



Quest Diagnostics
Incorporated

1996
Annual Report

Answers.



This has been a truly historic year for Quest Diagnostics Incorporated.

In the space of twelve months, we have launched a new company with a new name, a focused strategy, a clear mission and a compelling vision of our essential role in providing answers for health care: answers for patients, answers for partners, answers for better health care decisions.

We are excited about Quest Diagnostics and the opportunities which it presents. The model for driving the successful turnaround of our company starts with our employees. Satisfied employees will yield satisfied customers, which in turn, will yield satisfied shareholders. We are creating a culture that focuses on our customers as our number one priority. We believe this is the fundamental way to create shareholder value.



Last year at this time, we were Corning Clinical Laboratories and Corning Nichols Institute, units of Corning Incorporated's health services businesses. In the spring of 1996, Corning's Board of Directors decided to spin off our business and our sister operation, Corning Pharmaceutical Services, which has been renamed Covance Inc., as two separate, completely independent publicly-owned companies. We selected our new name: Quest Diagnostics Incorporated and each Corning shareholder received one share of Quest Diagnostics for every eight shares of Corning stock.

Today, Quest Diagnostics encompasses almost 18,000 employee-owners who, in the words of our corporate vision, are "Dedicated people improving the health of patients through unsurpassed diagnostic insights." Last year we processed approximately 60 million requests from more than 75,000 customers for testing and analysis of human fluids and tissues. Quest Diagnostics covers the entire gamut of laboratory testing, all the way from the bedside to highly esoteric specialized testing. At our 17 regional laboratories and 14 branch facilities across the U.S., the bulk of our activity is "routine" testing, including blood counts, Pap smears, pregnancy testing, cholesterol levels, AIDS-related tests, and substance abuse testing. In addition, our Nichols Institute is a leading provider of more complex "esoteric" testing, serving nearly a third of the nation's hospitals, performing comprehensive

immunoassay, cytogenetics and molecular diagnostic testing.

With annual revenues of just over \$1.6 billion, we are a leader in the independent laboratory testing industry. As we go about solidifying our leadership, we remain committed to the proposition that the patient comes first in everything we do. We carefully chose the name "Quest Diagnostics" to signify our dedication to the continuing pursuit of unexcelled quality in our core testing and our relentless search for new knowledge and medical insights. Our new name is closely linked with a new set of values to which our people aspire: Quality, Integrity, Innovation, Accountability, Collaboration, and Leadership.

The Spin-Off

In a business environment increasingly marked by tougher competition and intense price pressure from government agencies and managed care systems, the spin-off from Corning offers the twin benefits of focus and flexibility. As an independent company operating in a turbulent industry, management is now in a stronger position to act swiftly and aggressively to meet the challenges and seize upon new opportunities.

Throughout the spin-off process, Corning lived up to its promise to launch our new company on solid financial footing. Corning, in essence, forgave more than \$700 million of debt attributable to the laboratory testing business. We worked

together to reach agreement with the Department of Justice to settle outstanding charges relating to the business practices of Damon Corporation that predated Corning's acquisition of Damon in 1993. The charges were settled for \$119 million, for which we were fully reimbursed by Corning. We made great progress in resolving outstanding government legal issues prior to the spin-off, and Corning is committed to reimburse us for any settlement costs arising from the few outstanding identified governmental issues that remain.

In the course of the spin-off, our company also took a \$445 million write-down for goodwill, an accounting adjustment to value our laboratory assets at estimated fair market value rather than their amortized acquisition price. This special charge has no impact on the company's cash position or our overall financial strength.

1996 In Review

The past year was one of dramatic changes and significant progress.

After nearly a decade of unabated growth, the company experienced a period of near free-fall in 1994 and 1995. In 1996, we moved to stabilize the business. The decline has slowed, and we have stabilized; now at the midpoint of our turnaround, our goal is to increase profitability in the face of intense market pressure.

We froze acquisition activity. Following a period in which the company had nearly doubled its size, we

turned our attention to integrating our diverse operations.

