Quest Diagnostics Announces Fourth Quarter and Full Year 1997 Results

January 27, 1998

TETERBORO, N.J., JANUARY 27, 1998—Quest Diagnostics Incorporated (NYSE: DGX) announced today that for the fourth quarter ended December 31, 1997, net income before special charges was $2.5 million, or $0.08 per share, on revenues of $365.4 million. For the fourth quarter of 1996, the pro forma net loss before special charges was $1.3 million, or a $0.05 loss per share, on revenues of $385.0 million.

For the full year 1997, Quest Diagnostics earned $17.6 million before special charges, or $0.60 per share, on revenues of $1.5 billion. In 1996, pro forma earnings before special charges totaled $15.6 million, or $0.54 per share, on revenues of $1.6 billion.

As reported on December 2, 1997, Quest Diagnostics is implementing a series of actions aimed at reducing excess capacity in its clinical laboratory network and improving its overall efficiency and cost structure. The total pretax charges recorded during the fourth quarter associated with these actions are $55.5 million, of which $6.8 million has been included in selling, general and administrative expense.

"We have made solid progress in executing our business strategy during our first year as an independent, public company, as evidenced by strong cash generation," said Kenneth W. Freeman, chairman and chief executive officer. "Our fourth quarter operating performance, excluding special charges, showed improvement for the first time in more than two years. We ended the year with a cash balance of $162 million, an increase of $120 million over the prior year. We continue to see pricing improvement and our cost reduction efforts are showing strong results. We are also eliminating excess capacity. These actions better position us to meet ongoing challenges facing our industry in terms of compliance with new regulations and reductions in test utilization."

After special charges, Quest Diagnostics reported a net loss of $37.4 million or $1.29 per share for the fourth quarter of 1997, compared to a loss of $467.1 million for the 1996 quarter. For the full year, after special charges, Quest Diagnostics reported a net loss of $22.3 million, or $0.77 per share for 1997 compared to a net loss of $626.0 million for 1996.

During the quarter, revenues declined 5.1% from the previous year, primarily due to competitive pressures, changes in reimbursement policies, and actions taken on unprofitable accounts. Clinical testing volume, measured by the number of test requisitions, declined 8.8%. However, prices for clinical testing continued to strengthen for the fourth consecutive quarter, due, in large part, to continued pricing discipline and success in renegotiating reimbursement rates with some customers. Total operating costs for the quarter before special charges declined from the year-earlier period by $22.3 million, reflecting ongoing efforts to reduce capacity and align costs with business conditions.

Cash generation was strong during the quarter. Earnings before interest, taxes, depreciation and amortization (EBITDA) were $33.4 million for the fourth quarter, compared to $31.7 million for the 1996 fourth quarter, adjusted for special charges in both years. For the full year, adjusted for special charges, EBITDA totaled $153.8 million, compared with $166.4 million in 1996. The number of days sales outstanding, a measure of billing and collection efficiency, improved to 63 days, compared to 73 days a year ago. Accounts receivable, which totaled $238.4 million, declined by $32.7 million during the quarter. Capital expenditures totaled $9.3 million for the quarter and $30.8 million for the year.

"While competitive pressures remain intense, efforts are underway to stabilize our volume by the end of this year as we aggressively expand our relationships with traditional physician accounts as well as hospitals, employers and other large buyers of health care services," Mr. Freeman said.

Quest Diagnostics Incorporated is one of the nation'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 helps 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, performs clinical studies testing, and manufactures and distributes diagnostic test kits and instruments. Quest Informatics collects and analyzes laboratory, pharmaceutical and other data to help large healthcare customers identify and monitor patients who are at-risk for certain diseases and to use clinical data for other related business activities.

The first annual meeting of Quest Diagnostics shareholders will be held May 12 in New York City. Additional company information can be found on the Internet at: www.questdiagnostics.com.

The statements in this press release which are not historical facts or information may be 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 and subsequent public filings.

Quest Diagnostics Incorporated and Subsidiaries
Consolidated Statements of Operations
For the Quarters and Years Ended December 31, 1997 and 1996
(in millions, except per share data)

	Quarter Ended December 31			Year Ended December 31		
		Pro Forma	Historical		Pro Forma	Historical
	1997	1996	1996	1997	1996	1996
Net revenues	$ 365.4	$ 385.0	$ 385.0	$ 1,528.7	$ 1,616.3	$ 1,616.3
Costs and expenses:						
Costs of services	219.8	242.1	242.1	927.9	1,010.9	1,010.9

Selling, general and administrative	130.6	123.9	123.9	502.1	495.3	495.3
Interest expense, net	9.5	11.3	15.0	41.0	47.1	74.9
Amortization of intangible assets	5.9	6.2	9.8	24.0	27.0	41.6
Provision for restructuring and other special charges	48.7	--	466.9	48.7	668.6	668.6
Other, net	1.1	1.4	1.4	4.1	1.2	1.2
Total	415.6	384.9	859.1	1,547.8	2,250.1	2,292.5
Income (loss) before taxes	(50.2)	0.1	(474.1)	(19.1)	(633.8)	(676.2)
Income tax expense (benefit)	(12.8)	1.4	(7.0)	3.2	(39.3)	(50.2)
Net loss	**$ (37.4)**	**$ (1.3)**	**$ (467.1)**	**$ (22.3)**	**$ (594.5)**	**$ (626.0)**
Net loss per common share	**$ (1.29)**			**$ (0.77)**		
Weighted average common shares outstanding	29.5	28.8		29.2	28.8	
Net income (loss) before special charges	**$ 2.5**	**$ (1.3)**	**$ (7.2)**	**$ 17.6**	**$ 15.6**	**$ (15.9)**
Net income (loss) per common share before special charges	**$ 0.08**	**$ (0.05)**		**$ 0.60**	**$ 0.54**	

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. Basic and diluted earnings per share are based upon the weighted average number of shares outstanding during 1997. Potentially dilutive common shares, which primarily result from stock options, are insignificant and do not impact earnings per share.

Historical earnings per share for 1996 are not meaningful as the Company's historical capital structure for 1996 is not comparable with 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.

(3) Net income (loss) before special charges excludes restructuring and other special charges, and in 1997, a $6.8 million charge included in selling, general and administrative expenses related to the Company's consolidation of its laboratory network.