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PRESENTATION

Operator

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Kathleen Valentine - *Quest Diagnostics Inc - Director IR*

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're 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 effect 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, payors, 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 update section of our website at www.questdiagnostics.com. A Power Point presentation and spreadsheet with our results and supplemental analysis are also available on the website. Now here is Surya Mohapatra.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

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 able to grow our earnings in this environment. During the quarter earnings per share increased 7% to $1.07, revenue decreased 1.4% to $1.9 billion, cash flow was $209 million. 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 $3.90 and $4.00. Revenue growth continues to be a top priority. We have implemented a number of targeted plans and I will share some elements of this 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'll buyback shares as a means to drive shareholder value, which along with dividends is what we have done historically to return cash for shareholders. Now, Bob will discuss our financial performance and I'll return with added comments, Bob.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Thanks, Surya. As you 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 0.4%. Note, the first quarter growth was reduced by an estimated 1% due to weather. Revenue per requisition was 0.3% 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 payor 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, it 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 0.3% 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 for the first half of next year with the anniversary of the business mix, payor mix and contract changes, which are currently offsetting the benefits of the increasing proportions 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 nonclinical 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. Margin improvement was realized despite the slower revenue growth, due to progress we are continuing to make in managing our cost structure and driving quality improvements. Contributing to the year-over-year margin improvement are reduced cost 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. DSO's at 42 days are within a day of both year-end and a year ago. Cash 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 lines of credit provides us with significant liquidity and positions us extremely well to capitalize on growth opportunities and take other actions like share repurchases that drive shareholder value. Now let's turn to our full year outlook from continuing operations.

Based on our results through the first half, we've 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 hange in 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 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 ready for launch a number for 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 will 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 - *Quest Diagnostics Inc - Chairman & CEO*

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 are going to upgrade our skills in our sales force and we have added significant talent to the first half of the year. We have targeted high important-sales 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 have challenged.

Third, in some markets we have enhanced our service by adding personnel, such as phlebotomist and sales reps where appropriate and opening business service centers. Fourth, we have increased our sales and marketing efforts on tests with the greatest growth potential. These include cancel diagnostics, cardiovascular testing, allergy testing and tests for women health. In [Addison] we are leveraging the power of our medical staff to educate customers and provide timely consultation. Every one of these initiatives their presence an important opportunity for us to acquire or return significant business. It is true that some are taking longer to payoff in (inaudible) revenue then we would like, but we are making progress nonetheless. Now, I would 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 test for leukemia lymphoma. In Addison, we're pleased with the strong adoption rates of innovative tests we have 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 the ImmunoCAP allergy testing resulted in continued strong growth. We 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 with outsourcing your hospitals (inaudible) through business, as we did successfully with the Caritas health system in the Boston area.

We are helping Caritas (inaudible) to physicians in the community using our Care360 Connectivity Solutions. Healthcare IT, the strategic difference here 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 our advances in science and medicine, the aging of the population, increased emphasis on (inaudible) 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 pretentative 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 (inaudible) while preventive -- prevents soon as possible and treatments can be most effective. In closing, our new and expanded contracts with health plans and GPO's increase our visibility and reduce uncertainty for future performance. Our esoteric and gene-based testing service continues to show strong growth and we'll 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 (inaudible). We are implementing focus action plans to drive near-term revenue growth, which has the management's full attention. Thank you. We'll now take your questions. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ralph Giacobbe with Credit Suisse.

Ralph Giacobbe - *Credit Suisse - Analyst*

Thanks, good morning. Can you maybe give more details on the pricing from the contracts, the contract extensions. Where these larger deals, a bunch of smaller deals, any color there.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ralph this is Bob. Yes, as I said they were several large contracts and the impact in the quarter was about 0.5% and, yes, as you saw, as I indicated earlier, the change in revenue per requisition from this quarter to last is only about 1%, not a significant change, but that was one of the factors certainly impacting the comparisons.

Ralph Giacobbe - *Credit Suisse - Analyst*

Sure. And just to be clear, were these contracts that were coming up for renewal or is this a proactive approach by either you or managed care to sort of extend out the deals.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

First of all it is actually a proactive strategy for us. We have now contracts extended beyond 2012 and it has really made us strong. It has given us the visibility to reimbursement and it has taken (inaudible) something from the marketplace.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay. And so you said sort of beyond 2012, is that sort of -- and are these, again, sort of timing I would thought maybe more sort of front end loaded it terms of beginning earlier this year as opposed to 2Q. It just seems kind of -- aren't your typical contract cycles in terms of the beginning of the year or do they sort of renew throughout the year and is this sort of further risk as we kind of move throughout the year.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ralph, there's really no typical cycle as to when in the year they occur. We have contracts coming up all the time. The key is, though, at this point we have no significant contracts coming up either this year or next year. In fact, there's really nothing significant coming up for the next 18 to 24 months and, yes, even when I look out beyond that at this point, the 2012, 2013, the amount of contracts coming up in those periods is less than you'd typically have in a normal year.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay. And then just shifting to the AP side of things, anything more there that would have caused sort of an acceleration in the deterioration. It is something that we've talked about in the past, just wondering sort of it seemed to have more of an impact in this quarter than maybe in the past. What would you say, is there anything specific that you think is driving that?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Nothing new. We should have continued in-sourcing of the TC and the PC components of anatomic pathology. That was, as I indicated, one of the drivers of the change in revenue per requisition as well. That's a richer priced req and as that business is impacted, it does impact the total revenue per requisition because of the mixed change there.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay, great. And then just my last one. You were able to obviously meet the bottom-line this quarter based on sort of the consensus numbers despite the top-line weakness. You took down the guidance, you had sort of 19.5% plus margins and you are sort of targeting the 18% level. So, I guess the question, what is that you can't sort of replicate cost going forward to kind of continue what you did sort of in the second quarter? Is it more that the top-line is going to get maybe a little bit weaker? Is there something on the cost side that you think is unsustainable?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Well, with respect to the cost there are several things that took place in this quarter that while we expect them to continue to benefit us, won't have the same benefit that they did in the second quarter. For example, as I said, we made changes to the incentive or performance-based comp accruals. We did see very good experience in our professional liability claims and we had very good experience in bad debt. I expect the experience in bad debt will continue and I think we'll continue to benefit from the changes we've made to reduce professional liability claims. But we're not going to have the same benefit over the back half of the year that we saw in the second quarter.