We implemented a “Focus” process that identified critical success factors and began putting into place systems and processes marked by rigorous attention to quality management.

We renewed our commitment to full compliance with all regulatory requirements, and the Department of Health and Human Services cited our corporate compliance program as “a model for the industry.”

We launched a major assault on our historic problem of bad debt expense, which stems from a combination of non-standardized billing practices and increasingly complex payor requirements. For the year, our bad debt expense averaged 6.9% of sales, down from 9.4% in 1995. While we have made significant progress, much work remains in order to meet our goal of reducing bad debt expense to 4% of sales by 2000.

We began to develop a systematic process for weeding out unprofitable accounts, disciplining ourselves to begin terminating high volume contracts that fail to provide a sufficient return for the services we provide.

We intensified our emphasis on innovation, developing more than 120 new test assays in our research and development facilities at Nichols Institute.

We developed a clear, three-pronged strategy:

- To be the best supplier of the highest quality and lowest cost diagnostic testing, information and services;
- To be the preferred partner with large buyers of health care services; and
- To be the leading innovator for diagnostic testing, information and services.

Each component of the strategy is described in detail later in this report.

We undertook a strategic review of our business, market by market. We believe that health care remains primarily a regional business. In ten of our seventeen regions we are the market leader. We determined that in those regions where we are not a strong competitor, we will act aggressively to fix our operations, dispose of them, or seek creative ways to secure competitive leadership.

We installed a strong management team, combining experienced Corning executives with seasoned veterans from other health care companies.

We restructured the organization of our company for the first time in more than ten years to align our operations with our new strategy and assigned clear accountability for meeting the objectives essential to the success of the strategy.

We accomplished all of this, and at the same time, took our company public.

Looking Ahead

We began 1997 with the installation of our new Board of Directors, an experienced and diverse group of outstanding leaders from the worlds of business, technology, and government.

Our primary goal in the new year is to pursue the “highest quality and lowest cost” component of our strategy through standardization of business processes and information technology, including company-wide implementation of best practices that already exist inside Quest Diagnostics. To scale the opportunity, the approximate average cost of processing each requisition ranged last year from \$17 at our most efficient lab to a high of \$30. Our goal is to reduce our current average cost per requisition of approximately \$25 by about \$3 by the year 2000. The potential payoff is substantial. Each \$1 we shave from the average cost produces approximately \$60 million in operating profit.

We are standardizing our approach to managing our customer accounts, striving to better align our pricing with the value of the services we provide. Historically, our industry, and our company believed that incremental volume, at virtually any price, would generate good returns. Reality has taught us an important lesson in this regard.

(front)

Kenneth W. Freeman,
Chairman and
Chief Executive Officer;

(back left to right)

Dr. Gregory C. Critchfield,
Senior Vice President and
Chief Medical and
Science Officer;

Don M. Hardison Jr.,
Senior Vice President
Sales and Marketing;

Douglas M. VanOort,
Senior Vice President
Operations.



At the same time, we are moving aggressively to team up with strong partners in selected regions across the country. An early example is the developing relationship with the world-renowned University of Pittsburgh Medical Center to explore close collaboration in four areas: lab testing, anatomic pathology, molecular diagnostic testing, and medical information systems. Similar relationships are in varying stages of development in other markets.

Finally, we see promising developments in the area of scientific innovation. We have just received U.S. Food and Drug Administration approval for the Nichols Advantage™ system, a state-of-the-art automated medical testing analyzer that will be shipped to customers starting later this year. And, we see significant opportunities at Quest Informatics, a business that draws upon our rich store of medical data to create medical knowledge essential for more effective disease management.

Our Challenges

Our challenges are clear: to standardize the operations, processes and systems of our multitude of laboratory facilities and support services; to convert unprofitable customer accounts into profitable ones by better matching our prices and the services we

provide each client; to focus our business on markets where we are – or can become – the market leader; and to reestablish our role as the industry's leading innovator.

