

**Quest Diagnostics Incorporated
Conference Call Prepared Remarks
For the Quarter Ended June 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, and I am pleased with our progress.

Our business is performing well. Executing our plan has enabled us to deliver double digit top and bottom-line growth:

- Revenues grew 12% to \$1.8 billion dollars;
- Earnings per share increased 14%;
- Cash flow improved to \$213 million.
- Volume increased by 5%.
- And, we exercised strong cost discipline, which contributed to our margin improvement and positions us well to respond to changing economic conditions.

After we hear from Bob, I will share details of our progress. Bob?

Bob Hagemann: Thanks, Surya.

As you heard, we reported another strong quarter and are firmly on track to meet the goals we established for the year. As I take you through the results, I'll highlight a number of key initiatives and our progress in each area.

Before I do, a quick comment regarding 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 further updates to share with you.

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

Revenues were \$1.8 billion, 12% above the prior year, with AmeriPath contributing about 8% growth. Revenues for our clinical testing business, which account for over 90% of our total revenues, were 12.4% above the prior year, and about 4% above without AmeriPath.

Volume was 4.9% percent above the prior year, and about 1% above the prior year, before the AmeriPath acquisition.

Over the last three quarters we have consistently seen growth in our underlying volume of between 1 and 2 percent. This is despite 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 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, and we do not expect their performance to alter our consolidated revenue or earnings expectations for the year.

Revenue per requisition increased 7.1%, with 4.5% of the increase due to AmeriPath. The balance of the increase in revenue per requisition (about 2.5 %) continues to be primarily driven by a positive mix, partially offset by price reductions on various health plan contracts, and is consistent with what we saw in the first quarter. 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 a year ago.

And lastly, on the topic of revenue growth, we saw strong, double digit growth, in our point-of-care 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 16.8% for the second quarter, and reflects continued improvement from both the prior year and this year's first quarter, principally due to revenue growth and the progress we are making with our cost reduction program.

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 another \$200 million as we exit this year, with the final \$200 million in 2009.

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

- Using Lean Six Sigma to streamline our processes and increase productivity in our labs;

- Driving more of our purchasing through master contracts to take advantage of our scale;
- Driving efficiencies in other areas by better aligning our service capacity with patient and sample flows;
- Improving the efficiency of our logistics routes using advanced route optimization tools and 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 have accelerated a number of our efforts to reduce 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 the first quarter; and three-tenths of a percent lower than last year, before the inclusion of AmeriPath. DSO's were reduced to 46 days, down from 48 days at the end of Q1 and 51 days a year ago. As you know, AmeriPath carries a higher bad debt rate than the rest of our business, and is one of the opportunities we have identified. During this last quarter we have begun to see solid progress in this area. With our disciplined approach, and the acceleration of our efforts, we expect to see continued strong performance in our billing and collection metrics, despite a slowing economy.

Diluted earnings per share from continuing operations were \$0.83 compared to \$0.73 in the prior year, a 14% increase. About one cent of the increase is due to a lower tax rate than a year ago, as a result of a favorable resolution to certain tax contingencies.

When we initially provided 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 \$0.20. We incurred \$0.04 of the impact in Q2, bringing the total in the first half to about \$0.07, and now expect to incur about \$0.17 per share for the full year.

Our lab in India became operational towards the end of the first quarter. We are still in the very 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, we are not expecting it to contribute material revenues this year. Our revised estimate for start-up losses this year is about \$0.04 per share, compared to an initial estimate of about \$0.07. We have incurred \$0.02 through the first half of the year, with \$0.01 realized in each of the first two quarters.

Our systems investments, totaling \$0.13 per share, associated with developing and deploying standard systems across AmeriPath and our clinical labs, are on track. The deployment of the upgraded AmeriPath Lab and billing systems is on track, and the linking of Care360 with the AmeriPath systems for test results is going well. Additionally, we have made good progress in the development associated with standardizing our clinical lab systems. Through the first half we incurred roughly \$0.05 (\$0.03 in Quarter 2) of the \$0.13 per share we expect to spend this year on systems enhancements.

Cash from operations increased to \$213 million for the quarter, compared to \$129 million last year. During the quarter we reduced debt by \$168 million, bringing our total debt reduction since the AmeriPath acquisition to about \$700 million. Cash at the end of the quarter was \$143 million, and capital expenditures were \$48 million in the quarter.

Turning to guidance from continuing operations...

- We continue to expect revenue growth of about 9%.
- We expect operating income as a percentage of revenues to approach 17%.
- We expect cash from operations to approximate \$900 million. And we now expect capital expenditures of between \$240 and \$260 million.
- And lastly, we have increased the midpoint of our estimate for diluted earnings per share and now expect between \$3.10 and \$3.20, excluding any potential special charges.

While we are in challenging economic times, we continue to make solid progress, and reported strong results for the first half. And, we expect our continued focus on executing our plans will position us well to achieve both our financial and strategic goals for this year.

Now I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

We differentiate ourselves and drive profitable growth by providing a superior experience for patients, physicians and hospitals. This focus is producing results. Now I will provide a brief update on three key areas: driving profitable growth; expanding our margins; and building a sustainable platform for long-term growth.

