Quest Diagnostics Incorporated
Conference Call Prepared Comments
For the Quarter Ended December 31, 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 PowerPoint presentation and 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 quarter of solid performance, completing a year of strong revenue and earnings growth. During the fourth quarter:

- Earnings per share increased 10% to $0.87;
- Revenues increased to $1.8 billion; and
- Cash flow increased to $363 million.

For the full year:

- Earnings per share increased 14% to $3.23;
- Revenues increased 8% to $7.2 billion; and
- Cash flow exceeded $1 billion.

I am very pleased with our continued progress. We were able to exceed our commitment for earnings growth in 2008, despite the current economic environment. The fourth quarter and full year results represent outstanding performance.

We are in a recession. While the rate of our growth could temporarily slow as a result of external economic factors, we expect continued growth in revenues and earnings. To the extent that the economic impact is more severe than we anticipate, we are also prepared to take actions necessary to further adjust our cost structure.

For 2009, we expect:

- Revenues to grow approximately 3%, approaching $7.5 billion; and
- Earnings per share to grow 8% to 15% to between $3.50 and $3.70.

Also, our dividend policy remains unchanged and our Board of Directors has approved an additional $500 million for future share buy backs, demonstrating confidence in our performance and commitment to increasing shareholder value.

In any economic environment, diagnostic testing is an essential healthcare service. As the industry leader, we are well positioned to benefit from a range of future opportunities as diagnostic testing becomes ever more important within the healthcare world. The opportunities include the following:

- The demographics of the growing and aging population are positive for our industry and our company. As people age, they require more testing, and we are seeing an increase in the number of tests ordered for each patient.
- The advent of personalized medicine enables targeted tests to help doctors guide decisions on therapy and monitor the effectiveness of treatment. The pace of innovation in this important area is accelerating, with the frequent development of new biomarkers.
- Expanding access to screening tests…. for wellness and early detection of disease ….was a healthcare theme during the presidential election,…. and it remains a stated objective of the Obama Administration.
- Diagnostic testing is a large and still fragmented industry. We are the industry leader, but we have only 15 % of the market, leaving plenty of room to grow.

In 2009, we will grow revenues largely by driving increased sales of esoteric tests, particularly cancer diagnostics, to physicians and hospitals. We will grow earnings through top-line growth combined with further improvements in operating efficiencies.

I will give you a brief summary of our progress after you hear from Bob on the analysis of our fourth quarter results. Bob?

***Bob Hagemann*:** Thanks, Surya.

As you heard, our business is strong and performing well. Despite challenging economic conditions, revenues, earnings and cash flow have all grown, and we remain confident in our prospects for continued growth.

Turning to results for the fourth quarter:

Earnings per share from continuing operations was $0.87, 10% above the prior year, with the increase principally driven by strong operating performance. This brings full-year EPS to $3.23, an increase of 14% from the prior year. In the quarter, we recorded a charge of about $16 million, primarily associated with workforce reductions, which reduced earnings by $0.05 per share. This $0.05 per share was fully offset by the favorable resolution of several tax contingencies which increased EPS by 5 cents.

During the quarter, costs incurred related to the continued development and deployment of standard systems were approximately $0.02, and start-up costs for our India operation were $0.01, bringing the full year amounts to approximately $0.11 and $0.04, respectively.

Revenues were $1.8 billion, 1.7% above the prior year. Revenues for our clinical testing business, which accounts for over 90% of our total revenues, were 2.3% above the prior year, and about 3% above, before the impact of our pre-employment drug testing business.

Volume was 40 basis points below the prior year driven by a 16% decline in drug testing volumes. Before the impact of drug testing, volumes grew about 1%, in line with the rate through the first three quarters.

Our drug testing business and our risk assessment business, which serves life insurers, are our two businesses most subject to a slowing economy. Combined, they account for less than 10% of our total revenues, and both tend to be lower priced business. Therefore, their impact on revenue and profitability tends to be less significant. We have taken, and will continue to take, if necessary, aggressive actions to manage the costs of these businesses in order to mitigate their impact to our earnings growth.

Revenue per requisition increased 2.8%, with the increase continuing to be primarily driven by a positive mix, and is generally in line with what we saw through the first three quarters.

Operating income as a percentage of revenues was 17.6% for the fourth quarter, and reflects continued improvement, despite a reduction of almost a full percent associated with the $16 million charge discussed earlier. Before the impact of the charge, operating income as a percentage of revenues is up almost one percent versus the prior year, principally due to revenue growth and the progress we are making with our cost reduction program.

That program, which we committed would reduce our cost structure by $500 million, is on track, and has now delivered over $300 million in annualized savings, with the balance expected in 2009.

We are making good progress across all elements of the program, 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 4.3%, 10 basis points improved from the third quarter and the prior year. DSOs were reduced to 44 days, down from 45 days at the end of Q3 and 48 days at the end of last year. With our disciplined approach, we expect to see continued strong performance in our billing and collection metrics, despite a slowing economy.

