changes in the healthcare system and healthcare delivery stemming from the 2010 federal healthcare reform legislation.
(z) Results and consequences of governmental inquiries.
(aa) Trends in utilization of the healthcare system.
(bb) Difficulty in implementing, or lack of success with, our new strategic plan.
(cc) Inability to adapt to diverse and dynamic non-U.S. markets.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC comments that require disclosure.

Item 2. Properties

Our executive offices are located in Madison, New Jersey. We maintain clinical testing laboratories throughout the continental United States; in several instances a joint venture of which we are a partner maintains the laboratory. We also maintain offices, data centers, billing centers, call centers, an assembly center, distribution centers, patient service centers and a clinical trials testing laboratory at locations throughout the United States. In addition, we maintain offices, manufacturing facilities, patient service centers and clinical laboratories in locations outside the United States, including in Sweden, Puerto Rico, Mexico, the United Kingdom, India, Ireland and Australia. Our properties that are not owned are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. We believe that, in general, our facilities are suitable and adequate for our current and anticipated future levels of operation and are adequately maintained. We believe that if we were unable to renew a lease on any of our facilities, we could find alternative space at competitive market rates and relocate our operations to such new location without material disruption to our business. Several of our principal facilities are highlighted below.

Location	Leased or Owned
Sacramento, California (laboratory)	Leased
West Hills, California (laboratory)	Leased
San Juan Capistrano, California (laboratory)	Owned
Tampa, Florida (laboratory)	Owned
Atlanta, Georgia (laboratory)	Owned
Chicago, Illinois (2) (laboratories)	One owned, one leased
Baltimore, Maryland (laboratory)	Owned
Teterboro, New Jersey (laboratory)	Owned
Philadelphia, Pennsylvania (laboratory)	Leased
Norristown, Pennsylvania (offices)	Leased
Dallas, Texas (laboratory)	Leased
Chantilly, Virginia (laboratory)	Leased

Item 3. Legal Proceedings

See Note 17 to the Consolidated Financial Statements (Part II, Item 8 of this Report) for information regarding legal proceedings in which we are involved.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the New York Stock Exchange under the symbol “DGX.” As of February 1, 2013, we had approximately 4,000 record holders of our common stock; we believe that the number of beneficial holders of our common stock exceeds the number of record holders. The following table sets forth, for the periods indicated, the high and low sales price per share as reported on the New York Stock Exchange Consolidated Tape and dividend information.

	Common Stock Market Price		Dividends Declared
	High	Low	
2011			
First Quarter	$59.11	$52.65	$0.10
Second Quarter	61.21	55.27	0.10
Third Quarter	60.80	45.77	0.10
Fourth Quarter	59.44	45.13	0.17
2012			
First Quarter	$61.49	$55.37	$0.17
Second Quarter	62.32	53.25	0.17
Third Quarter	63.98	56.84	0.17
Fourth Quarter	64.87	55.98	0.30

The common stock dividend paid in the fourth quarter of 2012 was $0.17 per common share. In November 2012, the Company declared a common stock dividend of $0.30 per common share, payable in January 2013.

We expect to fund future dividend payments with cash flows from operations, and do not expect the dividend to have a material impact on our ability to finance future growth. We currently expect that comparable cash dividends will continue to be paid in the future and we believe that the dividend can grow over time.

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The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the fourth quarter of 2012.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
October 1, 2012 – October 31, 2012				
Share Repurchase Program (A)	—	$—	—	$915,061
Employee Transactions (B)	2,495	$62.74	N/A	N/A
November 1, 2012 – November 30, 2012				
Share Repurchase Program (A)	868,844	$57.55	868,844	$865,061
Employee Transactions (B)	357	$58.20	N/A	N/A
December 1, 2012 – December 31, 2012				
Share Repurchase Program (A)	—	$—	—	$865,061
Employee Transactions (B)	5,097	$59.22	N/A	N/A
Total				
Share Repurchase Program (A)	868,844	$57.55	868,844	$865,061
Employee Transactions (B)	7,949	$60.28	N/A	N/A

(A) Since the share repurchase program's inception in May 2003, our Board of Directors has authorized $5.5 billion of share repurchases of our common stock through December 31, 2012. The share repurchase authority has no set expiration or termination date.

(B) Includes: (1) shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by holders of stock options (granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Director Long-Term Incentive Plan, collectively the “Stock Compensation Plans”) who exercised options; (2) restricted common shares withheld (under the terms of grants under the Stock Compensation Plans) to offset tax withholding obligations that occur upon vesting and release of the restricted common shares; and (3) shares withheld (under the terms of grants under the Stock Compensation Plans) to offset tax withholding obligations that occur upon the delivery of outstanding common shares underlying restricted stock units and performance share units.

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Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on Quest Diagnostics' common stock since December 31, 2007, based on the market price of the Company's common stock and assuming reinvestment of dividends, with the cumulative total shareholder return of companies on the Standard & Poor's 500 Stock Index and the S&P 500 Healthcare Equipment & Services Index.

	Closing	Total Shareholder Return			Performance Graph Values		
Date	DGX Price	DGX	S&P 500	S&P 500 H.C.	DGX	S&P 500	S&P 500 H.C.
12/31/2008	$51.91	(1.08)%	(37.00)%	(37.27)%	$98.92	$63.00	$62.73
12/31/2009	$60.38	17.22 %	26.46 %	32.65 %	$115.95	$79.67	$83.21
12/31/2010	$53.97	(9.93)%	15.06 %	4.31 %	$104.44	$91.68	$86.80
12/30/2011	$58.06	8.33 %	2.11 %	7.21 %	$113.14	$93.61	$93.06
12/31/2012	$58.27	1.49 %	16.00 %	15.02 %	$114.83	$108.59	$107.04

Item 6. Selected Financial Data

See page 42.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See page 46.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

See Item 15(a)1 and Item 15(a)2.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

See page 70.

Changes in Internal Control

During the fourth quarter of 2012, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Code of Business Ethics applies to all employees, executive officers and directors, including our Chief Executive Officer, Chief Financial Officer and Corporate Controller. You can find our Code of Business Ethics on our corporate governance website, www.QuestDiagnostics.com/governance. We will post any amendments to the Code of Business Ethics, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, on our website.

Information regarding the Company's executive officers is contained in Part I, Item 1 of this Report under “Executive Officers of the Company.” Information regarding the directors and executive officers of the Company appearing in our Proxy Statement to be filed by April 30, 2013 (“Proxy Statement”) under the captions “Proposal No. 1 - Election of Directors,” “Information about our Corporate Governance - Director Independence,” “Information about our Corporate Governance - Board Committees,” and “Information about our Corporate Governance - Audit and Finance Committee” is incorporated by reference herein.

Item 11. Executive Compensation

Information appearing in our Proxy Statement under the captions “2012 Director Compensation Table,” “Compensation Discussion and Analysis,” “Additional Information Regarding Executive Compensation” and “Report of the Compensation Committee” is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders' Matters

Information regarding security ownership of certain beneficial owners and management appearing in our Proxy Statement under the captions “Stock Ownership Information” is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions appearing in our Proxy Statement under the captions “Information about our Corporate Governance - Related Person Transactions” and “Information about our Corporate Governance - Director Independence” is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services

Information regarding principal accountant fees and services appearing in our Proxy Statement under the caption “Proposal No. 2 - Ratification of Appointment of the Company's Independent Registered Public Accounting Firm” (excluding the information under the subheading “Report of the Audit and Finance Committee”) is incorporated by reference herein.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this Report.

1. Index to financial statements and supplementary data filed as part of this Report.

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2. Financial Statement Schedule.

3. Exhibits

An exhibit index has been filed as part of this Report beginning on page E-1 and is incorporated herein by reference.

(b) Exhibits filed as part of this Report.

An exhibit index has been filed as part of this Report beginning on page E-1 and is incorporated herein by reference.

(c) None.

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Signatures

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2013.

QUEST DIAGNOSTICS INCORPORATED
(Registrant)

By: /s/ Stephen H. Rusckowski
Stephen H. Rusckowski
President and Chief Executive Officer

Each individual whose signature appears below constitutes and appoints Michael E. Prevoznik and William J. O'Shaughnessy, Jr., and each of them singly, his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all the said attorneys-in-fact and agents or any of them or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 27, 2013.

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Signature	Capacity
/s/ Stephen H. Rusckowski Stephen H. Rusckowski	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/Robert A. Hagemann Robert A. Hagemann	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/Thomas F. Bongiorno Thomas F. Bongiorno	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/John C. Baldwin, M.D. John C. Baldwin, M.D.	Director
/s/Jenne K. Britell, Ph.D. Jenne K. Britell, Ph.D.	Director
/s/William F. Buehler William F. Buehler	Director
/s/Gary M. Pfeiffer Gary M. Pfeiffer	Director
/s/Timothy M. Ring Timothy M. Ring	Director
/s/Daniel C. Stanzione, Ph.D. Daniel C. Stanzione, Ph.D.	Chairman of the Board
/s/Gail R. Wilensky, Ph.D. Gail R. Wilensky, Ph.D.	Director
/s/John B. Ziegler John B. Ziegler	Director

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SELECTED HISTORICAL FINANCIAL DATA OF OUR COMPANY

The following table summarizes selected historical financial data of our Company and our subsidiaries at the dates and for each of the periods presented. We derived the selected historical financial data for the years 2008 through 2012 from the audited consolidated financial statements of our Company. During the fourth quarter of 2012, we sold our OralDNA salivary diagnostics business, and committed to a plan to sell our HemoCue diagnostic products business. In February 2013, we entered into an agreement to sell HemoCue. During the third quarter of 2006, we completed the wind down of NID, a test kit manufacturing subsidiary. As a result, the operations for HemoCue, OralDNA and NID have been classified as discontinued operations. At December 31, 2012, the assets and liabilities of HemoCue have been reported as held for sale in the accompanying consolidated balance sheets included in this Annual Report on Form 10-K. The selected historical financial data presented below has been recast to report the results of HemoCue and OralDNA as discontinued operations for all periods presented. The selected historical financial data is only a summary and should be read together with the audited consolidated financial statements and related notes of our Company and management's discussion and analysis of financial condition and results of operations included elsewhere in this Annual Report on Form 10-K.

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	Year Ended December 31,									
	2012		2011		2010		2009		2008	
	(in thousands, except per share data)									
Operations Data:			(a)							
Net revenues	$7,382,562		$7,391,932		$7,260,120		$7,359,875		$7,153,598	
Operating income	1,200,797	(b)(c)	986,641	(d)(e)	1,283,583	(f)(g)	1,344,253	(h)	1,210,323	(i)
Income from continuing operations	666,498		494,092	(j)	744,857	(k)	748,169	(l)	645,379	(m)
Income (loss) from discontinued operations, net of taxes	(74,364)	(n)	11,558		12,160		18,053		(32,184)	(o)
Net income	592,134		505,650		757,017		766,222		613,195	
Less: Net income attributable to noncontrolling interests	36,413		35,083		36,123		37,111		31,705	
Net income attributable to Quest Diagnostics	555,721		470,567		720,894		729,111		581,490	
Amounts attributable to Quest Diagnostics' stockholders:										
Income from continuing operations	630,085		459,009		708,734		711,058		613,674	
Income (loss) from discontinued operations, net of taxes	(74,364)		11,558		12,160		18,053		(32,184)	
Net income	555,721		470,567		720,894		729,111		581,490	
Earnings per share attributable to Quest Diagnostics' common stockholders - basic:										
Income from continuing operations	$3.96		$2.88		$4.01		$3.81		$3.15	
Income (loss) from discontinued operations	(0.47)		0.07		0.07		0.10		(0.16)	
Net income	$3.49		$2.95		$4.08		$3.91		$2.99	
Earnings per share attributable to Quest Diagnostics' common stockholders - diluted:										
Income from continuing operations	$3.92		$2.85		$3.98		$3.77		$3.13	
Income (loss) from discontinued operations	(0.46)		0.07		0.07		0.10		(0.17)	
Net income	$3.46		$2.92		$4.05		$3.87		$2.96	
	$0.81		$0.47		$0.40		$0.40		$0.40	

Dividends per common
share

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	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Balance Sheet Data (at end of year):		(a)			
Cash and cash equivalents	$295,586	$164,886	$449,301	$534,256	$253,946
Accounts receivable, net	867,010	906,455	845,299	827,343	832,873
Goodwill	5,535,848	5,795,765	5,101,938	5,083,944	5,054,926
Total assets	9,283,863	9,313,379	8,527,630	8,563,643	8,403,830
Long-term debt	3,354,173	3,370,522	2,641,160	2,936,792	3,078,089
Total debt	3,363,577	4,024,917	2,990,156	3,107,299	3,083,231
Total Quest Diagnostics stockholders' equity	4,163,047	3,692,872	4,033,480	3,989,639	3,604,896
Noncontrolling interests	22,682	22,127	20,645	21,825	20,238
Total stockholders' equity	4,185,729	3,714,999	4,054,125	4,011,464	3,625,134
Other Data:					
Net cash provided by operating activities	$1,187,168 (p)	$895,474 (q)	$1,118,047 (r)	$997,418 (s)	$1,063,049
Net cash used in investing activities	(217,139)	(1,243,435)	(216,510)	(195,904)	(198,883)
Net cash (used in) provided by financing activities	(822,095)	63,546	(986,492)	(521,204)	(777,814)
Provision for doubtful accounts	268,592	279,461	291,444	320,678	326,074
Rent expense	211,340	217,514	194,593	188,000	190,012
Capital expenditures	182,234	161,556	205,400	166,928	212,681
Depreciation and amortization	278,290	272,235	246,303	248,876	256,610

(a) On April 4, 2011, we completed the acquisition of Athena Diagnostics ("Athena"). On May 17, 2011, we completed the acquisition of Celera Corporation ("Celera"). Consolidated operating results for 2011 include the results of operations of Athena and Celera subsequent to the closing of the applicable acquisition. See Note 5 to the Consolidated Financial Statements.

