Quest Diagnostics Incorporated
Conference Call Prepared Comments
For the quarter ended March 31, 2008

Monday, April 21, 2008, 8:30 am ET

Laure Park: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

Some of our commentary and answers to questions may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the company include, but are not limited to, adverse results from pending or future government investigations, lawsuits or private actions, the competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors described in the Quest Diagnostics 2007 Form 10-K and current reports on Form 8-K.

A copy of our earnings press release is available, and the text of our prepared remarks will be available later today in the "quarterly updates" section of our website at www.questdiagnostics.com.

A downloadable spreadsheet with our results and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Laure.

During the quarter we delivered strong growth in revenues and earnings.
- Consolidated revenues grew 17% to $1.8 billion;
- Earnings per share increased 31%;
- And, cash flow was $158 million for the quarter.

During the quarter we also made good progress in all elements of our plan.

- We drove profitable organic revenue growth.
- We further aligned AmeriPath with Quest Diagnostics.
- We generated double-digit revenue growth in our near-patient – or "point-of-care" -- testing business.
- We continued to reduce our cost structure and improve our efficiency.
- We opened our lab in India, which is a key market for our international business. And,
- We were the only company in our industry to be named one of America's Most Admired Companies by Fortune Magazine.

After we hear from Bob, I will address each of these elements. Bob?

Bob Hagemann: Thanks, Surya.

As you heard, we continue to make solid progress against our plan, and are on track to meet the goals we established for the year. As I take you through the numbers, I'll elaborate on the areas of progress Surya highlighted.

Before I do, I'll quickly address NID. We are continuing our discussions with the government to attempt to settle this matter. We have made no adjustments to our reserve and have no updates to the status we provided you in February.

Now, let's turn to the results.

Revenues were $1.8 billion, 16.9% above the prior year, with AmeriPath contributing about 13% growth. Revenues for our clinical testing business, which account for over 90% of our total revenues, were 17.1% above the prior year, with AmeriPath contributing about 14%. Volume was 5.6% above the prior year, and essentially even with the prior year, before the AmeriPath acquisition. This reflects continued growth in our underlying business, adjusted for the United contract change.

Remember, that change went into effect January first of last year, and most of the volume loss ramped up over the course of last year's first quarter. Therefore, there continues to be about a 1-½ percent carry-over impact in comparing this year's first quarter volume to that of last year. During the first quarter there was a positive impact to the year-over-year revenue per requisition comparison of about half a percent due to higher reimbursement on the retained United work, which brings the year-over-year revenue impact of the contract change to about 1%.

Since most of the volume impact was felt by the end of last year's first quarter, and since there continues to be no significant change in the amount of the United volume we have retained (over 20%), we expect a more limited impact on future quarterly volume and revenue comparisons.

Revenue per requisition increased 10.8%, with 7.8% of the increase due to AmeriPath. The balance of the increase in revenue per requisition (about 3%) continues to be primarily driven by a positive mix, partially offset by price reductions on various health plan contracts.

This 3% increase compares to an increase of 5.4% in the fourth quarter of last year. The difference is due to the anniversary of the positive price impact of the United contract change, and pricing reductions negotiated last year which went into effect January 1 of this year. As we've previously explained, all of our largest health plan contracts have now been renegotiated for multi-year periods, and we believe there is much more stability in pricing than a year ago.

Adjusted for last year's contract losses, we continue to see growth in our base volume of between one and two percent, similar to the Q4 level. This is despite seeing a significant decline (almost 10%) in pre-employment drug testing, which accounts for about 7% of our total volume. Given that this tends to be very low-priced business, the impact to revenue and profitability is generally much less.

Our drug testing business, and our risk assessment business which serves life insurers, are our two businesses most subject to a slowing economy. We expect both of these businesses to see their growth impacted this year and are taking actions to manage their costs accordingly. However, please note that these businesses, combined, account for less than 10% of our total revenues. Given our actions to manage their costs, we do not expect their performance to alter our consolidated revenue or earnings expectations for the year.

And lastly, on the topic of revenue growth, we saw strong, double digit growth, in each of our: point-of-care, clinical trials and healthcare IT businesses in the quarter. You'll hear more from Surya on the point-of-care business.

Included in footnote 4 to the earnings release is a table, which summarizes the impact to various revenue measures for a number of the items discussed.

Operating income as a percentage of revenues was 15.7% for the quarter, up two-and-a- half percent from last year's first quarter, principally due to the actions we have taken to reduce our cost structure. This percentage is below the level we exited last year, primarily due to annual salary and wage adjustments which go into effect in the first quarter, a seasonal increase in bad debt, as well as pricing reductions which went into effect January first. However, we expect that our operating income percentage will continue reflecting improvement over the prior year in each of the next three quarters, due to continued revenue growth and further savings from our cost reduction program initiated last year.