Ralph Giacobbe - *Credit Suisse - Analyst*

Okay. All right, thank you.

Operator

Thank you. The next question is from Bill Quirk with Piper Jaffray.

Bill Quirk - *Piper Jaffray - Analyst*

Yes, thanks. Good morning, guys. Was wondering if you could comment, Surya, on the recent FDA meeting on laboratory developed tests, what that means for Quest, and how we should think about some your own laboratory developed tests. Are you going to be looking at moving to a manufactured kit or would you actually consider taking some of your products through FDA. Thank you.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

That's a good question. Our goal is the same as the FDA goal. We want really clear tests which are clinically tested and (inaudible) value. And the only concern we have and we are working with our trade association and working with the FDA, that most of the tests are laboratory developed tests which brings innovation to the marketplace and we are now -- we are regulated by (inaudible) and if we are not careful we don't want FDA to overregulate us, which will stop innovation and also not bring tests to the marketplace. So we are working with them to make sure that what tests are risky and obviously it has been exaggerated because some of these companies now are providing genetic testing.

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So I believe that we will come to a place where there will be a balance between the laboratory producing not very high quality tests and the tests which are not validated and the tests which are high risk versus the majority of tests which are safe and helping patients. Now, as far as our Company's concerned, we're very fortunate that we have a lot of experience in creating products like H1N1 and other tests which we know how to go through the FDA. So obviously whatever the position FDA takes, we are very well positioned with the laboratory developed tests and the tests which might become (inaudible) because of our experience of focused diagnostics.

Bill Quirk - *Piper Jaffray - Analyst*

And so just as a quick follow-up,Surya, is it safe to say it's a little too early from your perspective to start kind of ticking down the list of what tests we might transition to a kit versus what we might take through FDA.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

It is too early and I think there's quite a bit of work to be done and FDA is having this hearing and we are working with them.

Bill Quirk - *Piper Jaffray - Analyst*

Okay, very good. Thank you.

Operator

The next question is from Tom Gallucci with Lazard Capital Markets.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Good morning, thank you. I guess I was just hoping we could maybe frame the managed care renewal issue a little bit more. Bob, can you talk about maybe what percent of the business was renewed so we can understand sort of the magnitude of the impact here?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

To give you a sense, over the course of the last 18 months or so, we have renewed the vast majority of our managed care business. All of the large plans, and as I said, we have very, very little coming up in the second half of this year. We have a negligible amount coming up in 2011. And as I look at 2012 and even 2013, the amount that's coming up for renewal in those periods is significantly less than we would typically have in any one year.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Okay.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

So we've renewed these for generally three to five year periods or extended them for generally three to five year periods. And as Surya said, it gives us very good visibility into what reimbursement is and takes the uncertainty out of having to go through contract renewals and determine whether or not you're going to continue to be on contract.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Go ahead.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Tom, this is Surya. One of the most important things you are to know, that we feel very strong and very confident in this proactive strategy to get all the managed care contracts behind us. And that gives us the opportunity to work with the managed care plans, work with the (inaudible) and work in the marketplace selling our value properties and (inaudible) and always getting worried about doing such a [DLP] managed care contract expirations. I feel personally this is really a great achievement for us. This is really positioning our Company in a better place than ever before.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

And Tom, I would just add one thing too. As you think about managed care, the real opportunity continues to be to work with the plans to drive more volume in network to lower cost providers like ourselves.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Right. I guess I understand sort of all the positives, I am just sort of curious how you are viewing the competitive landscape then if we're sort of renewing things and that equals visibility, but it's on lower reimbursement apparently. I guess how do you sort of see the competitive environment and how do you sort of see -- how are you thinking about the risks that were out there that made you want to sign a contract early at a lower price?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, first of all, it's all about bringing stability to the marketplace. A few years ago we went through a situation where the market was unstable and we had to do what we had to do to establish our position and bring back the market to a stable condition. nd yes, every managed care contract is different and when you have multi-year contracts, you give some concessions, but you also count on increasing your volume and I think the only reason why you see this price decrease this quarter because obviously there is a slowdown in the volume. But when I look at the competitive landscape -- well, first of all it's the same as before but we have taken out the major uncertainty out, which still helps us to move forward working with them to improve -- reduce their (inaudible) and improve our volumes. So I think in the long run, this is going to help us more and I think the competitive landscape is much more stable now with this contract signed.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Okay. If I could just ask two more things about this. Bob, you mentioned in the last 18 months you renewed a vast majority, but we saw an incremental pressure this quarter. So was there a lot that started during the quarter or at the beginning of the quarter or can you just make us understand why all of a sudden we started to see it? And I guess the other aspect of it is what are you seeing out there in terms of exclusive versus nonexclusive type contracts? Thank you.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

First, let's remember that the change in revenue per requisition from Q1 to Q2 was not significant. It was about 1%. And typically the change from any one quarter to the next quarter is not significant. Driving the change from Q1 to Q2 was business and payer mix, as I mentioned, so that's about half of it and only about half of it were the contract price changes that went into effect in this quarter. Now, as I said, we had some renewals last year and in some cases there were price adjustments on those as well, but they've already been reflected in our numbers. What makes the revenue correct change in the quarter stand out is really how the comparison to the prior year changed between Q1 and Q2.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Okay.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

There was essentially a 2.6% swing at comparing the 2.3% increase that we saw in Q1 with the 0.3% decrease that we see this quarter. And 1% is the absolute change in revenue per req from Q1 to Q2 that I just explained. The remainder is principally due to easier comps in Q1 versus the prior year. And at this point we're expecting the revenue per req to be relatively stable over the course of the rest of the year and into the early part of next year.