(b) Operating income includes $106 million of pre-tax charges incurred in conjunction with further restructuring and integrating our business. Results for 2012 also include pre-tax charges of $10.1 million, principally representing severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO.

(c) In addition, we estimate that the impact of severe weather during the fourth quarter of 2012 adversely affected operating income for 2012 by approximately $16 million.

(d) Operating income includes a pre-tax charge to earnings in the first quarter of 2011 of $236 million which represented the cost to resolve a previously disclosed civil lawsuit brought by a California competitor in which the State of California intervened (the "California Lawsuit") (see Note 17 to the Consolidated Financial Statements).

Also includes $52 million of pre-tax charges incurred in conjunction with further restructuring and integrating our business, consisting of $42 million of pre-tax charges principally associated with workforce reductions, with the remainder principally professional fees. Results for 2011 also include $16.9 million of pre-tax transaction costs, primarily related to professional fees, associated with the acquisitions of Athena and Celera (see Note 5 to the Consolidated Financial Statements). In addition, operating income includes pre-tax charges of $5.6 million, principally representing severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO.

(e) In addition, we estimate that the impact of severe weather during the first quarter of 2011 adversely affected operating income for 2011 by $18.5 million.

(f) Operating income includes $26.8 million of costs principally associated with workforce reductions and $9.6 million of costs associated with the settlement of employment litigation.

(g) In addition, we estimate that the impact of severe weather during the first quarter of 2010 adversely affected operating income for 2010 by $14.1 million.

(h) Operating income includes a $15.5 million gain associated with an insurance settlement for storm-related losses.

(i) Operating income includes $16.2 million of costs, primarily associated with workforce reductions.

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(j) Includes $3.1 million of pre-tax financing related transaction costs associated with the acquisition of Celera, a $3.2 million pre-tax gain associated with the sale of an investment, and $18.2 million of discrete income tax benefits, primarily associated with certain state tax planning initiatives and the favorable resolution of certain tax contingencies.

(k) Includes discrete income tax benefits of $22.1 million, primarily associated with favorable resolutions of certain tax contingencies.

(l) Includes $20.4 million of pre-tax charges related to the early extinguishment of debt, primarily related to the June 2009 and November 2009 Debt Tender Offers and a $7.0 million pre-tax charge related to the write-off of an investment. Also includes $7.0 million of income tax benefits, primarily associated with certain discrete tax benefits.

(m) Includes an $8.9 million pre-tax charge associated with the write-down of an equity investment. Also includes discrete income tax benefits of $16.5 million, primarily associated with the favorable resolution of certain tax contingencies.

(n) Includes related charges in discontinued operations for the asset impairment associated with HemoCue and the loss on sale associated with OralDNA totaling $86 million. Discontinued operations also includes a $7.5 million income tax expense related to the re-valuation of deferred tax assets associated with HemoCue and a $4.4 million income tax benefit related to the remeasurement of deferred taxes associated with HemoCue as a result of an enacted income tax rate change in Sweden. In February 2013, we entered into an agreement to sell HemoCue (see Note 18 to the Consolidated Financial Statements for further details).

(o) Includes pre-tax charges of $75 million related to the government investigation of NID. See Note 18 to the Consolidated Financial Statements.

(p) Includes receipts of $71.8 million from the termination of certain interest rate swap agreements.

(q) Includes payments associated with the settlement of the California Lawsuit, restructuring and integration costs, and transaction costs associated with the acquisitions of Athena and Celera totaling $320 million, or $202 million net of an associated reduction in estimated tax payments.

(r) Includes payments associated with restructuring and integration costs totaling $14.2 million, or $8.6 million net of an associated reduction in estimated tax payments.

(s) Includes payments primarily made in the second quarter of 2009 totaling $314 million in connection with the NID settlement (see Note 18 to the Consolidated Financial Statements), or $208 million net of an associated reduction in estimated tax payments.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our Company

Quest Diagnostics is the world's leading provider of Diagnostic Information Services ("DIS") providing insights that empower and enable patients, physicians, hospitals, integrated delivery networks, health plans, employers and others to make better healthcare decisions. Over 90% of our revenues are derived from DIS with the balance derived from risk assessment services, clinical trials testing, diagnostic products and healthcare information technology. We offer the broadest access in the United States to DIS through our nationwide network of laboratories and Company-owned patient service centers and we are the leading provider of DIS, including routine testing, esoteric or gene-based testing and anatomic pathology testing. We provide interpretive consultation through the largest medical and scientific staff in the industry, with hundreds of M.D.s and Ph.D.s, primarily located in the United States, many of whom are recognized leaders in their fields.

Through our Diagnostic Solutions ("DS") businesses, we offer a variety of solutions for life insurers and healthcare providers. We are the leading provider of risk assessment services for the life insurance industry. In addition, we are a leading provider of testing for clinical trials. Our diagnostics products business manufactures and markets diagnostic products. In addition, we offer healthcare organizations and clinicians robust information technology solutions.

Recent Developments

Our New Quest

In 2012, we announced a refresh of our vision, goals and culture that we believe will be the catalyst to improving performance through restoring growth, driving operational excellence and refocusing on our core DIS business. We introduced a five-point strategy designed to: (1) Refocus on diagnostic information services; (2) Drive operational excellence; (3) Restore growth; (4) Simplify the organization to enable growth and productivity; and (5) Deliver disciplined capital deployment and strategically aligned accretive acquisitions.

During the fourth quarter of 2012, we launched a major management restructuring aimed at driving operational excellence and restoring growth. The key element of this organizational change is to eliminate the complexity associated with our prior structure, including reducing management layers, so that we can better focus on our customers and speed decision-making. Our new organization is designed to align around future growth opportunities, improve execution and leverage our company-wide infrastructure to maximize value and efficiency. The majority of the organizational changes began on January 1, 2013.

Divestiture of Businesses

During 2012, we conducted a thorough review of our portfolio and evaluated all assets of our Company to ensure a strong strategic fit. As a result of this review, we are refocusing on our core DIS business. During the fourth quarter of 2012, we committed to a plan to sell our diagnostic point-of-care testing business ("HemoCue"). In February 2013, we entered into an agreement to sell HemoCue for approximately $300 million plus estimated cash on hand at closing and other customary working capital adjustments. We plan to use the proceeds related to the HemoCue sale to repurchase approximately $300 million of our shares as part of our stock buyback program. As of December 31, 2012, the applicable assets and liabilities of HemoCue have been classified as held for sale in the accompanying consolidated

balance sheets and depreciation and amortization of the applicable assets ceased as of such date. HemoCue is reported as discontinued operations in our consolidated statements of operations as no significant involvement or continuing cash flows are expected from, or to be provided to HemoCue following the consummation of the sale transaction. In addition to HemoCue, we completed the sale of our salivary-diagnostics business ("OralDNA") in December 2012, which was also included in discontinued operations. For all periods presented, our consolidated statements of operations have been recast to reflect the presentation of discontinued operations. See Note 18 to the Consolidated Financial Statements for additional information.

HemoCue had revenues of $114 million for the year ended December 31, 2012, $116 million for the year ended December 31, 2011 and $107 million for the year ended December 31, 2010. Revenues from OralDNA were not material.

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Dividends

In connection with our strategy of delivering disciplined capital deployment, we announced that our Board of Directors increased our quarterly dividend to $0.30 per common share from $0.17 per common share, commencing with the dividend payable on January 28, 2013 to holders of record of our common stock on January 11, 2013. This 76% increase raises the annual dividend rate to $1.20 per common share from $0.68 per common share and represents a three-fold increase from the annual rate in effect in 2011.

Initiatives to Improve Operating Efficiency and Restore Growth

The diagnostic testing industry is labor intensive. Employee compensation and benefits constitute approximately one-half of our total costs and expenses. Cost of services consists principally of costs for obtaining, transporting and testing specimens. Selling, general and administrative expenses consist principally of the costs associated with our sales and marketing efforts, billing operations, bad debt expense and general management and administrative support. In addition, performing diagnostic testing involves significant fixed costs for facilities and other infrastructure required to obtain, transport and test specimens. Therefore, relatively small changes in volume can have a significant impact on profitability in the short-term.

We are engaged in a multi-year program called Invigorate which is designed to deliver $600 million in run-rate cost savings versus 2011 by the time we exit 2014. We are continuing to seek additional opportunities to increase the savings from Invigorate, to as much as $1 billion over time, and where practical to accelerate the savings. The Invigorate program is intended to address continued reimbursement pressures and labor and benefit cost increases, free up additional resources to invest in science, innovation and other growth initiatives, and enable us to improve operating profitability and quality. We anticipate approximately 35% of the savings to come from laboratory operations and specimen acquisition by driving process standardization across all laboratory operations and by creating a new logistics operating platform; approximately 25% of the savings to come from procurement and supply chain by further automating and standardizing technology platforms with suppliers and by building global sourcing capabilities; approximately 25% of the savings from selling, general and administrative expenses, including information technology, by reducing management layers and increasing spans of control, centralizing and selective outsourcing of certain activities, and migrating to standard information technology systems and data bases; and approximately 15% of the savings from client support/billing by increasing the utilization of electronic billing, creating one standard billing system and partnering with payers to improve efficiency.

In connection with our Invigorate program, we launched a voluntary retirement program to certain eligible employees that qualified for the program. We estimate that this program, which is expected to be fully implemented in the first quarter of 2013 will contribute approximately $40 million of annualized savings. Of the total estimated pre-tax charges for employee separation costs noted below, we expect to incur approximately $50 million in connection with the voluntary retirement program, approximately $44 million of which has been incurred through December 31, 2012.

In October 2012, as part of Invigorate, we launched a major management restructuring aimed at driving operational excellence and restoring growth. In connection with these changes, we expect to eliminate three management layers, and approximately 400 to 600 management positions, by the end of 2013, contributing about $65 million of the $600 million in expected savings associated with our Invigorate program.

As a result of actions we have taken to accelerate our Invigorate program, we achieved approximately $200 million in annual run-rate cost savings, or about one-third of our $600 million goal, as we exited 2012. The remainder of the annual run-rate savings are expected to be achieved in 2013 and 2014.

In connection with our increased run-rate cost savings goal of $600 million, we have updated our high-level estimates of the pre-tax charges expected to be incurred through 2014 in connection with our Invigorate program. The total estimated pre-tax charges have been updated to $170 million to $250 million and now consists of $90 million to $135 million of employee separation costs; $30 million to $45 million of facility-related costs; $10 million to $20 million of asset impairment charges; and $40 million to $50 million of systems conversion and integration costs. Of the total estimated pre-tax charges expected to be incurred, we estimate that $160 million to $230 million are anticipated to result in cash expenditures. The actual charges incurred in connection with the multi-year course of action could be materially different from these estimates. As detailed plans to implement the multi-year course of action are approved and executed, it will result in charges to earnings.

