Quest Diagnostics Announces Increased Revenues And Earnings for Third Quarter 2002

October 17, 2002

TETERBORO, N.J., Oct 17, 2002 /PRNewswire-FirstCall via COMTEX/ -- Quest Diagnostics Incorporated (NYSE: DGX), the nation's leading provider of diagnostic testing, information and services, announced that for the third quarter ended September 30, 2002, net income increased to $87 million, or $0.87 per diluted share, from $50 million, or $0.51 per diluted share, in the third quarter of 2001. Earnings per diluted share increased 45% from $0.60 in 2001, adjusted for the required change in goodwill accounting (SFAS 142).

Third quarter 2002 earnings include a $3.8 million pre-tax gain on an investment and a $1.5 million pre-tax charge associated with the integration of American Medical Laboratories (AML), which combined to contribute earnings of $0.01 per share.

Third quarter revenues of $1.1 billion grew 17.2% over the prior year level and reflect the acquisition of AML, which was completed on April 1, 2002. Clinical testing volume, measured by the number of requisitions, increased 13.7% compared to the prior year, or 5% on a pro forma basis, assuming that AML had been part of Quest Diagnostics since January 1, 2001. Revenue per requisition increased 2.9% compared to the prior year.

"Strong performance was driven by our continued focus on generating profitable top-line growth and the benefits of our Six Sigma quality and standardization initiatives," said Kenneth W. Freeman, Chairman and Chief Executive Officer. "We continue to focus on effective execution, and the fundamentals of our business remain sound."

Earnings before interest, taxes, depreciation and amortization (EBITDA), were $192 million, or 18.2% of revenues, compared to $142 million, or 15.7% of revenues, in 2001. Bad debt expense improved to 5.1% of revenues, compared to 6.1% for the prior year period. Days sales outstanding improved to 51 days, compared to 52 days at the end of the second quarter. Capital expenditures totaled $35 million for the quarter.

For the first nine months of 2002, net income increased to $240 million from $137 million before special items in 2001. Earnings per diluted share were $2.41, compared to $1.40 before special items in the prior year. The special items represented an extraordinary loss and a special charge associated with the company's debt refinancing in the second quarter of 2001. Earnings per diluted share increased 43% from $1.68 in 2001, adjusted for the required change in goodwill accounting and the special items incurred in 2001. Revenues increased 13.1% to $3.1 billion. EBITDA was $543 million, or 17.7% of revenues, compared to $413 million, or 15.2% of revenues, adjusted for special items, in 2001. Capital expenditures were $118 million.

For the fourth quarter of 2002, the company is comfortable with the current consensus of analyst earnings expectations of $0.78 per diluted share, as published by Thomson First Call. Revenues are expected to grow approximately 14% compared to the prior year. Volume is expected to grow between 12% and 13%, or approximately 4% on a pro forma basis, assuming that AML had been part of Quest Diagnostics since January 1, 2001. Revenue per requisition is expected to increase between 2% and 3%. EBITDA is expected to exceed 17% of revenues. For the full year 2002, earnings per diluted share are expected to increase by approximately 40%, excluding the benefit from the goodwill accounting change and special items in 2001. Estimates exclude the impact of the planned acquisition of Unilab, which the company hopes to complete in the fourth quarter.

Quest Diagnostics' third quarter conference call will take place on October 18 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: www.streetevents.com and all others may access the Quest Diagnostics website at: www.questdiagnostics.com. In addition, a replay of the call will also be available from 10 A.M. on October 18 through 5 P.M. on November 14 to investors in the U.S. by dialing 800-216-3090. Investors outside the U.S. may dial 402-220-3857. No password is required for either number.

Quest Diagnostics Incorporated is the nation's leading provider of diagnostic testing, information and services, providing insights that enable physicians, hospitals, managed care organizations and other healthcare professionals to make decisions to improve health. The company offers patients and physicians the broadest access to diagnostic laboratory services through its national network of laboratories and patient service centers. Quest Diagnostics is the leading provider of esoteric testing, including gene-based medical testing, and empowers healthcare organizations and clinicians with state-of-the-art connectivity solutions that improve practice management. Additional company information can be found on the Internet at: 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 actual results and outcomes to be materially different. Certain of these risks and uncertainties may include, but are not limited to, unanticipated expenditures, changing relationships with customers, suppliers and strategic partners, conditions of the economy and other factors described in the Quest Diagnostics Incorporated 2001 Form 10-K and subsequent filings.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2002 and 2001
(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net revenues	$1,058.7	$903.2	$3,074.3	$2,717.3
Costs and expenses:				

Cost of services	625.1	535.6	1,813.1	1,614.0
Selling, general and administrative	272.6	251.0	807.8	760.3
Interest expense, net	13.4	14.8	41.0	58.0
Amortization of intangible assets	2.0	11.4	6.2	34.7
Provision for special charge	--	--	--	6.0
Minority share of income	3.7	2.9	11.5	6.8
Other, net	(4.2)	(2.4)	(10.4)	(3.6)
Total	912.6	813.3	2,669.2	2,476.2
Income before taxes and extraordinary loss	146.1	89.9	405.1	241.1
Income tax expense	59.5	39.8	164.6	108.1
Income before extraordinary loss	86.6	50.1	240.5	133.0
Extraordinary loss, net of taxes	--	--	--	(21.6)
Net income	$86.6	$50.1	$240.5	$111.4
Income before extraordinary loss and special charge	$86.6	$50.1	$240.5	$136.6
Basic earnings per common share:				
Income before extraordinary loss	$0.89	$0.54	$2.50	$1.43
Net income	0.89	0.54	2.50	1.20
Income before extraordinary loss and special charge	0.89	0.54	2.50	1.47
Weighted average common shares outstanding - basic	96.9	93.4	96.2	92.6
Diluted earnings per common share:				
Income before extraordinary loss	$0.87	$0.51	$2.41	$1.37
Net income	0.87	0.51	2.41	1.14
Income before extraordinary loss and special charge	0.87	0.51	2.41	1.40
Weighted average common shares outstanding - diluted	99.7	98.0	99.8	97.3
EBITDA	$192.4	$141.8	$542.8	$413.0