We have stabilized our business. In 1997 we expect to maintain marginal profitability. Going forward, as the benefits of our current efforts across Quest Diagnostics begin translating into results, we anticipate accelerated earnings growth.

None of this will be easy. Many of our efforts have just begun, and we fully understand the considerable obstacles that lie before us. Nevertheless, we

look to the future with pride in our accomplishments, confidence in the capabilities of our people, and excitement about the opportunities that lie within our grasp.

We hope you will join us in the turnaround of Quest Diagnostics!

Kenneth W. Freeman
Chairman and
Chief Executive Officer

We will be the
highest quality,
lowest cost
provider of
diagnostic testing,
information
and services.

Answers for Patients



Our Business

The first element in our three pronged strategy is to be the best supplier of diagnostic testing, information and services.

In the delivery of health care, virtually nothing happens without diagnostic test results. Clinical laboratory testing provides answers for caregivers that lead to better decisions for patient care.

Providing these answers is a complex logistical undertaking. It starts with one of our more than 75,000 doctor-clients completing a patient requisition for testing, and preparing the specimen or sending the patient to one of our 850 patient service centers around the country to have blood drawn by one of our phlebotomists. The specimens are then retrieved by our network of professional couriers and delivered to one of our 17 regional laboratories, 14 smaller branch labs, approximately 200 rapid-turnaround STAT labs around the country, or our center for specialty testing, Nichols Institute.

Our labs generally process the specimens overnight. Unique bar-coded identification numbers are assigned to each requisition, and specimens are sent to the appropriate departments to have tests performed for most routine blood and urine tests. Doctors receive results for most tests the next morning electronically or reports are delivered by our couriers. If testing reveals a life-threatening result, the doctor is notified immedi-

ately. Some tests that rely on growing cultures, tissue analysis or esoteric tests that require amplifying genes can take longer to complete.

In 1996, we processed approximately 60 million requisitions for testing. After we provide the test results, we produce invoices and begin a complex process to get paid for our services. Payors include patients, doctors, indemnity insurance companies, managed care companies, hospitals, clinics, employers and government payors such as Medicaid and Medicare.

Our History

Dr. Paul Brown founded MetPath Inc. in 1967 in New York City, with a new concept for highly automated, high quality and low cost testing. MetPath quickly grew to become the leading independent testing lab in the New York area. Corning Incorporated purchased MetPath in 1982 and, in ensuing years, grew the business primarily through acquisitions. Revenues tripled between 1991 and 1995 as Corning led the wave of consolidation that radically reshaped our industry.

Acquisitions brought us growth, purchasing power and national marketing clout. However, they also left us with a collection of highly autonomous laboratories which varied widely in the quality of their processes, the cost of the testing they performed and their management approaches.

Highest Quality and Lowest Cost

Today, our highest quality laboratories also are our lowest cost labs.

There is a cost difference of approximately \$13 per requisition between our most efficient and least efficient labs. Our attention is focused on making operations consistent across the company by implementing best practices in all our facilities.

Labs with leading regional market share are typically our most profitable and generate cash. Yet several labs with weak market positions are unprofitable and consume cash. We are working hard to quickly return these labs to profitability. We are also considering several strategic actions including selling labs, swapping labs with competitors, or forming joint ventures with other lab providers to establish stronger market position.

Billing

In our business, billing and getting paid for testing has become more difficult than performing the testing itself. Billing was established as a separate corporate function late in 1995 in response to the emergence of serious billing issues. We measure the health of billing ultimately by the amount of bad debt expense we incur. Bad debt refers to tests we perform but don't get paid for because of missing or incorrect billing information or, simply, non-payment. During 1995, bad debt expense rose to 9.4% of total revenues.

We are now taking aggressive actions to gain better control of our billing process. We have focused our efforts on standardizing our process to produce a claim or bill on a more timely

basis. We have also selected a standard software program called SYS as our billing system of choice for the company.

