

Quest Diagnostics Incorporated
Conference Call Prepared Remarks
For the Quarter Ended September 30, 2008

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, 2008 quarterly reports on Form 10-Q 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.

We delivered another strong quarter of growth and cost reductions. Our growth was based on improvements across the board in esoteric, gene-based and routine testing. We also made progress with our cost reduction program. I am pleased with our progress.

During the quarter:

- Revenues grew 3.4% to \$1.8 billion dollars;
- Adjusted earnings per share increased 12%; and
- Cash flow improved to \$329 million dollars.

For the full year 2008, we have raised guidance for adjusted earnings per share to between \$3.17 and \$3.22.

Let me take a moment to give you our view with respect to the diagnostics industry and in particular to our company, in light of the current economic environment.

There is general agreement that we are in a recession and facing difficult economic conditions. While the rate of our growth may temporarily slow, diagnostic testing is a critical healthcare service and we expect continued growth in revenues and earnings.

Remember that almost nothing happens in patient care without a lab test. We provide important and essential information that influences more than 70% of healthcare decisions.

The demographics of the growing and aging population are positive for our industry and our company. We are seeing the number of tests ordered for each patient increase. The rapid advances in science, medicine and Information Technology are bringing new and innovative tests to market quickly to diagnose disease and monitor therapy at an earlier stage. This is accelerating adoption of many gene based and esoteric tests and helping millions of patients. Anatomic Pathology and molecular diagnostics are critical to cancer care and increasing reliance on these tests has reduced morbidity and mortality.

Healthcare reform is on the agendas of both the presidential candidates. Both candidates have indicated the need to promote wellness and prevention rather than simply treating the sick. Employers, too, have recognized the importance of helping their employees to become healthier and maintain their wellness. Laboratory testing is as critical for wellness as it is for treating illness.

As a result, we believe that our growth rate will remain positive and that we have an opportunity to grow our revenues and increase our market share. Diagnostic testing is a large and fragmented industry. We only have 15 % of the market, leaving plenty of room for our growth.

Over the years, we have invested in building unique products and services. Some competitors may find it difficult to compete in a down economy. And, many hospitals may prefer to partner with us to manage their Labs to reduce their need for additional capital.

Diagnostic testing remains an attractive segment of the healthcare industry. And we are well positioned to take advantage of growth opportunities.

I will give you a brief progress report on our commitments and future growth initiatives after you hear the analysis of our third quarter results from Bob. Bob?

Bob Hagemann: Thanks, Surya.

As you heard, our business is strong and performing well. Its revenues and earnings have continued to grow, and it has displayed outstanding cash flow characteristics.

Before I take you through the numbers, a quick update regarding NID. After lengthy discussions, we are pleased to report an agreement in principle with the federal government in connection with its investigation. While there are still details to be negotiated and definitive agreements to be executed, the details which we can share with you are included in footnote 6 to the earnings release.

As a result of this agreement, we have increased our reserves related to NID by \$73 million, through a charge recorded in discontinued operations, bringing the total reserves to \$314 million. The timing of any payments against the reserve will be addressed as part of the definitive settlement agreements. We are pleased to have reached agreement on the most important elements of this matter.

Now, let's turn to the results for the third quarter.

Revenues were \$1.8 billion, 3.4% above the prior year, and about 4% above before the impact of hurricanes which adversely impacted our revenues and volumes in the quarter. Revenues for our clinical testing business, which account for over 90% of our total revenues, were 3% above the

prior year, and about 3.5% above before the hurricanes' impact. The AmeriPath acquisition anniversaried in the second quarter, and is no longer impacting year-over-year revenue comparability. Volume was almost one percent above the prior year, and about 1.3% above the prior year, before the weather impact.

Over the last three quarters we have consistently seen growth in our underlying volume of about one percent. This is despite a significant decline (almost 10%) in pre-employment drug testing, which accounts for about 7% of our total volume. As we've explained previously, this tends to be very low-priced business, and its impact to revenue and profitability is generally less significant.

Our employer business, which is predominantly pre-employment drug testing, and our risk assessment business, which serves life insurers, are our two businesses most subject to a slowing economy. Yet, the profits for both businesses are above the prior year level due to aggressive actions we have taken to manage their costs. These businesses, combined, account for less than 10% of our total revenues.

Revenue per requisition increased 2.3%, with the increase continuing to be primarily driven by a positive mix, and is in line with what we saw in the first two quarters. As we've previously indicated, 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 last year.

The impact to various revenue measures for a number of the items I've just discussed is included in a table within footnote 5 in the earnings release.

Operating income as a percentage of revenues was 17.4% for the third quarter, and reflects continued improvement, despite the hurricanes' impact of approximately one-half a percent, principally due to revenue growth and the progress we are making with our cost reduction program announced last year.

