



Quest Diagnostics Reports Strong Financial Results in Third Quarter 2004

October 25, 2004

TETERBORO, N.J., Oct 25, 2004 /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, 2004, net income increased to \$130 million, or \$1.26 per diluted share, compared to \$120 million, or \$1.12 per diluted share, in 2003.

Third quarter revenues grew 5.6% over the prior-year level to \$1.3 billion. Clinical testing volume, measured by the number of requisitions, increased 3.3%, and revenue per requisition increased 1.9%. The remainder of the revenue growth was contributed by the company's non-clinical testing businesses.

During the quarter, the estimated impact of hurricanes on the company's business in the southeastern U.S. reduced revenue growth by slightly more than half a percentage point and reduced earnings per share by \$0.03.

For the third quarter, operating income was \$232 million, or 18% of revenues, compared to \$218 million, or 17.8% of revenues, in 2003. Bad debt expense was 4.6% of revenues, compared to 4.8% a year ago. Days sales outstanding were 48 days, unchanged from a year ago. Cash from operations increased to \$217 million from \$173 million in 2003. During the quarter the company repurchased \$110 million of its common stock and made capital expenditures of \$43 million.

"We delivered strong financial performance in the third quarter," said Surya N. Mohapatra, Ph.D., President and Chief Executive Officer. "Quest Diagnostics continues to differentiate itself successfully in the marketplace by providing patients and physicians with innovative science and medicine, advanced information technology, unparalleled access and distribution, and the benefits of our long-standing commitment to Six Sigma quality, enabling us to drive improvements in revenues, earnings per share and cash generation."

For the first nine months of 2004, excluding special charges in the second quarter related to the CEO succession process and the company's debt refinancing, net income increased to \$381 million, and earnings per diluted share increased 17% to \$3.64 from \$3.10 in 2003. Including the second quarter charges, net income was \$373 million and earnings per diluted share were \$3.56. Revenues increased 8.8% to \$3.8 billion. Operating income, excluding the charge for the CEO succession process, was \$681 million, or 17.7% of revenues, compared to \$599 million, or 17% of revenues in 2003. Including the charge, operating income was \$671 million, or 17.4% of revenues. Through the first nine months of 2004, the company repurchased \$381 million of its common stock and made capital expenditures of \$134 million.

Outlook for Fourth Quarter and Full-Year 2004

For the fourth quarter, revenues are expected to grow approximately 6%, operating income is expected to be between 17% and 18% of revenues, and earnings per diluted share are expected to be between \$1.18 and \$1.23 before a required change in the accounting for the company's contingent convertible debentures. Including the change in accounting, earnings per diluted share are expected to be between \$1.15 and \$1.20.

For the full year 2004, revenues are expected to grow approximately 8%, with growth of about 1.5% contributed by Unilab, acquired February 28, 2003. Operating income is expected to approach 18% of revenues, cash from operations is expected to exceed \$700 million, and capital expenditures are expected to be between \$180 million and \$190 million.

The company expects full year earnings per diluted share of between \$4.82 and \$4.87, before the second quarter special charges and the change in accounting for the company's contingent convertible debentures. Including these items, earnings per diluted share are expected to be between \$4.64 and \$4.69.

Quest Diagnostics will hold its third quarter conference call on October 25 at 8:30 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 10:30 A.M. on October 25 through 11 P.M. on November 26 to investors in the U.S. by dialing 866-407-9273. Investors outside the U.S. may dial 203-369-0618. 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 healthcare professionals to make decisions that improve health. The company offers the broadest access to diagnostic testing services through its national network of laboratories and patient service centers, and provides interpretive consultation through its extensive medical and scientific staff. Quest Diagnostics is the leading provider of esoteric testing, including gene-based medical testing, and provides advanced information technology solutions to improve patient care. Additional company information is available 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 actual results and outcomes to be materially different. Certain of these risks and uncertainties may include, but are not limited to, competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors described in the Quest Diagnostics Incorporated 2003 Form 10-K and subsequent filings.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2004 and 2003
(in millions, except per share data)

Three Months Ended

Nine Months Ended

	September 30,		September 30,	
	2004	2003	2004	2003
Net revenues	\$1,289.9	\$1,221.2	\$3,843.3	\$3,534.0
Operating costs and expenses:				
Cost of services	748.4	711.2	2,233.3	2,062.4
Selling, general and administrative	308.3	292.4	923.2	867.7
Amortization of intangible assets	1.7	2.0	5.8	6.1
Other operating (income) expense, net	(0.2)	(1.9)	10.4	(1.7)
Total operating costs and expenses	1,058.2	1,003.7	3,172.7	2,934.5
Operating income	231.7	217.5	670.6	599.5
Other income (expense):				
Interest expense, net	(13.6)	(14.5)	(44.6)	(45.2)
Minority share of income	(4.9)	(4.6)	(14.4)	(12.8)
Equity earnings in unconsolidated joint ventures	5.5	4.4	15.5	13.0
Other income (expense), net	--	(0.1)	--	0.5
Total non-operating expenses, net	(13.0)	(14.8)	(43.5)	(44.5)
Income before taxes	218.7	202.7	627.1	555.0
Income tax expense	88.6	82.7	254.0	226.5
Net income	\$130.1	\$120.0	\$373.1	\$328.5
Net income before special charges	\$130.1	\$120.0	\$381.0	\$328.5
Basic earnings per common share:				
Net income	\$1.29	\$1.15	\$3.64	\$3.18
Net income before special charges	\$1.29	\$1.15	\$3.72	\$3.18
Weighted average common shares outstanding - basic	101.2	104.8	102.5	103.3
Diluted earnings per common share:				
Net income	\$1.26	\$1.12	\$3.56	\$3.10
Net income before special charges	\$1.26	\$1.12	\$3.64	\$3.10
Weighted average common shares outstanding - diluted	103.3	107.3	104.8	105.8
Operating income before special charge as a percentage of net revenues	18.0%	17.8%	17.7%	17.0%

Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(in millions, except per share data)

	September 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$201.0	\$155.0
Accounts receivable, net	686.0	609.2
Inventories	73.2	72.5
Deferred income taxes	98.3	109.0
Prepaid expenses and other current assets	54.3	50.1
Total current assets	1,112.8	995.8
Property, plant and equipment, net	618.0	607.3
Goodwill, net	2,517.3	2,518.9
Intangible assets, net	12.4	17.0
Deferred income taxes	33.0	49.6
Other assets	101.5	112.8
Total assets	\$4,395.0	\$4,301.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$649.7	\$649.9
Short-term borrowings and current portion of long-term debt	130.2	73.9
Total current liabilities	779.9	723.8
Long-term debt	971.8	1,028.7
Other liabilities	165.6	154.2
Common stockholders' equity:		
Common stock, par value \$0.01 per share; 300 shares authorized; 106.8 shares issued at both September 30, 2004 and December 31, 2003	1.1	1.1
Additional paid-in capital	2,214.3	2,267.0
Retained earnings	707.6	380.5
Unearned compensation	(0.2)	(2.3)
Accumulated other comprehensive income	0.2	5.9
Treasury stock, at cost; 5.8 and 4.0 shares at September 30, 2004 and December 31, 2003, respectively	(445.3)	(257.5)
Total common stockholders' equity	2,477.7	2,394.7
Total liabilities and stockholders' equity	\$4,395.0	\$4,301.4

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2004 and 2003
(in millions)

	Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$373.1	\$328.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126.4	113.5
Provision for doubtful accounts	172.0	172.1
Deferred income tax provision	31.4	16.6

Minority share of income	14.4	12.8
Stock compensation expense	1.2	4.1
Tax benefits associated with stock-based compensation plans	54.2	17.9
Other, net	2.5	(1.8)
Changes in operating assets and liabilities:		
Accounts receivable	(248.9)	(232.0)
Accounts payable and accrued expenses	(10.3)	(67.4)
Integration, settlement and other special charges	(17.4)	(13.8)
Income taxes payable	27.2	43.7
Other assets and liabilities, net	9.4	6.3
Net cash provided by operating activities	535.2	400.5
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	--	(237.5)
Capital expenditures	(134.1)	(121.7)
Proceeds from disposition of assets	7.5	9.0
Increase in investments and other assets	(3.2)	(11.4)
Net cash used in investing activities	(129.8)	(361.6)
Cash flows from financing activities:		
Proceeds from borrowings	304.9	450.0
Repayments of debt	(305.9)	(372.8)
Purchases of treasury stock	(381.2)	(124.1)
Exercise of stock options	83.1	16.8
Dividends paid	(46.2)	--
Distributions to minority partners	(12.0)	(10.6)
Financing costs paid	(2.1)	(4.2)
Other	--	0.3
Net cash used in financing activities	(359.4)	(44.6)
Net change in cash and cash equivalents	46.0	(5.7)
Cash and cash equivalents, beginning of period	155.0	96.8
Cash and cash equivalents, end of period	\$201.0	\$91.1
Cash paid during the period for:		
Interest	\$47.4	\$55.0
Income taxes	\$143.3	\$150.3
Non-cash financing activities:		
Treasury stock purchases not settled	\$ --	\$ 17.3

Notes to Financial Tables

- 1) Net income per common share is computed by dividing net income by the weighted average number of common shares outstanding. Potentially dilutive common shares primarily represent stock options.

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", as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123":

Three Months Ended	Nine Months Ended
September 30,	September 30,

	2004	2003	2004	2003
	(in millions, except per share data)			
Net income				
Net income, as reported	\$130.1	\$120.0	\$373.1	\$328.5
Add: Stock-based compensation under APB 25	0.2	1.2	1.2	4.1
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(11.7)	(12.2)	(33.5)	(40.2)
Pro forma net income	\$118.6	\$109.0	\$340.8	\$292.4
Earnings per common share				
Basic - as reported	\$1.29	\$1.15	\$3.64	\$3.18
Basic - pro forma	\$1.17	\$1.04	\$3.33	\$2.83
Diluted - as reported	\$1.26	\$1.12	\$3.56	\$3.10
Diluted - pro forma	\$1.15	\$1.03	\$3.27	\$2.80

