



Quest Diagnostics Announces Second Quarter 1997 Results

July 16, 1997

TETERBORO, N.J., JULY 16, 1997 -- Quest Diagnostics Incorporated (NYSE: DGX) today announced that for the second quarter ended June 30, 1997, net income was \$8.1 million, or \$0.28 per share, on revenues of \$401.5 million. For the second quarter of 1996, pro forma net income before non-recurring special charges was \$9.3 million, or \$0.32 per share, on revenues of \$424.5 million.

"We are encouraged by the progress we are making in controlling our costs and exerting pricing discipline," said Kenneth W. Freeman, chairman and chief executive officer. "However, our volume continues to decline as we become more selective about the business we accept. In addition, volume is being affected by mounting government regulations that are reducing the amount of testing ordered by doctors, as well as by intense competition for existing business."

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$46.1 million for the second quarter. This compares to \$53.6 million for the 1996 second quarter, adjusted for special charges, and is 19.6% above this year's first quarter level, reflecting seasonal strength typical of the second quarter.

Revenues in the quarter declined 5.4% from the previous year. The sale in 1996 of a majority share of the Company's imaging business contributed 2.1% of the revenue decline.

Clinical testing volume, measured by the number of test requisitions, declined 5.6%. However, prices for clinical testing have continued to strengthen. In the second quarter, prices were 2.1% above the prior year's level, due, in large part, to increased pricing discipline and the successful renegotiation of reimbursement rates with some customers.

"We continue to focus on strengthening our market positions around the country," said Mr. Freeman. "In Connecticut, we made a small acquisition which we expect will add value for our shareholders and yield additional benefits for our clients and us in that state. Just after the end of the second quarter, we created a joint venture in Arizona, which has been a difficult market for us, with Samaritan Health System, the state's largest health care delivery system."

Efforts to reduce costs continued to show results with the exception of bad debt expense. Total operating costs for the quarter declined from the year earlier period. Bad debt expense was 7.7% of revenues for the second quarter, slightly higher than the first quarter level of 7.5%, and above the 5.6% level of the prior year period. The challenge of complying with additional Medicare medical necessity documentation requirements imposed during the past year continues. "We expect further improvements in our cost structure as we realize additional benefits from our standardization initiative and as bad debt expense starts to decline," said Mr. Freeman.

Cash generation remained strong during the quarter, as a result of seasonal strength and the continued focus on improving billing operations. The company's cash balance was \$75.8 million at June 30, \$7.9 million above the first quarter level. The number of days sales outstanding, a measure of billing and collection efficiency, improved to 65 days from 68 days at the end of the first quarter. Accounts receivable, which totaled \$288 million, declined by \$3.4 million during the quarter. Capital expenditures totaled \$7.1 million for the quarter.

For the first half of 1997, the company earned \$12.1 million, or \$0.42 per share, on revenue of \$789.6 million. For the prior year, pro forma earnings before special charges totaled \$14.5 million, or \$0.50 per share, on revenues of \$825.9 million. EBITDA for the six month period totaled \$84.7 million, versus \$97.1 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. In addition, Quest Diagnostics also conducts research, produces test kits and instruments, and specializes in esoteric testing using genetic screening and other advanced technologies. 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 Six Months Ended June 30, 1997 and 1996

(in millions, except per share data)

Three Months Ended June 30 Six Months Ended June 30

Historical Pro Forma	Historical	Historical	Pro Forma	Historical	1997	1996	1996	1997	1996	1996	Net revenues	\$401.5	\$424.5																																	
\$424.5	\$789.6	\$825.9	\$825.9	Costs and expenses:	Cost of services	239.6	266.3	266.3	478.9	513.4	513.4	Selling, general and administrative	127.9	120.2	120.2	251.9	246.2	246.2	Interest expense, net	10.5	11.9	19.9	21.1	24.0	40.0	Amortization of intangible assets	6.0	7.0	10.7	12.0	14.1	21.5	Provision for restructuring and other special charges	--	46.0	46.0	--	67.9	46.0							
Write-down of intangible assets	--	--	--	445.0	--	Other, net	1.1	(1.1)	(1.1)	0.9	(2.1)	(2.1)	Total	385.1	450.3	462.0	764.8	1,308.5	865.0	Income (loss) before taxes	16.4	(25.8)	(37.5)	24.8	(482.6)	(39.1)	Income tax expense (benefit)	8.3	1.8	0.4	12.7	(0.3)	0.3	Net income (loss)	\$ 8.1	\$(27.6)	\$(37.9)	\$ 12.1	\$(482.3)	\$(39.4)	Net income per common share	\$ 0.28	--	\$ 0.42	--	Weighted

average common shares outstanding 29.1 28.8 29.0 28.8 **Net income before restructuring and other special charges and write-down of intangible assets** \$ 8.1 \$ 9.3 \$ 12.1 \$ 14.5 **Net income per common share before restructuring and other special charges and write-down of intangible assets** \$ 0.28 \$0.32 \$ 0.42 \$ 0.50

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 statement of operations includes 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.