That program, which we expect to reduce our cost structure by \$500 million, is on track, and we expect to have delivered over \$300 million in annualized savings as we exit this year, with the balance in 2009.

Last quarter I outlined the major elements of our program which include:

- Using Lean Six Sigma to increase productivity in our labs;
- Driving more of our purchasing through master contracts to take advantage of our scale;
- Better aligning our service capacity with patient and sample flows;
- Optimizing logistics routes and using more fuel efficient vehicles; and,
- Deploying enhanced connectivity to our customers and patient service centers, to reduce costs in specimen data entry and billing, and lower our bad debt.

We are making good progress across all of these areas, particularly in billing and collections, where we continue to see excellent performance in bad debt, days sales outstanding and the cost of our billing operation.

Bad debt expense as a percentage of revenues was 4.4%, four-tenths of a percent lower than last year and unchanged from the second quarter. DSOs were reduced to 45 days, down from 46 days

at the end of Q2 and 48 days at last year-end. With our disciplined approach, we expect to see continued strong performance in our billing and collection metrics, despite a slowing economy.

Included in other income (expense) is a non-cash charge associated with the write down of an equity investment made several years ago. While the accounting rules required us to write down this investment, we have retained much of the value we initially expected, through certain rights to the intellectual property associated with various tests it is developing.

Diluted earnings per share from continuing operations were \$0.86 before the investment write-down and the impact of hurricanes in the quarter, which, together, reduced earnings per share by \$0.05. This compares to \$0.77 in the prior year, a 12% increase.

Last quarter we indicated that, combined, our investments in systems and our start-up in India, would reduce full-year EPS by about 17 cents. We incurred 5 cents of the impact in Q3, bringing the year-to-date total to about 12 cents, and now expect to incur about 16 cents per share for the full year.

Our lab in India became operational earlier this year. We are still in the early days of ramping up our selling efforts and other support functions, but seeing real progress. While this market is expected to be a significant contributor to our international operations, we are not expecting it to contribute material revenues this year. Our estimate for start-up losses this year remains about \$0.04 per share. We have incurred roughly one cent in each of the first three quarters.

Our systems investments, expected to total \$0.12 per share for the full year, associated with developing and deploying standard systems across AmeriPath and our clinical labs, are on track. Year-to-date we incurred roughly 9 cents (4 cents in Quarter 3) of the \$0.12 per share we expect to spend this year on systems enhancements.

The cash flow produced by our business continued to be outstanding. Cash from operations increased to \$329 million for the quarter, compared to \$291 million last year. During the quarter we reduced debt by \$131 million, bringing our total debt reduction since the AmeriPath acquisition to \$830 million. Capital expenditures were \$45 million in the quarter. In addition, cash and cash equivalents more than doubled, to \$287 million.

As you can see from our results, we have been very prudent in the way we have deployed our capital and maintained our liquidity during what has been an extremely challenging time for financial markets worldwide. Our strong cash flow; our accumulated cash balances; and our unused credit lines, with strong banking partners, which total in excess of a Billion dollars, position us very well for these turbulent times.

Until the credit markets demonstrate stability, we will continue to be prudent and conservative in how we deploy our capital.

Turning to 2008 guidance from continuing operations:

- We expect revenue growth to exceed 8% for the full year. This is slightly below our previous estimate of 9%. The change is principally due to the impact of hurricanes in the third quarter, a delay in obtaining approval for one of our point-of-care products, and not seeing the acceleration in volume we had anticipated in our clinical testing business. While we have not

seen the acceleration in testing volume we had expected, we continue to expect volumes in the fourth quarter to grow at rates similar to what we have seen year-to-date.

- We continue to expect operating income as a percentage of revenues to approach 17%.
- We continue to expect cash from operations to approximate \$900 million. And we now expect capital expenditures of between \$200 and \$220 million.
- And lastly, we have increased our estimate for adjusted diluted earnings per share and now expect between \$3.17 and \$3.22, excluding the third quarter impact of hurricanes and the investment write-down, and any potential special charges.

These are challenging economic times, and, no company will be totally immune. However, we are well positioned to not only weather them, but to further strengthen our competitive position.

We have already made the investments which provide us with truly unparalleled assets and capabilities, making it harder for others to catch up during a period when, for many, access to capital will be constrained.

Our program to reduce costs and drive efficiencies has been underway for some time, and already has excellent momentum.

Our strong financial condition and cash flow characteristics will provide us the ability to operate our business and take advantage of growth opportunities more freely than others.

Because of these strengths we are confident in our prospects for both the near term and the long term.

Now I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

Over the past several years we have taken a series of bold and decisive actions to drive profitable growth, expand margins, diversify our business and differentiate ourselves from our competitors.

Let me comment on our progress.