For additional information on the Invigorate program and associated costs, see Note 4 to the Consolidated Financial Statements.

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The Company believes it has not grown at the level of the overall market, and as such has lost share. To accelerate growth, the Company recently launched a multi-year initiative called Project Restore. Project Restore is designed to complement the Invigorate program and will focus on identifying and implementing opportunities to drive profitable revenue growth across the organization.

Diagnostic Information Services

Clinical testing is an essential element in the delivery of healthcare services. Physicians use clinical testing to assist in detection, diagnosis, evaluation, monitoring and treatment of diseases and other medical conditions. Clinical testing is generally categorized as clinical laboratory testing and anatomic pathology testing.

Most laboratory tests are performed by one of three types of laboratories: commercial clinical laboratories; hospital-affiliated laboratories; or physician-office laboratories. In 2012, we estimate that hospital-affiliated laboratories accounted for approximately 60% of testing performed outside the four walls of hospitals, commercial clinical laboratories approximately one-third and physician-office laboratories the balance.

Orders for laboratory testing are generated from physician offices, hospitals and employers and can be affected by a number of factors. For example, changes in the United States economy can affect the number of unemployed and uninsured, and design changes in healthcare plans can affect the number of physician office and hospital visits, and can impact the utilization of laboratory testing.

The diagnostic testing industry is subject to seasonal fluctuations in operating results and cash flows. Typically, testing volume declines during the summer months, year-end holiday periods and other major holidays, reducing net revenues and operating cash flows below annual averages. Testing volume is also subject to declines due to severe weather or other events, which can deter patients from having testing performed and which can vary in duration and severity from year to year.

Key Trends

There are a number of key trends that we expect will have a significant impact on the DIS business in the United States and on our business. In addition to the economic slow down in the United States which we believe has temporarily reduced industry growth rates, these trends present both opportunities and risks. However, because clinical testing is an essential healthcare service and because of certain of the key trends discussed below, we believe that the DIS industry will continue to grow over the long term and that we are well positioned to benefit from the long-term growth expected in the industry. The key trends that we expect will have a significant impact on the DIS business include:

- the growing and aging population;
- continuing research and development in the areas of genomics (the study of DNA, genes and chromosomes) and proteomics (the analysis of individual proteins and collections of proteins), which is expected to yield new, more sophisticated and specialized diagnostic tests;
- increasing recognition by consumers and payers of the value of laboratory testing as a means to improve health and reduce the overall cost of healthcare through early detection and prevention;
- increasing affordability of, and access to, tests due to advances in technology and cost efficiencies;
- increasing focus to control the cost, utilization and delivery of healthcare services, including clinical testing, in a highly competitive industry;
- increasing attention and government oversight of the healthcare industry;
- the growing demand for healthcare services in emerging markets and global demographic changes;
-

- increased strategic partnership opportunities with hospitals as they look to reduce costs and offset payer pressures by outsourcing their existing laboratory testing; and
- the increased demand for our services as a result of health insurance coverage to uninsured Americans under the Patient Protection and Affordable Care Act.

Healthcare Reform

In March 2010, U.S. federal legislation was enacted which is likely to have a significant impact on, among other things, access to and the cost of healthcare in the United States. The legislation provides for extensive health insurance reforms and expands coverage for approximately 32 million previously uninsured Americans, which will result in expanded access to healthcare. In addition, the legislation eliminates patient cost-sharing for certain prevention and wellness benefits for health insurance plans that are not “grandfathered.” We believe these changes will benefit our industry by leading to increased utilization of our services.

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The legislation also includes provisions aimed at reducing the overall cost of healthcare. Impacting laboratories specifically, the legislation provides for annual reductions in the Medicare clinical laboratory fee schedule of 1.75% for five years which began in 2011 and includes a productivity adjustment which reduces the CPI market basket update. The legislation also imposes an excise tax on the seller for the sale of certain medical devices in the United States, including those purchased and used by laboratories, beginning in 2013.

In addition, the legislation is focused on reducing the growth of healthcare costs. The legislation establishes the Independent Payment Advisory Board, which will be responsible, beginning in 2014, annually to submit proposals aimed at reducing Medicare cost growth while preserving quality. These proposals automatically will be implemented unless Congress enacts alternative proposals that achieve the same savings targets. Further, the legislation calls for a Center for Medicare and Medicaid Innovation that will examine alternative payment methodologies and conduct demonstration programs.

The legislation may result in a higher demand for our services as a result of increased access to health insurance coverage for previously uninsured and underinsured individuals. Because of the many variables involved, we are unable to predict with certainty the effect of the legislation on our business. However, we believe that we are well positioned to respond to the evolving healthcare environment and related market forces.

Reimbursement for Services

Payments for diagnostic testing services are made by physicians, hospitals, employers, healthcare insurers, patients and governmental authorities. Physicians, hospitals and employers are typically billed on a fee-for-service basis based on negotiated fee schedules. Fees billed to healthcare insurers and patients are based on the laboratory's patient fee schedule, subject to any limitations on fees negotiated with the healthcare insurers or with physicians on behalf of their patients. Medicare and Medicaid reimbursements are based on fee schedules set by governmental authorities. Government payers, such as Medicare and Medicaid, as well as healthcare insurers and larger employers, have taken steps and may continue to take steps to control the cost, utilization and delivery of healthcare services, including diagnostic testing services.

Part B of the Medicare program contains fee schedule payment methodologies for diagnostic testing services, and for pathology and other physician services, performed for covered patients, including a national ceiling on the amount that carriers could pay under their local Medicare clinical testing fee schedules. The Medicare Clinical Laboratory Fee Schedule for 2013 is decreased by 2.95% (excluding sequestration) from 2012 levels. In December 2012, Congress delayed by one year a potential decrease of approximately 26% in the physician fee schedule that otherwise would have become effective January 1, 2013, but implemented relative value unit changes significantly impacting physician fee schedule reimbursement for tissue biopsies that are expected to reduce reimbursement for tissue biopsy services. Also, an additional 2% reduction in the Medicare Clinical Laboratory Fee Schedule for 2013, associated with sequestration, was delayed until April 1, 2013. In 2012, approximately 13% of our consolidated revenues were reimbursed by Medicare under the Clinical Laboratory Fee Schedule.

Healthcare insurers, which typically negotiate directly or indirectly on behalf of their members, represent approximately one-half of our DIS volumes and one-half of our net revenues from our DIS business. Larger healthcare insurers typically contract with large commercial clinical laboratories because they can provide services to their members on a national or regional basis. In addition, larger commercial clinical laboratories are better able to achieve the low-cost structures necessary to profitably service the members of large healthcare insurers and can provide test utilization data across various products in a consistent format. In certain markets, such as California, healthcare insurers may delegate their covered members to independent physician associations, which in turn negotiate with laboratories for diagnostic testing services on behalf of their members.

The trend of consolidation among physicians, hospitals, employers, healthcare insurers and other intermediaries has continued, resulting in fewer but larger customers and payers with significant bargaining power to negotiate fee arrangements with healthcare providers, including clinical laboratories. Healthcare insurers sometimes require that diagnostic testing service providers accept discounted fee structures or assume all or a portion of the utilization risk associated with providing testing services to their members enrolled in highly-restricted plans through capitated payment arrangements. Under these capitated payment arrangements, we and the healthcare insurers agree to a predetermined monthly reimbursement rate for each member enrolled in a restricted plan, generally regardless of the number or cost of services provided by us. In 2012, we derived approximately 12% of our testing volume and 4% of our DIS net revenues from capitated payment arrangements.

Most healthcare insurers also offer programs such as preferred provider organizations (“PPOs”) and consumer driven health plans that offer a greater choice of healthcare providers. Most of our agreements with major healthcare insurers are non-exclusive arrangements. As a result, under these non-exclusive arrangements, physicians and patients have more freedom of

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choice in selecting clinical testing service providers, and clinical testing service providers are likely to compete more on the basis of service and quality than they may otherwise. It is increasingly important for healthcare providers to differentiate themselves based on quality, service, convenience and unique test offerings to avoid competing on price alone.

Despite the general trend of increased choice for patients in selecting a healthcare provider, some healthcare insurers may actively seek to limit the choice of patients and physicians if they feel it will give them increased leverage to negotiate lower fees, by consolidating services with a single or limited network of contracted providers.

We also may be a member of a "complementary network." A complementary network is generally a set of contractual arrangements that a third party will maintain with various providers which provide discounted fees for the benefit of its customers. A member of a health plan may choose to access a non-contracted provider that is a member of a complementary network; if so, the provider will be reimbursed at a rate negotiated by the complementary network.

We expect that reimbursements for the diagnostic testing industry will continue to remain under pressure. Today, the federal and many state governments face serious budget deficits and healthcare spending is subject to reductions, and efforts to reduce reimbursements and stringent cost controls by government and other payers for existing tests may continue. However, we believe that as new tests are developed which either improve on the effectiveness of existing tests or provide new diagnostic capabilities, the government and other payers will add these tests as covered services, because of the importance of laboratory testing in assessing and managing the health of patients. We continue to emphasize the importance and the high value of laboratory testing with healthcare insurers and government payers at the federal and state level.

Shareholder Focus

As part of our five-point strategy we intend to deliver disciplined capital deployment and strategically aligned accretive acquisitions. We are focused on increasing shareholder returns and returns on invested capital ("ROIC") through a framework that encompasses improving operating performance and disciplined capital deployment. To improve our operating performance, we are taking steps to accelerate organic revenue growth and to reduce our operating costs. As noted above, we have launched a program to deliver $600 million in run-rate cost savings versus 2011 by the time we exit 2014.

Our disciplined capital deployment framework includes dividends, share repurchases and investment in our business and is intended to improve ROIC. The framework is grounded in maintaining an investment grade credit rating. In 2012, we used the majority of our free cash flow to reduce our outstanding debt and achieve a debt/EBITDA ratio in the range of 2 - 2¼ times. Upon achieving our targeted leverage ratio, we now expect to return to investors through a combination of dividends and share repurchases a majority of our free cash flow. Consistent with that expectation, we increased our quarterly common stock dividend by 70%, from $0.10 per common share to $0.17 per common share, in January 2012. In November 2012, we announced that our Board of Directors increased our quarterly dividend by 76% to $0.30 per common share from $0.17 per common share, commencing with the dividend payable on January 28, 2013. This 76% increase raises the annual dividend rate to $1.20 per common share from $0.68 per common share and represents a three-fold increase from the annual rate in effect in 2011. We expect that the dividend will grow over time commensurate with earnings and cash flows.

We will continue to invest in our business in a disciplined manner. We believe that we have established a solid foundation of strategic assets and capabilities, and that it is unlikely that we will complete any large strategic acquisitions in the near term. Our near-term investments in growth are likely to focus on value-creating fold-in acquisitions using disciplined investment criteria, investments in science and innovation in the form of licensing, collaborations and internal development to grow esoteric testing, and tools to support commercial excellence. We will

screen potential acquisitions using guidelines that assess strategic fit and financial considerations, including value creation, ROIC and impact on our earnings. We also expect to make investments to improve operational excellence as part of our Invigorate initiatives, including, for example, systems standardization and automation, and footprint optimization.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions and select accounting policies that affect our reported financial results and the disclosure of contingent assets and liabilities.

While many operational aspects of our business are subject to complex federal, state and local regulations, the accounting for most of our business is generally straightforward with net revenues primarily recognized upon completion of the testing process. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about one-half

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of our total costs and expenses consist of employee compensation and benefits. Due to the nature of our business, several of our accounting policies involve significant estimates and judgments:

- revenues and accounts receivable associated with DIS;
- reserves for general and professional liability claims;
- reserves for other legal proceedings;
- accounting for and recoverability of goodwill; and
- accounting for stock-based compensation expense.

