Quest Diagnostics Incorporated
Third Quarter 2005 Conference Call

October 20, 2005

Laure Park: 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 that are based on current expectations and involve risks and uncertainties that could cause actual results and outcomes to be materially different. Certain of these risks and uncertainties may include, but are not limited to, competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors described in the Quest Diagnostics Incorporated 2004 Form 10-K and subsequent filings.

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 is also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Laure.

We reported strong financial results for the third quarter.

- Revenues grew 6.4%;
- Earnings per share were $0.66; and
- Cash flow was $178 million.

Overall, our business remains strong. The quarter was impacted by the hurricanes along the Gulf Coast and performance at our test kit manufacturing subsidiary NID. We are driving continued profitable growth of the company by focusing on patients, growth and people.

Now Bob will review with you our financial performance.

Bob Hagemann:

Thanks Surya

I'll take you through our third quarter results and outlook for the year.

Our clinical testing business continues to perform well, despite the impact of the hurricanes. Clinical testing revenues grew by 7.1% for the quarter, driven by an increase in volume of about 4% and an increase in revenue per requisition of 3%. The disruption caused by hurricanes Katrina and Rita reduced revenues and volume for the quarter by about half a percent. This is similar to the impact we saw last year in the third quarter from hurricanes which impacted parts of the Southeastern U.S. Therefore, while this year's hurricanes reduced our third quarter revenues from what we expected, the year-over-year revenue comparisons have not been affected.

On a consolidated basis, operating income in the quarter was 17.7% of revenues, compared to 18% of revenues for the prior year.

Margins in our clinical testing business continued to expand during this quarter, increasing as a percentage of revenues by over one percent. The business interruption caused by hurricanes Katrina and Rita reduced consolidated margins as a percentage of revenues by about half a percent for the quarter. As was the case with revenues, this impact was similar to what we experienced last year and did not materially impact the year-over-year comparisons. What did impact the comparisons was a charge of $6.2 million we recorded in this year's third quarter, primarily associated with forgiving amounts owed by patients and physicians in the hurricane-affected areas, and related property damage. This charge further reduced consolidated operating income as a percentage of revenues by almost half a percent and reduced the year-over-year margin expansion by a like amount. Taking all this into consideration, our clinical testing business reported strong gains, and was the principal contributor to improvements in consolidated DSOs and bad debt expense, compared to a year ago.

Our test kit manufacturing subsidiary NID, which accounts for about 1% of our consolidated revenues, reported revenues and profits for the quarter that were below the prior year levels by $4 million and $10 million, respectively, and reduced earnings per share compared to the prior year by three cents. NID's performance reduced consolidated revenue growth by about half a percent and margin expansion by about 1%.

As we previously communicated, late in the second quarter NID instituted a voluntary product hold in connection with an additional quality review of all its products. As of last week, products which had previously contributed about $30 million in annual revenues, had not been released.

NID is actively working to complete the product review and return products to market. However, this is taking longer and costing more than we had anticipated. We do not expect NID's revenues to return to pre-product hold levels for the foreseeable future, and we are taking steps to align its cost structure with its revenues. The ongoing costs of completing the quality review and cooperating with the government regarding the subpoenas which we received late last year, will continue to impact NID's performance through at least the end of this year.

Also, during the quarter we recorded a non-cash charge of 7.1 million dollars to write down an investment made in 2000.

We continue to generate significant amounts of cash. Through the first nine months of this year, cash from operations totaled $548 million, compared to $535 million for the same period last year. For the quarter, cash from operations was $178 million, compared to $217 million last year, the difference principally related to the timing of tax payments.

Capital expenditures were $54 million for the quarter. During the quarter we paid dividends totaling $18 million and repurchased 2 million common shares for $98 million at an average price of $50.41.

Turning to our outlook for the full year, we are excluding the operating performance of LabOne and integration costs associated with its acquisition, which we expect to close in early November.

