Quest Diagnostics Incorporated
Fourth Quarter and Full Year 2005 Conference Call
January 26, 2006

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 Quest Diagnostics Incorporated SEC filings, including the latest Form 10-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 is also available on the website.

Now, here is Surya Mohapatra

Surya Mohapatra:

We reported strong financial results for the fourth quarter and full year 2005. For the year:

- Revenues grew over 7 %;
- Earnings per share grew 13%;

- Cash flow was $852 million;
- And, this morning we increased our dividend and expanded our share repurchase authorization, reflecting confidence in our ability to continue generating strong cash flows.

Our clinical testing business is strong. However, I am disappointed with the progress at our test kit manufacturing subsidiary, NID.

- During the quarter, additional quality issues were identified at NID. We reinstated a voluntary product hold. This has had significant financial consequences, but it was the right thing to do.
- We are actively working to address the issues at NID. We have added additional resources and expertise to further strengthen the new management team.
- NID is fixable, but there is much more work to be done. At this time we are evaluating all possible options for NID, and we expect to finalize our plans by the end of the second quarter.

During this past quarter, we drove profitable organic growth by focusing on sales, service and science. We also completed our acquisition of LabOne.

As we look ahead to 2006, we expect another year of strong performance at Quest Diagnostics with revenue growth of approximately 13% and approximately $800 million of cash from operations.

Now Bob will review our fourth quarter financial performance and guidance for 2006.

Bob Hagemann: Thanks, Surya.

As we go through the results, I'll separately quantify the acquisition of LabOne, the impact of NID and the continuing impact of the hurricanes experienced last quarter.

Consolidated revenues grew approximately 12% for the quarter, with the acquisition of LabOne contributing growth of almost 7%. A little over half (≈55%) of the LabOne revenues were generated from the risk assessment business, with the remainder classified as clinical testing.

Our clinical testing business, which generates about 93% of our total revenues, grew 8.7% during the quarter, on a 5.8% volume increase and a 2.8% increase in revenue per requisition. LabOne contributed about 3% growth to the clinical testing business, principally reflected in volume.

As you know, the Gulf Coast Region has a long way to go before it fully recovers from the hurricanes of 2005. And, although we are seeing some business return in the area, the continuing impact reduced revenues by approximately 0.3% compared to the prior year.

NID, which instituted another product hold during the quarter, had revenues which were $8.4 million less than a year ago, and reduced consolidated revenue growth by almost 1%.

Operating income, on a consolidated basis, was 16.3% of revenues for the quarter, compared to 17.2% last year. The results of NID reduced the operating income percentage by almost 2% compared to the prior year, and the LabOne business, which, for now, produces lower margins than the remainder of our operations, impacted the comparison by about half a percent.

Margins in our clinical testing business showed strong improvement, increasing by about 1.5% compared to the prior year. Solid top line growth, efficiencies resulting from increased use of our connectivity solutions, and continued benefits from our Six Sigma efforts are the principal drivers of the improvement. SG&A is where most of these improvements are reflected, whereas NID and the addition of LabOne are impacting the cost of sales percentage, and more than account for the increase there.

While we are actively working to address the issues at NID and return products to market, the latest product hold has caused us to re-evaluate the financial outlook for this business. As a result of our analysis, we concluded that about $16 million of NID's assets needed to be written off: $7.5 million attributable to goodwill, with the rest principally related to inventory of products and equipment. The goodwill write-off, which is recorded in "other operating expense," generated no tax benefit and, as such, reduced earnings per share by $0.04. The balance of the write-off reduced EPS by another $0.02. These write-offs, coupled with continued losses at NID, reduced pre-tax earnings by $29 million and earnings per share by $0.10 during the quarter compared to

the prior year. For the full year, NID reduced pre-tax earnings compared to the prior year by approximately $50 million or $0.16 cents per diluted share.

Despite the impact of NID, diluted earnings per share grew to $0.64 in the quarter compared to $0.60 a year ago, due to the strong performance of our clinical testing business. The acquisition of LabOne was neutral to EPS in the quarter. One cent of the EPS improvement resulted from the re-evaluation of certain tax contingencies which reduced the tax rate in the fourth quarter, and brought the full-year rate to 40%. The full-year rate of 40% is in line with what we expect going forward.

We continue to generate significant amounts of cash. Cash from operations was $303 million for the quarter and $852 million for the full year, and compares to last year's totals of $264 million and $799 million, respectively. Days sales outstanding improved to 46 days, from 47 days a year ago, despite the acquisition of LabOne, which added a day to the 2005 figure. Capital expenditures were $46 million for the quarter and $224 million for the full year.

During the quarter we repurchased 4 million common shares for $200 million, at an average price of $49.47. For the year, we repurchased a total of 7.8 million shares for $390 million.

During the quarter we raised $900 million in a very successful bond offering, to complete the LabOne acquisition. Our capital structure and strong cash generation, coupled with a positive outlook for performance, has us well positioned to raise further capital to fund additional growth opportunities.