Tom Gallucci - *Lazard Capital Markets - Analyst*

In terms of absolute dollars?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Correct.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Right. And just about exclusivity versus non-exclusivity, there was some talk about Empire, Blue Cross and some others out there.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Look, I think each plan probably has a different view as to what they would like to achieve. Some, obviously, like broader networks. Some have used more narrow networks. In each case, we try to work with the plan to help them accomplish what their goals are. And I would tell you that where we do have open contracts, we're very comfortable competing for business in open networks. We've been very effective where we've had that and we expect to continue to be effective.

Tom Gallucci - *Lazard Capital Markets - Analyst*

Okay, thanks, guys.

Operator

Thank you. The next question is from Amanda Murphy with William Blair.

Amanda Murphy - *William Blair. - Analyst*

Hi, good morning. Just another, sorry, another question on this managed care situation. I'm just curious, it sounds like you've been sort of pursuing this proactive renewal process for some time, so I'm trying to get a handle on what, maybe what changed since you gave guidance last quarter for revenue. Is it -- or was the reduction in guidance driven primarily by volumes this quarter?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Amanda, the change in guidance is due principally to our change in outlook for volume. We did not anticipate the further slowdown in patient visits and we expected, frankly, that some of the plans that we put in place would have delivered more at this point.

Amanda Murphy - *William Blair. - Analyst*

Okay. And then just as we've gone through this process, following up to a previous question, were there any new contracts that you obtained that you did not have before?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, we had a new hospital contract, Novation. We expanded Premier contract and also Kaiser Health. So you know that our hospital business is doing well and we're gaining ground there. And again, about the managed care contracts and working with the managed care, our relationship with the managed care organizations are good and, as Bob said, that we are working with the needs and what I feel really excited about is that we don't have those worries for the next two or three years.

Amanda Murphy - *William Blair. - Analyst*

Okay. And then just last question, you gave us some color on the esoteric side of the business. I am curious, could you speak specifically to anatomic pathology, how that business is performing maybe relative to last quarter, is it sort of getting better, worse or sort of the same?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Well, Amanda, as I said earlier, we saw continued softness there and actually a little more than we had in the first quarter and that was one of the contributors to the change in revenue per req. Again, that business is off a little more because of the continued in-sourcing carries higher revenue per req. Yes, on the flip side we saw growth in our drugs of abuse testing business, which carries lower revenue per req. So again that was one of the dynamics that you saw going on this quarter.

Amanda Murphy - *William Blair. - Analyst*

Okay, thanks a lot.

Operator

The next question is from Ricky Goldwasser with Morgan Stanley.

Ricky Goldwasser - *Morgan Stanley - Analyst*

Yes, good morning. Good morning. I have a few follow-up questions. First of all, just to clarify for modeling purposes, on the average revenue for requisition, Bob, you were saying that in absolute dollar terms revenue per requisition is going to be stable in the second half of the year. But the metric that you provide us in your report is at growth rate. So from a growth rate perspective, what should we expect in second half of 2010 for the pricing metric?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ricky, as you know, we don't give the components of revenue guidance in terms of revenue per req in volume. What I would tell you, though, is I don't expect the variance from the prior year to fluctuate much more than 1% either way.

Ricky Goldwasser - *Morgan Stanley - Analyst*

But again, just to clarify, if you think about prior year, right, when you're saying that the variance is not going to fluctuate by more than 1%. For example, in 3Q of '09 you reported a 4.3% year-over-year growth number. So when you're saying it's not going to fluctuate, it's not going to fluctuate from the growth rate or it is not going to fluctuate from the absolute number that you -- price number in the third quarter, which you really don't provide us.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ricky, I think I gave you the answer to both of those. I said that the absolute number we don't expect to change significantly over the course of the year and we expect that to result in a variance to the prior year, which is generally not more than about 1%.

Ricky Goldwasser - *Morgan Stanley - Analyst*

Okay, Bob, let me ask the question differently. If you look back in 2009 and you look at the pricing number, the revenue per requisition and the absolute dollar, right, you think about the -- if 3Q '09 on an absolute dollar basis was higher or lower than 2Q '09?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ricky, I would expect that we're probably higher now, but I don't have the data. As you know, that's not a metric that we disclose.

Ricky Goldwasser - *Morgan Stanley - Analyst*

We can follow-up after the call, but it's really -- it's not what it is now, it's more what it was last year, because if you just give us kind of like just the directionally whether 3Q '09 revenue per req was higher or lower than 2Q '09 revenue per req, I think that would be just very helpful in helping us model the second half of the year. But we can take that offline.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Okay.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Okay.

Ricky Goldwasser - *Morgan Stanley - Analyst*

The other question is, again, when we think about the top-line, your top-line guidance for the year, what percent of the guidance revision is related to the change of pricing versus volume?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Rickey, as I said earlier, the majority of it's related to our change in outlook for volume. There's a little bit in there in terms of revenue per req, but it's mostly driven by the mix changes. There's certainly all the contract changes we had anticipated and had built in to our earlier guidance.

Ricky Goldwasser - *Morgan Stanley - Analyst*

Okay. And then finally, just in terms of the contract, are most of these recent contracts extensions. Are there scheduled renewals or are they kind of like mid-term renewals due to a competitive environment, because if I recall correctly, last time we went through a large contract cycle was the 2007-2008 period. Back then you guys said that most of the big contracts were five years in term, which would take us to 2012. So was there something that was out of the normal cycle?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, first of all, Ricky, as I said, this is a proactive strategy. We work with the health plans and yes, it is proactively extended before it's a due cycle.

Ricky Goldwasser - *Morgan Stanley - Analyst*

With the scheduled cycle?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, we extended before it expiration.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Ricky, it's a combination of both. We always have contracts coming up, but in many cases, as Surya said, we were proactive in extending contracts well before they were coming up for renewal.

