Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended June 30, 2010

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.

Some of our commentary and answers to questions may contain forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date that they are made and which reflect management's current estimates, projections, expectations or beliefs and which involve risks and uncertainties that could cause actual results and outcomes to be materially different. Risks and uncertainties that may affect the future results of the company include, but are not limited to, adverse results from pending or future government investigations, lawsuits or private actions, the competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors described in the Quest Diagnostics 2009 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 "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.

As you saw in our press release this morning, we saw a further slowdown in physician office visits, and our revenues declined. Still, we were still able to grow our earnings in this environment.

During the quarter:

- Earnings per share increased 7% to one dollar seven cents;
- Revenues decreased 1.4% to $1.9 billion dollars;
- Cash flow was $209 million dollars.

While our business continues to perform well in a number of areas, including gene-based and esoteric testing, revenue softness experienced in the first half has made us cautious in our outlook for the full year.

We now expect full-year revenues to decline by approximately 1% and earnings per share to be between $3 dollars 90 cents and $4 dollars.

Revenue growth continues to be a top priority. We have implemented a number of targeted plans and I will share some elements of these plans later.

As you know, we generate significant cash. We continue to explore acquisitions to strengthen our business in the areas of cancer, cardiovascular and infectious disease. We also pursue opportunistic deals which can add scale and be immediately accretive. When acquisitions are not

available, we will buy back shares as a means to drive shareholder value, which along with dividends, is what we have done historically to return cash to shareholders.

Now Bob will discuss our financial performance, and I will return with additional comments. Bob?

***Bob Hagemann*:** Thanks, Surya.

As you've heard, revenues during the quarter were impacted by continued softness in the marketplace. Despite this, earnings per share grew 7% in the quarter to $1.07.

Revenues for the quarter were $1.9 billion, 1.4% below the prior year. Our clinical testing revenues, which account for over 90% of our total revenues, were 1.6% below the prior year, compared to a first quarter decline of .4%. Note, the first quarter growth was reduced by an estimated 1% due to weather.

Revenue per requisition was .3% below the prior year. Year over year, revenue per requisition continues to benefit from an increased mix of gene-based and esoteric testing and increases in the number of tests ordered per requisition. This benefit has been offset by some business and payer mix changes, the Medicare fee decrease, and pricing changes in connection with several large contract extensions.

Typically we would comment just on the year-over year change in revenue per requisition, but in this quarter it is also important to understand how it has performed sequentially. Revenue per requisition was approximately 1% below the first quarter level, with about half of the change due to business and payer mix changes, including a rebound in drugs-of-abuse testing and a decline in anatomic pathology testing; and about half due to the contract changes referenced earlier.

While these contract extensions have involved price adjustments, they have provided us with multi-year visibility into reimbursement rates and have reduced the uncertainty associated with contract expirations.

In comparing the year over year increase in revenue per requisition reported in the first quarter of 2.3% to the decrease of .3% in the second quarter, about 1% of the difference is accounted for by the change from Q1 to Q2 which I just explained. The remainder is principally due to easier comps in the first quarter than in the second.

We expect changes in revenue per requisition will continue to be modest through the first half of next year, with the anniversary of the business mix, payer mix and contract changes, which are currently offsetting the benefits of the increasing proportion of gene-based and esoteric testing.

Volume in the second quarter was 1.3% below the prior year, and continues to be pressured by the general slowdown in physician office visits. This compares to a 2.6% decrease in the first quarter. Again, note that weather contributed an estimated 1% to the first quarter decrease. Excluding the first quarter weather impact, volume performance reflected modest improvement in the second quarter, principally due to drugs-of-abuse testing, which has begun to rebound and grew approximately 5% in the quarter.

Revenue in our <u>non</u>-clinical testing businesses, which includes risk assessment, clinical trials testing, point of care testing and healthcare IT, was comparable to the prior year level.

Operating income as a percentage of revenues was 19.5%, a 60 basis point improvement from the prior year.

The margin improvement was realized, despite the slower revenue growth, due to progress we continue to make in managing our cost structure and driving quality improvements. Contributing to the year over year margin improvement are reduced costs for performance-based compensation, improved experience associated with professional liability claims, and continued progress in reducing bad debt.

We continued to see strong performance in our billing and collection metrics. Bad debt expense as a percentage of revenues was 3.8% in the quarter compared to 4.2% last quarter and 4.4 % a year ago. DSOs at 42 days are within a day of both year end and a year ago.

Cash from operations was $209 million, and compares to a $9 million net outflow in last year's second quarter. Last year's second quarter contained the NID settlement payment of $308 million, $258 million net of associated tax benefits realized in the quarter.

Capital expenditures were $49 million in the quarter, compared to $36 million a year ago.

During the quarter we purchased 3.3 million shares at an average price of $53.36, for a total of $175 million. We now have $324 million remaining under the $750 million share repurchase authorization granted in January of this year, all of which we expect to utilize prior to year end.

Our cash balance, coupled with our unused credit lines, provides us with significant liquidity, and position us extremely well to capitalize on growth opportunities and take other actions, like share repurchases, to drive shareholder value.

