

**Quest Diagnostics Incorporated**  
**Second Quarter 2005 Conference Call**  
**July 25, 2005**

**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 2004 Form 10-K and subsequent filings.

A copy of our earnings press release, together with any information that is required under Regulation G, are 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](http://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 solid financial results for the second quarter, reflecting continued strength in our business.

- Revenues grew 6.2%;
- Earnings per share grew 14%; and
- Cash flow continued strong – more than \$230 million.

Our business is performing well. We are executing our strategy, focused on patients, growth and people.

Now Bob will share with you our financial performance.

**Bob Hagemann:** Thanks, Surya.

I'll start with some comments on our performance, and then discuss our guidance for the full year.

It was a strong quarter. Revenue growth accelerated and operating margin improved compared to the first quarter and to last year. Earnings per share increased 14% over the prior year.

Revenue growth of 6.2%, essentially all organic, reflects a volume increase of 5.3% and an increase in revenue per requisition of 1.2%. Our efforts to accelerate organic revenue growth are continuing to pay off.

The increase in revenue per requisition continues to be driven by test mix and the number of tests ordered per requisition. The increase over the prior year is somewhat lower than in the first quarter. However, it compares to a very strong second quarter last year. We continue to expect

that revenue per requisition will grow approximately 2% in any given year, with some fluctuations from quarter to quarter.

Operating income as a percentage of revenue was 19%, and continued to improve over the prior year. Reflected in operating income and impacting cost of sales is a charge of approximately \$3 million, principally associated with a write-down of inventory and equipment, stemming from a voluntary product hold instituted at our test kit manufacturing subsidiary, NID. Bad debt, at 4.3% of revenues, and DSO's, at 45 days, both improved from their first quarter levels.

As we discussed on the first quarter call, we are continuing to make investments in customer connectivity, and improving service levels in our Patient Service Centers. While these investments increase our cost of sales component, we expect them to drive overall profitability and longer term growth. Top line growth has allowed us to leverage our expense base, which has reduced SG&A as a percentage of revenues and driven margin expansion.

We continue to generate significant amounts of cash. Cash from operations for the quarter was \$234 million, compared to \$207 million in the prior year.

Capital expenditures were \$68 million for the quarter and we made several investments which will expand our pipeline of new tests.

During the quarter we paid dividends totaling \$18 million and repurchased 560,000 common shares for \$30 million, at an average price of \$53.

Turning to guidance, our outlook for 2005 remains unchanged.

We expect:

- Earnings per share of between \$2.73 and \$2.78, adjusted for the recent stock split, an increase of 14 to 16% compared to 2004 EPS before special charges;
- Revenues to grow between 5 and 6%, essentially all from organic growth;
- Operating income as a percentage of revenues to expand to between 18 and 19%; and
- Cash from operations to approach \$800 million, and capital expenditures of between \$210 and \$230 million;

Now, I'll turn it over to Surya.

**Surya Mohapatra:** Thanks, Bob.

Before I talk about the core business, I want to say a word about our test kit manufacturing subsidiary, NID. As you may know, and as we communicated to our customers, we implemented a voluntary product hold at NID in connection with an additional quality review of all its products.

We are committed to ensuring that NID has a consistently high-quality manufacturing process. We sincerely regret the challenges the product hold has created for NID's customers and the patients they serve. We believe the actions we are taking at NID will assure that NID delivers high quality products and services. As of today, a number of the products have been through the additional quality review and have been released to the marketplace. NID is working diligently to complete the review and return NID products to the market.

In the core business, we continue to differentiate ourselves in the eyes of our customers. They increasingly recognize this, as reflected in our regularly performed customer satisfaction surveys.

We've had steady improvement in physician customer satisfaction scores. We have also seen significant gains in the satisfaction of our hospital customers. We have more work to do, but are encouraged by what we are seeing.

We drove strong revenue gains during the quarter. Esoteric and gene-based testing continued to be the fastest growing part of our business, with growth exceeding 10%.

As you know, tests do not need to be gene-based to be innovative and have high growth potential. We have seen a significant increase in demand for ImmunoCAP allergy testing. More than 20 million Americans suffer from asthma. Allergy is a trigger for asthma. Patients who are diagnosed with asthma should be tested for allergy, but most are not. Now, we are educating physicians about the benefits of ImmunoCAP testing for asthma patients.

We are building intellectual capital to create a strong pipeline of new tests and technologies. We believe that proteomics will be important in patient care and an important growth driver. We have established strategic alliances with three proteomics pioneers – Ciphergen, SomaLogic and Correllogic. And we are working closely with them to bring unique diagnostic tests to market.

In addition, we have taken a leadership role in the use of innovative healthcare information technology. Policymakers and providers emphasize the need to connect physicians electronically to improve patient care and increase efficiency. The laboratory industry is already playing an important role in bringing this new technology to physicians. We, at Quest Diagnostics, have made significant investments to develop our own technology solutions, and usage by our customers continues to grow. Currently we are processing more than 3 million electronic transactions per week.

Recently, several IPAs, independent physician associations consisting of hundreds of doctors, have selected our Care360 patient-centric physician portal. They understand that Care360 is the first step toward clinical integration, enabling them to coordinate patient care. It also enables them to order lab tests and prescriptions electronically, view a patient's history online and share relevant information with colleagues.

We are being recognized for excellence in IT. KLAS, a healthcare IT research firm, recently gave us a top rating for our ChartMaxx product, which enables hospitals to automate patient records, streamlining processes and increasing efficiency. In addition, Computerworld recently named us one of the best places to work for IT professionals.

These and other initiatives are enabling us to differentiate Quest Diagnostics and solidify relationships with our customers.

In summary:

- Our business remains strong, and the industry trends are favorable.
- We are executing our strategy to drive growth and profitability.
- And, we remain on track to meet our goals for 2005.

We will now take your questions. Operator?