Quest Diagnostics Announces Fourth Quarter and Full Year 1996 Results

January 27, 1997

TETERBORO, N.J., JAN. 27, 1997-- Quest Diagnostics Incorporated (NYSE:DGX) today announced that for the fiscal year ended December 31, 1996, pro forma net income before special charges was $15.6 million, or $0.54 per share, on revenues of $1.6 billion. For the fourth quarter, the company posted a pro forma net loss before special charges of $1.3 million, or $0.05 per share, on revenues of $385.0 million. On December 31, 1996, Quest Diagnostics had 28.8 million common shares outstanding.

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 pro forma results present the company's financial performance as if the spinoff had occurred on January 1, 1996. Pro forma results reflect significantly reduced annual interest and amortization expense, compared to historical results.

"Our turnaround is on track," said Kenneth W. Freeman, chairman and chief executive officer. "As we launch Quest Diagnostics, we have a solid capital structure and our operating income is in line with our expectations. We are encouraged by price stability in our business. We will continue our rigorous efforts to take pricing action on unprofitable business. Meanwhile, we continue our focus on standardization of our operations and increasing profitable volume while keeping patient health at the core of everything we do."

As previously disclosed, at the time of the spinoff, Quest Diagnostics adopted a change in accounting policy for valuing intangible assets. This new policy, which presents intangible assets at their estimated fair value, resulted in a non-cash charge against earnings of $445.0 million in the fourth quarter. On a pro forma basis, this charge reduced annual amortization expense for 1996 from $41.6 million to $27.0 million.

In addition, on the spinoff date, the Company recorded a special, non-recurring charge of $21.9 million. The charge covered the cost of funding an employee stock ownership plan and other one-time expenses associated with becoming a public company. As disclosed earlier, during the second and third quarters of 1996 Quest Diagnostics recorded special non-recurring charges totaling $201.7 million which primarily included settlements and reserves for completed and ongoing government investigations and related claims.

Including the effect of special non-recurring charges and the accounting policy change, the company reported actual net losses of $626.0 million for the full year and $467.1 million for the fourth quarter. Revenues were $1.6 billion for the full year and $385.0 million for the quarter. In 1995, the company posted an actual net loss of $52.1 million on revenues of $1.6 billion. For the fourth quarter of 1995, the actual net loss totaled $14.0 million on revenues of $389.9 million.

The company said it is encouraged that prices for laboratory tests were stable over the course of the year, compared to 1995, when prices declined steadily. Requisition volume was essentially flat for the full year 1996 as compared to 1995, but declined approximately one per cent in the fourth quarter compared with the same period a year ago. Contributing to the volume decline were the disposition of certain small non-strategic businesses and management's decision to take action on certain unprofitable relationships.

Bad debt expense -- caused primarily by missing or incorrect billing information on requisitions, which creates billing backlogs and slows the collection of accounts receivable -- stabilized in the fourth quarter. In part, this stabilization resulted from management's aggressive actions to deal with new Medicare medical necessity documentation requirements imposed over the course of the year. Bad debt expense had trended higher in the third quarter due to increased billing backlogs resulting from the new regulations, which also had the effect of adding costs to collect and process the additional information.

Quest Diagnostics is one of the leading clinical testing laboratories in the world. With 17 regional labs and 14 smaller branch labs across the country, Quest Diagnostics processes and provides data on approximately 60 million requisitions for specimens annually. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor diseases and disease states. In addition, Quest Diagnostics conducts research through its Nichols Institute unit, which produces test kits and specializes in esoteric testing using genetic screening and other advanced technologies.

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Statements of Operations

For the Quarters and Years Ended December 31,1996 and December 31, 1995

In millions
(except share and per share data)

	Year Ended December 31			Quarter Ended December 31		
	Pro Forma		Historical	Pro Forma		Historical
	1996	1996	1995	1996	1996	1995
Net revenues:	$1,616.3	$1,616.3	$1,629.4	$ 385.0	$ 385.0	$ 389.9
Costs and expenses:						
Cost of services	1,010.9	1,010.9	980.2	242.1	242.1	244.2

Selling, general and administrative	495.3	495.3	523.3	123.9	123.9	123.6
Interest expense, net	47.1	74.9	82.0	11.3	15.0	20.5
Amortization of intangible assets	27.0	41.6	44.7	6.2	9.8	11.0
Provision for restructuring and other special charges	223.6	223.6	50.6	--	21.9	4.7
Write-down of intangible assets	445.0	445.0	--	--	445.0	--
Other, net	1.2	1.2	6.2	1.4	1.4	1.8
Total	2,250.1	2,292.5	1,687.0	384.9	859.1	405.8
(Loss) income before taxes	(633.8)	(676.2)	(57.6)	0.1	(474.1)	(15.9)
Income tax (benefit) expense	(39.3)	(50.2)	(5.5)	1.4	(7.0)	(1.9)
Net Loss	$ (594.5)	$ (626.0)	$ (52.1)	$ (1.3)	$ (467.1)	$ (14.0)
Pro forma common shares outstanding	28	822	366	28	822	366
Net income (loss) before restructuring and other special charges and write-down of intangible assets	$ 15.6	$ (15.9)	$ (19.2)	$ (1.3)	$ (7.2)	$ (11.2)
Net income (loss) per common share before restructuring and other special charges and write-down of intangible assets	$ 0.54			$ (0.05)		

Notes to consolidated statements of operations:

(1) 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 restate the Company's historical results. Such adjustments consist of reductions to interest and amortization expense. The annual amortization expense reduction reflected in the pro forma statements of operations differs from that initially estimated in previous information releases as a result of finalizing the amount and specific components of the intangible asset write-down.

(2) Historical earnings per share is not meaningful as the Company's historical capital structure is not comparable to the capital structure subsequent to its spin-off from Corning Incorporated. Pro forma earnings per share were calculated by reducing net income for preferred stock dividends of $0.1 million 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.