Revenues and accounts receivable associated with diagnostic information services

The process for estimating the ultimate collection of receivables associated with our DIS business involves significant assumptions and judgments. Billings for services reimbursed by third-party payers, including Medicare and Medicaid, are generally recorded as revenues net of allowances for differences between amounts billed and the estimated receipts from such payers. Adjustments to the allowances, based on actual receipts from the third-party payers, are recorded upon settlement as an adjustment to net revenues.

We have a standardized approach to estimate and review the collectibility of our 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 revenues and allowances for doubtful accounts. In addition, we regularly assess the state of our billing operations in order to identify issues, which may impact the collectibility of receivables or allowance estimates. We believe that the collectibility of our receivables is directly linked to the quality of our billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services we provide. As such, we have implemented “best practices” to reduce the number of requisitions that we receive from healthcare providers with missing or incorrect billing information. Revisions to the allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense within selling, general and administrative expenses. We believe that our collection and allowance estimation processes, along with our close monitoring of our billing operations, help to reduce the risk associated with material revisions to reserve estimates. Less than 5% of our net accounts receivable as of December 31, 2012 were outstanding more than 150 days.

The following table shows current estimates of the percentage of our total volume of requisitions and net revenues associated with our DIS business during 2012 applicable to each payer group:

	% of Volume	% of DIS Revenues
Healthcare Insurers	45% - 50%	45% - 50%
Government Payers	15% - 20%	15% - 20%
Client Payers	31% - 36%	22% - 27%
Patients	2% - 5%	4% - 10%

Healthcare insurers

Reimbursements from healthcare insurers represent approximately one-half of our DIS net revenues. Reimbursements from healthcare insurers are based on negotiated fee-for-service schedules and on capitated payment rates.

Receivables due from healthcare insurers represent approximately 24% of our DIS net accounts receivable. Substantially all of the accounts receivable due from healthcare insurers represent amounts billed under negotiated fee-for-service arrangements. We utilize a standard approach to establish allowances for doubtful accounts for such

receivables, which considers the aging of the receivables and results in increased allowance requirements as the aging of the related receivables increases. Our approach also considers historical collection experience and other factors. Collection of such receivables is normally a function of providing complete and correct billing information to the healthcare insurers within the various filing deadlines. For healthcare insurers, collection typically occurs within 30 to 60 days of billing. Provided we have billed healthcare plans accurately with complete information prior to the established filing deadline, there has historically been little to no collection risk. If there has been a delay in billing, we determine if the amounts in question will likely go past the filing deadline, and if so, we will reserve accordingly for the billing.

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Approximately 4% of our DIS net revenues are reimbursed under capitated payment arrangements, in which case the healthcare insurers typically reimburse us in the same month services are performed, essentially giving rise to no outstanding accounts receivable at month-end. If any capitated payments are not received on a timely basis, we determine the cause and make a separate determination as to whether or not the collection of the amount from the healthcare insurer is at risk and if so, would reserve accordingly.

Government payers

Payments for diagnostic testing services made by the government are based on fee schedules set by governmental authorities. Receivables due from government payers under the Medicare and Medicaid programs represent approximately 16% of our DIS net accounts receivable. Collection of such receivables is normally a function of providing the complete and correct billing information within the various filing deadlines. Collection typically occurs within 30 days of billing. Our processes for billing, collecting and estimating uncollectible amounts for receivables due from government payers, as well as the risk of non-collection, are similar to those noted above for healthcare insurers under negotiated fee-for-service arrangements.

Client payers

Client payers include physicians, hospitals, employers and other commercial laboratories, and are billed based on a negotiated fee schedule. Receivables due from client payers represent approximately 39% of our DIS net accounts receivable. Credit risk and ability to pay are more of a consideration for these payers than healthcare insurers and government payers. We utilize a standard approach to establish allowances for doubtful accounts for such receivables, which considers the aging of the receivables and results in increased allowance requirements as the aging of the related receivables increase. Our approach also considers specific account reviews, historical collection experience and other factors.

Patients

Patients are billed based on established patient fee schedules, subject to any limitations on fees negotiated with healthcare insurers or physicians on behalf of their patients. Receivables due from patients represent approximately 21% of our DIS net accounts receivable. Collection of receivables due from patients is subject to credit risk and ability of the patients to pay. We utilize a standard approach to establish allowances for doubtful accounts for such receivables, which considers the aging of the receivables and results in increased allowance requirements as the aging of the related receivables increases. Our approach also considers historical collection experience and other factors. Patient receivables are generally fully reserved for when the related billing reaches 210 days outstanding. Balances are automatically written off when they are sent to collection agencies. Reserves are adjusted for estimated recoveries of amounts sent to collection agencies based on historical collection experience, which is regularly monitored.

Reserves for general and professional liability claims

As a general matter, providers of diagnostic 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 our client base and reputation. We maintain various liability insurance coverages for claims that could result from providing, or failing to provide, diagnostic testing services, including inaccurate testing results, and other exposures. Our insurance coverage limits our maximum exposure on individual claims; however, we are essentially self-insured for a significant portion of these claims. While the basis for claims reserves considers actuarially determined losses based upon our historical and projected loss experience, the process of analyzing, assessing and establishing reserve estimates relative to these types of claims involves a high degree of judgment. Changes in the facts and circumstances associated with claims could have a material impact on our results

of operations, principally costs of services, and cash flows in the period that reserve estimates are revised or paid. Although we believe that our present reserves and insurance coverage are sufficient to cover currently estimated exposures, it is possible that we may incur liabilities in excess of our recorded reserves or insurance coverage.

Reserves for other legal proceedings

Our businesses are subject to or impacted by extensive and frequently changing laws and regulations, including inspections and audits by governmental agencies, in the United States (at both the federal and state levels), and the other jurisdictions in which we conduct business. Although we believe that we are in compliance, in all material respects, with applicable laws and regulations, there can be no assurance that a regulatory agency would not reach a different conclusion. Any noncompliance by us with applicable laws and regulations could have a material adverse effect on our results of operations. In addition, these laws and regulations may be interpreted or applied by a prosecutorial, regulatory or judicial

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authority in a manner that could require us to make changes in our operations, including our pricing and/or billing practices. We have, 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 our 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. We are aware of certain pending lawsuits including class action lawsuits, and have received several subpoenas related to billing practices. See Note 17 to the Consolidated Financial Statements for a discussion of the various legal proceedings that involve the Company.

The process of analyzing, assessing and establishing reserve estimates relative to legal proceedings involves a high degree of judgment. Management has established reserves for legal proceedings in accordance with generally accepted accounting principles. Changes in facts and circumstances related to such proceedings could lead to significant revisions to reserve estimates for such matters and could have a material impact on our results of operations, cash flows and financial condition in the period that reserve estimates are revised or paid.

Accounting for and recoverability of goodwill

We evaluate the recoverability and measure the potential impairment of our goodwill annually, or more frequently, in the case of other events that indicate a potential impairment. The annual impairment test includes an option to perform a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value prior to performing the two-step quantitative goodwill impairment test. The quantitative 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. Our estimate of fair value considers publicly available information regarding the market capitalization of our Company, as well as (i) the financial projections and future prospects of our business, including its growth opportunities and likely operational improvements, and (ii) comparable sales prices, if available. As part of the first step to assess potential impairment, we compare our estimate of fair value for the reporting unit to the book value of the reporting unit. We determine the fair value of the reporting units based on the income approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. If the book value is greater than our estimate of fair value, we 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. We believe our estimation methods are reasonable and reflect common valuation practices.

On a quarterly basis, we perform a review of our 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, we would perform an impairment test of goodwill as of the end of the quarter, consistent with the annual impairment test performed at the end of our fiscal year on December 31st, and record any noted impairment loss.

As of December 31, 2012, we have classified the assets and liabilities of HemoCue as held for sale in the accompanying consolidated balance sheets. In the fourth quarter of 2012, we received several offers to purchase HemoCue, and in February 2013, we entered into an agreement to sell HemoCue. The proposed consideration to be received indicated that the carrying value of HemoCue is in excess of its fair value. As a result, we re-assessed the fair

value of the net assets of HemoCue and determined that the goodwill associated with this business was impaired and recorded a pre-tax impairment charge of $78 million in discontinued operations in December 2012 to write down the goodwill.

We completed the required annual impairment test for our remaining goodwill as of December 31, 2012 and determined that none of our remaining goodwill was impaired at that date.

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Accounting for stock-based compensation expense

We record stock-based compensation as a charge to earnings, net of the estimated impact of forfeited awards. As such, we recognize 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 process of estimating the fair value of stock-based compensation awards and recognizing stock-based compensation cost over their requisite service periods involves significant assumptions and judgments.

We estimate the fair value of stock option awards on the date of grant using a lattice-based option-valuation model which requires management to make certain assumptions regarding: (i) the expected volatility in the market price of the Company's common stock; (ii) dividend yield; (iii) risk-free interest rates; and (iv) the period of time employees are expected to hold the award prior to exercise (referred to as the expected holding period). The expected volatility under the lattice-based option-valuation model is based on the current and historical implied volatilities from traded options of our common stock. The dividend yield is 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 is based on the U.S. Treasury yield curve in effect at the time of grant for bonds with maturities ranging from one month to ten years. The expected holding period of the awards granted is estimated using the historical exercise behavior of employees. In addition, we estimate the expected impact of forfeited awards and recognize stock-based compensation cost only for those awards expected to vest. We use historical experience to estimate projected forfeitures. If actual forfeiture rates are materially different from our estimates, stock-based compensation expense could be significantly different from what we have recorded in the current period. We periodically review actual forfeiture experience and revise our estimates, as considered necessary. 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 our 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. 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. If the actual number of performance share units earned is different from our estimates, stock-based compensation could be significantly different from what we have recorded in the current period. 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. While the assumptions used to calculate and account for stock-based compensation awards represent management's best estimates, these estimates involve inherent uncertainties and the application of management's judgment. As a result, if revisions are made to our assumptions and estimates, our stock-based compensation expense could vary significantly from period to period. In addition, the number of awards made under our equity compensation plans, changes in the design of those plans, the price of our shares and the performance of our Company can all cause stock-based compensation expense to vary from period to period.

Acquisitions

Acquisition of Athena Diagnostics

On February 24, 2011, we signed a definitive agreement to acquire Athena Diagnostics (“Athena”) from Thermo Fisher Scientific, Inc., in an all-cash transaction valued at approximately $740 million. Athena is the leading provider of advanced diagnostic tests related to neurological conditions. We completed the acquisition of Athena on April 4, 2011 (see Note 5 to the Consolidated Financial Statements for further details).

Acquisition of Celera Corporation

On March 17, 2011, we entered into a definitive merger agreement with Celera Corporation (“Celera”) under which we agreed to acquire Celera for $8 per share, in a transaction valued at approximately $344 million, net of $326 million in acquired cash and short-term marketable securities. Additionally, we expect to utilize Celera's available tax credits, net operating loss carryforwards and capitalized tax research and development expenditures to reduce our future tax payments by approximately $110 million. Celera is a healthcare business focused on the integration of genetic testing into routine clinical care through a combination of products and services incorporating proprietary discoveries. Celera offers a portfolio of clinical laboratory tests and disease management services associated with cardiovascular disease. In addition, Celera develops, manufactures and oversees the commercialization of molecular diagnostic products, and has licensed other relevant diagnostic technologies developed to provide personalized disease management in cancer and liver diseases. We completed the acquisition of Celera on May 17, 2011 (see Note 5 to the Consolidated Financial Statements for further details).

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Other Acquisition

On January 6, 2012, we completed the acquisition of S.E.D. Medical Laboratories ("S.E.D.") for approximately $50.5 million.

Acquisition of UMass Memorial

On January 2, 2013, we completed the acquisition of the clinical and anatomic pathology outreach laboratory businesses of UMass Memorial Medical Center, a member of UMass Memorial Health Care.

Results of Operations

Our DIS business currently represents our one reportable business segment. The DIS business for each of the three years in the period ended December 31, 2012 accounted for more than 90% of net revenues from continuing operations. Our other operating segments consist of our DS businesses.

