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

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: Thank you, Kathleen.

We have a lot of news to share with you this morning. In a moment, we're going to review our earnings and discuss our increased dividend and approach to capital deployment. But first let me tell you about today's succession announcement.

As we indicated in our press release earlier today, we have begun a CEO succession process. I joined Quest Diagnostics in 1999 and I've seen revenues grow five times to $7.5 billion dollars. The company has grown from a simple lab to the most advanced genomic and esoteric testing powerhouse for cancer, cardiovascular disease, infectious disease and neurological disorders. With unmatched assets in science and innovation, information technology and access and distribution now in place, the Board and I have agreed that after almost 12 years, this is the right time to transition to new leadership.

The Board is engaged in the search process and will consider both external and internal candidates.

Importantly, nothing changes today. I will continue to focus on executing our operating and strategic plan until I turn over leadership to a new CEO. I have agreed to continue to serve as Chairman and CEO for up to six months to ensure a smooth transition to my successor.

I will be happy to take any questions you may have at the end of today's call following our prepared remarks.

Turning to our performance in the third quarter, revenues grew 2.2%, adjusted earnings per share increased 4%, and we generated strong cash flow.

We are beginning to see positive signs in a number of areas, but we have more work to do.

The current market environment remains challenging. Nevertheless, we are committed to increasing shareholder returns through a framework that encompasses improving operating performance and a balanced capital deployment philosophy.

Our growth strategy is focused on three main elements:
- Driving faster-growing esoteric and gene-based testing for cancer, cardiovascular disease, infectious disease and neurological disorders;
- Enhancing sales effectiveness; and
- Strengthening our relationships with health plans and other payers.

During the quarter we continued to see increased demand for our advanced diagnostic services. Gene-based and esoteric testing revenues grew 14%, driven by the contribution of neurological testing from Athena and cardiovascular testing from Berkeley HeartLab, as well as women's health testing, specifically, SureSwab. Demand for esoteric and gene based testing continued to grow faster than routine testing.

We continue to be focused on maintaining and expanding our access to insured lives. We are working closely with health plans and employers to reduce costly out-of-network leakage by getting involved in benefit plan design and offering employers an extensive set of turnkey tools that channel employees to low cost testing.

In addition, through our QuestNet lab solution we build and manage lab networks for health plans.

As regards to costs, we have had an ongoing focus on cost structure, both to ensure that our costs are aligned with volume in the short term, and to make needed changes to make us more competitive and profitable for the future.

Last quarter we told you about our comprehensive initiative to reduce our cost structure by $500 million dollars over three years.

We are following a deliberate process to identify opportunities and ensure that we will not do anything to jeopardize patient care, medical quality or growth.

You will hear more details from Bob, who is leading this strategic initiative.

Now let me share with your our evolving capital deployment philosophy. We are a strong company. We generate significant cash flows. With the key assets and capabilities in place through recent acquisitions to drive long-term growth, we do not see large acquisitions in the next few years.

Our focus is on improving our performance and integrating businesses we have acquired. As a result, we plan to return a majority of our future cash to shareholders.

This morning we announced a 70% increase in our dividend to an annualized amount of $0.68 per share. This demonstrates confidence in our continued ability to generate strong cash flow.

Starting next year, we are further aligning management's long-term incentives with increasing returns on invested capital.

Now, Bob will provide further analysis and then we will take your questions.

Bob?

Bob Hagemann**:** Thanks, Surya.

Revenues for the quarter were $1.9 billion, 2.2% above the prior year; and adjusted earnings per share was $1.18, compared to $1.13 in the prior year.

Third quarter results include a benefit of $0.05 per share in 2011, and $0.08 per share in the prior year, associated with the favorable resolution of certain tax contingencies.

"Adjusted" earnings per share for the 2011 third quarter exclude $.10 per share associated with restructuring and integration costs, which are further detailed in footnote 2 to the earnings release.

The acquisitions of Athena and Celera contributed about 3% to revenue growth in the quarter.