Our cash flow continued to be outstanding. Cash from operations increased to $363 million for the quarter, compared to $355 million last year. During the quarter we fully utilized our remaining share repurchase authorization, and repurchased 5.5 million shares at an average price of $46, for a total of $254 million. Scheduled debt repayments were $45 million, and capital expenditures were $73 million in the quarter. Cash and cash equivalents totaled $254 million at quarter-end. In addition, during the quarter we successfully replaced the expiring $125 million portion of our receivables credit facility with a new $225 million facility, bringing the total receivables facility to $500 million. This, coupled with the $750 million available under our revolving credit facility, brings our unused credit lines to $1.3 billion and positions us extremely well from a liquidity standpoint.

Consistent with our positive outlook, and in order to provide us with multiple options and continued flexibility to deploy excess cash, our Board has authorized an additional $500 million of share repurchases. There is no specific timeframe over which the additional share repurchase authority will be utilized. Throughout 2009 we will remain prudent and generally conservative in how we deploy our capital, with excess cash used to retire debt, invest in growth, and repurchase shares.

Now, let’s turn to our 2009 outlook for continuing operations:

- We expect revenue growth to be approximately 3%.
- We expect operating income as a percentage of revenues to approach 18%.

- We expect cash from operations to approximate $1 billion, before the expected payment of the $316 million reserve established for NID, or approximately $700 million after such payment. Capital expenditures are expected to approximate $200 million.
- And lastly, we expect diluted earnings per share to be between $3.50 and $3.70, excluding potential special charges

As we discussed last quarter, these are challenging economic times, and no company is totally immune. Yet, we have continued to consistently deliver strong operating performance, and are confident in our ability to deliver further improvement.

- The investments which we have made provide us with unmatched assets and capabilities.
- Our program to reduce costs is well underway and has excellent momentum.
- And, our strong financial condition, cash flow and investment grade credit rating provide us the flexibility to take advantage of growth opportunities more freely than others.

Clearly, we are positioned to not only weather the difficult economic climate, but to further strengthen our competitive position.

Now I'll turn it back to Surya.

Surya Mohapatra: Thank you, Bob.

2008 was a year of significant achievements.

We made progress in executing our plans and differentiating ourselves from the competition. The factors that clearly differentiate us and drive growth include:

- Our superior patient experience;
- Six Sigma Quality;
- Innovative science and medicine;
- Unparalleled assets and capabilities; and
- Expansion into new markets and geographies.

Here are some examples of our progress:

- We continue to empower patients through expanded use of appointment scheduling and Google Health, which enables patients to take control of their own health information.
- We used Lean Six Sigma to drive efficiencies and further reduce our cost structure. During the year our productivity improved more than 5% within certain areas of our labs.
- And we launched an advanced tracking system so we can identify the location of a specimen en route to our laboratory.
- We have been diversifying our business to higher value esoteric, gene-based and anatomic pathology testing, which now account for 36% of all revenues.
    - In 2008, gene-based, esoteric and anatomic pathology revenues increased 20%.
    - Our medical and scientific staff of 800 M.D.s and 100 Ph.D.s is unmatched. Many of these people are internationally recognized experts in their specialty, from dermatopathology to anatomic pathology, from cardiac to cancer diagnostics and from infectious to genetic diseases. Our doctors diagnose more patients a day than some hospitals do in months.

    - We are the leading provider of cancer diagnostics, offering physicians and their patients access to the most complex molecular tests, the finest anatomic pathologists and leading histology and cytology services.
    - We are expanding our pipeline of innovation.
        - We nearly doubled the number of assays in our Leumeta family of plasma-based Leukemia and lymphoma tests to 22.
        - We introduced the new FDA-cleared HE-4 blood test for ovarian cancer recurrence, and we are the only national reference lab to offer it.
        - We introduced a gene-based test to determine an individual's risk of age-related macular degeneration, a common form of visual impairment.
        - We are developing a blood test for colorectal cancer based on the Septin 9 DNA methylation biomarker. This innovative test will be a supplement to conventional methods of colorectal cancer screening.

    - We are developing companion diagnostics for new therapies that will enable personalized treatment. We recently acquired additional biomarker capabilities to advance our efforts in this area.
    - We introduced K-RAS genetic analysis to determine which patients with metastatic colorectal or lung cancer would benefit from targeted therapy.
- When it comes to HCIT, we added 15,000 physician users to Care360, bringing the total to 140,000 doctors. This enables them to order lab tests, prescribe drugs and share clinical information with other healthcare providers quickly and securely.
    - The number of medications ordered through Care360 more than doubled to an annual rate of 4.5 million.

- We are expanding into new markets and geographies to provide longer-term growth opportunities.
    - We launched our HemoCue CLIA-waived MicroAlbumin Point of Care test in the U.S. and a white blood cell testing platform in Europe.
    - We became one of the few laboratories in India to receive triple accreditation from CAP, NABL and NGSP.
    - In Ireland, we have significantly reduced the waiting time for Pap tests for women through a contract with the Irish government.

In summary,

- We are the clear leader in an attractive industry that provides an important and essential healthcare service. No company is immune to economic challenges, but we believe the opportunities before us far outweigh the challenges.
- We are differentiating ourselves from our competitors through our superior patient-centric service, Six Sigma quality, science and innovation, and our unparalleled assets and capabilities.
- 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 economic environment and to take advantage of opportunities that may arise in the future.
- We expect revenue growth of about 3% and EPS growth of between 8* and 15% in 2009.
- And, we remain committed to driving superior returns for shareholders.

Thank you. We will now take your questions. Operator?

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