Quest Diagnostics Earnings Per Share Increase 58% Before Special Items in Second Quarter 2001

July 23, 2001

TETERBORO, N.J., Jul 23, 2001 /PRNewswire/ -- Quest Diagnostics Incorporated (NYSE: DGX), the nation's leading provider of diagnostic testing, information and services, announced that for the second quarter ended June 30, 2001, income before special items increased to $50.7 million, or $0.52 per diluted share, from $31.4 million, or $0.33 per diluted share, in the second quarter of 2000. In connection with its recent debt refinancing, the company reported an extraordinary loss and a special charge, net of taxes, of $21.6 million and $3.6 million, respectively. After these special items, the company reported net income of $25.5 million, or $0.26 per diluted share for the second quarter. Cash earnings, or earnings before amortization of intangible assets and special items, rose to $0.63 per diluted share from $0.45 per diluted share for the 2000 period.

Second quarter revenues of $932 million grew 8% over last year, when adjusted for the prior-year gross-up of revenues and expenses associated with the company's network management business. Second quarter revenues grew more than 6% from the reported prior-year level. Revenue per requisition increased 8% compared to the prior year. Clinical testing volume, measured by the number of requisitions, increased 1.6% over the prior year period, after adjusting for business contributed to unconsolidated joint ventures, which reduced volume by approximately 1.4%. As a result, reported volume during the second quarter was slightly ahead of the prior year's level.

"Our strong performance in the quarter was driven by revenue growth and reduced borrowing costs," said Kenneth W. Freeman, Chairman and Chief Executive Officer. "We now expect full year earnings per share before special items to grow at least 60% from last year to between $1.85 and $1.90 on reported revenue growth of 6% to 8%."

Earnings before interest, taxes, depreciation, amortization and special items (adjusted EBITDA), were $149 million, or 16% of revenues, compared to $128 million, or 14.6% of revenues, for the prior year period. The increase in adjusted EBITDA was due to the company's revenue growth and the continued realization of synergies associated with the integration of SmithKline Beecham Clinical Laboratories.

Bad debt expense improved to 6% compared to 7.1% a year ago and 6.3% in the first quarter of 2001. For the quarter, days sales outstanding were 51 days, unchanged from the end of the first quarter. The company ended the quarter with $174 million in cash and no borrowings outstanding under its new $325 million revolving credit facility. Net interest expense for the quarter was reduced to $20.5 million from $30.2 million a year ago. Capital expenditures totaled $35 million for the quarter.

For the first half of 2001, income before special items increased to $86.5 million from $49.2 million for the prior year. Diluted earnings per share before special items were $0.89, compared to $0.53 for the prior year. After the extraordinary loss and special charge recorded in the second quarter of 2001, the company recorded net income of $0.63 per diluted share for the first half. Revenues increased to $1.8 billion compared to $1.7 billion in 2000. Adjusted EBITDA was $271 million, compared to $227 million a year ago. Capital expenditures were $78 million.

Quest Diagnostics will discuss financial results for the second quarter during a conference call on July 24 at 8:00 A.M. Eastern Time. To hear a simulcast of the call over the Internet, or a replay, registered analysts may access StreetEvents at: http://www.streetevents.com and all others may access the Quest Diagnostics website at: http://www.questdiagnostics.com. In addition, a replay of the call will also be available from 10 A.M. on July 24 through 5 P.M. on July 25 to investors in the U.S. by dialing 800-839-1104. Investors outside the U.S. may dial 402-998-1695. No password is required for either number.

Quest Diagnostics is the nation's leading provider of diagnostic testing, information and services with annual revenues of $3.4 billion in 2000. The company's diagnostic testing yields information that enables health care professionals and consumers to make better decisions to improve health. Quest Diagnostics offers patients and physicians the broadest access to diagnostic testing services through its national network of approximately 30 full-service laboratories, 150 rapid response laboratories and more than 1,300 patient service centers, where specimens are collected. Quest Diagnostics is the leading provider of esoteric testing, including gene-based testing, and is the leader in routine medical testing, drugs of abuse testing, and non-hospital- based anatomic pathology testing. Through partnerships with pharmaceutical, biotechnology and information technology companies, Quest Diagnostics provides support to help speed the development of health care insights and new therapeutics. Additional company information can be found on the Internet at: http://www.questdiagnostics.com.