Bad debt expense declined to 6.9% of revenues in 1996 as a result of treating billing as a process with equal importance to testing and reporting results. Despite the improvement, we feel significant pressures due to rapidly changing reimbursement requirements. The most difficult recently imposed requirements make us responsible for the physician to document the medical necessity of certain tests being ordered. If the physician orders a test but doesn't include this information, then we perform the test but don't get paid.

Standardization—An Example

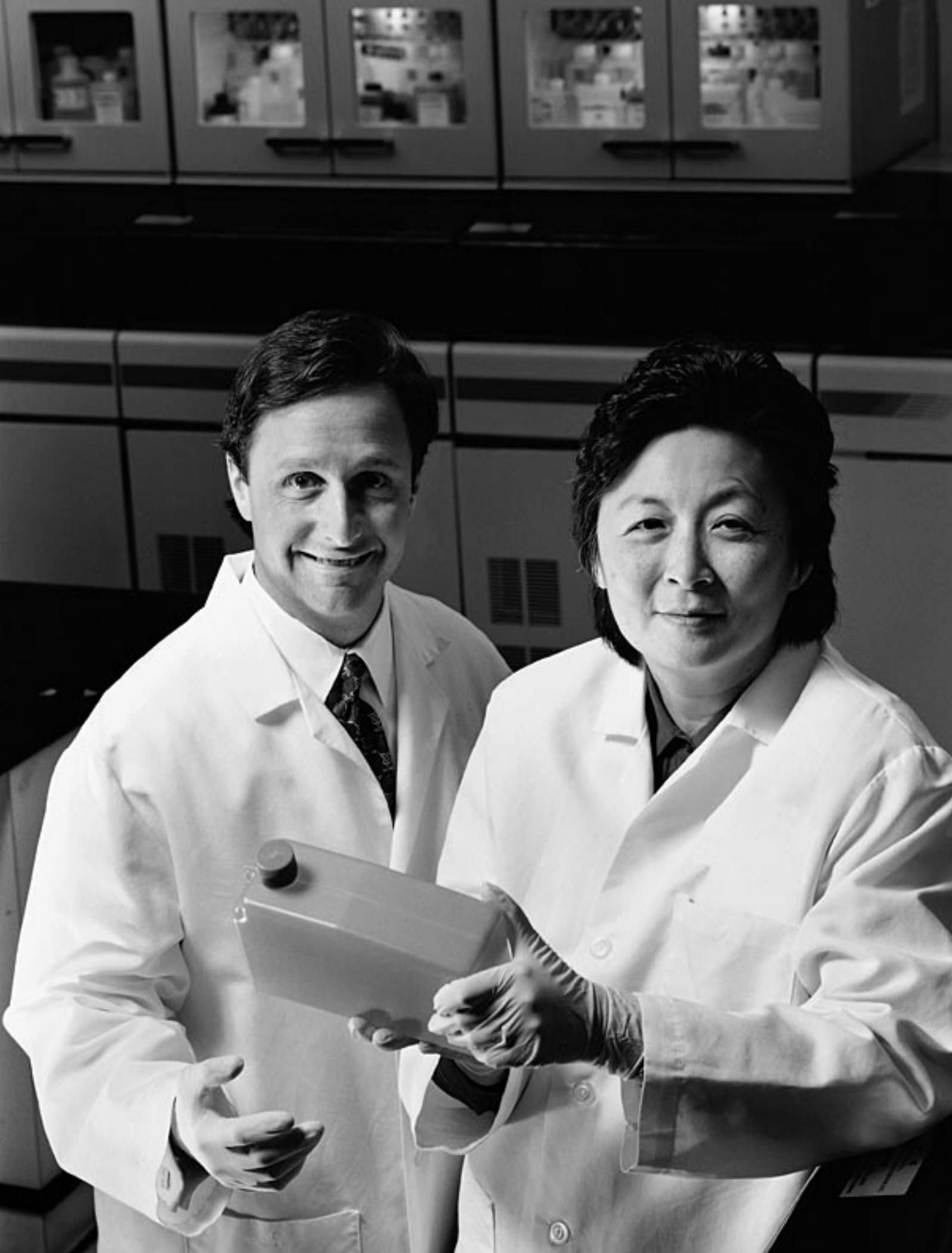
Let's look at how we standardized on a new technology for handling an important blood test that measures "good cholesterol" or high density lipoprotein (HDL) cholesterol. This test currently requires several labor-intensive steps. First, a laboratory technologist takes the specimen and pipettes some serum into a separate test tube. Then the technologist adds a chemical, or reagent, and spins the tube on a centrifuge to separate the mixture into serum with and without HDL. Finally, the tube containing the