We expect the performance of NID and the impact of the hurricanes to continue to affect our results. As such, we now expect full year performance, to be as follows:

- Earnings per diluted share of between $2.61 and $2.64. This reflects the $0.05 per share impact of the hurricanes and the investment write-down in the third quarter. This also includes an estimated fourth quarter impact of $0.02 per share from the continuing disruptions from the hurricanes and $0.05 per share from the performance of NID.
- We expect revenue growth to approach 5.5%. The combined impact of this year's hurricanes, and the performance at NID, is estimated to reduce revenue growth by approximately half a percent for the full year.
- We expect operating income as a percentage of revenues to approach 18%. The combined impact of this year's hurricanes and the performance at NID is estimated to reduce the improvement versus the prior year by approximately one percent.
- And, we expect cash from operations to approximate $750 million and capital expenditures of about $235 million. The change in our outlook for cash from operations is principally due to the changed outlook for earnings.

Now, I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

Before I update our progress on our strategy, I would like to make a comment about the performance at NID.

Last quarter, we shared with you that NID had instituted a voluntary product hold. This was done to help ensure consistently high quality of NID products and manufacturing processes. Despite its financial impact, it is the right thing to do. NID has improved its quality processes. We changed the management team. NID is working diligently to complete the quality review, and our goal is to return NID's operations to profitability by the end of next year.

Turning to our growth strategy, we have always said that growth is a combination of organic growth and acquired growth. During the quarter, we drove strong organic growth in the clinical testing business, and we also announced a significant acquisition, LabOne.

Combining with LabOne will further solidify our leadership position in diagnostic testing and strengthen our drugs of abuse testing business. In addition, it will establish us as the leader in a new, testing-related business, providing health screening and risk assessment services to the life insurance industry. LabOne customers will benefit from access to our industry-leading distribution network, and our innovative science and technology, including Quest Diagnostics Nichols Institute and advanced healthcare IT solutions.

Integration planning is well underway, and we see the opportunity for significant synergies. We have received regulatory clearance, and we anticipate completing the transaction in early November.

An important element of driving organic growth is our focus on improving the overall patient experience. We introduced customer service Gold Standards during the summer to help ensure that our frontline employees provide warm and caring customer service on a consistent basis. That includes raising standards for phlebotomists and improving the interaction with patients.

Our focused effort on reducing wait times in patient service centers is working. Now that all 2,000 PSCs are connected electronically, we are enabling patients to schedule their own appointments for blood draws by phone or online in certain markets. We have received very positive feedback from patients, doctors and payers.

Our customers see the difference between us and our competitors, and that is driving both revenue growth and increased satisfaction in surveys of patients, physicians, and hospitals. We are very encouraged with this positive trend, yet we have more to do.

Recently, we published Quest Diagnostics' Heart Health Report, a public service report that analyzes cholesterol levels based on 80 million patient encounters between 2001 and

2004. This report identified a 10% decline in mean LDL cholesterol levels during that period, as well as a statistically significant difference between men and women. We are very pleased to be able to utilize our large and unique clinical database to provide timely and quantitative insights on the health of patients on a national basis.

We continue to differentiate ourselves based on our recognized leadership in science and innovation, and are using our medical expertise to make a difference for patients.

I'm proud that the California Department of Health Services selected Quest Diagnostics Nichols Institute to provide confirmatory testing for more than 30 genetic disorders under its expanded Newborn Screening Program.

We are collaborating with payers to provide early detection of disease that leads to better outcomes and also reduced healthcare costs. For example, Cigna HealthCare and Quest Diagnostics provided the InSure colorectal cancer screening test to about 30,000 Cigna members in Florida.

And, we continue to receive recognition from customers and industry analysts for our advanced healthcare information technology solutions. During the quarter, several large physician groups selected our Care360 service as a way to enable them to achieve clinical integration. We see increased use of our premium services, such as e-prescribing. Also, *Information Week* recently ranked us Number 42 on its list of top 100 IT Innovators.

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In summary:

- Our clinical testing business is strong.
- We are addressing the NID issues.
- We are enhancing our value proposition.
- We see opportunities to continue to grow revenues and expand margins.
- And, we are excited to join together with LabOne.

We will now take your questions. Operator?

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