

**Quest Diagnostics Incorporate
Fourth Quarter and Full Year 2006 Conference Call
Thursday, January 25, 2007**

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 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 most recent Quest Diagnostics Incorporated Form 10-K and subsequent SEC 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 and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Laure.

We reported strong results for the fourth quarter and full year 2006.

During the year:

- Earnings per share grew 13% -- despite a reduction of 9% associated with accounting changes and special charges;
- Revenues grew 15%; and
- Cash from operations reached \$952 million, an increase of \$100 million from 2005.

We drove strong organic revenue growth and increased profitability. Molecular tests for women's health continued to grow rapidly, led by HPV and chlamydia and gonorrhea testing. We expanded our Leumeta family of cancer tests, which use blood instead of bone marrow to assess leukemia, and introduced an important new test to predict breast cancer recurrence.

In addition, we completed the acquisitions of Focus Diagnostics, a world leader in infectious disease testing, and Enterix, maker of the InSure colorectal cancer-screening test. The Focus acquisition further strengthens our industry-leading hospital business.

And we have made excellent progress in the integration of LabOne.

As we look to 2007, we face challenges as a result of increased price competition and the loss of certain contracts – UnitedHealthcare and the PPO of Horizon Blue Cross Blue Shield of New Jersey. As you recall, we did not accept UnitedHealthcare's terms and conditions, which had unreasonable demands and unilateral provisions. While it is unfortunate that we could not reach an agreement with United, this was the right long-term decision for our company and our shareholders.

Managed care business is extremely important to us. Every managed care organization has its own goals and objectives. We work with them to understand their needs and develop appropriate solutions to improve the health of their members and reduce their overall costs.

In this competitive environment, we will maintain our leadership position and will take action, where necessary, to defend it.

While the United contract has attracted a lot of attention, it is important to remember that the rest of our company will continue to grow. Our focus on our value proposition – putting patients first, providing superior service to physicians and payers, and bringing innovative science and medicine to the marketplace—has served us well in the past and will drive growth in the future. I will discuss our growth opportunities after Bob reviews our financial performance and 2007 guidance. Bob.

Bob Hagemann: Thanks, Surya.

Overall, we had strong performance for the quarter, and for the year, driven by our clinical testing business.

Revenues from continuing operations grew 8.5% the quarter, with the acquisitions of LabOne and Focus Diagnostics contributing about 4%.

Our clinical testing business, which accounts for over 90% of our total revenues, grew 6.9% during the quarter, on a volume increase of 1% and an increase in revenue per requisition of 5.9%. Volume adjusted for acquisitions was actually below the prior year by about half a point. The volume decrease was principally driven by ending two very low priced relationships (one for lab management and one for drug screening) which account for an almost 2% decrease. Essentially none of the volume change was associated with the United contract, as we retained virtually all of the United volume during the fourth quarter. The increase in revenue per requisition continues to be primarily driven by a shift to a higher priced test mix and an increase in the number of tests ordered per requisition.

Operating income, as a percentage of revenues, was 18% for the quarter, and comparable to the prior year before the impact of FAS 123R, which reduced margins in the quarter by .2%. The impact is less than in the first three quarters of the year because we reduced our accrual associated with our long-term performance plan due to our revised outlook for 2007. Clinical testing margins continued to expand, but were offset by lower margins in our Clinical Trials Testing Business and increased investment in our healthcare IT subsidiary, MedPlus.

The LabOne acquisition, which anniversaried this quarter, had a negligible impact on year-over-year margin comparisons. We remain on track to realize the \$40 million in annual synergies committed to in connection with LabOne, most of which will be realized in 2007.

During the quarter we recorded a non-cash charge of \$10 million, or \$0.03 per share, to write down an investment. The charge is reflected below operating income in “Other expense, net.”

Diluted earnings per share from continuing operations increased to \$0.77. The growth in earnings was driven principally by the stronger performance in our clinical testing business, partially offset by the investment write down and the performance of our non-clinical testing businesses. Discontinued operations, namely NID, produced a one-cent loss in the quarter, principally associated with legal expenses.

Cash from operations was strong at \$306 million for the quarter, and comparable to the prior year. Full year cash from operations of \$952 million was \$100 million above the last year. During the quarter we made capital expenditures of \$60 million and repurchased \$196 million of common stock. Days sales outstanding rounded to 48 days, down almost a day from last quarter, reflecting the resumption of Medicare payments which had temporarily stopped at the end of the third quarter.

