Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended June 30, 2011

Conference operator: Welcome to the Quest Diagnostics Second Quarter conference call. At the request of the company, this call is being recorded. The entire contents of the call, including the presentation and question and answer session that will follow, are the copyrighted property of Quest Diagnostics with all rights reserved. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Quest Diagnostics is strictly prohibited. Now I'd like to introduce Kathleen Valentine, Director of Investor Relations for Quest Diagnostics. Go ahead, please.

Kathleen Valentine: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

During this call, we may make forward-looking statements. Actual results may differ materially from those projected. Risks and uncertainties that may affect Quest Diagnostics' future results include, but are not limited to, those described in Quest Diagnostics' 2010 Annual Report on Form 10-K, quarterly reports on Form 10-Q and Current Reports on Form 8-K.

A copy of our earnings press release is available, and the text of our prepared remarks will be available later today, in the Investor Relations "quarterly updates" section of our website at www.QuestDiagnostics.com.

A PowerPoint presentation and spreadsheet with our results and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Kathleen.

We grew revenues and adjusted earnings per share in the second quarter despite ongoing market softness.

During the quarter:
- Revenues grew 1.5% to $1.9 billion dollars;
- Adjusted earnings per share increased 5% to one dollar twelve cents;
- While clinical testing volume decreased 0.9%, revenue per requisition increased 1.6% compared to the prior year; and
- We generated strong underlying cash flow.
- Our growth strategy is to be the leading innovator and provider in the fast-growing esoteric and gene-based testing areas for cancer, cardiovascular disease, infectious disease and neurological disorders. This complements our large routine laboratory testing services, enabling diagnosis and monitoring of a wide range of chronic diseases.

Esoteric, Gene-Based and AP Testing

- We continued to focus on growing our genetic, esoteric and anatomic pathology revenues.
    - Demand for our esoteric and gene-based testing continued to grow faster than routine testing, driven significantly by Vitamin D testing, which saw double digit volume growth in the quarter. However, the rate of growth in Vitamin D testing is moderating.
    - Additionally, ImmunoCap allergy testing continued to grow.
    - In anatomic pathology, we continue to see pressure on volumes from physician in-sourcing, particularly in dermatology and hematology-oncology. However, we have seen some moderation of this practice in other areas, such as GI and GU.
    - In cancer testing, we continue to promote our Colovantage colorectal cancer blood test and OVA1 ovarian cancer test and Leumeta blood cancer tests. These tests are proprietary to Quest Diagnostics and all showed strong growth.

Athena/Celera

The acquisitions of Athena and Celera, which closed in the second quarter, will further accelerate our growth in gene-based and esoteric testing. I am pleased these integrations are on track.

Driving Growth

We are also taking additional actions to grow our business.

- We have strengthened our women's health test offering. We introduced SureSwab for gynecological infections, and are launching Spinal Muscular Atrophy or SMA testing from Athena more broadly throughout our network. We are seeing early successes.
- We also introduced a new prescription drug monitoring service. We are seeing strong growth in this expanding market for pain management. We are helping doctors ensure that prescribed pain medications are not being abused or diverted.
- Turning to sales effectiveness, in some areas, we are pleased with our performance; but we have more work to do. As we've said before, we have completed our sales force expansion, provided them with better tools and enabled them to spend more time with customers.
- We continue to work with health plans to move business to us from high-cost providers.
- Additionally, we have created a new senior vice president position to oversee all aspects of our core business with physicians, including sales, marketing, operations and quality. Cathy Doherty, who reports directly to me, has a proven track record over her 21 years of experience with Quest Diagnostics, including successfully leading our hospital services as well as corporate strategy and business development.

Managing Our Costs

As regards to our costs, we have been looking closely at our cost structure.

In the short term we are aligning our costs with the lower volume levels we have seen.

Beyond that, we need to become more agile and efficient in our operations.

Today, we are announcing a comprehensive initiative to improve profitability in this competitive marketplace, invest for growth and better prepare us for the substantial opportunities in the future. We expect this to reduce our cost structure by $500 million dollars over the next three years and help us reach our goal of 20% operating income.

I have asked Bob Hagemann to lead this initiative.

Capital Deployment Philosophy
Regarding capital deployment, our philosophy comprises:
- The use of cash for growth and strategic advantage;
- The return of cash to shareholders through share buybacks; and
- Dividends.

In addition to quarterly dividends, so far this year we have returned $835 million dollars in cash to shareholders through share buybacks, and we utilized about $1 billion dollars for the acquisitions of Athena and Celera.

In the near term, our interest is in smaller fold-in lab acquisitions which will provide access to more customers and be immediately accretive to earnings.

Now, Bob will provide some analysis on our performance, and then we will take your questions. Bob?

Bob Hagemann**:** Thanks, Surya.

Revenues for the quarter were $1.9 billion, 1.5% above the prior year; and adjusted earnings per share was $1.12, compared to $1.07 in the prior year. "Adjusted" earnings per share for the 2011 second quarter exclude $.10 per share associated with deal related and integration costs in connection with the acquisitions of Athena and Celera, which are further detailed in footnote 2 to the earnings release.

The acquisitions of Athena and Celera contributed about 2.5% to revenue growth in the quarter, and were essentially neutral to adjusted EPS.

Our clinical testing revenues, which account for over 90% of our total revenues, were about 1% above the prior year and about 1.5% below the prior year before the contributions from Athena and Celera.