The statements in this press release which are not historical facts or information may be forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Certain of these risks and uncertainties are described in the Quest Diagnostics Incorporated 2000 Form 10-K and subsequent filings.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2001 and 2000
(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net revenues	$931.5	$877.1	$1,814.1	$1,734.6
Costs and expenses:				

Cost of services	549.4	520.5	1,078.5	1,049.5
Selling, general and administrative	256.5	252.9	509.3	502.7
Interest expense, net	20.5	30.2	43.2	60.0
Amortization of intangible assets	12.1	12.0	23.2	23.9
Provision for special charges	6.0	2.1	6.0	2.1
Minority share of income	2.8	3.3	3.9	5.4
Other, net	(1.5)	(2.1)	(1.1)	(2.4)
Total	845.8	818.9	1,663.0	1,641.2
Income before taxes and extraordinary loss	85.7	58.2	151.1	93.4
Income tax expense	38.6	28.0	68.3	45.4
Income before extraordinary loss	47.1	30.2	82.8	48.0
Extraordinary loss, net of taxes	(21.6)	--	(21.6)	--
Net income	$25.5	$30.2	$61.2	$48.0
Income before extraordinary loss and special charges	$50.7	$31.4	$86.5	$49.2
Basic net income per common share:				
Income before extraordinary loss	$0.51	$0.34	$0.90	$0.54
Net income	$0.28	$0.34	$0.66	$0.54
Income before extraordinary loss and special charges	$0.55	$0.35	$0.94	$0.55
Diluted net income per common share:				
Income before extraordinary loss	$0.48	$0.32	$0.85	$0.52
Net income	$0.26	$0.32	$0.63	$0.52
Income before extraordinary loss and special charges	$0.52	$0.33	$0.89	$0.53
Cash earnings per diluted share	$0.63	$0.45	$1.10	$0.77
Weighted average common shares outstanding - basic	92.6	89.2	92.2	88.7
Weighted average common shares outstanding - diluted	97.3	94.0	97.0	92.6
Adjusted EBITDA	$148.8	$127.8	$271.2	$227.4

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Balance Sheet Information
June 30, 2001 and December 31, 2000
(in millions)

	June 30, 2001	December 31, 2000

Assets

Cash and cash equivalents	$174.2	$171.5
Accounts receivable, net	520.9	485.6
Intangible assets, net	1,293.5	1,261.6
Other assets	909.8	945.8
Total assets	$2,898.4	$2,864.5

Liabilities and Stockholders' Equity

Short-term debt	$287.7	$265.4
Long-term debt	726.7	760.7
Other liabilities	724.1	807.6
Common stockholders' equity	1,159.9	1,030.8
Total liabilities and stockholders' equity	$2,898.4	$2,864.5

Notes to Financial Tables

1) Results for 2000 included the effects of testing performed by third parties under the Company's laboratory network management arrangements. As laboratory network manager, Quest Diagnostics included in its consolidated revenues and expenses the cost of testing performed by third parties. This treatment added $14.4 million and $46.8 million to both reported revenues and cost of services for the three and six months ended June 30, 2000, respectively. This treatment also served to increase cost of services as a percentage of net revenues and decrease selling, general and administrative expenses as a percentage of net revenues.

2) During the second quarter of 2001, the Company refinanced the majority of its indebtedness. The extraordinary loss of $36.0 million ($21.6 million, net of tax), represents the write-off of deferred financing costs, and tender premiums paid in connection with extinguishing the debt that was refinanced.

3) In conjunction with the Company's debt refinancing during the second quarter of 2001, the Company recorded a special charge of $6.0 million ($3.6 million, net of tax) representing the costs to settle interest rate swap agreements on its debt which was refinanced. During the second quarter of 2000, the Company recorded a net special charge of $2.1 million ($1.3 million, net of tax). Of the special charge, $13.4 million represented the costs to cancel certain contracts that management believed were not economically viable as a result of the SBCL acquisition. These costs were principally associated with the cancellation of a co-marketing agreement for clinical trials testing services. These charges were partially offset by a reduction in reserves attributable to a favorable resolution of outstanding claims for reimbursements associated with billings of certain tests.

4) Depreciation expense totaled $24.5 million and $22.2 million for the three months ended June 30, 2001 and 2000, respectively and $47.7 million and $43.5 million for the six months ended June 30, 2001 and 2000, respectively.

5) On May 8, 2001, the Company announced a two-for-one stock split effected by the issuance on May 31, 2001 of a stock dividend of one new share of common stock for each share of common stock held by stockholders of record on May 16, 2001. All references to shares and per share data have been restated to reflect the stock split for all periods presented.

6) Net income per common share is computed by dividing net income less dividends on preferred stock (approximately $30 thousand per quarter) by the weighted average number of common shares outstanding. Potentially dilutive common shares primarily represent stock options.

7) Cash earnings per common share is calculated as cash earnings less preferred dividends, divided by the diluted weighted average common shares outstanding. Cash earnings represents income before extraordinary loss, special charges and amortization of all intangible assets, net of applicable taxes.

8) Adjusted EBITDA represents income before extraordinary loss, special charges, income taxes, net interest expense, depreciation and amortization. Adjusted EBITDA for 2000 also excludes $3.1 million and $4.5 million, respectively, of costs associated with the SBCL integration plan which were included in operating costs and expensed as incurred during the three and six months ended June 30, 2000.

SOURCE Quest Diagnostics Incorporated

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