serum with HDL is loaded into a chemical analyzer. The whole process takes about 45 minutes.

Early last year, a doctor on our medical staff approached a supplier, Genzyme Diagnostics, which was working on a new reagent that could greatly simplify the HDL testing process. Instead of having to centrifuge the specimen, the Genzyme reagent would be added to the original serum specimen and placed directly on a high-throughput chemistry analyzer. The new process, referred to as homogeneous HDL, takes eight minutes. Our Chemistry Test Method Advisory Group evaluated the new process and quickly recognized that it would produce quality and process improvements as well as cost reductions through labor savings. The Chemistry Group adopted the process and led a phased roll-out to all of our regional laboratories.

Our company was the first commercial laboratory in the country to offer routine HDL cholesterol testing back in 1977, so it's fitting that 20 years later, Quest Diagnostics is the first commercial laboratory to offer an improved homogeneous, or direct, HDL test.

Quest Diagnostics is the first lab in the country to offer a direct HDL cholesterol test, thanks to an innovative partnership with reagent supplier Genzyme Diagnostics. Here, Bernadette Chin, who coordinated our Chemistry Test Method Advisory Group, is pictured with Genzyme's Peter Cooke.



We will be
the preferred
partner with
large buyers
of health care
services.

Answers for Partners



It isn't enough for us to be the highest quality, lowest cost provider of diagnostic testing, information and services. To survive in the rapidly changing world of health care, we must work collaboratively to become the preferred partner with large health care customers. The data we generate in the course of performing tens of millions of routine tests is the raw material for knowledge that can provide answers to managed care companies interested in learning more about the health of their growing patient populations. In addition, our experience in running high volume, high quality labs lets us offer answers to the rapidly emerging hospital and physician networks that are looking for ways to boost both the quality and efficiency of the care they provide.

Hospital Networks...

A Major Opportunity

Hospitals account for more than half of the \$30 billion laboratory testing market in the U.S. Yet numerous analyses show that hospital lab costs are, on average, significantly higher than our costs. We can help hospitals in several ways, including: managing their inpatient labs for a fee and reducing costs; providing leading edge specialty testing through Nichols Institute; and also by partnering to provide high quality, low cost routine testing for outpatients. Each relationship is unique and requires nurturing.

A Successful Partnership—

Erie, Pennsylvania

We are helping hospitals in western Pennsylvania run their labs more effi-

ciently. Ten years ago, two competing not-for-profit hospitals in Erie, Pennsylvania—Hamot Health Foundation and Saint Vincent Health Center—tried combining their labs, without success. They approached us with the idea of partnering to jointly improve the quality, service and access of testing, and reduce the cost. We took over management of the jointly-owned hospital lab, which handled inpatient testing, and also set up a separate commercial laboratory, Associated Clinical Laboratories (ACL), to do outpatient testing.

Over the years, some of the structure of the partnership in Erie has changed. But one thing that hasn't changed is the value of the partnership. The hospitals have seen an improvement in quality while their costs have declined. The average lab cost per patient admission at 571 urban acute care hospitals across the U.S. is \$435; in Erie, it's now down to \$343.

The most compelling evidence of our success in Erie is that the partnership is growing. During 1996, an additional 17 hospitals in northwestern Pennsylvania and southwestern New York joined the Hamot-Saint Vincent inpatient lab cooperative and will form several additional regional hub labs. We expect to manage these labs for a fee, as we do at the Hamot-Saint Vincent inpatient lab.