Ricky Goldwasser - *Morgan Stanley - Analyst*

Okay. That's very helpful. Thank you very much.

Operator

Thank you. The next question is from Darren Lehrich with Deutsche Bank.

Darren Lehrich - *Deutsche Bank - Analyst*

Thanks. Good morning everybody. I guess I just wanted to follow-up one more on the managed care contracting effort, especially just with regard to terms and we went through, obviously, a cycle post 2007 when there were escalators built into the contracts at various times. I'm just, I'm trying to get an understanding of things like you reset some of your contracts lower. Do we still have a period of time during the three to five year cycle where we're going to see positive escalators or have you built in negative escalators? Can you just give us the general framework for terms?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Darren, as I think we've said historically, yes, every contract's a little different. Certainly some of these we have escalators built in. Others we may have further volume discounts built into it. But in each case, as we think about the opportunity with these health plan contracts, the real sizable opportunity for us is to drive more work into network. And the health plans and employers are much more receptive to that than they've been in the past and I think that that's the opportunity that's now created for us with these extensions. Because we have long-term relationships locked up, we can begin to effectively develop plans that we can execute over the next several years to drive more work in network and, as Surya said, drive volume to us.

Darren Lehrich - *Deutsche Bank - Analyst*

So if I'm understanding what you're saying, in just comparing the last three years to perhaps the next three years relative to the batch of contracts, the last three years could be characterized by slightly positive escalators on balance, if you look at the managed care book, and the next three years the focus is more about volume and driving in network as opposed to positive escalators. Is that a fair statement?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

I'm not sure that if I look back over the last few years I would characterize those renewals as having lots of positive escalators in them. I think that the opportunity that we saw now to extend contracts was similar to what we had in the past, but this was much more proactive, I would tell you. And given the uncertainty across healthcare associated with healthcare reform, we felt that this was a very appropriate thing for us to do.

Darren Lehrich - *Deutsche Bank - Analyst*

Okay. And if I could just switch gears to some of the comments you made with regard to service and some of the focus you are making in terms of enhancing your PSE networks, et cetera. It would seem to me that that may actually be investment in the business and so I'm just wondering how that plays out in the back half of the year. Have you made those investments and can you just frame that a little bit more for us, how much are you expanding your network and how many phlebotomists just on a percentage basis are you increasing to improve your service levels?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Darren, here's what I would tell you. First of all the investments that we're making and plan to make over the remainder of the year are fully built into our guidance. And also the investments that we're making in sales and service are designed to accelerate growth. So these are all investments in growth. There's still a big part of the business that has opportunities for us to continue driving efficiencies, which we'll continue doing there. So as I think about it, yes, they are investments. In some areas they'll increase costs, but we fully expect them to be items that will help us accelerate growth as well.

Darren Lehrich - *Deutsche Bank - Analyst*

Okay. And then if I could just ask a question, I think I know the answer but it would be, I think, helpful to get a mid-year look at your revenue by product category just in broad brushes of growth rates. It's very difficult for us to assess what's really driving your revenue trends by product category, especially with all the changes in drugs of abuse and it would appear to be a pretty big slowdown in AP. So I don't know if you're willing to do that here, but I think it would useful for us just to in broad strokes give us a sense for where those product categories have trended on a year-to-date basis in percentage terms.

Kathleen Valentine - *Quest Diagnostics Inc - Director IR*

Darren, this is Kathleen. What I can tell you without giving you the explicit percentages is that gene-based and esoteric testing grew nicely in the quarter and through the first half. Our drugs of abuse business is growing up, is growing and as you heard AP is trending down. So that should give you some nice color in terms of how those businesses are performing mid-year.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

We did give some color in my prepared remarks that the drugs of abuse testing business volumes grew about 5% or so.

Darren Lehrich - *Deutsche Bank - Analyst*

Right. And so AP was down 1% roughly last year on an annual basis. It's fair to say that got worse in both the first and the second quarter relative to that, that figure.

Kathleen Valentine - *Quest Diagnostics Inc - Director IR*

Yes.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

That's true, yes.

Darren Lehrich - *Deutsche Bank - Analyst*

Okay. And I guess my last question would be for Surya and I'll jump off, but I just want to understand your comments on M&A. Obviously, that's still a priority in terms of growth and deploying capital, but I think what you said, Surya, was when M&A is not available, you're going to pursue buyback. You've now been three quarters pursuing buyback very aggressively. So I want to understand what's sort of underneath that action which is a statement as well. Is it about pricing in the M&A environment? Is it about availability of assets? What is it that's keeping you on the sidelines.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Okay. Well, it's not keeping me on the sidelines. We're a very active participant in the M&A market. What we are not going to do is to be anxious buyers. And as you know, as Bob said, that our top-line growth does not include acquisitions, so it's all organic growth. But our growth strategy has not changed, we have organic growth and inorganic growth and we're looking for acquisitions which make sense to us and it has to be either immediately accretive because it is scale and it is scale or we buy capability, which is a long-term strategic acquisition in cancer, cardiovascular disease and infectious disease. So we look at acquisitions very careful. We are a disciplined buyer and when we don't get, then we know we return shareholders, return cash to shareholders through share buyback and we have done all things with dividends. So our philosophy has not changed and we continuously, continually look at what is available in the marketplace.

Darren Lehrich - *Deutsche Bank - Analyst*

Okay. Thanks a lot.

Operator

The next question is from Kevin Ellich with RBC Capital Markets.

Kevin Ellich - *RBC Capital Markets - Analyst*

Good morning, thanks for taking the questions. Just wanted to clarify and, Bob, you gave a lot of good detail, but just wanted to clarify the contract pricing. That's not new. That was something that was previously in your guidance?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Correct. That was all baked into our previous guidance.

Kevin Ellich - *RBC Capital Markets - Analyst*

Okay.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

There was no surprises there.

Kevin Ellich - *RBC Capital Markets - Analyst*

I understand. And then with the -- go ahead.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

No, that was just me clearing my throat. Sorry.