As discussed previously, during the fourth quarter of 2012, we committed to a plan to sell HemoCue, and in February 2013, we executed an agreement for its sale. In December 2012, we completed the sale of OralDNA. HemoCue and OralDNA have been reported as discontinued operations in our consolidated statements of operations as no significant involvement or continuing cash flows are expected from, or to be provided to HemoCue following the consummation of the sale transaction. On April 19, 2006, we decided to discontinue the operations of a test kit manufacturing subsidiary, NID. During the third quarter of 2006, we completed the wind down of NID. Therefore, the operations of NID are classified as discontinued operations for all periods presented. Our business segment information is disclosed in Note 19 to the Consolidated Financial Statements.

For all periods presented, our consolidated statements of operations have been recast to reflect the presentation of discontinued operations. See Note 18 to the Consolidated Financial Statements included in this Form 10-K for additional information.

Settlement Related to the California Lawsuit

On May 9, 2011, we announced an agreement in principle to resolve a previously disclosed civil lawsuit brought by a California competitor in which the State of California intervened (the “California Lawsuit”). In the lawsuit, the plaintiffs alleged, among other things, that we overcharged Medi-Cal for testing services and violated the California False Claims Act. Specifically, the plaintiffs alleged, among other things, that we violated certain regulations that govern billing to Medi-Cal (“Comparable Charge” regulations). While denying liability, in order to avoid the uncertainty, expense and risks of litigation, we agreed to resolve these matters for $241 million. On May 19, 2011, we finalized a settlement agreement and release with the California Department of Health Care Services, the California Attorney General's Office and the qui tam relator. We agreed to the settlement to resolve claims pertaining to the Comparable Charge allegations; we received a full release of these and all other allegations in the complaint. We also agreed to certain reporting obligations regarding our pricing for a limited time period and, at our option in lieu of such obligations for a transitional period, to provide Medi-Cal with a discount (the “Transitional Discount”). The Transitional Discount, to the extent provided, ended in July 2012 and did not have a material impact on our consolidated revenues or results of operations.

As a result of the agreement in principle, we recorded a pre-tax charge to earnings in the first quarter of 2011 of $236 million (the “Medi-Cal charge”), or $1.22 per diluted share, which represented the cost to resolve the matters noted above and related claims, less amounts previously reserved for such matters.

We funded the $241 million payment in the second quarter of 2011 with cash on hand and borrowings under our existing credit facilities. See Note 17 to the Consolidated Financial Statements for further details.

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Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

Continuing Operations

	2012	2011	% Increase (Decrease)
	(dollars in millions, except per share data)		
Net revenues	$7,382.6	$7,391.9	(0.1)%
Income from continuing operations	630.1	459.0	37.3 %
Earnings per diluted share	$3.92	$2.85	37.5 %

Results for the year ended December 31, 2012 were affected by certain items that impacted earnings per diluted share by $0.44. During the year ended December 31, 2012, we incurred costs of $106 million, or $0.40 per diluted share, primarily associated with workforce reductions and professional fees associated with further restructuring and integrating our business. Results for the year ended December 31, 2012 also included $10.1 million, or $0.04 per diluted share, principally associated with separation costs and accelerated vesting of certain equity awards in connection with the succession of our prior CEO.

Results for the year ended December 31, 2011 were affected by a number of items which impacted earnings per diluted share by $1.53. During the first quarter of 2011, we recorded the Medi-Cal charge of $236 million, or $1.22 per diluted share, in other operating (income) expense, net. In addition, results for the year ended December 31, 2011 included $52 million of pre-tax charges, or $0.20 per diluted share, incurred in conjunction with further restructuring and integrating our business consisting of $42 million of pre-tax charges, principally associated with workforce reductions, with the remainder principally professional fees. We also recorded fourth quarter pre-tax charges of $5.6 million, or $0.02 per diluted share, associated with severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO. Results for the year ended December 31, 2011 also included pre-tax transaction costs of $20 million, or $0.09 per diluted share, associated with the acquisitions of Athena and Celera. Of these costs, $16.9 million, primarily related to professional fees, were recorded in selling, general and administrative expenses and $3.1 million of financing related costs were included in interest expense, net.

Net Revenues

Net revenues for the year ended December 31, 2012 were essentially unchanged as compared to the prior year period.

DIS revenue increased 0.1% compared to the prior year period. The impact of the acquisitions of Athena, Celera and S.E.D. contributed approximately 1.0% to DIS revenue. DIS volume, measured by the number of requisitions, increased 0.2% compared to the prior year period with acquisitions contributing about 0.5%. Drugs of abuse testing volume grew about 6% during the year ended December 31, 2012.

Revenue per requisition for the year ended December 31, 2012 was essentially flat compared to the prior year period. Revenue per requisition continued to benefit from an increased mix in gene-based and esoteric testing, particularly from the impact of the acquired operations of Athena and Celera and an increase in the number of tests ordered per requisition. Offsetting these benefits were reimbursement changes, and business and payer mix changes including an increase in lower priced drugs-of-abuse testing, and a decrease in higher priced anatomic pathology testing.

Our DS business accounted for approximately 8% of our net revenues for the years ended December 31, 2012 and 2011. For the year ended December 31, 2012, combined revenues in these businesses decreased by approximately

3.0%, compared to the prior year period. This decrease was primarily due to a reduction in revenues within our clinical trials testing business, partially offset by increased revenues associated with our diagnostics products operations acquired as part of the Celera acquisition.

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Operating Costs and Expenses

	2012		2011		Increase (Decrease)	
	$	% Net Revenue	$	% Net Revenue	$	% Net Revenue
	(dollars in millions)					
Cost of services	$4,364.7	59.1 %	$4,362.9	59.0 %	$1.8	0.1 %
Selling, general and administrative expenses (SG&A)	1,745.2	23.6	1,743.1	23.6	2.1	—
Amortization of intangible assets	74.7	1.0	61.2	0.8	13.5	0.2
Other operating (income) expense, net	(2.9)	—	238.1	3.2	(241.0)	(3.2)
Total operating costs and expenses	$6,181.7	83.7 %	$6,405.3	86.6 %	$(223.6)	(2.9)%
Bad debt expense (included in SG&A)	$268.6	3.6 %	$279.5	3.8 %	$(10.9)	(0.2)%

Total Operating Costs and Expenses

For the year ended December 31, 2012, total operating costs and expenses were $224 million below the prior year level, primarily due to the impact of the 2011 Medi-Cal charge and transaction costs associated with the acquisitions of Athena and Celera in 2011, and savings associated with our Invigorate program realized in 2012. This decrease was partially offset by higher costs associated with professional fees and workforce reductions associated with further restructuring and integrating our business, costs incurred in connection with the succession of our prior CEO, and operating expenses associated with the acquired operations of Athena, Celera and S.E.D.

The decrease in total operating expenses as a percentage of net revenues compared to the prior year is principally due to the Medi-Cal charge recorded in 2011.

Results for the year ended December 31, 2012 included $106 million of pre-tax restructuring and integration charges ($51.5 million in cost of services and $54.5 million in selling, general and administrative expenses), primarily associated with workforce reductions and professional fees incurred in connection with further restructuring and integrating our business. In addition, $10.1 million of pre-tax charges, associated with separation costs and accelerated vesting of certain equity awards in connection with the succession of our prior CEO, were recorded in selling, general and administrative expenses in 2012.

Results for the year ended December 31, 2011 included the Medi-Cal charge of $236 million recorded in connection with the California Lawsuit. In addition, results for the year ended December 31, 2011 included $52 million of pre-tax charges incurred in conjunction with further restructuring and integrating our business consisting of $42 million of pre-tax charges, principally associated with workforce reductions, with the remainder principally professional fees. Of these costs, $22 million and $30 million were included in cost of services and selling, general and administrative expenses, respectively. In addition, $5.6 million of pre-tax charges, associated with severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO, were recorded in selling, general and administrative expenses in the fourth quarter of 2011. Selling, general and administrative expenses for the year ended December 31, 2011 also included $16.9 million of pre-tax transaction costs, primarily related to professional fees associated with the acquisitions of Athena and Celera.

Also, year-over-year comparisons of operating expenses were unfavorably impacted by approximately $6.2 million associated with gains and losses on investments in our supplemental deferred compensation plans. Under our supplemental deferred compensation plans, employee compensation deferrals, together with Company matching contributions, are invested in a variety of investments held in trusts. Gains and losses associated with the investments

are recorded in earnings within other income, net. A corresponding and offsetting adjustment is also recorded to the deferred compensation obligation to reflect investment gains and losses earned by the employee. Such adjustments to the deferred compensation obligation are recorded in earnings principally within selling, general and administrative expenses and offset the amount of investment gains and losses recorded in other income, net. Results for the years ended December 31, 2012 and 2011 included an increase in operating costs of $6.5 million and $0.3 million, respectively, representing increases in the deferred compensation obligation to reflect investment gains earned by employees participating in our deferred compensation plans.

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Cost of Services

Cost of services as a percentage of revenues for the year ended December 31, 2012 was essentially unchanged compared to the prior year period. Restructuring and integration activities and higher costs associated with employee compensation and benefits, which served to increase the percentage were offset by actions we have taken to reduce our cost structure under our Invigorate program.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net revenues for the year ended December 31, 2012 was essentially unchanged compared to the prior year period. Restructuring and integration activities, investments we have made in our commercial sales organization, costs incurred in connection with the succession of our prior CEO and higher costs associated with employee compensation and benefits served to increase the percentage compared to the prior year. This was offset by actions we have taken to reduce our cost structure under our Invigorate program and transaction costs associated with the Athena and Celera acquisitions that were incurred during the 2011.

For the year ended December 31, 2012, bad debt expense as a percentage of net revenues improved compared to the prior year period, primarily as a result of continued improvement efforts in this area.

Amortization of Intangible Assets

The increase in amortization of intangible assets for the year ended December 31, 2012, compared to the prior year period, primarily reflects the impact of amortization of intangible assets acquired as part of the Athena, Celera and S.E.D. acquisitions.

Other Operating (Income) Expense, net

Other operating (income) expense, net includes special charges, and miscellaneous income and expense items related to operating activities, and for the years ended December 31, 2012 and 2011 consisted of the following:

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Medi-Cal charge recorded in connection with the California Lawsuit	$—	$236.0	$(236.0)
Foreign currency transaction losses, net	1.7	1.6	0.1
Other operating (income) expense items, net	(4.6)	0.5	(5.1)
Total other operating (income) expense, net	$(2.9)	$238.1	$(241.0)

Operating Income

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Operating income	$1,200.8	$986.6	$214.2
Operating income as a % of net revenues	16.3 %	13.4 %	2.9 %

The impact of the Medi-Cal charge in the first quarter of 2011 served to decrease operating income as a percentage of net revenues in 2011 and is the principal driver of the improved operating income as a percentage of net revenues for the year ended December 31, 2012. Also contributing to the improvement was realized savings associated with our Invigorate program. These improvements were partially offset by higher costs associated with restructuring and integration activities, costs incurred in connection with the succession of our prior CEO, an increase in operating

expenses associated with the acquired operations of Athena, Celera and S.E.D. and investments we have made in our commercial sales organization.

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Interest Expense, net

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Interest expense, net	$164.7	$169.6	$(4.9)

Interest expense, net for the year ended December 31, 2012 decreased, compared to prior year period, primarily due to lower average outstanding debt balances in 2012 and the financing commitment fees incurred in 2011 related to the acquisition of Celera.

Other Income, net

Other income, net represents miscellaneous income and expense items related to non-operating activities, such as gains and losses associated with investments and other non-operating assets. For the years ended December 31, 2012 and 2011, other income, net consisted of the following:

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Investment gains associated with our supplemental deferred compensation plans	$6.5	$0.3	$6.2
Other income items, net	0.2	2.5	(2.3)
Total other income, net	$6.7	$2.8	$3.9

Income Tax Expense

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Income tax expense	$401.9	$354.7	$47.2
Effective income tax rate	37.6%	41.8%	(4.2)%

The decrease in the effective income tax rate for the year ended December 31, 2012, compared to the prior year period, is due primarily to the Medi-Cal charge in 2011, a portion for which a tax benefit was not recorded.

Income tax expense for the years ended December 31, 2012 and 2011 included discrete income tax benefits of $2.9 million and $18.2 million, respectively. Discrete income tax benefits for 2011 were primarily associated with certain state tax planning initiatives and the favorable resolution of certain tax contingencies.

Discontinued Operations

Discontinued operations includes HemoCue, OralDNA and NID, a test kit manufacturing subsidiary. The results of operations for HemoCue, OralDNA and NID have been classified as discontinued operations for all periods presented. See Note 18 for further details regarding discontinued operations.

