Quest Diagnostics Announces Increased Earnings for Second Quarter 2002

July 22, 2002

TETERBORO, N.J., Jul 22, 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 second quarter ended June 30, 2002, net income increased to $87.2 million, or $0.87 per diluted share, from $50.7 million, or $0.52 per diluted share, before special items in the second quarter of 2001. 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 40% compared to the 2001 level, adjusted for the required change in goodwill accounting (SFAS 142) and the special items incurred in 2001.

Second quarter revenues of $1.1 billion grew 14.7% over the prior year level and reflect the acquisition of American Medical Laboratories (AML), which was completed on April 1, 2002. Clinical testing volume, measured by the number of requisitions, increased 12% compared to the prior year, or 3.7% on a pro forma basis, assuming that AML had been part of Quest Diagnostics since January 1, 2001. Revenue per requisition increased 2.4% compared to the prior year.

“Strong performance in the quarter was driven by revenue growth, efficiency gains from our Six Sigma and standardization initiatives and increased cash generation,” said Kenneth W. Freeman, Chairman and Chief Executive Officer. “The fundamentals of our business remain sound, and our growth initiatives are generating results.”

Earnings before interest, taxes, depreciation and amortization (EBITDA), were $195 million, or 18.2% of revenues, compared to $149 million, or 16% of revenues, adjusted for special items in 2001. Bad debt expense improved to 5.2%, compared to 6% for the prior year period. Days sales outstanding were 52 days, unchanged from the end of the first quarter. During the quarter, the company repaid $175 million of the $475 million in debt borrowed on April 1 in conjunction with the acquisition of AML. Capital expenditures totaled $42 million for the quarter.

For the first half of 2002, net income increased to $153.8 million from $86.5 million before special items in the prior year. Earnings per diluted share were $1.54, compared to $0.89 before special items in the prior year. Earnings per diluted share increased 43% compared to the 2001 level, adjusted for the required change in goodwill accounting and the special items incurred in 2001. Revenues increased 11.1% to $2 billion. EBITDA was $350 million, or 17.4% of revenues, compared to $271 million, or 15% of revenues, adjusted for special items in 2001. Capital expenditures were $83 million.

Revenues for full year 2002 are expected to grow between 13% and 14%. Earnings per diluted share are expected to increase to between $3.07 and $3.12, before a special charge expected in the third quarter associated with the integration of AML. This represents an increase of approximately 35% above the 2001 level, adjusted for the required change in goodwill accounting and the special items incurred in 2001. For the full year 2002, EBITDA is expected to exceed 17% of revenues. Volume is expected to increase approximately 10%, 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%. Estimates exclude the impact of the planned acquisition of Unilab, which the company expects to complete in the third quarter.

Quest Diagnostics will hold its second quarter conference call on July 23 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 be available from 10 A.M. on July 23 through 5 P.M. on August 23 to investors in 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 be available from 10 A.M. on July 23 through 5 P.M. on August 23 to investors in 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.

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 2001 Form 10-K and subsequent filings.

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

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Net revenues</td>
<td>$1,068.8</td>
<td>$931.5</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of services</td>
<td>630.3</td>
<td>549.4</td>
</tr>
<tr>
<td></td>
<td>1,188.0</td>
<td>1,078.5</td>
</tr>
</tbody>
</table>
Selling, general and administrative 276.8  256.5  535.2  509.3
Interest expense, net 14.9  20.5  27.6  43.2
Amortization of goodwill and
other intangible assets 2.1  12.1  4.2  23.2
Provision for special charge --  6.0  --  6.0
Minority share of income 3.9  2.8  7.8  3.9
Other, net (5.7) (1.5) (6.2) (1.1)
Total 922.3  845.8  1,756.6  1,663.0
Income before taxes and
extraordinary loss 146.5  85.7  259.0  151.1
Income tax expense 59.3  38.6  105.2  68.3
Income before extraordinary loss 87.2  47.1  153.8  82.8
Extraordinary loss, net of taxes -- (21.6) -- (21.6)
Net income $87.2  $25.5  $153.8  $61.2
Income before extraordinary
loss and special charge $87.2  $50.7  $153.8  $86.5
Basic earnings per common share:
Income before extraordinary loss $0.90  $0.51  $1.60  $0.90
Net income 0.90  0.28  1.60  0.66
Income before extraordinary loss
and special charge 0.90  0.55  1.60  0.94
Weighted average common
shares outstanding - basic 96.4  92.6  95.9  92.2
Diluted earnings per common share:
Income before extraordinary loss $0.87  $0.48  $1.54  $0.85
Net income 0.87  0.26  1.54  0.63
Income before extraordinary loss
and special charge 0.87  0.52  1.54  0.89
Weighted average common
shares outstanding - diluted 100.3  97.3  99.8  97.0
EBITDA $194.9  $148.8  $350.4  $271.2