Kevin Ellich - *RBC Capital Markets - Analyst*

Okay. And then on the volume side, with the weaker physician office visits being the primary culprit for the lower guidance, was -- is any of your lower volume attributed to the contract changes, like Empire Blue Cross Blue Shield.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

No it's not. Again, we recognized early on when we did the last guidance that that was going to be an open contract, so any potential changes there were built in, although, as I told you, we feel very comfortable competing in an open contract and getting our fair share if not more than our fair share of the work there.

Kevin Ellich - *RBC Capital Markets - Analyst*

Okay. And then, Surya, maybe could we get your updated thoughts on the anatomic pathology and the histology pressures? I mean, that's been something that's been persisting for a while with the in-sourcing by physicians. Where does this stand with the government? Are you expecting them to do anything and what can you do?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, again, a very good question. First of all, cancer is a growth area and we have invested a lot in cancer and we know that this is going to help us to grow in the marketplace. Now, as far as the AP reduction, as you know and there are a lot, have been a lot of in-sourcing both TC and PC and we are working with a number of trade associations, American College of Pathologists, and we know that when it in-sourced the utilizing has grown up, has grown. So we are working with the trade association and we'll work with the government to make our case because to do in-sourcing and to have over utilizing is not good for the patient and certainly not good for our business, so we are very actively involved in this thing to provide appropriate data.

Kevin Ellich - *RBC Capital Markets - Analyst*

Okay. And we don't have any expectation or timeframe as to when something might happen?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

This takes time. But I know that it is a short-term. It's a temporary issue and we're putting proposal. But it's going to take some time, but I'm very confident that it's going to be fixed. One other thing I want to add about the volume, because 80% of our business comes from the doctors office. And as you know, our volume this quarter was down by 1.3%, but the doctors' office visit was down by almost 4.5%. So obviously, that has really affected us and that's the reason why we have this four point plan to reverse the trend by increasing our sales and service and frankly going after market share.

Kevin Ellich - *RBC Capital Markets - Analyst*

Got you. And do you think -- I know there's a question about competitive landscape. Have you seen increased competition from hospital outreach programs or where do you think that stands now?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

I don't see any changes. In fact, I see two different paths. One, many hospitals, those who have outreach business, they want to monetize their business because they want to invest money buying other hospitals or consolidating buying practices. So just like in the Boston area we worked with the Caritas Hospital, so they are an outreach business, they monetized it, they got the money to improve their hospitals and now we're helping them in IT and their reference testing. So one CIA, one aspect I see that the people are coming to really monetize their outreach. The other one I see the number of hospitals are buying private practices. So obviously, some of them probably forcing them to provide laboratory testing to them, but I believe that that is also going to be temporary because they have to invest money if they grow. So, nothing major change yet.

Kevin Ellich - *RBC Capital Markets - Analyst*

Understood. And then thinking about the acquisition market and the international markets, just wondering where your thoughts lay in terms of expanding more broadly internationally.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, we have our hands full at the moment in the US and the whole management attention is to revenue growth and reverse the trend and we're not very happy with the second quarter results. We're not really happy with the second quarter results. We did not perform the way we wanted to. So almost all our attention now is to -- is on revenue. Now having said that, we have some medium-term and long-term investment, as you know, in other businesses and one of them is in India and we are focused and I think medium-term it will produce, it will give us better results and -- but at the moment we're just focused in the U.S.

Kevin Ellich - *RBC Capital Markets - Analyst*

Okay. Just one last follow-up for Bob. Going back to the contracting with managed care companies, I just want to make sure that I get this right. You guys are not seeing pricing pressure from the managed care companies?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

I'm not sure how you can conclude that based upon what I said. We absolutely are. I think every provider in healthcare is under pressure to reduce their costs. And we're working with the plans to help them achieve their goals of not only reduced cost, but in some cases broader access.

Kevin Ellich - *RBC Capital Markets - Analyst*

Understood. Okay, thanks, guys.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Thank you.

Operator

The next question is from Anthony Vendetti with Maxim Group.

Anthony Vendetti - *Maxim Group - Analyst*

Thanks. So most of the questions about, I think, volume have been answered, but can you just talk about the fact that drug in abuse testing trended up, which is positive. Do you think that this is the beginning of a positive trend in terms of drug and abuse testing? And do you believe that the impact of unemployment has stabilized or bottomed out here, moved forward?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Anthony, I want to be careful on speculating on what this means to the broader economy and the like. We're encouraged by the fact that we did see an uptick there and certainly some of it is as a result of improved hiring, although as everybody knows, that's not ramping up the way up the way most people had hoped. So, I see it as a positive indicator, but I think it's too early to tell whether or not it's something sustainable and bodes well for the broader economy at this point.

Anthony Vendetti - *Maxim Group - Analyst*

Okay. And then on the contracts, can you -- by saying no significant contracts are up for renewal in the next 18 to 24 months or not even major ones in 2012 or 2013, can we infer that the Aetna contract has been extended and if so is that still on a exclusive, somewhat exclusive basis where Lab Corp can't be used.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

It has been extended for multiple years at this point. That was extended last year and we will maintain our position as the exclusive national laboratory on that contract.

Anthony Vendetti - *Maxim Group - Analyst*

Okay, great. And on -- in the past you've talked about the international expansion. Are those expansions that you're looking at internationally both internally and externally.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, as I said at the moment, apart from the work we are doing in India and Ireland and clinical trials, we have no major plan for any international expansion in the rest of the year.

Anthony Vendetti - *Maxim Group - Analyst*

Okay. And just in terms of the hospital business, I know you said some of them are trying to monetize what they're doing, but where are you seeing that trending towards? Are they trying to hold on to more of that business or are they looking to outsource it and are you providing that service that they find attractive enough to do that? Or are they really trying to hold on to that business? Where is that moving, in your view?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

I think like all of us hospitals are also looking at what will be their poison when the healthcare reform is fully implemented. So some hospitals over the years have been buying medical practices. That doesn't mean that all of those practices are sending the results to them. Some hospitals have done outreach, but as you know that some of them are selling those things because they don't want to invest more capital. So I think we see a number of ways to work with hospital. First, we help them in reference testing business. Second, we can really buy that outreach business and provide them healthcare IT to improve their relationship with the community. And then the third, sometimes we provide support for their quality and efficiency work. So, hospital is a major player in this market and I'm glad that we're doing well and we're building a relationship with them.