Our approach to profitable growth is to leverage our sales, service and science. Our revenue growth is driven by increased demand for all test categories, including gene-based, esoteric and routine tests. Gene-based and esoteric testing revenues grew by almost 10% during the quarter. Testing volume for Vitamin D, testosterone, Chlamydia, gonorrhea, and HPV testing all grew in double digits.

We also saw strong growth in certain segments of routine testing during the quarter.

- ImmunoCAP allergy blood testing continued to grow at strong double-digit rates from a large existing base, with food allergy volume up 35% during the quarter, and non-food testing up more than 20%.
- Celiac disease testing increased more than 25%.
- And, InSure colorectal cancer screening volume was up over 15%.

Leveraging our science with strong innovation and quality remains at the core of how we drive growth. We are keenly focused on expanding our leadership position in cancer diagnostics.

We recently introduced the new HE-4 blood test for ovarian cancer recurrence. This is the only test in the last 20 years to receive FDA clearance for monitoring ovarian cancer, and we are the only national reference lab to offer it.

Ovarian cancer is the fifth most common cause of cancer-related death among women in the U.S., with more than 15,000 deaths and nearly 22,000 new cases diagnosed per year.

This is just the most recent example in a long history of new innovative tests and technology brought to market by Quest Diagnostics.

The centerpiece of our business is diagnostic testing. We have unparalleled assets and capabilities. In order to leverage these assets for growth and increase our operational efficiency we have been focusing on various customer segments who need our products and services, such as Patients, Physicians, Health Plans, Hospitals, Employers, Life Insurers and Pharma Companies. We are expanding our diagnostic scope and we are expanding our geographic reach.

Over the longer term, we expect additional growth to come from some of our newer businesses, such as point-of-care testing and international.

We are seeing strong growth in near-patient, or point-of-care testing, growing at greater than 10% year-to-date.

- Increased demand for CLIA-waived testing helped drive the growth.
- We have had stronger sales in the U.S. in 2008. Our largest point of care customer, the American Red Cross, has accelerated its use of our hemoglobin testing.

We are making progress in India. Our market presence is growing and we are adding new customers. We have also expanded our lab and field presence, and strengthened our management team in Delhi. In addition I am pleased that we won our first tender in the state of Maharashtra to screen hemoglobin levels for all blood bank donors using our HemoCue point of care platform.

As you have heard me say before, as we enter the decade of diagnostics, healthcare is moving from a focus solely on curative care to a recognition of the value of detection, prevention and personalized care.

We are encouraged by a growing trend that recognizes the importance of promoting wellness and prevention; that empowers patients to take control of their health; and that encourages employers to create healthy workplaces.

This trend toward wellness bodes well for Quest Diagnostics. We are empowering patients, and collaborating with payers, governments and employers to make people healthier. Consider our collaborations to drive awareness of the value of early detection for colorectal cancer. To date, payers including Aetna, CIGNA and Independence Blue Cross, employers such as Verizon Wireless, and the state of Tennessee have given hundreds of thousands of our convenient InSure test to their members, employees and residents.

We are helping employers create healthier workplaces and helping employees to take ownership of their health by participating in our Blueprint for Wellness program. This provides individuals with a comprehensive health risk report including laboratory test results. Large employers such as Domino's Pizza, the Houston Independent School Districts and Jeld-Wen, are enthusiastic users of this exciting wellness service.

Through our collaboration with Google Health, we are empowering patients to manage their personal health information and get a better understanding of their health status using lab testing. As the only laboratory partner of Google Health, we make it easy and convenient for people to manage their lab results and other health information in their personal health record.

Now we are further enabling Google Health users to buy a limited menu of tests, directly for themselves, to monitor their health and wellness.

We are also helping to reduce medical errors and improve patient safety by helping physician customers use our Care360 physician portal to order tests and prescribe drugs electronically. As we have enhanced the portal, its utilization has grown. For example, the number of e-prescriptions through Care360 more than doubled in September to nearly 300,000 compared to a year earlier.

Our operating margins have grown through top line growth and cost savings. We have embraced Six Sigma and Lean principles as a way to drive improvements in the quality and efficiency of our service. This has become part of our corporate culture which puts patients first and is based on the need for continuous improvement in all that we do.

We are on track to meet our commitment to reduce our cost structure by \$500 million by the end of next year. We continue to expect that, over time, we will achieve operating margins of 20%.

In summary,

- We are the clear leader in an attractive industry that provides an important and essential healthcare service. While diagnostic testing is not immune to economic challenges, the challenges are far outweighed by the opportunities.
- We continue to differentiate ourselves from our competitors through our superior patient-centric service, Six Sigma quality, innovative new tests and advanced technology.
- We are bifocal -- doing what is right for the business in the short term and planning for the long term.
- Our company remains strong operationally and financially. This enables us to execute our strategy without distraction through the current political and economic environment and to take advantage of opportunities that may arise in the future.

Thank you. We will now take your questions.

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