Now I'll discuss the estimated impact of contract changes and our outlook for 2007.

We are only about three weeks into our status as a non-contracted provider to United, and it will take some time, possibly into the second quarter, before we can narrow the estimated range of the impact on our financial results. United accounted for approximately 7% of our revenues in 2006, with some markets having concentrations as high as 15-20%. Although not the best barometer for what we ultimately expect, through the first three weeks of January, we estimate that about half of the United business has moved to various contracted providers.

United has threatened physicians with penalties if they are still sending lab work to an out-of-network provider as of March 1. This is unprecedented and clearly inappropriate, and influencing physician behavior. We will not be able to determine how much volume may ultimately move until after March. Additionally, United has been aggressively communicating to its members that they will be faced with higher co-pays and deductibles if they use an out-of-network lab. While these actions may cause a significant portion of the work to move to contracted labs. However, if there is a deterioration in the service levels that patients and physicians have become accustomed to from Quest Diagnostics, it's not clear how long those service failures will be tolerated.

Additionally, given how soon it is after the contract change, we have not seen how United plans to reimburse us in each of the markets and for each of the plans where we do perform testing. Although in most cases we are entitled to reimbursement from United, sometimes at rates in excess of what we were previously reimbursed, we expect United to challenge our rights in certain cases, leading to disputes which will take time to resolve, and which could result in a temporary increase in DSOs. We plan to aggressively assert and defend our rights to appropriate reimbursement.

We have also been notified, that as of April 1, we will no longer be a contracted provider on the Horizon BC/BS of NJ PPO contract. This contract accounts for about one percent of our revenues, and we believe it was lost on the basis of price.

Our current expectation is that these contract changes will reduce our revenue growth in 2007 by between 7% and 10%. Most of that resulting from the direct loss of previously contracted work, and some of it associated with the loss of other work from physicians who choose to consolidate their testing with a single laboratory.

Given that we expect a decrease in volume, we have developed cost reduction plans which will be implemented based on a weekly analysis of volume levels. We have already taken actions which will reduce our cost structure by over \$100 million annually, and will continue adjusting our costs to match with volume levels. Additionally, while we are always looking for ways to become more efficient, we are taking a closer look at what additional structural cost reductions can be made. As we adjust our cost structure, top priorities will be maintaining the differentiated level of service we provide to our patients and physicians, and remaining positioned to capitalize on growth opportunities.

As you've heard me say before, all cost is variable in the long term. With that comes the understanding that certain costs can be acted on faster than others. About 60% of our operating costs can be considered variable in the near term (immediate to six months out) with the remainder more structural in nature and taking longer to address. Therefore, the profit impact of any lost business will be the greatest during the six months or so following its loss. The extent to which we will need to reduce structural costs, which in part will be driven by how quickly we replace lost business, will determine how long it will take to complete all of our cost actions.

With that said, providing precise estimates for 2007 is challenging. Our estimates are based on the market intelligence we have gathered, operational plans we have developed, and actual volume

levels for the past three weeks. We plan to update full-year guidance each quarter, or possibly more frequently, if we make major revisions to our estimates.

Our current guidance for results from “continuing operations” in 2007 is as follows:

- We expect revenues to approximate \$6 billion - \$6.2 billion. This anticipates that the contract changes mentioned earlier will reduce revenue growth by 7% to 10%. Revenue guidance excludes the impact of potential acquisitions.
- We expect operating income as a percentage of revenues to be between 16.5% and 17.5%. The impact of the revenue loss associated with contract changes is estimated to reduce 2007 margins by 1% to 2%.
- To help you initially reset your models, we are giving full-year estimates for net interest and amortization expense of approximately \$90 million and \$13 million, respectively. We will not be updating guidance for these components throughout the year.
- We expect cash from operations to approximate \$800 million, which reflects a reduction of \$150 to \$200 million related to contract changes. This reduction includes a one-time amount of approximately \$50 million related to anticipated delays in billing and collections with United and its members, which will temporarily increase DSOs by several days.
- Capital expenditures are expected to approximate \$200 million.
- Consistent with our past practice, we intend to deploy excess cash first into growth opportunities and secondarily into share repurchases.
- And lastly, we expect diluted earnings per common share to be between \$2.70 and \$3.00. This estimate reflects a fifty-to-eighty cent reduction due to the anticipated impact of contract changes discussed earlier.

These estimates are before any special charges, including charges related to potential restructuring activities.