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The following table summarizes our income (loss) from discontinued operations, net of taxes:

	2012	2011	Increase (Decrease)
	(dollars in millions)		
Net revenues	$116.9	$118.6	$(1.7)
Income (loss) from discontinued operations before taxes	(73.7)	7.1	(80.8)
Income tax expense (benefit)	0.6	(4.5)	5.1
Income (loss) from discontinued operations, net of taxes	$(74.3)	$11.6	$(85.9)

Income (loss) from discontinued operations before taxes for the year ended December 31, 2012 includes a $78 million asset impairment charge associated with HemoCue and $8.4 million loss on sale associated with OralDNA. Income tax expense for the year ended December 31, 2012 includes a $7.5 million income tax expense related to the re-valuation of certain deferred tax assets associated with HemoCue and was partially offset by a $4.4 million income tax benefit related to the remeasurement of deferred taxes associated with HemoCue as a result of an enacted income tax rate change in Sweden.

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

Continuing Operations

	2011	2010	% Increase (Decrease)	
	(dollars in millions, except per share data)			
Net revenues	$7,391.9	$7,260.1	1.8	%
Income from continuing operations	459.0	708.7	(35.2)	%
Earnings per diluted share	$2.85	$3.98	(28.4)	%

Results for the year ended December 31, 2011 were affected by a number of items which impacted earnings per diluted share by $1.53. During the first quarter of 2011, we recorded the Medi-Cal charge of $236 million, or $1.22 per diluted share, in other operating (income) expense, net. In addition, results for the year ended December 31, 2011 included $52 million of pre-tax charges, or $0.20 per diluted share, incurred in conjunction with further restructuring and integrating our business consisting of $42 million of pre-tax charges, principally associated with workforce reductions, with the remainder principally professional fees. We also recorded fourth quarter pre-tax charges of $5.6 million, or $0.02 per diluted share, associated with severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO. Results for the year ended December 31, 2011 also included pre-tax transaction costs of $20 million, or $0.09 per diluted share, associated with the acquisitions of Athena and Celera. Of these costs, $16.9 million, primarily related to professional fees, were recorded in selling, general and administrative expenses and $3.1 million of financing related costs were included in interest expense, net.

Results for the year ended December 31, 2011 also included discrete income tax benefits of $0.11 per diluted share, primarily associated with certain state tax planning initiatives and the favorable resolution of certain tax contingencies. In addition, lower outstanding share counts, resulting from share repurchases, contributed $0.28 of earnings per share improvement, compared to the prior year.

Results for the year ended December 31, 2010 were affected by a number of items which impacted earnings per diluted share by $0.12. During 2010, we recorded pre-tax charges of $26.8 million, or $0.09 per diluted share, principally associated with workforce reductions in the first and fourth quarters. Results for the year ended December

31, 2010 also included a $9.6 million fourth quarter pre-tax charge, or $0.03 per diluted share, associated with the settlement of employment litigation.

Results for the year ended December 31, 2010 also included discrete income tax benefits of $0.12 per diluted share, primarily associated with the favorable resolution of certain tax contingencies.

After considering the impact of the items noted above on the year-over-year comparisons, operating performance in 2011 declined compared to the prior year due to reduced revenues (before acquisitions) and higher costs principally associated with employee compensation and benefits, and investments we have made in our sales and service capabilities.

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Net Revenues

Net revenues for the year ended December 31, 2011 were 1.8% above the prior year level with the Athena and Celera acquisitions contributing 2.2% to consolidated revenue growth.

DIS revenue grew 1.1%. The acquisitions of Athena and Celera contributed about 1.8% to DIS revenue growth for the year ended December 31, 2011. DIS volume, measured by the number of requisitions, was essentially unchanged compared to the prior year period. The DIS volume contributed by the Athena and Celera acquisitions had an insignificant positive impact for the year ended December 31, 2011. We believe that DIS volume was adversely affected by a general slowdown in physician office visits compared to the prior year, and severe weather in the first quarter of 2011. Drugs of abuse testing volume grew about 6% during the year ended December 31, 2011.

Revenue per requisition for the year ended December 31, 2011 was 1.0% above the prior year level. Revenue per requisition continued to benefit from an increased mix in gene-based and esoteric testing, particularly from the impact of the acquired operations of Athena and Celera. Offsetting this benefit was business and payer mix changes including: an increase in lower priced drugs-of-abuse testing and a decrease in higher priced anatomic pathology testing; price changes in connection with several large contract extensions executed in the first half of 2010; and the 1.75% Medicare fee schedule decrease, which went into effect January 1, 2011.

Our DS business accounted for approximately 8% and 7% of our net revenues for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2011, revenue in our DS businesses grew by approximately 11% with greater than half of the growth from the diagnostics products operations acquired as part of the Celera acquisition.

Operating Costs and Expenses

	2011		2010		Increase (Decrease)	
	$	% Net Revenue	$	% Net Revenue	$	% Net Revenue
	(dollars in millions)					
Cost of services	$4,362.9	59.0 %	$4,275.5	58.9 %	$87.4	0.1 %
Selling, general and administrative expenses (SG&A)	1,743.1	23.6	1,658.8	22.8	84.3	0.8
Amortization of intangible assets	61.2	0.8	33.1	0.5	28.1	0.3
Other operating expense, net	238.1	3.2	9.1	0.1	229.0	3.1
Total operating costs and expenses	$6,405.3	86.6 %	$5,976.5	82.3 %	$428.8	4.3 %
Bad debt expense (included in SG&A)	$279.5	3.8 %	$291.4	4.0 %	$(11.9)	(0.2)%

Total Operating Costs and Expenses

For the year ended December 31, 2011, the impacts of the Medi-Cal charge, costs associated with actions we took to adjust our cost structure, higher costs associated with employee compensation and benefits, and investments we made in our sales and service capabilities, as well the impact of the Athena and Celera acquisitions, served to increase total operating expenses as a percent of net revenues compared to the prior year.

Results for the year ended December 31, 2011 included the Medi-Cal charge of $236 million recorded in connection with the California Lawsuit. In addition, results for the year ended December 31, 2011 included $52 million of pre-tax

charges incurred in conjunction with further restructuring and integrating our business consisting of $42 million of pre-tax charges, principally associated with workforce reductions, with the remainder principally professional fees. Of these costs, $22 million and $30 million were included in cost of services and selling, general and administrative expenses, respectively. In addition, $5.6 million of pre-tax charges, associated with severance and other separation benefits as well as accelerated vesting of certain equity awards in connection with the succession of our prior CEO, were recorded in selling, general and administrative expenses in the fourth quarter of 2011. Selling, general and administrative expenses for the year ended December 31, 2011 also included $16.9 million of pre-tax transaction costs, primarily related to professional fees associated with the acquisitions of Athena and Celera.

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Results for the year ended December 31, 2010 included pre-tax charges, principally associated with workforce reductions, of $26.8 million ($6.3 million in cost of services and $20.5 million in selling, general and administrative expenses). In addition, other operating (income) expense, net for the year ended December 31, 2010 included a $9.6 million fourth quarter pre-tax charge associated with the settlement of employment litigation.

Also, year-over-year comparisons of operating expenses were favorably impacted by approximately $5.4 million, associated with gains and losses on investments in our supplemental deferred compensation plans. Results for the year ended December 31, 2011 and 2010 included an increase in operating costs of $0.3 million and $5.7 million, respectively, representing increases in the deferred compensation obligation to reflect investment gains earned by employees participating in our deferred compensation plans.

Cost of Services

The increase in cost of services as a percentage of revenues for the year ended December 31, 2011 compared to the prior year reflects the impact of actions we took to reduce our cost structure and the acquired operations of Athena and Celera, which served to reduce the percentage. These improvements were offset by the impact of a $15.9 million increase in pre-tax charges, primarily associated with restructuring and integration activities, higher costs associated with employee compensation and benefits, and investments we made in service capabilities.

Selling, General and Administrative Expenses

The increase in selling, general and administrative expenses as a percentage of net revenues for the year ended December 31, 2011 compared to the prior year primarily reflects a $9.4 million increase in pre-tax charges, primarily associated with restructuring and integration activities, costs incurred in connection with the succession of our prior CEO, higher costs associated with employee compensation and benefits, and investments we made in our sales force. In addition, selling, general and administrative expenses for the year ended December 31, 2011 included pre-tax transaction costs of $16.9 million, primarily related to professional fees associated with the acquisitions of Athena and Celera. These increases were partially offset by actions we took to reduce our cost structure and an improvement in bad debt expense as a percentage of net revenues, primarily reflecting continued strong performance in our billing operations and collection metrics.

Amortization of Intangible Assets

The increase in amortization of intangible assets for the year ended December 31, 2011 compared to the prior year reflects the impact of amortization of intangible assets acquired as part of the Athena and Celera acquisitions.

Other Operating (Income) Expense, net

Other operating (income) expense, net includes special charges, and miscellaneous income and expense items related to operating activities, and for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010	Increase (Decrease)
	(dollars in millions)		
Medi-Cal charge recorded in connection with the California Lawsuit	$236.0	$—	$236.0
Settlement of employment litigation	—	9.6	(9.6)
Foreign currency transaction losses, net	1.6	1.7	(0.1)
Other operating expense (income) items, net	0.5	(2.3)	2.8
Total other operating expense, net	$238.1	$9.0	$229.1

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Operating Income

	2011	2010	Increase (Decrease)
	(dollars in millions)		
Operating income	$986.6	$1,283.6	$(297.0)
Operating income as a % of net revenues	13.4%	17.7%	(4.3)%

For the year ended December 31, 2011, the impacts of the Medi-Cal charge, restructuring and integration related costs associated with actions we took to adjust our cost structure, costs incurred in connection with the succession of our prior CEO, and transaction costs related to the Athena and Celera acquisitions, served to decrease operating income as a percent of net revenues by 4.1%. For the year ended December 31, 2010, the impact of restructuring and integration related costs, and the settlement of employment litigation served to decrease operating income as a percent of net revenues by 0.5%.

The remaining year-over-year decrease in operating income as a percentage of net revenues was primarily attributable to higher costs associated with employee compensation and benefits, and investments we made in our sales and service capabilities. These decreases were partially offset by actions we took to reduce our cost structure and an improvement in bad debt expense as a percentage of net revenues, compared to the prior year.

Interest Expense, net

	2011	2010	Increase (Decrease)
	(dollars in millions)		
Interest expense, net	$169.6	$143.5	$26.1

Interest expense, net for the year ended December 31, 2011 increased from the prior year period primarily due to incremental debt of approximately $1.0 billion, used to partially fund $935 million of share repurchases and approximately $1.1 billion paid for acquisitions. In addition, for the year ended December 31, 2011, interest expense, net included $3.1 million of financing commitment fees related to the acquisition of Celera which were expensed. See Note 12 to the Consolidated Financial Statements for further details regarding our senior notes offering.

Other Income, net

Other income, net represents miscellaneous income and expense items related to non-operating activities, such as gains and losses associated with investments and other non-operating assets. For the years ended December 31, 2011 and 2010, other income, net consisted of the following:

	2011	2010	Increase (Decrease)
	(dollars in millions)		
Investment gains associated with our supplemental deferred compensation plans	$0.3	$5.7	$(5.4)
Other income (expense) items, net	2.5	(0.4)	2.9
Total other income, net	$2.8	$5.3	$(2.5)

Income Tax Expense

2011	2010	Increase (Decrease)
(dollars in millions)		

Income tax expense	$354.7	$430.1	$(75.4)
Effective income tax rate	41.8%	36.6%	5.2%

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The increase in the effective income tax rate for the year ended December 31, 2011 is primarily due to the Medi-Cal charge recorded in the first quarter of 2011 associated with the California Lawsuit (see Note 17 to the Consolidated Financial Statements), a portion for which a tax benefit has not been recorded.

Income tax expense for the year ended December 31, 2011 included discrete income tax benefits of $18.2 million, primarily associated with certain state tax planning initiatives and the favorable resolution of certain tax contingencies. For the year ended December 31, 2010, income tax expense included discrete income tax benefits of $22.1 million, primarily associated with the favorable resolution of certain tax contingencies.

