



## Quest Diagnostics Announces Improved Earnings in Third Quarter of 1998

October 14, 1998

TETERBORO, N.J., OCTOBER 14, 1998—Quest Diagnostics Incorporated (NYSE: DGX) announced today that for the third quarter ended September 30, 1998, net income increased to \$6.1 million, or \$0.20 per diluted share, from \$3.0 million, or \$0.10 per share during the 1997 period. Revenues were \$360.7 million compared to \$373.7 million for the 1997 third quarter.

"Our improved bottom line results for the quarter reflect the continued success of our cost reduction efforts and process discipline," said Kenneth W. Freeman, chairman and chief executive officer. "In addition, our solid cash flow has enabled us to further strengthen our balance sheet and continue to repurchase shares in the open market."

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$37.6 million for the third quarter, compared to \$35.7 million for the prior year period.

During the quarter, revenues declined 3.5% from the previous year. Clinical testing volume, measured by the number of requisitions, or orders, declined 5.6%. Average price per requisition increased 1.4% over the prior year period.

Total operating costs for the quarter declined by \$15.2 million from the year-earlier period. Bad debt expense during the quarter was 6.2% of revenues, compared to 7.1% for the prior year period and 5.8% for the second quarter. The number of days sales outstanding, a measure of billing and collection efficiency, was 61 days, compared to 67 days a year ago and 61 days at the end of the second quarter. Capital expenditures totaled \$8.5 million for the quarter and \$27.9 million for the nine months ended September 30, 1998.

"While we expect to face volume challenges over the short term, we are confident that our strategy will yield long-term profitable growth," said Mr. Freeman. "We continue to see progress toward becoming the preferred partner with large buyers of health care services, as evidenced by our recently announced joint venture in Pittsburgh with UPMC Health System, an internationally recognized academic medical center."

For the nine months ended September 30, 1998, net income increased to \$21.5 million, or \$0.71 per diluted share, from \$15.1 million, or \$0.52 per share, for the prior-year period. Revenues declined to \$1.09 billion from \$1.16 billion. EBITDA for the nine-month period, adjusted for a \$2.5 million special charge in the first quarter, increased to \$124.7 million from \$120.4 million last year.

Quest Diagnostics is one of the nation's leading providers of diagnostic testing, information and services to physicians, hospitals, managed care organizations, employers and government agencies. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor disease. Its Nichols Institute unit conducts research, specializes in esoteric testing using genetic screening and other advanced technologies, performs clinical studies testing, and manufactures and distributes diagnostic test kits and instruments. Quest Informatics collects and analyzes laboratory, pharmaceutical and other data to help large health care customers identify and monitor patients who are at-risk for certain diseases. Additional company information can be found on the Internet at: [www.questdiagnostics.com](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 listed in the Quest Diagnostics Incorporated 1997 Form 10-K and subsequent filings.

-- Table follows --

**Quest Diagnostics Incorporated and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Three and Nine Months Ended September 30, 1998 and 1997**  
(in millions, except per share data)

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
<b>Net revenues</b>	\$360.7	\$373.7	\$1,095.3	\$1,163.3
<b>Costs and expenses:</b>				
Cost of services	210.9	229.2	646.7	708.1
Selling, general and administrative	122.8	119.6	359.4	371.5
Interest expense, net	8.4	10.4	26.5	31.5
Amortization of intangible assets	5.5	6.1	16.3	18.1
Other, net	<u>1.1</u>	<u>2.1</u>	<u>2.5</u>	<u>3.0</u>
<b>Total</b>	<u>348.7</u>	<u>367.4</u>	<u>1,051.4</u>	<u>1,132.2</u>
Income before taxes	12.0	6.3	43.9	31.1
Income tax expense	<u>5.9</u>	<u>3.3</u>	<u>22.4</u>	<u>16.0</u>

Net income	<u>\$ 6.1</u>	<u>\$ 3.0</u>	<u>\$ 21.5</u>	<u>\$ 15.1</u>
Basic net income per common share	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.72</u>	<u>\$ 0.52</u>
Diluted net income per common share	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.71</u>	<u>\$ 0.52</u>
Weighted average common shares outstanding - basic	29.7	29.3	29.7	29.1
Weighted average common shares outstanding - diluted	30.2	29.7	30.3	29.5

Notes to consolidated statements of operations:

- Earnings per share are 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 result primarily from stock options.
- Depreciation expense totaled \$11.7 million and \$13.0 million for the three months ended September 30, 1998 and 1997, respectively, and \$35.4 million and \$39.7 million for the nine months ended September 30, 1998 and 1997, respectively.
- Net income for the nine months ended September 30, 1998 includes a \$2.5 million charge (\$1.2 million, net of tax, or \$0.04 per basic share) included in selling, general and administrative expenses related to the Company's consolidation of its laboratory network which was announced in December 1997.

Quest Diagnostics Incorporated and Subsidiaries  
Selected Balance Sheet Information  
As of September 30, 1998 and December 31, 1997  
(in millions)

	September 30, 1998	December 31, 1997
Cash and cash equivalents	\$ 181.0	\$ 161.7
Accounts receivable, net	236.4	238.4
Accounts receivable allowance for doubtful accounts	72.6	89.9
Total current assets	561.7	571.9
Total assets	1,366.2	1,400.9
Short-term debt	47.1	32.6
Total current liabilities	303.4	295.1
Long-term debt	423.5	482.2
Total liabilities	804.8	859.3
Stockholders' equity	561.4	541.6