Quest Diagnostics Incorporated and Subsidiaries
Consolidated Balance Sheets
June 30, 2002 and December 31, 2001
(in millions, except per share data)

June 30,   December 31,
2002         2001

Assets
Current assets:
Cash and cash equivalents $89.8  $122.3
Accounts receivable, net of allowance of
$207.4 and $216.2 at June 30, 2002 and
December 31, 2001, respectively 597.7  508.3
Inventories 57.9  49.9
Deferred income taxes 146.8  157.6
Prepaid expenses and other current assets 41.6  38.4
Total current assets 933.8  876.5
Property, plant and equipment, net 569.0  508.6
Goodwill, net 1,778.3  1,351.1
Intangible assets, net 24.2  28.0
Deferred income taxes 46.4  52.7
Other assets 99.8  113.7
Total assets $3,451.5  $2,930.6
Liabilities and Stockholders' Equity

Current liabilities:

- Accounts payable and accrued expenses: $644.8 / $657.2
- Short-term borrowings and current portion of long-term debt: 301.8 / 1.4
- Total current liabilities: 946.6 / 658.6

Long-term debt: 820.8 / 820.3
Other liabilities: 114.1 / 115.7

Common stockholders' equity:

- Common stock, par value $0.01 per share; 300 shares authorized; 97.4 and 96.0 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively: 1.0 / 1.0
- Additional paid in capital: 1,788.5 / 1,714.7
- Accumulated deficit: (209.1) / (362.9)
- Unearned compensation: (8.1) / (13.3)
- Accumulated other comprehensive loss: (2.3) / (3.5)
- Total common stockholders' equity: 1,570.0 / 1,336.0

Total liabilities and stockholders' equity: $3,451.5 / $2,930.6

Notes to Financial Tables

1) Depreciation expense totaled $31.4 million and $24.5 million for the three months ended June 30, 2002 and 2001, respectively and $59.6 million and $47.7 million for the six months ended June 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.

3) 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.

4) 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.

5) 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.

6) 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 (in millions, except per share data):

<table>
<thead>
<tr>
<th></th>
<th>Three Months</th>
<th>Six Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities and stockholders' equity</td>
<td>$3,451.5</td>
<td>$2,930.6</td>
</tr>
</tbody>
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Ended       Ended
June 30, 2001       June 30, 2001

<table>
<thead>
<tr>
<th></th>
<th>Ended</th>
<th>Ended</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2001</td>
<td>June 30, 2001</td>
</tr>
<tr>
<td><strong>Net income:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted income before extraordinary loss</td>
<td>$56.6</td>
<td>$101.0</td>
</tr>
<tr>
<td>Adjusted net income</td>
<td>35.0</td>
<td>79.4</td>
</tr>
<tr>
<td>Adjusted income before extraordinary loss and special charge</td>
<td>60.2</td>
<td>104.6</td>
</tr>
<tr>
<td><strong>Basic earnings per common share:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted income before extraordinary loss</td>
<td>$0.61</td>
<td>$1.09</td>
</tr>
<tr>
<td>Adjusted net income</td>
<td>0.38</td>
<td>0.86</td>
</tr>
<tr>
<td>Adjusted income before extraordinary loss and special charge</td>
<td>0.65</td>
<td>1.13</td>
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<tr>
<td><strong>Diluted earnings per common share:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Adjusted income before extraordinary loss</td>
<td>$0.58</td>
<td>$1.04</td>
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<tr>
<td>Adjusted net income</td>
<td>0.36</td>
<td>0.82</td>
</tr>
<tr>
<td>Adjusted income before extraordinary loss and special charge</td>
<td>0.62</td>
<td>1.08</td>
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**SOURCE** Quest Diagnostics Incorporated

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**URL:** http://www.questdiagnostics.com

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