Discontinued Operations

Discontinued operations includes HemoCue, OralDNA and NID, a test kit manufacturing subsidiary. The results of operations for HemoCue, OralDNA and NID have been classified as discontinued operations for all periods presented. See Note 18 for further details regarding discontinued operations.

The following table summarizes our income from discontinued operations, net of taxes:

	2011	2010	Increase (Decrease)
	(dollars in millions)		
Net revenues	$118.6	$108.8	$9.8
Income from discontinued operations before taxes	7.1	9.3	(2.2)
Income tax benefit	(4.5)	(2.8)	(1.7)
Income from discontinued operations, net of taxes	$11.6	$12.1	$(0.5)

Quantitative and Qualitative Disclosures About Market Risk

We address our exposure to market risks, principally the market risk of changes in interest rates, through a controlled program of risk management that includes the use of derivative financial instruments. We do not hold or issue derivative financial instruments for speculative purposes. We believe that our exposures to foreign exchange impacts and changes in commodity prices are not material to our consolidated financial condition or results of operations. See Note 13 to the Consolidated Financial Statements for additional discussion of our financial instruments and hedging activities.

At December 31, 2012 and 2011, the fair value of our debt was estimated at approximately $3.8 billion and $4.4 billion, respectively, using quoted active 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, 2012 and 2011, the estimated fair value exceeded the carrying value of the debt by $481 million and $387 million, respectively. A hypothetical 10% increase in interest rates (representing 48 basis points and 41 basis points at December 31, 2012 and 2011, respectively) would potentially reduce the estimated fair value of our debt by approximately $98 million and $112 million at December 31, 2012 and 2011, respectively.

Borrowings under our floating rate senior notes due 2014, our senior unsecured revolving credit facility and our secured receivables credit facility are subject to variable interest rates. Interest on our secured receivables credit facility is based on rates that are intended to approximate commercial paper rates for highly-rated issuers. Interest on our senior unsecured revolving credit facility is subject to a pricing schedule that can fluctuate based on changes in our credit ratings. As such, our borrowing cost under this credit arrangement will be subject to both fluctuations in interest rates and changes in our credit ratings. At December 31, 2012, the borrowing rates under these debt

instruments were: for our floating rate senior notes due 2014, LIBOR plus 0.85%; for our senior unsecured revolving credit facility, LIBOR plus 1.125%; and for our secured receivables credit facility, 0.97%. At December 31, 2012, the weighted average LIBOR was 0.3%. As of December 31, 2012, $200 million was outstanding under our floating rate senior notes due 2014. There were no borrowings outstanding under our $525 million secured receivables credit facility or our $750 million senior unsecured revolving credit facility as of December 31, 2012.

We seek 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 this objective, we have entered into interest rate swaps. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net settlements are recognized as an adjustment to interest expense.

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In prior years, we entered into various fixed-to-variable interest rate swap agreements with an aggregate notional amount of $550 million and variable interest rates based on six-month LIBOR plus 0.54% and one-month LIBOR plus 1.33%. In July 2012, we monetized the value of these interest rate swap assets by terminating the hedging instruments. The asset value, including accrued interest through the date of termination, was $71.8 million and the amount to be amortized as a reduction of interest expense over the remaining terms of the hedged debt instruments was $65.2 million. Immediately after the termination of these interest rate swaps, we entered into new fixed-to-variable interest rate swap agreements on the same Senior Notes. The interest rate swap agreements we entered into in July 2012 have an aggregate notional amount of $550 million and variable interest rates based on six-month LIBOR plus 2.3% and one-month LIBOR plus 3.6% and are accounted for as fair value hedges of a portion of the Senior Notes due 2016 and a portion of the Senior Notes due 2020. During the fourth quarter of 2012, we entered into additional fixed-to-variable interest rate swap agreements with an aggregate notional amount of $400 million and variable interest rates based on one-month LIBOR plus a spread ranging from 3.4% and 5.1%. These derivative financial instruments are accounted for as fair value hedges of a portion of the Senior Notes due 2015 and a portion of the Senior Notes due 2021. Based on our net exposure to interest rate changes, a hypothetical 10% change in interest rates on our variable rate indebtedness (representing 5 basis points) would impact annual interest expense by approximately $0.6 million, assuming no changes to the debt outstanding at December 31, 2012.

The fair value of the fixed-to-variable interest rate swap agreements related to our Senior Notes due 2016 was an asset of $0.8 million at December 31, 2012. A hypothetical 10% change in interest rates (representing 5 basis points) would potentially change the fair value of the asset by $0.5 million. The aggregate fair value of the fixed-to-variable interest rate swap agreements related to our Senior Notes due 2015, 2020 and 2021 was a liability of $3.1 million at December 31, 2012. A hypothetical 10% change in interest rates (representing 10 basis points) would potentially change the fair value of this liability by $5.2 million.

For further details regarding our outstanding debt and our financial instruments, see Notes 12 and 13 to the Consolidated Financial Statements.

Risk Associated with Investment Portfolio

Our investment portfolio includes equity investments comprised primarily of strategic equity holdings in privately held companies. These securities are exposed to price fluctuations and are generally concentrated in the life sciences industry. The carrying value of our equity investments was $12.2 million at December 31, 2012.

We regularly evaluate the fair value measurements of our equity investments to determine if losses in value are other than temporary and if an impairment loss has been incurred. The evaluation considers whether the security has the ability to recover and, if so, the estimated recovery period. Other factors that are considered in this evaluation include the amount of the other-than-temporary decline and its duration, the issuer’s financial condition and short-term prospects, and whether the market decline was caused by overall economic conditions or conditions specific to the individual security.

We do not hedge our equity price risk. The impact of an adverse movement in equity prices on our holdings in privately held companies cannot be easily quantified, as our ability to realize returns on investments depends on, among other things, the enterprises’ ability to raise additional capital or derive cash inflows from continuing operations or through liquidity events such as initial public offerings, mergers or private sales.

Liquidity and Capital Resources

Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2012 totaled $296 million, compared to $165 million at December 31, 2011. Cash and cash equivalents consist of cash and highly liquid short-term investments. For the year ended December 31, 2012, cash flows from operating activities of $1.2 billion were used to fund investing and financing activities of $217 million and $822 million, respectively. Cash and cash equivalents at December 31, 2011 totaled $165 million compared to $449 million at December 31, 2010. For the year ended December 31, 2011, cash flows from operating activities of $895 million, together with cash on hand and cash flows from financing activities of $64 million, were used to fund investing activities of $1.2 billion.

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Cash Flows from Operating Activities

Net cash provided by operating activities for the year ended December 31, 2012 was $1.2 billion compared to $895 million in the prior year period. Cash flows from operating activities for the year ended December 31, 2012 benefited from the the deferral of approximately $70 million of income tax payments into the first quarter of 2013, which was offered to companies whose principal place of business was in states most affected by Hurricane Sandy, and $72 million of proceeds associated with the termination of certain interest rate swap agreements. For the year ended December 31, 2011, cash flows from operating activities included the second quarter payment to Medi-Cal, the California Medicaid program. Days sales outstanding, a measure of billing and collection efficiency, was 47 days at December 31, 2012, compared to 45 days at December 31, 2011.

Net cash provided by operating activities for the year ended December 31, 2011 was $895 million compared to $1.1 billion in the prior year period. For the year ended December 31, 2011, cash flows from operating activities included payments associated with the settlement of the California Lawsuit (see Note 17 to the Consolidated Financial Statements), restructuring and integration costs, and transaction costs associated with the acquisitions of Athena and Celera (see Note 5 to the Consolidated Financial Statements) totaling $320 million, or $202 million net of an associated reduction in estimated tax payments. After giving consideration to these net payments, underlying cash flows from operating activities for the year ended December 31, 2011 approximated the prior year level.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2012 was $217 million, and consisted principally of $50.5 million related to an acquisition and capital expenditures of $182 million. These decreases were partially offset by proceeds from the disposition of assets of $15 million, which include proceeds from the sale of a building of $12 million.

Net cash used in investing activities for the year ended December 31, 2011 was $1.2 billion, consisting principally of $740 million related to the acquisition of Athena and $556 million, net of cash acquired related to the acquisition of Celera, or $343 million, net of cash and $213 million of short-term marketable securities acquired. Proceeds from the sale of the short-term marketable securities, acquired as part of the Celera acquisition, were used to repay borrowings outstanding under our secured receivables credit facility and our senior unsecured revolving credit facility in the second quarter of 2011. In addition, cash flows from investing activities for the year ended December 31, 2011 included capital expenditures of $162 million.

Cash Flows from Financing Activities

Net cash used in financing activities for the year ended December 31, 2012 was $822 million, consisting primarily of net decreases in debt of $654 million, purchases of treasury stock of $200 million, dividend payments of $108 million and distributions to noncontrolling interests of $38 million. These decreases were partially offset by proceeds from the exercise of stock options and related tax benefits totaling $166 million. The net decrease in debt consists of $715 million of borrowings and $1.4 billion of repayments.

The borrowings of $715 million represent amounts borrowed under our secured receivables credit facility. The repayments of $1.4 billion represent the repayment of our $560 million term loan due May 2012, and $800 million of repayments under our secured receivables credit facility.

In December 2012, we extended our existing receivables securitization facility. The secured receivables credit facility continues to be supported by back-up facilities provided on a committed basis by two banks: (a) $275 million, which matures on December 6, 2013 and (b) $250 million, which also matures on December 6, 2013. Interest on the secured

receivables credit facility is based on rates that are intended to approximate commercial paper rates for highly-rated issuers. There were no outstanding borrowings under this facility at December 31, 2012.

Net cash provided by financing activities for the year ended December 31, 2011 was $64 million, consisting primarily of net increases in debt of $1.0 billion, and proceeds from the exercise of stock options and related tax benefits totaling $141 million, partially offset by purchases of treasury stock of $935 million, dividend payments of $65 million, distributions to noncontrolling interests of $36 million and $13 million of payments primarily related to debt issuance costs incurred in connection with our senior notes offering in the first quarter of 2011 and our senior unsecured revolving credit facility in the third quarter of 2011. The net increase in debt consists of $2.7 billion of borrowings and $1.7 billion of repayments.

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In February 2011, borrowings of $500 million under our secured receivables credit facility and $75 million under our senior unsecured revolving credit facility, together with $260 million of cash on hand, were used to fund purchases of treasury stock totaling $835 million. In addition, we completed a $1.25 billion senior notes offering in March 2011 (the "2011 Senior Notes"). We used $485 million of the $1.24 billion in net proceeds from the 2011 Senior Notes offering, together with $90 million of cash on hand, to fund the repayment of $500 million outstanding under our secured receivables credit facility, and the repayment of $75 million outstanding under our senior unsecured revolving credit facility. The remaining portion of the net proceeds from the 2011 Senior Notes offering were used to fund our acquisition of Athena on April 4, 2011. The 2011 Senior Notes are further described in Note 12 to the Consolidated Financial Statements.

During the second quarter of 2011, $585 million and $30 million of borrowings under our secured receivables credit facility and our senior unsecured revolving credit facility, respectively, together with cash on hand, were used to fund the acquisition of Celera in May 2011. During the second quarter of 2011, proceeds from the sale of short-term marketable securities acquired as part of the Celera acquisition totaling $214 million, together with cash on hand, were used to fund $500 million and $30 million of debt repayments under our secured receivables credit facility and our senior unsecured revolving credit facility, respectively.

During the third quarter of 2011, $225 million of borrowings under our secured receivables credit facility were used primarily to fund $159 million of debt repayments under our senior notes due July 2011 and purchases of treasury stock totaling $50 million. Later in the quarter, we repaid $225 million of borrowings outstanding under our secured receivables credit facility with cash on hand.

During the fourth quarter of 2011, $31 million of borrowings under our secured receivables credit facility, together with cash on hand, were used primarily to fund $182 million of debt repayments under our term loan due May 2012 and purchases of treasury stock totaling $50 million. Later in the quarter, we repaid $31 million of borrowings outstanding under our secured receivables credit facility with cash on hand.

In September 2011, we entered into a $750 million senior unsecured revolving credit facility which replaced our prior $750 million senior unsecured revolving credit facility that was scheduled to mature in May 2012. See Note 12 to the Consolidated Financial Statements for further details.