Our approach to driving profitable growth is to leverage our sales, service and science. We provide value to our new and existing customers with our superior service offering and innovative tests and technologies.

- Gene-based and esoteric testing revenues increased about 20% in the quarter.
- We saw double digit growth in a number of esoteric and gene-based tests, including Vitamin D and testosterone testing; chlamydia and gonorrhea tests and ImmunoCap allergy testing. In addition to our leadership position in gene-based and esoteric testing, we are also the clear leader in anatomic pathology. These are the two fastest-growing areas of our industry.
- We perform esoteric and gene-based testing at four major sites – our two Nichols Institute labs, Focus Diagnostics and Specialty Laboratories. We are the laboratory's laboratory, receiving unusual or difficult cases from not only hospital labs but also academic institutions and other commercial laboratories.
- Our hospital business is growing and accounts for more than \$1 billion dollars in revenues.

An example of how we think about solutions to difficult diagnostic challenges is in ovarian cancer. We believe a number of tests based on various markers, will be required to help detect and monitor various stages of cancer in different categories of patients. 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.

We are developing tests through relationships with three pioneers in proteomics and biomarkers, Fujirebio Diagnostics, Vermillion and Correllogic.

- Tomorrow, we are launching the first FDA-cleared blood test based on Fujirebio's HE4 biomarker. We are the first commercial lab to make this test available to monitor ovarian cancer patients.
- In addition, we are also evaluating the OVA1 ovarian cancer tumor triage test from Vermillion, which filed an application with the FDA in late June.

Similarly, we are taking a portfolio approach to expand our leadership in colorectal cancer screening. Given that patient compliance with colorectal screening guidelines is poor, tests need to be easy and convenient to take.

For several years now, we have offered our proprietary InSure FIT test, an FDA cleared test for colorectal cancer screening with a patient-friendly sample collection process.

During the quarter we introduced a CLIA-waived version of this test, called InSure QuickFit, that can be performed in a doctor's office.

And, we are also developing the first blood-based test to detect colorectal cancer using the Septin 9 methylated biomarker from Epigenomics.

Our important cardiac risk test using ion mobility technology is the first and only test that directly measures lipoprotein particle size, which is critical to assessing cardiac risk. We are excited about the potential for this unique test, which was the subject of a study published online recently in the journal Clinical Chemistry.

In addition, we continue to enhance the patient's experience. Our collaboration with Google empowers patients to manage their own health information. Using Google Health people can store their diagnostic test results and other medical information online.

We are expanding our operating margins through top line growth and cost savings.

- We improved underlying margins in each of the last four quarters, and are on track to meet our commitment to reduce our cost structure by \$500 million by the end of next year.
- We have re-engineered many of our processes using Six Sigma and Lean principles to improve efficiency and remove unnecessary work. As a result, we have 1,300 fewer people than 12 months ago. We increased productivity while continuing to deliver unmatched service levels to our patients and physicians.
- Our employees are driving a strong culture of continuous improvement. The quality of our people and their dedication to excellence is a strong differentiator for Quest Diagnostics.

Growth is being driven by our physician, hospital and anatomic pathology businesses. This growth will be supplemented over the longer term by expansion of our near-patient-testing and international businesses.

- We continue to see double-digit growth in near-patient, or point-of-care testing.
- During the quarter, our HemoCue business obtained a CLIA waiver for the first quantitative microalbumin point-of-care test. This test enables doctors to detect and monitor a marker for chronic kidney disease that affects 26 million Americans.

- Also, our Focus Diagnostics business received the CE mark for a new test kit that enables doctors for the first time to simultaneously detect and differentiate three major parasites, connected to diarrheal disease. These parasites are found worldwide. We plan to distribute this kit in Europe and developing nations, and to apply for FDA clearance in the U.S.
- Internationally, we continue to build our service capability and add customers in India, which we see as a long term opportunity.
- In addition, based on our quality and service, the government of Ireland has selected us to perform all Pap testing for Ireland's first nationwide cervical cancer screening program.

We are entering the decade of diagnostics, and have tremendous opportunities to use laboratory tests to help doctors and their patients better manage health and reduce costs.

It is gratifying over the past few weeks to see the U.S. Congress recognize the value and importance of laboratory testing. As I'm sure you noted, Congress last week passed legislation that repealed Medicare competitive bidding for laboratory services; eliminated cuts from the physician fee schedule for 2008, and provided for a 1.1% increase for 2009.

In addition, next year the clinical laboratory fee schedule used to determine government reimbursement will contain a CPI increase of approximately 4.5%. Based on a preliminary analysis, this could increase our revenues up to \$40 million in 2009. This is the first CPI increase in five years and only the second in the past 11 years.

In summary,

- Diagnostic testing is a very attractive industry. While it is not immune to economic challenges, they are far outweighed by the opportunities. Demographics and the pace of innovation will continue to drive growth.
- We are the clear leader and continue to differentiate ourselves from our competitors through our superior service, Six Sigma quality, innovative tests and advanced information technology solutions.
- Our business is performing well, and we are executing our plan. We are bifocal – doing what is right for the business in the short term and planning for the long term.
- We are on-track to deliver our commitments for 2008 and are well positioned for the future.

We will now take your questions. Operator?

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