In Lincoln, Nebraska, and Sioux City, Iowa, Quest Diagnostics has a management contract to manage inpatient and outreach labs for 25 hospitals. In December we signed a letter

of intent with University of Pittsburgh Medical Center to jointly pursue opportunities in routine lab testing, medical informatics, anatomic pathology and molecular diagnostics research.

In coming months we hope to announce close affiliations with integrated hospital-based delivery systems, large physician groups, managed care companies, and group purchasing organizations. We have completed regional marketing strategies across the U.S. In each market we have identified the providers we expect will be the likely winners in a consolidating health care world. We have put together business plans that map out how we can join forces with these leaders to optimize the delivery of health care within the community. We are aggressively working to implement these plans.

Providing Value

Improving the profitability of each of our 75,000 accounts is a key focus and a major challenge. With the strong growth of managed care over the past few years, our industry engaged in fierce price competition, which proved damaging. At the moment, we believe we lose money on the majority of our managed care and many physician accounts. We are currently evaluating the profitability of each of our accounts, and intend to ensure that we provide outstanding value to the client in return for a price that yields an appropriate profit for Quest Diagnostics.

To be properly compensated for the high level of service we are expect-

ed to provide, we are selectively renegotiating our relationships. In New England, for example, we were asked by a large managed care organization to provide services under a national contract that was priced below our cost. Because physicians in the region are familiar with our high level of service and quality, we were able to successfully renegotiate the contract away from a capitated rate, or one in which we were paid a fixed monthly fee per member of the plan, to a fee-for-service arrangement at a rate that ensured the contract would be both profitable to us and valuable to our customer.

On the West Coast, we approached a major third party payor about raising its reimbursement levels for the Pap smear, a labor-intensive cervical cancer screen for women that is performed by highly trained cytotechnologists.

Our people went back to the third party payor and presented our numbers, which showed we were being paid for Pap smears at a rate well below our cost. Based on our analysis, the payor acknowledged the fairness of our position and more than doubled the reimbursement rate on Pap smears.

Part of the problem we have had with pricing is that our employees' interests haven't always been aligned with the company's long-term interests. Compensation for our sales representatives was based solely on new sales volume, not profitability. That's now changing. We are designing the pro-

grams and underlying systems that will enable us to pay our sales organization based on profitability, and have pilot programs in certain locations this year.

Turning Data Into Information

The massive amounts of data generated by our testing processes represent a valuable database resource for health care companies. Our two year old venture called Quest Informatics turns our testing data into information and supplies it to large health care buyers that use this knowledge to help them better manage their patients' disease states.

One managed care company on the East Coast uses this information to help it monitor and manage diabetic members who are employees of a single member company. Specifically, the managed care company requires test results every time one of their diabetic patients has a test performed at one of our labs. Searching through millions of records for a few hundred test results is an information technology challenge of the highest order. Quest Informatics designed a screening process and an electronic bridge connecting our mainframe computers to the managed care client. Whenever a diabetic employee is tested and the result is within a specified range, the results are transmitted electronically to a disease manager who specializes in diabetes. Now, the managed care company can target its resources for educating patients on diabetes to the individuals who need it most and then closely monitor their

progress. Research shows that rigorous monitoring of diabetes patients can prevent complications later on and save money for the managed care provider. Quest Informatics receives a transaction fee each time a result is sent over its electronic bridge.

We recently expanded our decade-long laboratory partnership with the two leading hospitals in Erie, Pa., to cover an additional 17 hospitals in the region. Here, Sister Catherine Manning, President of Saint Vincent Health Center (*second from left*) and John Malone, President of Hamot Health Foundation (*second from right*), meet with Tony Geramita of Quest Diagnostics and Karen Case of Associated Clinical Laboratories.



We will be the
leading innovator
for diagnostic
testing, information
and services.

