Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended September 30, 2012

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Kathleen Valentine: Thank you and good morning. I am here with Steve Rusckowski, our president 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 our future results include, but are not limited to, those described in Quest Diagnostics' 2011 Annual Report on Form 10-K, 2012 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 Steve Rusckowski.

Steve Rusckowski: Thanks, Kathleen. And thanks, everyone, for joining us today.

- During the quarter, we increased adjusted operating income and delivered strong cash flow, despite continued soft revenues, thanks in large part to our accelerated Invigorate cost-reduction initiative.

- In a few moments, Bob will review the third quarter with you. I'd like to start by giving an update on progress we're making to define our path forward to improve operations, restore growth and capitalize on our market leadership position.

Our two highest priorities are driving operational excellence and restoring growth. I'd like to say a few words about each.

Let me start with operational excellence. Our old organization was too complex, and it failed to let us take advantage of our scale and capabilities.

One of my first steps since joining a few months ago has been to lead the design of a new organizational structure that will enable Quest Diagnostics to focus even more on customers' needs, speed decision making and accelerate cost reductions.

By eliminating complexity and empowering employees, we expect we will be able to eliminate three management layers, or approximately 400 to 600 management positions, by the end of 2013, thereby contributing about $65 million in savings to our previously announced cost reduction goal of $500 million annual run rate savings versus 2011 as we exit 2014.

We have continued to grow the Invigorate savings in each quarter. Last quarter I said I was closely involved with Invigorate and that I thought we could realize more savings.... faster than originally anticipated. The acceleration in savings that we've seen throughout the year increases my confidence in our ability to achieve this. And, as a result, we have now increased our expectations for run-rate savings as we exit this year to $150 million. Bob will have further comments on Invigorate in a few minutes.

We look forward to sharing our detailed growth plans with you next month at Investor Day. Today, we'd like to highlight a couple of the ways we expect to restore growth.

First, the new organization, in addition to allowing us to aggressively drive operational excellence, it will also improve our customer focus, which will, over time, enable us to restore growth. We are consolidating several sales organizations into a single commercial group aligned under one new leader.

Second, in addition to organic growth, as we have shared in the past, we will continue to consider value-creating fold-in acquisitions as part of our disciplined approach to capital deployment. And I am happy to share that yesterday; we signed an agreement to partner with UMass Memorial Labs to establish a lab-of-the future in Massachusetts. This transaction could become a model for the industry and an opportunity for hospitals and integrated delivery networks to find a sustainable way to participate in diagnostic testing while focusing on their core competency – taking care of patients. This transaction is a good example of the kind of opportunities we will continue to evaluate.

We remain focused on increasing shareholder returns through a combination of improved operating performance and disciplined capital deployment.

Now I'll turn it over to Bob for detailed analysis of the numbers.

Bob Hagemann**:** Thanks, Steve.

Starting with revenues…

Q3 revenues of $1.9 billion reflect a decrease of 2.9% from the prior year. This compares to a decrease of about half a percent in underlying revenues in Q2. Q3 comparables were more challenging, given there were just over 1% fewer business days in the quarter compared to last year and compared to the second quarter.

Our clinical testing revenues, which account for over 90% of total revenues, were 2% below the prior year. Volume was about 1% below the prior year, due principally to fewer business days. Revenue per requisition was also about 1% below the prior year level, but relatively unchanged from Q2. Favorable test mix and an increased number of tests per requisition continue to offset reimbursement pressures, with the 1% year-over-year decrease principally due to business and payor mix changes. Recall that the year-over-year growth in revenue per requisition we reported in the early part of the year was principally due to the increased esoteric mix contributed by Athena and Celera, and we anniversaried that benefit last quarter.

Drugs-of-abuse testing volumes have continued to rebound and grew about 7% in the quarter, up over 1% from the growth of the last two quarters.

Q3 revenues in our non-clinical testing businesses, which include risk assessment, clinical trials testing, products, and healthcare IT, were about 10% below the prior year and contributed about 1% of the consolidated revenue decrease, with clinical trials driving most of the decline.

As you've heard, despite reporting revenues which were below the prior year, we expanded adjusted margins in the quarter and delivered earnings comparable to the prior year. Adjusted EPS of $1.18 matched that of the prior year, and adjusted operating income at 19.1% was 80 basis points above the prior year. Disciplined expense management and accelerated benefits from our Invigorate program were the primary drivers of our expanded margins.

Restructuring and integration costs totaling about $45 million reduced reported operating income as a percentage of revenues by 2.4% and reported EPS by 17 cents. Last year's third quarter included $27 million of restructuring and integration costs which reduced reported operating income as a percentage of revenues by about 1.4% and reported EPS by 10 cents.

As we discussed last quarter, in connection with our Invigorate initiative, we have offered a voluntary retirement program to certain qualifying employees. We estimate this program will contribute approximately $40 million of annualized savings once fully implemented, which we expect by the first quarter of next year. The program will allow us to reduce the size of our workforce, reduce our average wage bill, and update the skills of the workforce. In connection with the program, I told you last quarter that we expect to record charges estimated at about $50 million over the course of the next several quarters as employees leave the workforce. A little over $20 million was incurred in Q3 and is part of the $45 million restructuring and integration charges I referenced earlier.

As you have heard, we have taken action to accelerate some of the savings associated with our Invigorate program. As a result, we now expect it to deliver ≈ $150 million in run-rate savings as we exit the year up from our earlier estimate of ≈ $100 million. This represents about 30% of our $500 million goal. In addition, as you heard last quarter, we are evaluating opportunities which could potentially increase the size of the program, and plan to share any updates at our November Investor Day.

An area which continues to benefit from Invigorate is billing and collections. We have consistently produced industry-leading metrics in this area, but still have room to improve.

Bad debt expense as a percentage of revenues improved to 3.3% in the quarter. DSOs were 46 days, up two days from last quarter with most of the increase due to the timing of cash receipts, which were affected by the month-end falling on a Sunday.

Cash from operations was $395 million in the quarter compared to $338 million in the prior year.

Capital expenditures were $45 million in the quarter, compared to $39 million a year ago.

During the quarter we repurchased 832 thousand common shares at an average price of $60.12 for a total of $50 million dollars, bringing the year-to-date total to $150 million. We also reduced outstanding debt by $292 million, bringing the year-to-date total to $507 million in connection with our stated objective to de-lever by $500 – $700 million this year.

Turning to 2012 guidance:

Based upon our performance through the first three quarters and our latest view of the market, we now expect results from continuing operations, before special items, as follows:

- Revenue to grow approximately half a percent.
- Operating income to approximate 18% of revenues.
- Cash from operations to approximate $1.2 billion.
- Capital expenditures to approximate $180 million.
- And lastly, diluted earnings per share to be between $4.45 and $4.55.

Now I’ll turn it back to Steve.

Steve Rusckowski: Thanks, Bob.

In closing, this quarter, we increased adjusted operating income and delivered solid cash flow, despite a decline in revenues.

Our new organization will allow us to aggressively drive operational excellence and improve our customer focus, which will enable us to achieve our Invigorate goal and over time, restore growth.

We remain committed to increasing shareholder returns and improving ROIC. This includes our intention to return the majority of our free cash flow to investors upon achieving our targeted leverage ratio.

And yesterday, we announced a transaction that will create value for Quest Diagnostics shareholders, our partner, and the people of Massachusetts.

I look forward to sharing our strategy and plans with you at our November 16th Investor Day.

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