Quest Diagnostics Net Income Increases 80% in Fourth Quarter 2001

January 28, 2002

TETERBORO, N.J., Jan. 28 /PRNewswire-FirstCall/ -- Quest Diagnostics Incorporated (NYSE: DGX), the nation's leading provider of diagnostic testing, information and services, announced that for the fourth quarter ended December 31, 2001, net income increased 80% to $50.9 million, or $0.52 per diluted share, compared to income before an extraordinary loss in 2000 of $28.3 million, or $0.29 per diluted share. Cash earnings, or earnings before amortization of intangible assets, increased to $0.62 per diluted share from $0.38 in 2000.

Fourth-quarter revenues grew 9% to $910 million, compared to $836 million in 2000. Clinical testing volume, measured by the number of requisitions, grew 3.5% over the prior year period, and revenue per requisition increased approximately 4%. The balance of the revenue increase was generated by non-clinical testing businesses. Earnings before interest, taxes, depreciation and amortization (EBITDA) were $144 million, or 15.8% of revenues, compared to $112 million, or 13.4% of revenues for the prior year period.

"We continued to deliver strong performance, increasing income 80% during the fourth quarter, and 77% for the full year," said Kenneth W. Freeman, Chairman and Chief Executive Officer. "At the same time, we established a foundation for continued profitable growth, by investing in Six Sigma quality, accelerating the introduction of new diagnostic tests and techniques, and enhancing our technology capabilities. For 2002, we expect revenues to grow approximately 8% and earnings per diluted share to increase to between $2.85 and $2.90. This represents growth of greater than 30%, before a benefit of approximately $0.35 per diluted share from the change in goodwill accounting, and approximately 50% after the change."

Bad debt improved to 5.8% of revenues in the quarter, compared to 6.3% in the prior year period. Days sales outstanding were 54 days, compared to 56 days a year ago. The company ended the quarter with $122 million in cash, and has no borrowings outstanding under its more than $600 million in available credit facilities. Capital expenditures were $39 million for the quarter.

For the full year, income before an extraordinary loss and special charges increased 77% to $188 million or $1.92 per diluted share, compared to $106 million, or $1.13 per diluted share in 2000. Cash earnings were $2.34 per diluted share, compared to $1.56 in 2000. Revenues increased 6% to $3.6 billion. Adjusted EBITDA was $557 million, or 15.3%, of revenues, compared to $459 million, or 13.4% of revenues in 2000. After an extraordinary loss and special charges, net income increased 59% to $162 million, or $1.66 per diluted share. Capital expenditures were $149 million for the year.

Quest Diagnostics will discuss results for the fourth quarter during a conference call for investors on January 29 at 8 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 be available from 10 a.m. on January 29 through 5 p.m. on January 31 to investors in the U.S. by dialing 800-754-7906. Investors outside the U.S. may dial 402-220-0366. 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 that 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 listed in the Quest Diagnostics Incorporated 2000 Form 10-K and subsequent filings.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations
For the Quarters and Years Ended December 31, 2001 and 2000
(in millions, except per share data)

	Quarter Ended December 31,		Year Ended December 31,	
	2001	2000	2001	2000
Net revenues	$910.4	$836.4	$3,627.7	$3,421.2
Costs and expenses:				
Cost of services	537.6	502.0	2,151.6	2,056.2
Selling, general and administrative	258.4	247.5	1,018.7	1,001.4
Interest expense, net	12.5	23.7	70.5	113.1
Amortization of intangible assets	11.4	10.3	46.1	45.7
Provision for special charges	--	--	6.0	2.1
Minority share of income	3.1	1.9	9.9	9.4

Other, net	(4.1)	(2.6)	(7.7)	(7.7)
Total	818.9	782.8	3,295.1	3,220.2
Income before taxes and extraordinary loss	91.5	53.6	332.6	201.0
Income tax expense	40.6	25.3	148.7	96.0
Income before extraordinary loss	50.9	28.3	183.9	105.0
Extraordinary loss, net of taxes	--	(2.9)	(21.6)	(2.9)
Net income	$50.9	$25.4	$162.3	$102.1
Income before extraordinary loss and special charges	$50.9	$28.3	$187.5	$106.2
Basic net income per common share:				
Income before extraordinary loss	$0.54	$0.31	$1.98	$1.17
Net income	$0.54	$0.28	$1.74	$1.14
Income before extraordinary loss and special charges	$0.54	$0.31	$2.01	$1.19
Diluted net income per common share:				
Income before extraordinary loss	$0.52	$0.29	$1.88	$1.11
Net income	$0.52	$0.26	$1.66	$1.08
Income before extraordinary loss and special charges	$0.52	$0.29	$1.92	$1.13
Cash earnings per diluted share	$0.62	$0.38	$2.34	$1.56
Weighted average common shares outstanding - basic	94.4	90.7	93.1	89.5
Weighted average common shares outstanding - diluted	98.5	96.2	97.6	94.3
Adjusted EBITDA	$143.8	$112.4	$556.9	$459.4

Quest Diagnostics Incorporated and Subsidiaries

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

	December 31, 2001	December 31, 2000
Assets		
Cash and cash equivalents	$122.3	$171.5
Accounts receivable, net	508.3	485.6
Intangible assets, net	1,379.1	1,261.6
Other assets	920.9	945.8
Total assets	$2,930.6	$2,864.5
Liabilities and Stockholders' Equity		
Short-term debt	$1.4	$265.4
Long-term debt	820.3	760.7
Other liabilities	772.9	807.6
Common stockholders' equity	1,336.0	1,030.8
Total liabilities and stockholders' equity	$2,930.6	$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 $48.8 million to both reported revenues and cost of services for the year ended December 31, 2000. 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. During the fourth quarter of 2000, the Company recorded an extraordinary loss of $4.8 million ($2.9 million, net of tax) which represented the write-off of deferred financing costs associated with $155.0 million of term loans which were prepaid.

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 existing 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 $28.3 million and $23.2 million for the

quarter ended December 31, 2001 and 2000, respectively, and $101.6 million and $88.6 million for the year ended December 31, 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 $1.7 million and $8.9 million, respectively, of costs associated with the SBCL integration plan which were included in operating costs and expensed as incurred during the quarter and year ended December 31, 2000.

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