Answers for Better Health Care Decisions



As a diagnostic information company, we provide answers to physicians, health care organizations, hospitals, labs, and patients to help drive better decisions. We are constantly searching for new knowledge to improve those answers. We will provide answers for better health care decisions by developing new tests, services and information products, and by continually improving our offerings.

A Competitive Edge: Nichols Institute

Often, routine testing won't provide adequate answers. The scientists and medical directors at Nichols Institute in San Juan Capistrano, California have the ability to get at these difficult questions through highly specialized esoteric tests and high quality databases that give meaning to the results. In many cases, the specialty tests performed at Nichols Institute rely on ultra-sensitive gene sequencing, cell scanning, and biochemical technologies which allow for the detection of minute traces of a virus or mutation via amplification of the cell or gene.

Nichols Institute performs these tests for a range of labs that are run by hospitals, doctors and even our major competitors—in addition to specimens sent by our own regional facilities. Over half of Nichols Institute's

volume comes from outside the Quest Diagnostics laboratory network.

Nichols Institute was founded in 1971 by Dr. Albert Nichols and a handful of fellow endocrinologists and internists with the mission of identifying new endocrine tests, which detect levels of specified hormones. Over the years, Nichols Institute has been a significant contributor to knowledge in the diagnostic testing world and has played a major role in transferring academic research to the commercial marketplace. Among its innovations: development of the definitive reference method accepted the world over for measuring free thyroid hormone, and the development of new tests to detect the response to treatment for HIV.

Access to Leading Researchers

Dr. Nichols aimed to commercialize leading academic research. To do this he created an Academic Associates Program to enlist as advisors individuals in academic institutions throughout the world who are recognized as leaders in the application of new technologies to clinical medicine. Today, we carry the tradition forward with 57 Academic Associates who help us target areas of development in our innovation process, develop new tests and consult with our clients.

As more discovery and innovation has begun to emerge from private research firms, we also have established partnerships with many of the leading biotechnology firms in the world. This gives us access to new technologies as they are being developed, which helps us make them available to our customers earlier. For example, we helped pioneer viral load HIV testing to detect small amounts of the HIV virus. The tests are performed using two types of genetic testing: polymerase chain reaction (PCR) as well as the newer branched DNA technologies. Through our work with Roche Molecular Systems for PCR and Chiron Corp. for branched DNA, we have worked on streamlining and improving the tests before they were approved by the U.S. Food and Drug Administration. They are now commercially available.

The Promise of Genetic Testing

Nichols Institute is working actively to commercialize several promising gene sequencing tests. We are one of the first labs to offer a test for the Ret gene, which is implicated in a syndrome of inherited malignancy. We are working actively with our Academic Associates to study the value of a test for p53, another gene whose mutation has been connected to cancer.

Last year Nichols Institute established a Molecular Microbiology Department, affording new reference laboratory capabilities in all areas of infectious disease – including classical microbiology and virology, molecular microbiology, serology, and immunology. Today, Nichols Institute also leads the way in immunoassay methods for measurement of circulating hormone levels and sensitive tests to help doctors in breast cancer prognosis. Recent developments also include the validation of blood serum tumor marker assays to detect breast, bladder, prostate, lung, pancreas, liver and colorectal cancers, sequencing of the p53 gene, comprehensive prenatal molecular biology testing utilizing Fluorescence in Situ Hybridization (FISH) technology, and the detection of abnormal pregnancies using chromosome studies.

