



Quest Diagnostics Announces Improved Earnings in Second Quarter of 1998

July 15, 1998

TETERBORO, N.J., JULY 15, 1998—Quest Diagnostics Incorporated (NYSE: DGX) announced today that for the second quarter ended June 30, 1998, net income increased to \$8.9 million from \$8.1 million during the 1997 period. For the quarter, basic earnings per share were \$0.30 compared to \$0.28 for the prior year period; diluted earnings per share were \$0.29 compared to \$0.28 a year ago. Revenues were \$366.7 million compared to \$401.5 million for the 1997 second quarter.

"Our results reflect continued progress in reducing both operating and interest costs," said Kenneth W. Freeman, chairman and chief executive officer. "Cash generation remained strong, which allowed us to prepay a portion of our debt and purchase common shares during the quarter."

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$44.5 million for the second quarter, compared to \$46.1 million for the prior year period.

During the quarter, revenues declined 8.7% from the previous year, primarily due to competitive pressures, changes in reimbursement policies and actions taken on unprofitable accounts. Clinical testing volume, measured by the number of requisitions, or orders, declined 10.1%, or 8.6% when adjusted for joint venture and acquisition transactions completed last year. Average price per requisition increased 1.4% over the prior year period.

Total operating costs for the quarter declined by \$33.5 million from the year-earlier period, reflecting ongoing efforts to reduce capacity and align costs with business conditions. The transfer of testing from the Atlanta and Tampa facilities to other regional laboratories was successfully completed during the quarter.

Bad debt expense declined during the quarter to 5.8% of revenues from 7.7% for the prior year period and 6.5% for the first quarter. The number of days sales outstanding, a measure of billing and collection efficiency, was 61 days, compared to 65 days a year ago and 58 days in the first quarter. Capital expenditures totaled \$9.4 million for the quarter and \$19.5 million year-to-date.

"New Medicare requirements, which became effective April 1, have not had as significant an impact on revenues as we had anticipated," said Mr. Freeman. "However, we continue to expect that the new test panels will lead to changes in physician ordering patterns and adversely affect revenues during the second half of the year."

For the first half of 1998, net income increased to \$15.5 million from \$12.1 million for the prior year as revenues declined to \$734.6 million from \$789.6 million. Basic earnings per share for the six months were \$0.52 compared to \$0.42 for the prior year period; diluted earnings per share were \$0.51 compared to \$0.42 for the prior year. EBITDA for the six-month period, adjusted for a \$2.5 million special charge in the first quarter, increased to \$87.1 million from \$84.7 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.

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 Six Months Ended June 30, 1998 and 1997
(in millions, except per share data)

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Net revenues	\$ 366.7	\$ 401.5	\$ 734.6	\$ 789.6
Costs and expenses:				
Cost of services	217.8	239.6	435.8	478.9
Selling, general and administrative	116.1	127.9	236.6	251.9
Interest expense, net	9.0	10.5	18.1	21.1
Amortization of intangible assets	5.4	6.0	10.8	12.0
Other, net	<u>0.2</u>	<u>1.1</u>	<u>1.4</u>	<u>0.9</u>
Total	<u>348.5</u>	<u>385.1</u>	<u>702.7</u>	<u>764.8</u>

Income before taxes	18.2	16.4	31.9	24.8
Income tax expense	<u>9.3</u>	<u>8.3</u>	<u>16.4</u>	<u>12.7</u>
Net income	<u>\$ 8.9</u>	<u>\$ 8.1</u>	<u>\$ 15.5</u>	<u>\$ 12.1</u>
Basic net income per common share	<u>\$ 0.30</u>	<u>\$ 0.28</u>	<u>\$ 0.52</u>	<u>\$ 0.42</u>
Diluted net income per common share	<u>\$ 0.29</u>	<u>\$ 0.28</u>	<u>\$ 0.51</u>	<u>\$ 0.42</u>
Weighted average common shares outstanding - basic	29.8	29.1	29.7	29.0
Weighted average common shares outstanding - diluted	30.6	29.5	30.3	29.3

Notes to consolidated statements of operations:

(1) 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.

(2) Net income for the six months ended June 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.