Volume in the quarter was 1% below the prior year, and compares to the improvement of 1.3% in underlying volume that we saw in the first quarter. We saw a further market softening in terms of physician office visits in the second quarter, which contributed to the volume slow down. Our volume for the month of May was particularly weak, while the months of April and June were modestly positive verses the prior year.

Drugs-of-abuse testing volumes have continued to rebound and grew about 6% in the quarter, although at a slower rate than the first quarter.

Revenue per requisition was 1.6% above the prior year, with the improvement due to the increased esoteric mix contributed by Athena and Celera.

While our increased esoteric mix is benefiting revenue per requisition, it continues to be pressured by business and payer mix changes; the Medicare fee decrease which went into effect January 1; and pricing changes in connection with several large contract extensions executed in the first half of last year. The business and payer mix changes, which continue to pressure revenue per requisition, include a further rebound in lower priced drugs-of-abuse testing, and continued weakness in our higher priced anatomic pathology testing.

Revenue in our non-clinical testing businesses, which include risk assessment, clinical trials testing, products, and healthcare IT, grew 10% for the quarter.

"Adjusted" operating income as a percentage of revenues was 17.7%, compared to 19.5% reported in the prior year. Recent investments we have made in sales and service are temporarily pressuring margins, but are expected to accelerate revenue growth and margin expansion over the longer term. The deal related and integration costs associated with Athena and Celera which are detailed in footnote 2 to the earnings release, reduced the reported operating income percentage by 1%. The adjusted operating income percentage in the quarter is generally in line with the percentage we built into our earlier full year guidance, which contemplates improvement in the later part of the year.

We continued to see strong performance in our billing and collection metrics. Bad debt expense as a percentage of revenues was 3.6% in the quarter, and reflected improvement from both the first quarter, and comparable prior year period. DSOs were 44 days, unchanged from the first quarter. Most of the MediCal billings which had been on hold pending settlement discussions have now been released and collections from MediCal have resumed.

Capital expenditures were $40 million in the quarter, compared to $49 million a year ago.

Underlying cash from operations, was strong. Before the effect of the Medi-Cal settlement payment, and acquisition and integration related costs, cash from operations was $271 million, compared to $209 million reported in last year's second quarter.

Our strong cash flow provides us with significant flexibility to drive shareholder value. Through the first half of the year we have deployed a significant amount of capital to enhance growth in revenues and EPS.

We completed $835 million in share repurchases which will contribute about 15 cents/share EPS improvement.

We completed the acquisitions of Athena and Celera, which bring us unique capabilities. While we are still in the early days of realizing the synergies associated with these important acquisitions, they are already neutral to adjusted EPS, and accretive on a cash basis.

With these acquisitions now completed, our focus is on smaller fold-in acquisitions, which will expand our customer base and further strengthen our distribution network.

In addition, we will continue to ensure we balance our investments in growth with returning cash to shareholders in the form of share repurchases and dividends.

Part of positioning us for the future is ensuring that we have a cost structure which enables us to continue growing cash flows and earnings, during not only what we expect to be a long term period of market growth, but periods like we are currently in, where the market may be going through some temporary slowdown due to economic or other factors.

To that end, as Surya referenced, earlier this week we implemented a number of cost actions which we expect will enable us to meet earlier earnings commitments, despite a reduced outlook for 2011 top line growth. These actions which are broad in nature and affect most parts of our business, will result in a charge estimated at approximately $20 million which will be included in third quarter results.

As you've also heard from Surya, beyond that, we have initiated a multi-year initiative designed to reduce our cost structure by $500 million over the next three years. This effort is intended to address continued reimbursement pressures and labor and benefit cost increases; free up additional resources to invest in science and innovation, and help us achieve our goal of 20% operating income.

This program, which I will directly oversee, will touch every aspect of our business and make us more efficient in both our operations and our general and administrative areas. It will include looking at how we operate our labs and other facilities, the redundant costs across our business, and the speed and effectiveness of our decision making. We have identified opportunities in the cost of testing, the cost of acquiring and transporting samples, and in our general and administrative areas.

We intend to provide you with more specifics and periodic updates as the program progresses.

Now, Turning to guidance:

We now estimate results from continuing operations, before the anticipated third quarter charge and other potential special items, as follows:

- Revenue to grow 1.5%. This reflects about a one and a half percent reduction in our outlook for volume, as a result of the market continuing to be softer than our earlier expectations. It also includes about a 2% contribution from the acquisitions of Athena and Celera.
- We expect earnings per diluted share to be between $4.25 and $4.35 on an adjusted basis, and between $2.81 and $2.91 on a reported basis;

- Operating income as a percentage of revenues to be 17.5% on an adjusted basis, and approach 14% on a reported basis;
- Cash from operations of $1.1 billion before the effect of the Medi-Cal settlement payment and transaction and integration costs, and $900 million after these items; and
- Capital expenditures of $200 million.

Our outlook on an adjusted basis excludes the MediCal charge, the first quarter impact of severe weather, workforce reductions, and transaction and integration costs associated with Athena and Celera.

Footnotes 2 and 7 to the earnings release reconcile the "adjusted" financial measures to the corresponding GAAP measures.

Now I will turn it back to Surya.

Surya: Thanks Bob.

I would like to say in closing:

- In the quarter, we grew revenues and adjusted EPS and started the integrations of Athena and Celera;
- We announced short-term cost actions and are embarking on a multi-year initiative to improve our profitability;
- Diagnostic testing continues to have tremendous potential for growth.
- We are the clear leader with unique assets and value, and we are building on our strength and focused on execution.