Quest Diagnostics Announces Third Quarter 1997 Results

October 20, 1997

TETERBORO, N.J., OCTOBER 20, 1997-- Quest Diagnostics Incorporated (NYSE: DGX) announced today that net income for the third quarter ended September 30, 1997, was $3.0 million, or $0.10 per share, on revenues of $373.7 million. For the third quarter of 1996, pro forma net income before non-recurring special charges was $2.4 million, or $0.09 per share, on revenues of $405.4 million.

"While pressure on clinical testing volume continues to characterize our business and the rest of the industry, our turnaround is advancing as we make progress on cost reduction," said Kenneth W. Freeman, chairman and chief executive officer. "Given this progress, we have delivered a modest year-to-year quarterly profit increase and are in a position to actively pursue and invest in new growth opportunities for our business."

Earnings before interest, taxes, depreciation and amortization (EBITDA) were $35.7 million for the third quarter. This compares to $37.6 million for the 1996 third quarter, adjusted for special charges. However, EBITDA generated from clinical laboratory testing increased for the first time in more than two years, after adjusting for special charges in the prior year.

Revenues during the quarter declined 7.8% from the previous year. The decline is due largely to three factors: changes in government and private payor reimbursement policies intended to reduce costs which have altered physician ordering patterns for tests; intensified competition from hospital outreach laboratories in several regions; and the strategy of refusing to accept business that does not meet minimum profitability objectives.

Clinical testing volume, measured by the number of test requisitions, declined 9.8%. However, prices for clinical testing have continued to strengthen. In the third quarter, prices were 3.1% above the prior year's level, due, in large part, to continued pricing discipline.

Results from cost-reduction efforts accelerated during the quarter. Total operating costs for the quarter declined from the year-earlier period by $31.7 million. Payroll expenses were reduced by more than 7% from the prior-year period, reflecting ongoing efforts to align the cost structure with business conditions.

Bad debt expense improved to 7.1% of revenues for the third quarter from 7.7% in the second quarter and 7.5% in the prior year period. "This is the first year-to-year improvement in bad debt expense since stringent medical necessity rules were imposed more than a year ago," said Mr. Freeman. "We are finally showing results from our efforts to attack bad debt expense, which increased and remained persistently high during the past year."

Cash generation remained strong during the quarter, helped by the continued focus on improving billing operations and reducing bad debt expense. The cash balance was $124.5 million at September 30, $48.7 million above the second quarter level. The number of days sales outstanding, a measure of billing and collection efficiency, was 67 days in the third quarter compared to 65 days at the end of the second quarter. Accounts receivable declined to $271.1 million at the end of the quarter. Capital expenditures totaled $8.6 million for the quarter.

During the first nine months of 1997, earnings were $15.1 million, or $0.52 per share on revenues of $1.16 billion. For the prior year period, pro forma earnings before special charges totaled $16.9 million or $0.59 per share on revenues of $1.23 billion. EBITDA for the nine months ended September 30 totaled $120.4 million, compared with $134.7 million before special charges last year.

Quest Diagnostics Incorporated is one of the world's leading providers of diagnostic testing, information and services with laboratories across the United States. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor disease. Its Nichols Institute unit conducts research, specializes in esoteric testing using genetic screening and other advanced technologies and manufactures and distributes diagnostic test kits and instruments. Formerly known as Corning Clinical Laboratories Inc., Quest Diagnostics was spun off to Corning Incorporated stockholders in a tax-free distribution of shares on December 31, 1996.

The statements in this press release which are not historical facts or information are forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Certain of these risks and uncertainties are listed in the Quest Diagnostics Incorporated 1996 Form

10-K.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 1997 and 1996

(in millions, except per share data)

Three Months Ended September 30 Nine Months Ended September 30

Historical Pro Forma Historical Historical Pro Forma Historical

1997

1996

1996

1997

1996

1996

Net revenues $ 373.7 $ 405.4 $ 405.4 $1,163.3 $1,231.3 $1,231.3 **Costs and expenses:** Cost of services 229.2 255.4 255.4 708.1 768.8 768.8 Selling, general and administrative 119.6 125.2 125.2 371.5 371.4 371.4 Interest expense, net 10.4 11.8 19.9 31.5 35.8 59.9 Amortization of intangible assets 6.1 6.7 10.3 18.1 20.8 31.8 Provision for restructuring and other special charges -- 155.7 155.7 -- 223.6 201.7 Write-down of intangible assets -- -- -- -- 445.0 -- Other, net 2.1 1.9 1.9 3.0 (0.2) (0.2) Total 367.4 556.7 568.4 1,132.2 1,865.2 1,433.4 Income (loss) before taxes 6.3 (151.3) (163.0) 31.1 (633.9) (202.1) Income tax expense (benefit) 3.3 (40.4) (43.5) 16.0 (40.7) (43.2) **Net income (loss)** $ 3.0 $ (110.9) $ (119.5) $ 15.1 $ (593.2) $ (158.9) **Net Income per common share** $ 0.10 -- $ 0.52 -- **Weighted average common shares outstanding** 29.3 28.8 29.1 28.8 **Net income before restructuring and other special charges and write-down of intangible assets** $ 3.0 $ 2.4 $ 15.1 $ 16.9 **Net income per common share before restructuring and other special charges and write-down of intangible assets** $ 0.10 $ 0.09 $ 0.52 $ 0.59

Notes to consolidated statements of operations:

(1) Earnings per share are computed by dividing net income less dividends on preferred stock (approximately $30 thousand per quarter) by the weighted average number of common shares outstanding. Historical earnings per share for 1996 is not meaningful as the Company's historical capital structure for 1996 is not comparable to the capital structure subsequent to its spin-off from Corning Incorporated. Pro forma earnings per share for 1996 were calculated by reducing net income for preferred stock dividends and by assuming that all common shares issued as a result of the spin-off and the establishment of the employee stock ownership plan were outstanding for the entire period.

(2) The pro forma consolidated statements of operations were prepared assuming that the Company's spin-off from Corning Incorporated had been completed and the new accounting policy for intangible assets had been adopted as of January 1, 1996. In the opinion of management, the pro forma consolidated statements of operations include all material adjustments necessary to reflect the impact of the spin-off and the change in accounting policy. Such adjustments consist of reductions to interest and amortization expense.