Anthony Vendetti - *Maxim Group - Analyst*

Okay. But that right now is only about 20% of your business; right?

Kathleen Valentine - *Quest Diagnostics Inc - Director IR*

Yes, a little -- it's a little less.

Anthony Vendetti - *Maxim Group - Analyst*

Okay.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

And it has grown.

Anthony Vendetti - *Maxim Group - Analyst*

Okay, great. All right, thank you.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Next question.

Operator

Thank you, the next question is from Adam Feinstein with Barclays Capital.

Adam Feinstein - *Barclays Capital - Analyst*

Okay, thank you. Good morning everyone.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Good morning.

Adam Feinstein - *Barclays Capital - Analyst*

Maybe this is back to a comment you made about the doctor office visits. You said they were down 4% to 5%. Was just curious what data source you were using for that, just want to make sure I heard that correctly in response to a question, Surya, you made reference to it.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

We use IMS Data and some analyst report, also, but IMS provides the doctors office visits.

Adam Feinstein - *Barclays Capital - Analyst*

Okay. And I guess just going into that point in more detail, what are you hearing from doctors. I mean, this is clearly weaker than what it typically is. It tends to be pretty stable, so what are you guys hearing in the field? I know your guidance wouldn't

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necessarily incorporate any sort of big pick up, but clearly since this is more of a temporary issue, but curious to get your thoughts. Do you think we could have this sluggish visits for the next 12 to 24 months? And just curious, any feedback you guys are hearing.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, first of all we're using the doctors visits as a proxy for what is happening our volume because we don't have the data. But we know that 80% of our business comes from the doctor's office and I think what we hear and what we see and we don't know exactly what the reason why people have extended their visits between them. Frequency of the visits have been reduced. But having said that, our esoteric and gene-based testing has grown. So I think the impact is in the routine testing and to be perfectly honest, I'm glad that we started a diversification going towards esoteric and gene and AP four or five years ago and we have invested money and we are growing. So there is no slowness, no significant slowness in gene and esoteric based testing. There is some delay in the routine testing.

Adam Feinstein - *Barclays Capital - Analyst*

Okay. All right. And then just to follow up on the pricing side and certainly I know you talked about it a lot and I'm sorry to go back into it, but I guess just to frame it here, I mean, we went through a big industry repricing in 2007, was a big overhang issue and then it felt like things were very stable in 2008 and 2009 and even through the beginning of 2010. Just from hearing your comments now, I mean, certainly you guys are being more proactive in trying to go out to renew contracts, but clearly sounds like the pressure has picked up, which shouldn't be a shocker with some of the issues in managed care. But I guess it just kind of -- the feedback hasn't been very positive around the managed care landscape and it sounds like that changed pretty fast. So, once again, just if you think about that way, I guess the catalyst for the change here just curious to get some additional feedback there.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Okay. Well, first of all, it did not change fast. It is a very organized, proactive strategy from Quest Diagnostics to really create a stable market for the industry and for us. But with the healthcare reform as the background, we had an opportunity to work with health plans like they are working with us and we're all working together and that gives us an opportunity to drive this strategy and to take all this on uncertainty away. Now, having said that, as Bob said, there's always personal pricing, but it doesn't really matter. There's also the rest of the laboratories, these uncertainties are not there because there's always this issue who is national player going to exclusive and nonexclusive. Now it's more or less for us, it's a very stable industry and it's very stable market and we are now foreseeing our value proposition. So I don't want you to understand that there is pressure going up and it is heating. You know, it's not actually, it's actually you are now realizing because these things are now effective.

Adam Feinstein - *Barclays Capital - Analyst*

Okay. So just if I can just go back there, so you're saying we shouldn't view this the way we would have viewed 2007 in terms of what was happening with industry pricing during that time period?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Not at all.

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Adam Feinstein - *Barclays Capital - Analyst*

Okay. All right. And then just finally and I know you guys don't contract, excuse me, I know you guys don't comment on contracts typically, but there's been a lot of focus on this Empire contract. A few people have asked about it. Can you say anything about that contract, just -- clearly it would be helpful since there's been a lot of chatter about it. I did mention something briefly before, Adam, that with Empire they were looking to broaden their network.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

We worked with them to help them achieve that. Not all the payors go that route. Some like more restrictive networks. In this case Empire felt that it would make their network more attractive by having it broader and we worked with them to put now a new long-term contract in place that provides that to them. And as I said earlier, we feel very confident that we can compete effectively provision this in open contracts. Okay, great.

Adam Feinstein - *Barclays Capital - Analyst*

All right, thank you very much. Appreciate it.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Thank you.

Operator

The next question is from Kemp Dolliver with Avondale Partners.

Kemp Dolliver - *Avondale Partners - Analyst*

Hi, thanks and good morning. Couple of questions, again, mainly around your thoughts on managed care. But first, are you making any different assumptions about what you can do with pull-through on these contracts versus prior contracts?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Kemp, it's not pull-through per se. As I said earlier, the plans and employers now are much more willing to take actions to drive work in network to lower cost providers like ourselves. And that's what the opportunity is with these health plans is to work with them and the employers to design approaches that will drive more work in network and obviously we would then be the beneficiary of that.

Kemp Dolliver - *Avondale Partners - Analyst*

Any data with regard -- the subject of in network out of network has been around, I think, as long as I've been covering the industry, but I haven't heard any data with regard to say how much business is out of network now versus what may have been out of network five or ten years ago. Do you have any thoughts on that?