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		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Dividend yield	0.7%	0.0%	0.7%	0.0%
Risk-free interest rate	3.7%	3.3%	3.1%	2.8%
Expected volatility	46.6%	48.1%	47.2%	48.1%
Expected holding period, in years	5	5	5	5

- 2) Other operating expense, net represents miscellaneous income and expense items related to operating activities including gains and losses associated with the disposal of operating assets. For the nine months ended September 30, 2004, other operating expense, net includes a \$10.3 million charge associated with the acceleration of certain pension obligations in connection with the CEO succession process.
- 3) Interest expense, net for the nine months ended September 30, 2004, includes a \$2.9 million charge representing the write-off of deferred financing costs associated with the second quarter 2004 refinancing of the Company's bank debt and credit facility.
- 4) In 2003, the Board of Directors authorized a share repurchase program, which permits the Company to purchase up to \$600 million of its common stock. In July 2004, the Board of Directors authorized the Company to purchase up to an additional \$300 million of its common stock. For the three months ended September 30, 2004, the Company repurchased approximately 1.3 million shares of its common stock at an average price of \$81.64 per share for a total of \$110 million. For the nine months ended September 30, 2004, the Company repurchased approximately 4.5 million shares of its common stock at an average price of \$83.84 per share for a total of \$381 million. Since the inception of the share repurchase program, the Company has repurchased approximately 8.5 million shares of its common stock at an average price of \$74.82 for a total of \$639 million. For the nine months ended September 30, 2004, the Company has reissued approximately 2.8 million of these shares in connection with employee benefit plans. At September 30, 2004, \$261 million of the share repurchase authorization remained available.
- 5) Free cash flow represents net cash provided by operating activities less capital expenditures. Free cash flow is presented because management believes it is a useful adjunct to cash flow from operating

activities and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's ability to fund investing activities and meet its future debt service requirements. Free cash flow is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles net cash provided by operating activities to free cash flow:

	Nine Months Ended September 30,	
	2004	2003
	(in millions)	
Net cash provided by operating activities	\$535.2	\$400.5
Less: Capital expenditures	134.1	121.7
Free cash flow	\$401.1	\$278.8

6) Net income before special charges excludes the charges associated with the acceleration of certain pension obligations in connection with the CEO succession process and the second quarter 2004 refinancing of the Company's bank debt and credit facility. Operating income before special charge excludes the charge associated with the CEO succession process. Both operating income and net income before special charges, including per common share amounts, are presented because management believes that it is a useful adjunct to other measurements under accounting principles generally accepted in the United States, including reported operating income and net income since it is a meaningful measure of the Company's on-going operating performance and is on a basis consistent with prior reported results. Operating income before special charge and net income before special charges, including per common share amounts, are not measures of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to reported operating income and net income as an indicator of performance. The following table reconciles operating income and net income before special charges to reported results:

For the Nine Months Ended September 30, 2004
(in millions, except per share amounts)

Special Charges Related to:

	Before Special Charges	Acceleration of Certain Pension Obligations	Debt Refinancing	As Reported
Net revenues	\$3,843.3	\$--	\$--	\$3,843.3
Operating income	\$680.9	\$(10.3)	\$--	\$670.6
Interest expense, net	(41.7)	--	(2.9)	(44.6)
Income before taxes	\$640.3	\$(10.3)	\$(2.9)	\$627.1
Income tax expense (benefit)	259.3	(4.1)	(1.2)	254.0
Net income	\$381.0	\$(6.2)	\$(1.7)	\$373.1
Basic earnings per common share:				
Net income	\$3.72	\$(0.06)	\$(0.02)	\$3.64

Diluted earnings per common share:				
Net income	\$3.64	\$(0.06)	\$(0.02)	\$3.56
Operating income as a percentage of net revenues (A)	17.7%			17.4%

(A) Calculated by dividing operating income by net revenues

7) Estimated comparable diluted earnings per common share represents management's estimate of diluted earnings per common share before charges associated with the acceleration of certain pension obligations in connection with the CEO succession process, the second quarter refinancing of the Company's bank debt and credit facility, and the required change in accounting for the Company's contingent convertible debentures. Estimated comparable diluted earnings per common share is presented because management believes it is a useful adjunct to estimated diluted earnings per common share and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of the Company's ongoing operating performance and is on a basis consistent with previous estimates of diluted earnings per common share. Estimated comparable diluted earnings per common share is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to estimated diluted earnings per common share. The following table reconciles estimated diluted earnings per common share to estimated comparable diluted earnings per common share:

	Three Months Ended December 31, 2004	Twelve Months Ended December 31, 2004
Estimated diluted earnings per common share	\$1.15 - \$1.20	\$4.64 - \$4.69
Add:		
Charge related to the acceleration of certain pension obligations	0.00	0.06
Refinancing charge	0.00	0.02
Estimated impact of change in accounting for contingent convertible debentures	0.03	0.10
Estimated comparable diluted earnings per common share	\$1.18 - \$1.23	\$4.82 - \$4.87

SOURCE Quest Diagnostics Incorporated

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