That program, which we expect to reduce our cost structure by $500 million as we exit 2009, delivered over $100 million in savings as we exited last year; and we expect to have realized about half of the remainder as we exit this year.

The largest component of the savings will come from streamlining processes and increasing productivity in our labs by deploying Lean Six Sigma. The first deployment of Lean is now complete and has been fully analyzed. The analysis has confirmed significant productivity gains – double digits in most of the impacted departments, exceeding our initial estimates. We are now utilizing the learnings from this first deployment to ensure we maximize the returns and facilitate the deployment of Lean to our other labs around the country.

The other major elements of our program which contribute substantial savings include:

- Driving more of our purchasing through master contracts to take advantage of our scale;
- Deploying enhanced connectivity to our customers and patient service centers, which helps reduce costs in specimen data entry and billing, and helps lower our bad debt;
- Driving efficiencies in other areas by better aligning our service capacity with patient and sample flows;
- And, improving the efficiency of our logistics routes using advanced route optimization tools and other techniques.

We are seeing good progress across all of these areas.

Bad debt expense as a percentage of revenues was 4.8%, up four-tenths of a percent from the first quarter last year, but down three-tenths before the inclusion of AmeriPath. The slight increase from the fourth quarter rate of 4.4% is due to the typical increase we see in the first quarter associated with patient deductibles and co-pays. We do not anticipate any significant impact to our bad debt rate as a result of an economic slowdown. The higher bad debt rate carried by AmeriPath continues to be an opportunity, which we expect to begin realizing later this year.

Diluted earnings per share from continuing operations were $.72 compared to $.55 in the prior year. Last year's first quarter EPS was reduced by 4 cents of special charges, principally due to workforce reductions.

In providing guidance for 2008 we indicated that we expected to make investments in systems and our start-up in India, which together would reduce full-year EPS by about 20 cents. We are on track with both of these initiatives and have incurred about 3 cents of the impact in Q1.

Our lab in India, in the New Delhi region, is now operational. We are in the early days of ramping up our selling efforts and other support functions. While this market is expected to be a significant contributor to our international operations, the revenue we expect to realize this year is less than $10 million. Our estimate for startup losses this year of about 7 cents per share is unchanged, with one cent of that realized in the first quarter.

Our systems investments totaling 13 cents per share, associated with developing and deploying standard systems across AmeriPath and our clinical labs, are also on track. We have completed the enhancements to the AmeriPath Lab and billing systems and plan to begin deployment in the second quarter. Additionally, the linking of Care360 with the AmeriPath systems for test results is on track, with completion expected by the end of the second quarter. We expect the initial development associated with the standardization of our clinical lab systems to be completed in the second quarter, with deployment of the enhanced system to begin shortly thereafter. The remaining development is expected to be completed around yearend. Through the first quarter we incurred roughly 2 cents of the 13 cents per share we expect to spend this year.

Cash from operations for the quarter was $158 million, compared to $152 million last year. Keep in mind, the first quarter cash from operations is typically lower than the quarterly average due to the timing of various cash flows. During the quarter we reduced debt by $113 million, bringing our total debt reduction since the AmeriPath acquisition to more than $500 million. Cash at the end of the quarter was $170 million, and capital expenditures were $47 million in the quarter.

Days sales outstanding were 48 days, unchanged from year-end.

Turning to guidance for results from continuing operations… Full-year 2008 guidance is unchanged from what we provided you in February:

- We expect revenue growth to approximate 9%.

- We expect operating income as a percentage of revenues to approach 17%.

- We expect cash from operations to approximate $900 million. And we expect capital expenditures of between $280 and $300 million.

- And lastly, we expect diluted earnings per share to be between $3.00 and $3.20, excluding any potential special charges.

While there is still much more to accomplish this year, we have gotten off to a very solid start, and our confidence in achieving our goals, financial and strategic, continues to grow with each milestone achieved.

Now I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

During the quarter we drove profitable organic revenue growth, leveraging our sales, service and science. As Bob said, revenues for our clinical testing business were up 17% year-over-year.

We are working closely with health plans, and offering them a series of unique services to meet their requirements. For example:

- With Aetna, we have been communicating to patients the benefits of our unique appointment scheduling service. Patients appreciate the convenience, and their employers like the fact that their employees can remain productive if they use Quest Diagnostics.
- With CIGNA, we have recently launched a program to educate physicians about the benefits of h. pylori testing for early detection of digestive disorders. Previous programs have focused on expanding colorectal cancer screening using our proprietary InSure test.
- With Wellpoint, we continue to promote e-prescribing in a pilot using our Care360 physician portal, which combines prescribing and laboratory data. E-prescribing can reduce medical errors and costs, avoid dangerous drug interactions and drive appropriate drug utilization.