Turning to 2006 guidance, we expect:

- Revenues to grow between 12.5% and 13.5%, with approximately 8% from LabOne. This excludes the impact of potential additional acquisitions.

- We expect operating income as a percentage of revenues to approximate 17%. This includes the impact of adopting SFAS 123R as of January 1, which is estimated to reduce margins by approximately 1%.

- To help you initially reset your models, we are giving you full-year estimates for net interest, and amortization expense, of $100 million and $10 million, respectively. We will not be updating guidance for these components throughout the year.

- We expect cash from operations to approximate $800 million and capital expenditures to be between $225 and $245 million. Please note, with the adoption of SFAS 123R, the tax benefits associated with the exercise of stock options will no longer be added to cash from operations, but will be presented as a component of financing activities. In 2005, these tax benefits served to increase cash from operations by $34 million.

- And lastly, after the estimated $0.20 per share cost of adopting SFAS 123R, we expect diluted earnings per common share to be between $2.75 and $2.85. LabOne, which we expect to generate about $30 million in annualized synergies by the end of 2007, will be modestly accretive to earnings in 2006. Continuing weakness in the performance of NID, and some lingering impact of the Gulf Coast hurricanes is included in this guidance. The guidance excludes potential charges related to the integration of LabOne and the possible restructuring of NID.

Now, I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

2005 was a successful year.

- We grew our business, both organically and through acquisition.
- We increased our profitability.
- And we generated significant amounts of cash, most of which we have returned to shareholders.

We continue to enhance our value proposition with our focus on patients, growth and people.

We want patients to think of Quest Diagnostics when they need lab tests. We continue to raise our standards for delivering customer service. This year, approximately 8,500 frontline employees and managers received in-depth customer service training. Patients are noticing the improvement, driving up the patient satisfaction scores.

We are also expanding our efforts to educate the public about the value of diagnostic testing as a critical part of preventive healthcare. We are participating with the American Cancer Society in connection with its Great American Health Check program, which encourages people to take an online health risk assessment and ask their doctor about a range of simple screening tests such as those for colorectal, prostate and cervical cancer.

We drove both organic and acquired growth during 2005.

An important aspect of driving organic growth is building a robust pipeline of exciting new products. We are seeing double-digit growth in tests ranging from bladder cancer to digestive diseases. In addition, we continue to see strong growth from HPV cervical cancer testing, InSure colorectal cancer screening and ImmunoCAP allergy testing.

We have made great progress in developing new tests for diagnosing and monitoring cancer:

- We became the first national laboratory to develop and launch a very important new test, using technology licensed from Arcturus, to help physicians identify cancers of unknown primary origin. Understanding where the cancer started is a vital piece of information for appropriate treatment by oncologists.

- We developed and launched the first two in a family of new blood tests that will reduce and might in the future replace the need for leukemia and lymphoma patients to undergo painful bone marrow biopsies. These tests are based on technology licensed from M. D. Anderson Cancer Center.

- We are also encouraged by the initial results of our efforts to educate doctors about CellSearch, a prognostic test from Veridex. This test counts circulating tumor cells in blood samples and provides information about the effectiveness of treatments for metastatic breast cancer.

We are collaborating with managed care organizations to help reduce healthcare costs and improve patient outcomes. We have proven capabilities in laboratory network management.

Several managed care organizations use our QuestNet offering to reduce out-of-network laboratory charges.

Despite the recognized value of diagnostic testing, an important report by the Lewin Group shows that lab tests are underutilized for critical diseases such as diabetes, cardiovascular disease and colorectal cancer, resulting in adverse outcomes and higher healthcare costs. We facilitate the appropriate utilization of diagnostic testing through our Care360 patient-centric portal product, which can help health plans and doctors monitor compliance with clinical guidelines. In addition, Care360 enables physicians to order lab tests and view results and order prescriptions electronically.

We are committed to improving the health of our employees and reducing healthcare costs for them and our company. Through our HealthyQuest initiative, we provide employees with the opportunity to lose weight, quit smoking and generally pursue healthier lifestyles.

We offer to all of our employees and their spouses at no charge our Blueprint for Wellness product, a comprehensive health risk assessment which includes a customized panel of lab tests.

Employees who utilize the product receive a discount from the company on their healthcare premiums. We received a lot of positive feedback from employees, particularly many who identified health concerns that might otherwise have gone undetected.

The idea behind HealthyQuest is simple. Healthier people make better and more creative employees. And, of course, we also believe that early detection will lower healthcare costs for everyone.

In summary:

- Our clinical testing business is strong and growing;
- We further strengthened our business with the acquisition of LabOne;
- We are addressing the NID issues;
- We are enhancing our value proposition with our focus on Patients, Growth and People;
- And, we see opportunities to continue to grow our revenues and profits in 2006.

We will now take your questions. Operator?

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