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Bob Hagemann - *Quest Diagnostics Inc - CFO*

I would tell you the vast majority of our business is contracted and as a result this whole effort by health plans to drive more into network, I think is going to be a significant positive to us. I would tell you that it's probably, in terms of in network, out of network, not significantly different than it was a number of years ago, although I don't have good data at my fingertips to validate that.

Kemp Dolliver - *Avondale Partners - Analyst*

Okay, good. And what -- how is this going to manifest itself because you've made these renewals. Most people don't go into new enrollment. The enrollment cycle for the individual doesn't kick in until January 1st. There's talk of -- at least the plans are pushing narrower networks and the like, but that's such a sea change from where employers have been for the last decade or so. What are you really, I guess, what are the things we're likely to see with plan design and the like that would make this a valid strategy for you.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

It's hard to say and it's continuing to evolve but you've probably seen some of it already in terms of increased co-pays and deductibles for out of network services. Sometimes no copays or deductibles for in network. There are also incentives to drive employees in network. So I think every employer has a slightly different approach but those seem to be general themes that you see.

Kemp Dolliver - *Avondale Partners - Analyst*

Okay, super. And one more mundane question is, on what -- how did your nonclinical testing business perform this quarter?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

As we said, it was essentially, revenues were essentially flat with the prior year in this quarter. Some of that, the point of care testing business is affected by the same things that impacted the laboratory testing business.

Kemp Dolliver - *Avondale Partners - Analyst*

Okay. Currency any significant factor?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

No. We would have broken that out if it was.

Kemp Dolliver - *Avondale Partners - Analyst*

Thanks very much.

Operator

The next question is from Gary Taylor with Citigroup.

Gary Taylor - *Citigroup - Analyst*

Hi, good morning.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Good morning.

Gary Taylor - *Citigroup - Analyst*

A few different questions, various topics and appreciate your patience because I am going to go back to the managed care thing again. I just want to understand that a little better. So what we saw in the 2Q here sequentially with the proactive renewals, was this a single sizable thing? Was this several contracts or one big contract and other small ones or a few small ones? Can you help us understand that.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

As I said, there are several contracts that are impacting the comparisons to the prior year. In the comparison to the prior quarter, we're only talking about 0.5% change.

Gary Taylor - *Citigroup - Analyst*

Correct, but is it -- so sequentially there were new renewals.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Correct. We had one go into effect April 1 that drove much of the difference between Q1 and Q2.

Gary Taylor - *Citigroup - Analyst*

And I guess I'm just -- I'm trying to think about the math. Down 1% sequentially, half of that related to contract renewals, so about 50 basis points. But managed care is about half your revenue, so if you had, for example, 10% of your managed care book renewing down 10%, that would be about 50 basis points of pricing pressure on your overall revenue per session, but it doesn't sound like your -- I think down 10, I'm just ballparking, but down 10 would be a pretty sizable reduction and it doesn't seem like you're -- I'm sure you don't want to get in to sort of discounts that you've giving, but it -- I'm not sure, it seems like you're characterizing the rate environment as that adverse. So can you help me kind of think about how a couple contracts skew the whole book 50 basis points sequentially? Am I doing my math wrong.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Well, yes, if you think about what 50 basis points is on our book of business, yes, that is in the range of $30 million or so on an annual basis. So that gives you some sense as to what the impact is in the quarter. I'm not sure what else I can share with you.

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Gary Taylor - *Citigroup - Analyst*

Yes, it's a small number over all, but if only a small amount renewed, it seem like, I guess, a big hit for the percentage that renewed.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

I guess what you have to recognize now is as we have said, these big renewals are all behind us. These big renewals and extensions, so in terms of going forward, we feel as though we had very good stability in revenue per requisition. I think what continue to drive changes in revenue per req, on the positive side we've got the gene-based and esoteric testing continuing to grow. Potentially on the negative side we could continue to have mix shifts, right?

Gary Taylor - *Citigroup - Analyst*

Yep.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

So those, I think, will be the two drivers of revenue per req going forward and much less contract changes and pricing changes associated with that.

Gary Taylor - *Citigroup - Analyst*

Is it -- I guess is it fair -- so these renewals have been on going for a year or so or more and now maybe we've missed some of that impact because of other things influencing per requisition. Is it fair to say that this renewal on April 1st was, I guess, the worst, I mean, because it's really the only one --

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Bob Hagemann - *Quest Diagnostics Inc - CFO*

Gary, I'm not going to characterize that for you.

Gary Taylor - *Citigroup - Analyst*

Okay. And then you have talked about your forward view a little bit. I guess maybe looking beyond what you said about the rest of the year on a dollar basis per requisition looking pretty stable. As we just kind of think about the next two or three years, most of the commercial book is locked in right now unless PPI picks up, Medicare is down slightly, some of your commercial contracts have some escalators, some don't. So kind of looking out the next two or three years, is there reason to feel that worse than relatively stable is the right way to characterize that or is relatively stable probably the right outlook right now?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Well, again, I want to be careful not to give long-term guidance on revenue per req. But look, here's some of the factors that are going to drive it. I think Medicare, you're certainly next year we expect to see a further reduction in Medicare reimbursement. And I think you understand that the way the Medicare reimbursement will work over the next several years or so is that there will be CPI increases. They will be offset, though, by productivity adjustments which can't take them down below zero and then whatever that net number is will be reduced by 1.75% over the course of the next five years or so. And then the positive drivers of revenue per requisition are going to continue to be test mix, gene-based and esoteric testing and probably increased utilization so increased number of tests ordered per requisition. And then we always have the mix of business that can influence it one way or another.

Gary Taylor - *Citigroup - Analyst*

Okay. Real quickly, any chance you could characterize how big a book business Empire is for you right now.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

We do not give specifics on any particular contract.

Gary Taylor - *Citigroup - Analyst*

Okay. Last question. Can you just help us on ending basic and diluted? Obviously we have the average share count in the release, but just for modeling, do you have the ending numbers right there.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

It should be right on the balance sheet, on the basis balance sheet and you can do the math there by just looking at the issue less the amount of treasury to get to the outstanding number.