Dividends

During each of the first three quarters in 2012, our Board of Directors declared a quarterly cash dividend of $0.17 per common share, and in November 2012, declared a 76% increase in the quarterly cash dividend to $0.30 per common share. This 76% increase raises the annual dividend rate to $1.20 per common share from $0.68 per common share and represents a three-fold increase from the annual rate in effect in 2011.

During each of the first three quarters of 2011, our Board of Directors declared a quarterly cash dividend of $0.10 per common share, and in October 2011, declared a 70% increase in the quarterly cash dividend to $0.17 per common share.

We expect to fund future dividend payments with cash flows from operations, and do not expect the dividend to have a material impact on our ability to finance future growth.

Share Repurchases

In January 2012, our Board of Directors authorized $1 billion of additional share repurchases of our common stock, increasing our total available authorization at that time to $1.1 billion. The share repurchase authorization has no set

expiration or termination date.

For the year ended December 31, 2012, we repurchased 3.4 million shares of our common stock at an average price of $58.31 per share for a total of $200 million. At December 31, 2012, $865 million remained available under share repurchase authorizations.

For the year ended December 31, 2011, the Company repurchased 17.3 million shares of its common stock at an average price of $54.05 per share for a total of $935 million, including 15.4 million shares purchased in the first quarter from SB Holdings Capitial Inc., a wholly-owned subsidiary of GlaxoSmithKline plc., at an average price of $54.30 per share for a total of $835 million.

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Contractual Obligations and Commitments

The following table summarizes certain of our contractual obligations as of December 31, 2012:

	Payments due by period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Outstanding debt	$3,300,000	$—	$700,000	$675,000	$1,925,000
Capital lease obligations	27,610	9,404	15,440	2,754	12
Interest payments on outstanding debt	2,070,428	165,861	326,730	258,555	1,319,282
Operating leases	673,266	181,167	246,864	114,992	130,243
Purchase obligations	95,944	39,234	46,837	8,202	1,671
Merger consideration obligation	960	960	—	—	—
Total contractual obligations	$6,168,208	$396,626	$1,335,871	$1,059,503	$3,376,208

Interest payments on our long-term debt have been calculated after giving effect to our interest rate swap agreements, using the interest rates as of December 31, 2012 applied to the December 31, 2012 balances, which are assumed to remain outstanding through their maturity dates.

A full description of the terms of our indebtedness and related debt service requirements and our future payments under certain of our contractual obligations is contained in Note 12 to the Consolidated Financial Statements. A full discussion and analysis regarding our minimum rental commitments under noncancelable operating leases and noncancelable commitments to purchase product or services at December 31, 2012 is contained in Note 17 to the Consolidated Financial Statements. A full discussion and analysis regarding our acquisition of Celera and the merger consideration related to shares of Celera which had not been surrendered as of December 31, 2012 is contained in Note 5 to the Consolidated Financial Statements.

As of December 31, 2012, our total liabilities associated with unrecognized tax benefits were approximately $199 million, which were excluded from the table above. We believe it is reasonably possible that these liabilities may decrease by up to approximately $8 million within the next twelve months, primarily as a result of the expiration of statutes of limitations, settlements and/or the conclusion of tax examinations on certain tax positions. For the remainder, we cannot make reasonably reliable estimates of the timing of the future payments of these liabilities. See Note 7 to the Consolidated Financial Statements for information regarding our contingent tax liability reserves.

Our credit agreements contain various covenants and conditions, including the maintenance of certain financial ratios, that could impact our ability to, among other things, incur additional indebtedness. As of December 31, 2012, we were in compliance with the various financial covenants included in our credit agreements and we do not expect these covenants to adversely impact our ability to execute our growth strategy or conduct normal business operations.

Unconsolidated Joint Ventures

We have investments in unconsolidated joint ventures in Phoenix, Arizona; Indianapolis, Indiana; and Dayton, Ohio, which are accounted for under the equity method of accounting. We believe that our transactions with our joint ventures are conducted at arm’s length, reflecting current market conditions and pricing. Total net revenues of our unconsolidated joint ventures equal less than 6% of our consolidated net revenues. Total assets associated with our unconsolidated joint ventures are less than 2% of our consolidated total assets. We have no material unconditional obligations or guarantees to, or in support of, our unconsolidated joint ventures and their operations.

Requirements and Capital Resources

We estimate that we will invest approximately $250 million during 2013 for capital expenditures to support and expand our existing operations, principally related to investments in information technology, laboratory equipment and facilities, including specific initiatives associated with our Invigorate program.

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As of December 31, 2012, $1.3 billion of borrowing capacity was available under our existing credit facilities, consisting of $525 million available under our secured receivables credit facility and $750 million available under our senior unsecured revolving credit facility.

We believe the banks participating in our various credit facilities are predominantly highly-rated banks, and that the borrowing capacity under the credit facilities described above is currently available to us. Should one or several banks no longer participate in either of our credit facilities, we would not expect it to impact our ability to fund operations. We expect that we will be able to replace our existing secured receivables credit facility with alternative arrangements prior to its expiration.

We believe that cash and cash equivalents on-hand and cash from operations, together with our borrowing capacity under our credit facilities, will provide sufficient financial flexibility to fund seasonal working capital requirements, capital expenditures, debt service requirements and other obligations, cash dividends on common shares, share repurchases and additional growth opportunities for the foreseeable future. We believe that our credit profile should provide us with access to additional financing, if necessary, to fund growth opportunities that cannot be funded from existing sources.

Outlook

We believe that our five-point strategy discussed in the Overview will be the catalyst for restoring growth, improving the efficiency of our operations, enhancing customer satisfaction, and increasing shareholder returns. In addition, we believe it will further differentiate us over the long-term and strengthen our industry leadership position.

We believe that the underlying fundamentals of the diagnostic information services industry will continue to improve and that over the long-term the industry will continue to grow. As the world's leading provider of diagnostic information services, we believe we are well positioned to benefit from the growth expected in our industry.

Our strong cash generation, existing credit facilities and access to additional financing position us well to take advantage of growth opportunities.

Inflation

We believe that inflation generally does not have a material adverse effect on our results of operations or financial condition because the majority of our contracts are short term.

Impact of New Accounting Standards

In July 2012, the Financial Accounting Standards Board (“FASB”) issued an amendment to the accounting standards related to the testing of indefinite-lived intangible assets, other than goodwill, for impairment. In February 2013, the FASB issued a new accounting standard that adds new disclosure requirements for amounts reclassified out of accumulated other comprehensive income. The impact of these accounting standards are discussed in Note 2 to the Consolidated Financial Statements.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 based on criteria for effective internal control over financial reporting described in “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2012 is effective.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this annual report, audited the Company's internal control over financial reporting as of December 31, 2012 and issued their audit report on the Company's internal control over financial reporting included therein.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Quest Diagnostics Incorporated

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Quest Diagnostics Incorporated and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey
February 27, 2013

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(in thousands, except per share data)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$295,586	$164,886
Accounts receivable, net of allowance for doubtful accounts of $235,747 and $237,339 at December 31, 2012 and 2011, respectively	867,010	906,455
Inventories	93,050	89,132
Deferred income taxes	174,209	153,328
Prepaid expenses and other current assets	90,950	87,459
Current assets held for sale	40,192	—
Total current assets	1,560,997	1,401,260
Property, plant and equipment, net	755,831	799,771
Goodwill	5,535,848	5,795,765
Intangible assets, net	872,172	1,035,612
Other assets	204,631	280,971
Non-current assets held for sale	354,384	—
Total assets	$9,283,863	$9,313,379
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$1,016,191	$906,764
Short-term borrowings and current portion of long-term debt	9,404	654,395
Current liabilities held for sale	22,008	—
Total current liabilities	1,047,603	1,561,159
Long-term debt	3,354,173	3,370,522
Other liabilities	635,558	666,699
Non-current liabilities held for sale	60,800	—
Commitments and contingencies		
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value $0.01 per share; 600,000 shares authorized at both December 31, 2012 and 2011; 215,075 shares and 214,607 shares issued at December 31, 2012 and 2011, respectively	2,151	2,146
Additional paid-in capital	2,370,677	2,347,518
Retained earnings	4,690,378	4,263,599
Accumulated other comprehensive income (loss)	14,320	(8,067)
Treasury stock, at cost; 56,744 shares and 57,187 shares at December 31, 2012 and 2011, respectively	(2,914,479)	(2,912,324)
Total Quest Diagnostics stockholders' equity	4,163,047	3,692,872
Noncontrolling interests	22,682	22,127
Total stockholders' equity	4,185,729	3,714,999
Total liabilities and stockholders' equity	$9,283,863	$9,313,379

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands, except per share data)

	2012	2011	2010
Net revenues	$7,382,562	$7,391,932	$7,260,120
Operating costs and expenses:			
Cost of services	4,364,699	4,362,928	4,275,535
Selling, general and administrative	1,745,200	1,743,089	1,658,842
Amortization of intangible assets	74,748	61,183	33,113
Other operating (income) expense, net	(2,882)	238,091	9,047
Total operating costs and expenses	6,181,765	6,405,291	5,976,537
Operating income	1,200,797	986,641	1,283,583
Other income (expense):			
Interest expense, net	(164,689)	(169,614)	(143,467)
Equity earnings in unconsolidated joint ventures	25,625	28,954	29,557
Other income, net	6,662	2,813	5,311
Total non-operating expenses, net	(132,402)	(137,847)	(108,599)
Income from continuing operations before taxes	1,068,395	848,794	1,174,984
Income tax expense	401,897	354,702	430,127
Income from continuing operations	666,498	494,092	744,857
Income (loss) from discontinued operations, net of taxes	(74,364)	11,558	12,160
Net income	592,134	505,650	757,017
Less: Net income attributable to noncontrolling interests	36,413	35,083	36,123
Net income attributable to Quest Diagnostics	$555,721	$470,567	$720,894
Amounts attributable to Quest Diagnostics' stockholders:			
Income from continuing operations	$630,085	$459,009	$708,734
Income (loss) from discontinued operations, net of taxes	(74,364)	11,558	12,160
Net income	$555,721	$470,567	$720,894
Earnings per share attributable to Quest Diagnostics' common stockholders - basic:			
Income from continuing operations	$3.96	$2.88	$4.01
Income (loss) from discontinued operations	(0.47)	0.07	0.07
Net income	$3.49	$2.95	$4.08
Earnings per share attributable to Quest Diagnostics' common stockholders - diluted:			
Income from continuing operations	$3.92	$2.85	$3.98
Income (loss) from discontinued operations	(0.46)	0.07	0.07
Net income	$3.46	$2.92	$4.05
Dividends per common share	$0.81	$0.47	$0.40

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands)

	2012	2011	2010
Net income	$592,134	$505,650	$757,017
Other comprehensive income (loss):			
Currency translation	24,520	(12,920)	27,271
Market valuation, net of tax	(20)	(2,696)	3,090
Net deferred loss on cash flow hedges, net of tax	838	(1,042)	724
Other	(2,951)	(2,035)	502
Other comprehensive income (loss)	22,387	(18,693)	31,587
Comprehensive income	614,521	486,957	788,604
Less: Comprehensive income attributable to noncontrolling interests	36,413	35,083	36,123
Comprehensive income attributable to Quest Diagnostics	$578,108	$451,874	$752,481

The accompanying notes are an integral part of these statements.

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QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	$592,134	$505,650	$757,017
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	286,596	281,102	253,964
Provision for doubtful accounts	268,615	279,592	291,737
Deferred income tax provision (benefit)	6,535	28,624	(18,878)
Stock-based compensation expense	50,332	71,906	53,927
Excess tax benefits from stock-based compensation arrangements	(3,956)	(4,466)	(884)
Asset impairment and loss on sale of business	86,348	—	—
Provision for special charge	—	236,000	—
Other, net	(7,781)	8,627	22,967
Changes in operating assets and liabilities:			
Accounts receivable	(243,019)	(306,652)	(309,932)
Accounts payable and accrued expenses	(13,156)	(17,636)	18,235
Settlement of special charge	—	(241,000)	—
Income taxes payable	100,585	39,062	33,732
Termination of interest rate swap agreements	71,820	—	—
Other assets and liabilities, net	(7,885)	14,665	