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Balance Sheets
September 30, 2002 and December 31, 2001
(in millions, except per share data)

	September 30, 2002	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$113.8	$122.3
Accounts receivable, net	576.5	508.3
Inventories	59.0	49.9
Deferred income taxes	139.8	157.6
Prepaid expenses and other current assets	41.0	38.4
Total current assets	930.1	876.5
Property, plant and equipment, net	571.5	508.6
Goodwill, net	1,789.4	1,351.1
Intangible assets, net	22.3	28.0
Deferred income taxes	53.1	52.7
Other assets	99.3	113.7
Total assets	$3,465.7	$2,930.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$610.4	$657.2
Short-term borrowings and current portion of long-term debt	251.1	1.4
Total current liabilities	861.5	658.6
Long-term debt	796.8	820.3
Other liabilities	129.7	115.7
Common stockholders' equity:		
Common stock, par value $0.01 per share; 300 shares authorized; 97.7 and 96.0 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively	1.0	1.0
Additional paid in capital	1,807.5	1,714.7
Accumulated deficit	(122.5)	(362.9)
Unearned compensation	(5.5)	(13.3)
Accumulated other comprehensive loss	(2.8)	(3.5)
Total common stockholders' equity	1,677.7	1,336.0
Total liabilities and stockholders' equity	$3,465.7	$2,930.6

Notes to Financial Tables

1) Depreciation expense totaled $30.9 million and $25.7 million for the three months ended September 30, 2002 and 2001, respectively, and $90.5 million and $73.3 million for the nine months ended September 30, 2002 and 2001, respectively.

2) Net income per common share is computed by dividing net income less dividends on preferred stock (approximately $30 thousand per quarter in 2001) by the weighted average number of common shares outstanding. Potentially dilutive common shares primarily represent stock options. During the fourth quarter of 2001, the Company redeemed all of the then issued and outstanding shares of preferred stock.

   The following table presents net income and basic and diluted earnings per common share, had the Company elected to recognize compensation cost based on the fair value at the grant dates for stock option awards and discounts granted for stock purchases under the Company's Employee Stock Purchase Plan, consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"):

	Three Months Ended September 30, 2002	2001	Nine Months Ended September 30, 2002	2001
	(in millions, except per share data)			
Net income:				
Net income	$86.6	$50.1	$240.5	$111.4
Impact of recognizing compensation cost pursuant to provisions of SFAS 123	(10.2)	(7.1)	(28.2)	(17.1)
Net income, adjusted for impact of SFAS 123	$76.4	$43.0	$212.3	$94.3
Basic earnings per common share:				
Net income	$0.89	$0.54	$2.50	$1.20
Impact of recognizing compensation cost pursuant to provisions of SFAS 123	(0.10)	(0.08)	(0.29)	(0.18)
Net income, adjusted for impact of SFAS 123	$0.79	$0.46	$2.21	$1.02
Diluted earnings per common share:				
Net income	$0.87	$0.51	$2.41	$1.14
Impact of recognizing compensation cost pursuant to provisions of SFAS 123	(0.10)	(0.07)	(0.28)	(0.17)
Net income, adjusted for impact of SFAS 123	$0.77	$0.44	$2.13	$0.97

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended September 30, 2002	2001	Nine Months Ended September 30, 2002	2001
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	3.8%	5.1%	4.2%	5.2%
Expected volatility	46.2%	47.7%	45.2%	47.7%
Expected holding period, in years	5	5	5	5

3) Other, net, which represents income for each of the periods presented, includes equity earnings from our unconsolidated joint ventures and miscellaneous gains and losses. For the three and nine months ended September 30, 2002, other, net includes a $3.8 million gain on an investment and a $1.5 million charge associated with the integration of AML. For the nine months ended September 30, 2001, other, net includes the net impact of writing off $7.0 million of impaired assets and a $6.3 million gain on the sale of an investment.

4) 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.

5) 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 existing interest rate swap agreements on its debt, which was refinanced.

6) EBITDA represents income before net interest expense, income taxes, depreciation and amortization, before special items in 2001. The special items represented the extraordinary loss and the special charge associated with the Company's debt refinancing in the second quarter of 2001.

7) In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" ("SFAS 142"), which the Company adopted on January 1, 2002. The following table presents net income and basic and diluted earnings per common share data adjusted to exclude the amortization of goodwill, assuming that SFAS 142 had been in effect for the periods presented:

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
	(in millions, except per share data)	
Net income:		
Adjusted income before extraordinary loss	$59.0	$160.1
Adjusted net income	59.0	138.4
Adjusted income before extraordinary loss and special charge	59.0	163.6
Basic earnings per common share:		
Adjusted income before extraordinary loss	$0.63	$1.73
Adjusted net income	0.63	1.49
Adjusted income before extraordinary loss and special charge	0.63	1.77
Diluted earnings per common share:		
Adjusted income before extraordinary loss	$0.60	$1.64
Adjusted net income	0.60	1.42
Adjusted income before extraordinary loss and special charge	0.60	1.68

SOURCE Quest Diagnostics Incorporated

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