Gary Taylor - *Citigroup - Analyst*

Okay. All right, thank you.

Operator

Our next is from Gary Lieberman with Wells Fargo. Thanks, thanks for taking the question.

Gary Lieberman - *Wells Fargo - Analyst*

I appreciate all the comments around the pricing. I guess I'm still struggling to understand, though, how the strategy of effectively competing on price with the contracts is going to bring more stability to the marketplace, because the history of it is it does the opposite. And so I guess just help me understand how it actually brings stability to the marketplace.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Gary, this is Surya. First of all, having extended contract guarantees us the access to the marketplace. Knowing that what the healthcare reform is going on and the changes and we want to just make sure that we have long-term contracts and we work with the health plans. So the first of all is the worry about extension, the worry about who is the national player, who played, they worry about actually how do you really work with the health plan goes away because we don't have those contract renewals. Now, as far as pricing is concerned, as you know, some contracts will have escalators, some contracts will not, but the most important thing is now the employers and the health plans are working with us and with the industry to drive more business to network. So, these things what we're talking about here today would have not been relevant if our volume would have higher.

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So obviously we have -- we feel the stability is here because we now we're in the computer based on the value proposition, we know what the pricing is, we know what we have to do to increase our market share and increase our volume and that's the reason why I said that I feel pretty strong about the next couple of years, not worry about managed care contract negotiation.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

And , Gary, there's a big difference between pursuing exclusive arrangements with very low price and extending arrangements and locking up access over a period of

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Gary Lieberman - *Wells Fargo - Analyst*

But I guess my follow-up to that would be, to that point, it's a competitive marketplace so it's great that you guys have open access to the contracts, but others will as well and what's preventing them from competing on price as well and then don't you guys sort of go down or risk going down sort of the spiral that hurt the industry in the past?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, that has been there all the time. There's always, what do you call negotiations with the managed care or the hospital and everybody's looking for price. But as I said, that having major contract negotiated and as Bob said, not going for the lowest price to get the contract and extension is actually a much safer and much better than not having the contract.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

And, Gary, just to be clear, pricing historically, in many cases, by competitors had been used to gain access and limit our access. Once multiple providers are on contract, their pricing is set by contract at that point. And then you're principally competing based upon service. So you're really not -- the only time you're competing on price really, at the end of the day, is when you're competing for access to the contract.

Gary Lieberman - *Wells Fargo - Analyst*

Okay. So I guess would it be safe to say that you don't believe you're the lowest cost provider, but you're sort of -- you're just competitive, so there's less risk to kind of a pricing instability here?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Well, as I said, we are one of the low cost providers on contract and as a result, when you think about out of network spend, what goes to hospitals, what goes to non-contract and laboratories, which is often at rates two to three times what we've contracted at, there's a real incentive for the health plans and employers to drive more work in network. The other thing I would tell you is when the work is going to contracted providers, usually the data that flows back and forth between the provider, the health plan and the employer is much better and as they're looking to do things with wellness plans and disease management and the like, that's another advantage that in network providers give health plans and employers.

Gary Lieberman - *Wells Fargo - Analyst*

Okay. Thanks a lot.

Operator

Our final question will come from Robert Willoughby with Bank of America-Merrill Lynch.

Robert Willoughby - *Banc of America/Merrill Lynch - Analyst*

Thanks. Bob or Surya, you guys don't break out your volume trends by segment on a quarterly basis as your competitor does, but I have to believe your histology trends are probably similar. And I guess with the AmeriPath deal making pathology a much bigger part of your business, if that's not growing, isn't that a more challenging situation for you. I mean, how much of the guidance for revenues going forward reflects that histology volume continuing to decline and how do you stop it. And do we revisit that AmeriPath deal and is there any intangible associated with it that might be impaired?

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Well, first of all, it is really unfortunate that what is happening in the marketplace. It's not good for the industry, not good for the patients, because the TC and PC internalized and is driving over utilized and so we are working with the trade associations and I hope that it's going to -- there will be some legislation or something will be changed. But meanwhile, we are actually having difficulties because that trend has gone down. But we have taken that into account in our guidance. And the other thing we are trying to do which is combining the histology with molecular diagnostics, but we have included the deterioration of the histology market in our guidance.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

And, Bob, we're not anticipating any sort of impairment charge.

Robert Willoughby - *Banc of America/Merrill Lynch - Analyst*

What revision today, though, is that reflecting another step down in that business or was that anticipated also at the beginning of the year.

Bob Hagemann - *Quest Diagnostics Inc - CFO*

It does reflect a little further softness than we were expecting at the beginning of the year.

Robert Willoughby - *Banc of America/Merrill Lynch - Analyst*

And I guess on the Empire deal that folks have mentioned, that folks had mentioned, it is an exclusive going to an open contract, so there will be some losses associated here and some of your competitors have positioned themselves in the market with acquisitions. Can you give us any sense -- you have said you will compete for your fair share of business, but you're losing something here, any magnitude that you can or what have you assumed losses would be?

Bob Hagemann - *Quest Diagnostics Inc - CFO*

Bob, as I said and I'll repeat, I think we feel very good about competing in the marketplace to the degree that there is any change in volume associated with now further access to that contract by others, we've built that into our guidance.

Robert Willoughby - *Banc of America/Merrill Lynch - Analyst*

Okay. That's it, thank you.

Surya Mohapatra - *Quest Diagnostics Inc - Chairman & CEO*

Thank you.

Operator

And thank you for participating in the Quest Diagnostic second quarter conference call. A transcript of prepared remarks on this call will be posted later today on Quest Diagnostic's website at www.questdiagnostics.com. A replay of the call may be accessed online at www.questdiagnostics.com/investor or by phone at 866-350-3614 for domestic callers or 203-369-0039 for international callers. No access code will be required. Telephone replays will be available 24 hours a day beginning at 10:30 AM Eastern Time today until midnight Eastern Time on August 21, 2010. Thank you and good-bye.
