Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended December 31, 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 Investor Relations "quarterly updates" section of our website at www.questdiagnostics.com.

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

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Kathleen.

We generated strong cash flow in the quarter, and were encouraged by the continued improvement in our volume trends and the stability in revenue per requisition.

During the fourth quarter:
- Earnings per share were 97 cents, unchanged from 2009;
- Revenues were $1.8 billion dollars, 1.3% below 2009; and
- Cash flow was $340 million dollars.

For the full year:
- Earnings per share increased 5% to $4 dollars and six cents;
- Revenues were $7.4 billion dollars, 1.2% below 2009; and
- Cash from operations was $1.1 billion dollars.

2010 was a year in which we saw pressure on our volume due to the general slowdown in physician office visits.

Despite being negatively impacted by the volume decline, our business remains strong and we grew earnings per share. In addition, we are making progress on a number of key growth initiatives.

Looking ahead to 2011, we expect organic revenues to grow approximately 1%; earnings per share to increase to between $4.10 and $4.30; and we will generate approximately $1.1 billion in cash.

We are committed to using our substantial cash flow to generate value for our shareholders. Our first priority is to deploy cash to grow the business. In addition, we will deploy excess cash into share repurchases. In 2010, we returned $750 million dollars to our shareholders through share repurchases.

This morning, we announced that our Board of Directors has approved an additional $750 million dollars for future share buybacks, bringing our current authorization to $1 billion dollars.

I will update you on our progress after Bob discusses the financial results. Bob?

Bob Hagemann**:** Thanks, Surya.

Revenues for the quarter were $1.8 billion, 1.3% below the prior year; and earnings per share was $.97, unchanged from the prior year. Included in EPS is a $.03 charge associated with workforce reductions and a $.03 charge for settlement of certain employment litigation. These charges were partially offset by a $.05 benefit associated with non-recurring tax items.

Clinical testing revenues, which account for over 90% of our total revenues, were 1.4% below the prior year in the quarter. For the full year, clinical testing revenues decreased 1.3%.

Revenue per requisition in Q4 was 1.5% below the prior year, and has been stable for the last three quarters. For the full year, revenue per requisition approximated that of the prior year level.

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. However, 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 executed in 2009 and 2010. The business and payer mix changes, which continue to pressure revenue/requisition, include a further rebound in lower priced drugs-of-abuse testing, and weakness in our higher priced anatomic pathology testing.

Volume in the quarter was .1% above the prior year, and continued to be pressured by the general slowdown in physician office visits. However, the fourth quarter volume reflects continued and steady improvement from the first part of the year. For the full year, volume was off 1%.

Drugs-of-abuse testing has continued to rebound and grew 8.2% in the quarter, and contributed modestly to the improved volume trend.

Revenue in our non-clinical testing businesses, which includes risk assessment, clinical trials testing, point of care testing and healthcare IT, was generally in line with the prior year level for the quarter and the full year.
In the quarter, operating income as a percentage of revenues was 16.1%, compared to 17.9% in the prior year. The charges which I referred to earlier reduced the current year percentage by 1%.

We continue to make progress in managing our cost structure and driving quality improvements, and are evaluating a number of new opportunities to further improve our efficiency and quality. While doing so, we have also made recent investments in sales and service which are temporarily pressuring margins, but which we expect over the longer term will result in accelerated revenue growth and a return to margin expansion.

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 3.9 % a year ago. Days Sales Outstanding were 44 days, compared to 43 days at the beginning of the year.

Cash from operations was $340 million, and compares to $360 million in the fourth quarter of 2009. Cash from operations totaled $1.1 billion for the full year.

Capital expenditures were $69 million in the quarter, compared to $50 million a year ago.

While we did not repurchase any shares in the quarter, for the full year we repurchased 14.7 million shares for a total of $750 million.

Earlier today, we announced that our Board has authorized an additional $750 million of share repurchases bringing our total authorization to $1 billion. There is no set timeframe for utilizing our current authority, and the level of share repurchase in any given quarter will continue to be a function of a number of factors.