Before I turn it back to Surya, one final comment.

While contract losses and intensified pricing pressure will impact performance in 2007, we fully expect to return to growing revenues and earnings in 2008. We will do this by continuing to provide a differentiated service offering at competitive prices, and driving efficiency in our business. In addition, we plan to use our strong cash flow and solid balance sheet to fund expansion into other profitable, high growth areas.

Now I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

A lab test is not a commodity. Someone's life depends on the results. Our job is to provide accurate and timely results to physicians and ensure that our patients are treated with care and compassion. We are in the medical business, and our reputation is based on service, quality, convenience and innovation. That is how we distinguish ourselves every day. In the past we have seen business move to the competition on price and return based on service and quality.

We have improved the overall patient experience.

- At Quest Diagnostics, we have 2,000 of our own conveniently located patient service centers with specially trained phlebotomists to provide a unique patient experience.
- At Quest Diagnostics, patients are served at our patient service centers within 20 minutes, on average, and even faster where we have deployed our automated appointment scheduling.
- One regional managed care organization was so pleased with this benefit for their members that we accelerated the rollout at their request.

We continue to deliver superior service to physicians and hospitals.

- Our extensive logistics network ensures timely and reliable pickups of specimens by our own couriers.
- Our more than 500 M.D.s and Ph.D.s and our Six Sigma culture help us deliver accurate results on time, and provide consultations to physicians on difficult or unusual cases.

Our emphasis on bringing new tests and technologies to market helps doctors manage their patients better and is driving growth today.

- These include gene-based tests for women's health, such as HPV, and endocrinology tests using tandem mass spec. During 2006, gene-based and esoteric testing generated more than \$1 billion in revenues and is growing at greater than 10% per year.
- We have strengthened our relationship with Phadia, formerly Pharmacia Diagnostics, the leader in allergy testing. ImmunoCAP testing is growing in double digits, and we have extended our exclusive arrangement.
- And, a national managed care organization has aggressively piloted the use of our proprietary InSure colorectal cancer-screening test to its members and employees – saving lives and reducing costs through early detection.

We are continuing to introduce new tests and technology to drive growth for tomorrow.

- We are working on an exciting new genetic test to determine carriers of the genetic mutation that causes Fragile X syndrome, the most common form of inherited mental retardation. The test, which is expected to be ready in a few months, will enable broad-based screening for Fragile X.
- Our Focus Diagnostics has introduced a genetic test to identify the Multiple Sclerosis patients who may benefit from an important drug, Tysabri. This is another example of personalized medicine and the increased role that diagnostics is playing.
- Another exciting development is digital pathology. We have begun to use advanced digital scanning devices that allow us to share and evaluate images over the web. This tool will allow us to accelerate growth in anatomic pathology through our collaborations with hospital-based pathologists.

Turning to innovation in healthcare IT, we continue to enhance our Care360 patient-centric physician portal.

- Currently, more than one hundred thousand physicians across the U.S. use Care360. We are delivering approximately 90% of test results and receiving about half of all test orders over the Internet.
- Several major health plans are piloting e-prescribing using Care360. Earlier this week, Anthem, a division of WellPoint, announced it is partnering with General Motors to drive e-prescribing among doctors in Ohio using Care360.

Treating patients with care and compassion; providing physicians and payers with superior service; and bringing technology and medicine to the marketplace quickly. These are the proven differentiators that distinguish our company and drive growth, and we will resist any efforts to turn our existing business into a commodity.

We also see increased opportunities to bring our experience and expertise in diagnostic testing to international markets.

- We have recently been awarded a contract in Ireland. The Government contracted with us to reduce their backlog in cytology testing.

While this is a small win, we are encouraged because the quality and service we provide in the U.S. are being recognized internationally.

Technology is enabling testing to be performed closer to the patient, whether in the physician's office or at the patient's bedside. We are actively exploring opportunities in this area and intend to capitalize on this trend to augment our laboratory testing business.

In closing:

- 2006 was a year of outstanding performance.
- 2007 will bring challenges, and we are prepared to deal with them.
- In the end we will emerge as a stronger company.
- In 2008 we expect to drive both top and bottom line growth.
- We are committed to our longer-term goals – to grow revenues organically, at or above the industry growth rate; to pursue selective acquisitions; to expand margins to 20%; and to further strengthen our leadership position.
- And I am excited about the prospects for our company.

We will now take your questions. Operator?

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