Now let's turn to our full-year outlook from continuing operations:

- Based on our results through the first half, we have become more cautious in our outlook for the remainder of the year, and now expect full year revenue to be approximately 1% below the prior year due principally to our change in our outlook for volume. Keep in mind our guidance excludes any acquisitions which may be completed in the second half.
- We expect operating income to approach 18% of revenues.
- We now expect cash from operations to be between $1.1 billion and $1.2 billion compared to $1.3 billion previously.
- We continue to expect capital expenditures to approximate $200 million.
- And lastly, diluted earnings per share are expected to be between $3.90 and $4.00, compared to a range of $4.00 to $4.20 previously.

While not all of our efforts to accelerate growth have yet produced the results we expected, we are making progress. We have refocused our sales efforts in markets where we believe we have the greatest opportunities; we have improved service levels; we have launched, or readied for launch, a number of exciting tests; and we have added new talented sales personnel.

We fully expect these efforts to accelerate growth, but they will take time to deliver results. Until then, we will continue to closely manage our costs. In addition, we continue to explore acquisitions, both strategic and opportunistic, which we believe will enable us to accelerate long-term revenue and earnings growth.

Now I'll turn it back to Surya.

Surya Mohapatra:

Thanks, Bob.

I would like to elaborate on some of the actions we have taken to drive growth.

Last quarter, we mentioned that we launched programs to improve our sales effectiveness and get closer to our customers.

Here is what we have done so far.

- First, we said we would upgrade skills in our sales force, and we have added significant talent through the first half of the year.
    - We have targeted high-potential sales reps from other healthcare fields, many with specific expertise in key areas, such as cancer diagnostics and cardiovascular disease.
- To make them effective sooner, we have enhanced our training programs and we are giving them advanced tools to better target sales leads.
- Second, we have targeted specific geographies with the greatest opportunity for growth, including areas where competitors are challenged.
- Third, in some markets, we have enhanced our service by adding personnel such as phlebotomists and service reps where appropriate and opening patient service centers.
- Fourth, we have increased our sales and marketing efforts on tests with the greatest growth potential.
    - These include cancer diagnostics, cardiovascular testing, allergy testing, and tests for Women's health.
- In addition, we are leveraging the power of our medical staff to educate customers and provide timely consultation.

Every one of these initiatives represents an important opportunity for us to acquire or retain significant business. It is true that some are taking longer to pay off in additional revenue than we would like, but we are making progress nonetheless.

Now I'd like to share progress in esoteric and gene-based testing, which continued to grow during the quarter, driven largely by sales to hospitals and physician specialists.

- We saw strong volume growth in Vitamin D and our proprietary Leumeta tests for leukemia and lymphoma. In addition, we are pleased with the strong adoption rates of innovative tests we've recently introduced, including our Accutype CP test for Plavix response, and OVA1 for ovarian cancer.
- Also, our efforts to educate physicians about the benefits of ImmunoCAP allergy testing resulted in continued strong growth.

We are also having success with hospital customers.

- We extended our contracts with Premier and Kaiser Health, and signed a new contract with Novation. These contracts give us the opportunity to grow our hospital business.
- We provide hospitals a variety of ways to become more effective. Often that means purchasing, managing or outsourcing a hospital's outreach laboratory business, as we did successfully with the Caritas health system in the Boston area. We are helping Caritas strengthen its relationships to physicians in the community using our Care360 connectivity solutions.

Healthcare IT is a strategic differentiator for us that drives customer loyalty and volume growth. Our Care360 connectivity solutions not only help physicians order tests and receive results, but also allow them to prescribe drugs electronically.

Electronic prescribing continued to grow rapidly -- 40% in the first half of the year and more than double last year's rate -- to an annualized rate of 18 million drugs.

Also, we fully expect that our Care360 EHR will meet the government's final rules announced last week to support the meaningful use of EHRs.

We continue to be encouraged by factors that will drive the long term growth of our business, including advances in science and medicine; the aging of the population; increased emphasis on early detection and wellness; and the impact of health reform on expanding access.

Although the full impact of health reform may not be fully visible for several years, we are preparing for a long-term positive benefit. The latest sign of this came last week in the government's regulatory announcement that new health plans, or those that make significant changes, must provide certain preventive screening and other tests to members –without any co-pay or patient cost. We believe this will expand utilization of important tests that identify disease or risk of disease early, when prevention is possible and treatments can be most effective.

In closing:

- Our new and extended contracts with health plans and GPOs increase our visibility and reduce uncertainty for future performance.
- Our esoteric and gene-based testing service continues to show strong growth, and we will continue to invest in cancer, cardiovascular and infectious disease diagnostics.
- We are committed to using our strong cash flow to deliver shareholder value through a combination of strategic and opportunistic acquisitions, and the buyback of our shares.
- The long-term trends are positive for continued industry growth, particularly because of the aging demographics and the government's focus on prevention and early detection.
- We are implementing focused action plans to drive near-term revenue growth, which has management's full attention.

Thank you. We will now take your questions. Operator?