Acquisitions continue to be our first priority for deploying our cash and utilizing our credit capacity, and we continue to evaluate a number of opportunities. In addition, as we have done in the past, we plan to deploy our excess cash into share repurchases.

Before I discuss guidance, I would like to point you to footnote 6 in the press release, which provides an update on the status of our litigation with respect to the California MediCal program. Given that we are currently in litigation, we cannot comment beyond the information contained in the footnote. In developing guidance for 2011, we have assumed that there will not be a material change in our MediCal reimbursement.

Turning to 2011 guidance: we expect results from continuing operations, before special items, as follows:

- Revenue to grow approximately 1%, before potential acquisitions.

- Operating income to approximate 18% of revenues.
- Cash from operations to approximate $1.1 billion.
- Capital expenditures to approximate $220 million.
- And lastly, diluted earnings per share to be between $4.10 and $4.30.

While we do not provide quarterly guidance, in considering how 2011 will unfold, you should generally think about our earnings comparisons to 2010 being more favorable in the back half of the year as the year-over-year comparisons become less challenging. Now I'll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

As you have heard, we are seeing continued improvement in volume trends and stability in revenue per requisition, which positions us for revenue growth this year.

I want to update you on the progress we are making on some of the growth initiatives we have shared with you recently.

We continued to promote new genetic, esoteric and anatomic pathology tests, which represent 36% of our total revenues.

- During the quarter, esoteric and gene-based testing revenues grew about 3%, with sales primarily to hospitals and physician specialists. The growth was driven largely by Vitamin D testing, which grew more than 30%, as well as testing for blood cancers, particularly our Leumeta family of blood tests.

- We have made good progress building our innovative test pipeline in our key focus areas of cancer, infectious disease and cardiovascular disease.
  - In cancer diagnostics, we introduced ColoVantage, the first blood test for the detection of colorectal cancer. We also continue to see growing interest in OVA1, the first blood test cleared by the FDA to help detect ovarian cancer before surgery.
  - In infectious disease, our recently introduced SureSwab real-time PCR test for gynecologic infections is being well received. In addition, our Focus Diagnostics unit continues to enhance and expand its Simplexa platform with new influenza tests.
  - And in cardiovascular disease, we are pleased at the growing recognition of the value of our AccuType CP test from physicians, patients and health plans. This test helps assess a patient's response to the anti-clotting drug Plavix.

- We are making progress with our healthcare IT.
  - Our Care360 EHR achieved an important milestone during the quarter when it was certified for "meaningful use". This means that now our physician customers can qualify for government incentives of up to $44,000 by using our EHR. Since introduced last year, more than 1,800 doctors are using Care360 EHR.
  - Care360 EHR is not just any EHR. We use this platform to run our business, and it has a track record of more than 40 BILLION transactions to date.

  - As we exited the year, our customers were using the e-prescribing feature of Care360 at the rate of 22 million medications a year, up 70% compared to last year.

- We continue to invest in our sales organization to respond to a changing marketplace.
  - During the quarter, we continued to add sales people and our sales force expansion is now substantially complete.
  - We have filled a number of key sales positions, including hiring new sales leaders for our hospital and physician businesses.
  - With these enhancements, we enter 2011 well positioned to capitalize on market opportunities in various subspecialties.

- We see continued interest from health plans and employers in working collaboratively on reducing high-cost and out-of-network lab utilization. As we look at 2011, we have good visibility into health plan pricing with no major contract renewals.
- We are driving operating efficiencies. In the fourth quarter, we took actions to reduce costs, and will continue to closely manage costs to align with volume levels and improve operational efficiencies.
- We are committed to deploying our cash to drive growth and shareholder value.
  - We continue to actively evaluate opportunities for acquisitions.
  - Apart from fold-in acquisitions, we are focused on acquiring genetic and esoteric capabilities to further strengthen our positions in areas such as cancer, cardiovascular disease, and infectious disease.

In closing:

- In 2010, we strengthened our business in a changing marketplace.
- During the fourth quarter, we saw a continuation in improvement in volume trends and stability in revenue per requisition.
- Our focus, combined with our industry leadership and positive long-term demographic trends, position us for sustained growth.
- We remain committed to enhancing shareholder value by effectively executing our strategy.

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