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 1.2% below the prior year, and compares to the approximate 1% decrease we saw in the second quarter. The market, in terms of estimated physician office visits, continued to decline in the quarter, and was down 6% compared to the prior year.

Drugs-of-abuse testing volumes have continued to rebound and grew about 5% in the quarter, compared to about 6% last quarter.

Revenue per requisition was 2.1% above the prior year, with the improvement due to the increased esoteric mix contributed by Athena and Celera. Base revenue per requisition has remained relatively stable sequentially throughout the year.

Organic revenue in our non-clinical testing businesses, which include risk assessment, clinical trials testing, products, and healthcare IT, grew about 8% for the quarter.

"Adjusted" operating income as a percentage of revenues was 18.3%, compared to 18.1% reported in the prior year. The restructuring and integration costs which are detailed in footnote 2 to the earnings release, reduced the reported operating income percentage by 1.4%. These costs totaled about $27 million in the quarter, and compared to our earlier estimate of $20 million. The difference is principally due to additional costs associated with our plans to close our clinical testing operations in the UK, which had not been contemplated in the earlier estimate.

In connection with Surya's transition, we expect to record charges in the fourth quarter and early part of next year totaling approximately $14 million, associated with certain provisions contained in his employment agreement. The portion we estimate to be recorded in the fourth quarter is approximately $5 million.

Separately, we expect to incur approximately $10-15 million in the fourth quarter in connection with further restructuring and integrating our business.

Last quarter we announced a multi-year initiative, the goal of which is to reduce our cost structure by $500 million by the end of 2014. This effort is still in its very early stages, and we are not expecting to realize any meaningful benefits until 2012, with the bulk of the savings to be realized in 2013 and 2014. However, we have made good progress since last quarter, and remain confident in our ability to reach our goal.

The opportunities have been quantified and organized into a number of areas with dedicated teams of subject matter experts and cross-functional support. Each team has a very specific charter and financial target. They are currently in the process of developing detailed implementation plans which will allow us to realize the opportunities identified.

Some of the areas around which the teams are organized are as follows:
- Specimen Acquisition, which includes all the costs associated with obtaining and transporting samples
- Client Support, which includes Billing and Customer Service
- The labs themselves, and all the costs associated with operating them
- IT and Customer Connectivity costs
- Procurement and Supply Chain and
- SG&A, both in the field and at corporate

As you'd expect with a large scale multi-year project like this, some areas are more developed than others.

The areas where plans are furthest developed are in Client Support, and Procurement and Supply Chain, together which we expect to provide about 1/3 of our savings.

In the client support area we plan to leverage technology to eliminate manual processes, further standardize our systems and processes, implement more self-service options for customers, and leverage lean Six Sigma to further streamline activities.

In the area of Procurement and Supply Chain, we plan to further consolidate suppliers; rationalize SKU's; standardize and optimize specs; and work more closely with our suppliers in sharing information and managing costs from design to manufacture to distribution.

Other areas like the labs themselves and Specimen Acquisition, which we expect to contribute another third of the savings, are more complicated and will take a little longer. In these areas we are addressing capacity utilization (including our lab footprint), service parameters, organization structure and supply consumption.

The final roughly third of the savings is expected to come from SG&A, including IT.

There are several common themes that run through many of the opportunities we are working on. They include standardizing systems, processes and data bases; increased use of automation and technology; and centralizing certain activities. In addition, we have performed a comprehensive spans and layers exercise and are conducting activity value analyses across all of our functions which roll up into COS and SG&A.

Where the opportunities reside and what we want to achieve is clear; we are now in the process of finalizing the specific plans and timelines for how we will go about realizing those targets.

While I understand that there is interest in specifically how much savings will be achieved in each of the years and what that means to margins, we are simply not far enough along in this effort to provide you much more. In January in connection with providing 2012 financial guidance, we intend to provide you with further information in that regard.

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 continued improvement from prior year. DSOs were 44 days, unchanged from the second quarter.