These service offerings are unique to Quest Diagnostics and available to help regional and national health plans improve patients' health and manage costs for their customers.

We continue to grow our esoteric testing services. Gene-based and esoteric testing revenues increased over 20% in the quarter. We are seeing strong growth in HIV, Cystic Fibrosis and tests using tandem mass spec, such as Vitamin D and testosterone tests. We are also excited that we are providing physicians the gold standard proprietary tests for kidney stone evaluations, UroRisk and StoneRisk.

Also, during the quarter we licensed a promising new biomarker from Epigenomics for a future colorectal cancer test from a blood sample.

Our unique proprietary tests and service offering are helping us grow our hospital business.

We won a number of new hospital and commercial lab accounts during the quarter. Hospitals and other commercial labs value our superior service, quality and comprehensive testing menu.

We are in the process of aligning AmeriPath and Quest Diagnostics.

- In the quarter, we completed the integration of Specialty Labs, AmeriPath's esoteric testing business.
- We have engaged the pathologists in the process, and together we are executing our growth plans for anatomic pathology.
- We have extended a key health plan contract.
- And we are leveraging our physician sales force to sell the AmeriPath value proposition to primary care physicians, who represent a major growth opportunity for us.

We are moving with deliberate speed, and the integration is on track.

--Pause--

Our near patient testing revenues grew double digits. Near patient testing is providing exciting opportunities to improve care and reduce costs by enabling physicians to make more timely treatment decisions at the point of care. We expect new product launches from our HemoCue, Focus Diagnostics and Enterix operations to drive further growth. For example:

- HemoCue's recently FDA-cleared handheld white blood cell monitor has the potential to change medical practice, by enabling physicians to diagnose infection, inflammation and other serious conditions at the point of care. We are currently waiting for a CLIA waiver, which will greatly expand access for this test.
- Similarly, Focus Diagnostics is awaiting a CLIA waiver for its HerpeSelect Express test. This test can quickly and accurately diagnose a herpes infection, allowing the physician to make an immediate treatment decision while the patient is still in the office.
- We recently launched a physician office version of the InSure Fecal Immunichemical Test for colorectal cancer screening. This product provides physicians with the ability to generate the test result in their office, which has the potential to increase patient compliance.
- In conjunction with the test we also launched an exciting education and awareness campaign to promote the benefits of early detection of colorectal cancer. We set an ambitious goal of reaching 5 million people over age 50 within the next 5 years. I'd like to invite each of you to join me in our challenge to increase early detection by visiting www.DoYouHaveTheGuts.com.

--Pause--

We are expanding our international business by entering the Indian market. Today, India is an underserved healthcare market. It is fast growing with a diversified customer base. India has surpassed China as the most popular site for clinical trials in Asia.

Our lab in the New Delhi region is operational. We have begun to sign contracts with customers, and build a business focused on esoteric testing, clinical trials, risk assessment and near-patient testing. We are at the very early stage, and continue to believe that this is a significant opportunity.

--Pause--

Before closing, I'll briefly comment on recent developments associated with the CMS competitive bidding process. As I'm sure most of you know, the competitive bidding pilot in San Diego was successfully challenged by local hospitals. In granting the preliminary injunction, the judge expressed concern about the quality of patient care if the pilot were to move forward. We continue to believe that competitive bidding is not appropriate for laboratory services.

--Pause--

In summary, we are focused on execution, and our approach is bifocal – we are committed to deliver results in the short term, while building sustainable shareholder value for the long term.

Last year, we took many bold and decisive actions to reduce uncertainty in this industry, and we also built the platform for our growth this year and beyond.
During the quarter, we made good progress in all elements of our operating and strategic plan.

- In particular, we generated strong top- and bottom-line growth, with our revenues increasing 17% year-over-year.

- Our cost-reduction initiative is in full swing and we are on track to achieve our goal of reducing our cost structure by $500 million by the time we exit 2009.

- And, we are on-track to deliver our commitments for 2008.

We will now take your questions. Operator?

AFTER QUESTIONS STOP, OPERATOR:
Operator: Thank you for participating in the Quest Diagnostics First Quarter conference call. A transcript of prepared remarks on this call will be posted later today on Quest Diagnostics' website at www.questdiagnostics.com. A replay of the call will be available from 10:30 A.M. on April 21 through 11 P.M. on May 19, 2008 to investors in the U.S. by dialing 866-431-7950. Investors outside the U.S. may dial 203-369-0981. No password is required for either number. In addition, registered analysts and investors may access an on-line replay of the call at www.streetevents.com. The call will also be available to the media and individual investors at Quest Diagnostics' website. The on-line replay will be available 24 hours a day, beginning at noon. Goodbye.

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