

QUEST DIAGNOSTICS INC
Form 10-Q
July 25, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018
Commission file number 001-12215

Quest Diagnostics Incorporated

500 Plaza Drive
Secaucus, NJ 07094
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 13, 2018, there were outstanding 136,666,678 shares of the registrant's common stock, \$.01 par value.

Table of Contents

PART I - FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
Index to unaudited consolidated financial statements filed as part of this report:	
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u>	<u>5</u>
<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2018 and 2017</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations"</u>	<u>38</u>
Item 4. <u>Controls and Procedures</u>	
<u>Controls and Procedures</u>	<u>38</u>

Table of Contents

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(unaudited)
(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	\$1,919	\$1,864	\$3,803	\$3,681
Operating costs and expenses and other operating income:				
Cost of services	1,243	1,170	2,469	2,335
Selling, general and administrative	351	358	714	713
Amortization of intangible assets	22	18	44	35
Other operating income, net	(2)	(1)	(1)	—
Total operating costs and expenses, net	1,614	1,545	3,226	3,083
Operating income	305	319	577	598
Other income (expense):				
Interest expense, net	(42)	(38)	(83)	(74)
Other income (expense), net	1	11	(1)	14
Total non-operating expenses, net	(41)	(27)	(84)	(60)
Income before income taxes and equity in earnings of equity method investees	264	292	493	538
Income tax expense	(42)	(94)	(94)	(172)
Equity in earnings of equity method investees, net of taxes	11	9	23	16
Net income	233	207	422	382
Less: Net income attributable to noncontrolling interests	14	14	26	25
Net income attributable to Quest Diagnostics	\$219	\$193	\$396	\$357
Earnings per share attributable to Quest Diagnostics' common stockholders:				
Basic	\$1.60	\$1.40	\$2.90	\$2.59
Diluted	\$1.57	\$1.37	\$2.84	\$2.53
Weighted average common shares outstanding:				
Basic	136	137	136	137
Diluted	139	140	139	140
Dividends per common share	\$0.50	\$0.45	\$1.00	\$0.90

The accompanying notes are an integral part of these statements.

Table of Contents

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(unaudited)

(in millions)

Three	Six
Months	Months
Ended	Ended
June 30,	June 30,
2018	2017