Reported cash from operations was strong at $338 million. Before the effect of restructuring and integration costs, cash from operations was $360 million. This compares to $330 million reported in last year's third quarter.

Capital expenditures were $39 million in the quarter, compared to $47 million a year ago.

During the quarter we repurchased 1 million common shares at an average price of $47.79 for a total of $50 million. We have now completed $885 million in share repurchases this year.

As Surya has indicated, we are firmly committed to driving increases in shareholder returns. Clearly, the best way to do that is by improving operating performance. And, as we've already discussed, we are taking actions to accelerate organic revenue growth and putting in place a more efficient cost structure. We also intend to use our strong cash flows to enhance shareholder value.

Now that we have assembled a solid foundation of strategic assets and capabilities, it is unlikely we will complete any large strategic acquisitions in the near term. We will, however, continue to invest in our business in a very disciplined way to ensure we continue to differentiate Quest Diagnostics in an evolving marketplace, but in a manner which should require significantly less capital than recent years.

Our investments in growth are likely to focus on smaller fold-in acquisitions; investments in science and innovation in the form of licensing, collaborations and internal development; and investments in technology which will improve quality and efficiency in our labs and other parts of our business.

We plan to use ROIC to guide these investment decisions and are committed to improving ROIC over time. In support of that goal, management and our Board have agreed to make improving ROIC a major component of our long-term compensation program beginning next year.

We are committed to increasing shareholder returns and improving ROIC through a framework which encompasses improving operating performance, and a capital deployment philosophy which includes dividends, share repurchases and investments in our business.

This philosophy will be grounded in maintaining a strong BBB credit rating, which minimizes our cost of capital and provides us appropriate access to credit in support of our business. In the near term this will require us to de-lever to a leverage ratio in the range of 2 – 2 ¼ times.

Given how the Company is currently positioned and our outlook for continued generation of significant cash, we believe now is an appropriate time to evolve our capital deployment philosophy to one which commits the majority of our free cash flow be returned to investors through a combination of dividends and share repurchases.

As such, today we announced a significant increase in our dividend. We are increasing the dividend by 70% to an annualized amount of $.68/share beginning with our next payment in January. We expect that the dividend will grow over time commensurate with earnings and cash flows. In addition, share repurchases will remain an important tool for returning cash to shareholders.
In January, in connection with providing 2012 guidance, we will provide you with more specificity regarding our capital deployment plans and ROIC goals.

Turning to guidance:

We now estimate results from continuing operations, before anticipated fourth quarter charges and other potential special items, as follows:

- Revenue to grow 1.5%, unchanged from our previous outlook.
- We expect earnings per diluted share to be between $4.30 and $4.35 on an adjusted basis, and between $2.74 and $2.79 on a reported basis;
- Operating income as a percentage of revenues to approximate 17.5% on an adjusted basis, and 13.3% on a reported basis;
- Cash from operations to approximate $1.1 billion before special items, and approximately $900 million after these items; and

- Capital expenditures to approximate $190 million.

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

Footnotes 2 and 8 to the earnings release reconcile the "adjusted" financial measures to the corresponding GAAP measures.

Now I'll turn it back to Surya.

Surya: Thanks, Bob.

To summarize the quarter:

- While we see signs of progress in a number of areas, there is still much work to be done.
- We are focused on increasing shareholder value and improving returns on capital.
- We are taking a series of actions to improve our performance by driving organic growth and significantly reducing our cost structure.
- In addition, with all our key strategic capabilities now in place through recent acquisitions, we plan to return the majority of our cash flow to shareholders.
- This morning we announced a 70% increase in our dividend, demonstrating confidence in our continued ability to generate strong cash flow.
- Together, we believe these actions, over time, will unlock significant shareholder value.

Finally, I just want to say how proud I am of the Quest Diagnostics team of 42,000 colleagues and what they have accomplished. Now that we have established a solid foundation for our future, we have begun a process to transition to new leadership.

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