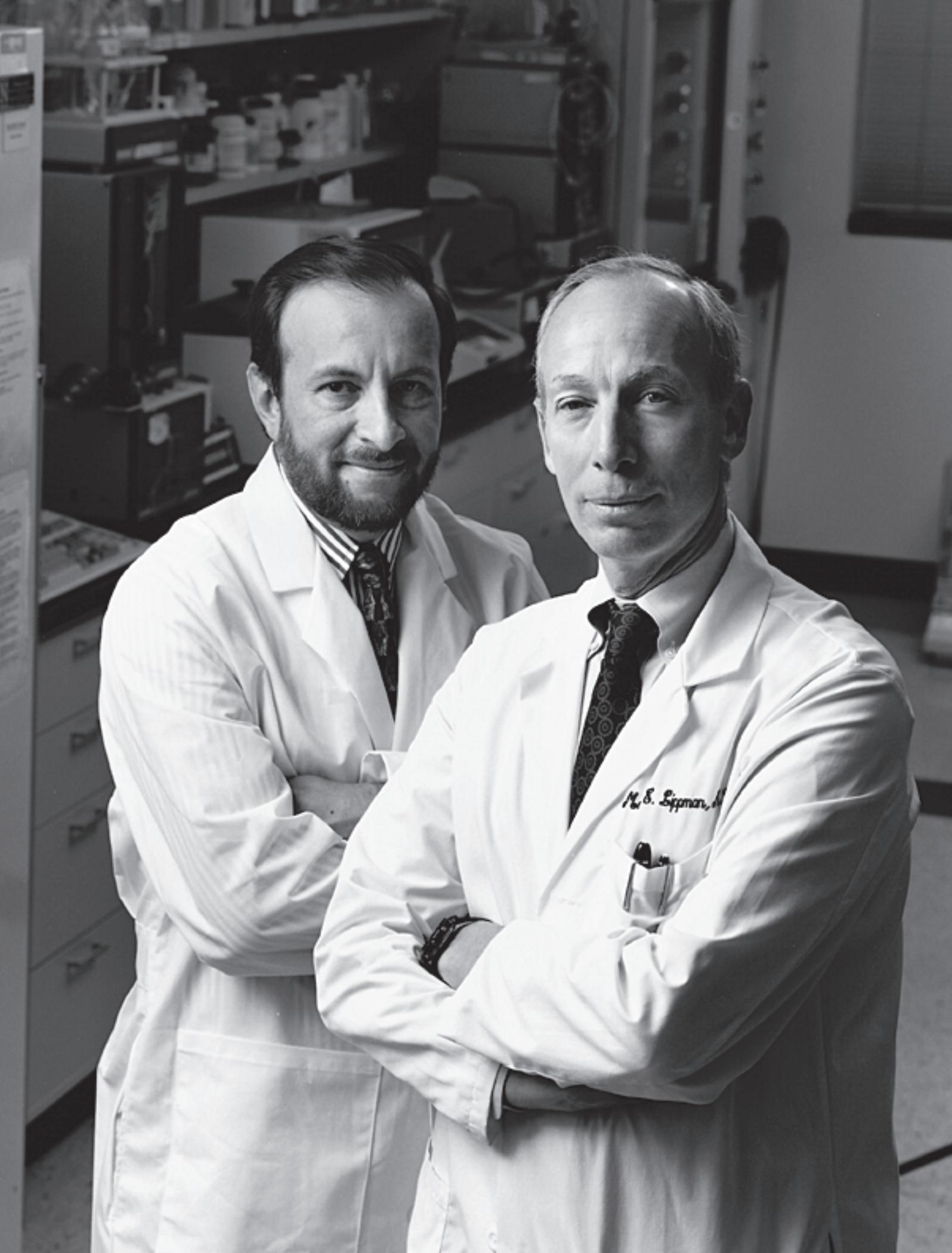
Nichols Institute Diagnostics

Through Nichols Institute Diagnostics, we are bringing new levels of detection technology to physicians, hospitals, clinics and commercial laboratories. Nichols Institute Diagnostics brings on-site access to

specialty testing methods through the development, manufacture and marketing of diagnostic test kits and diagnostic testing systems. We currently distribute test kits to over 35 countries around the world through an international network of wholly-owned subsidiaries and distributors. We introduced the world's first and only non-invasive chemiluminescence intra-operative parathyroid hormone assay with FDA clearance, allowing surgeons to accurately localize hard-to-find tissue during surgery for quantitative hormone assessment. Later this year we will begin shipping a new state-of-the-art product, the Nichols Advantage™ analyzer, which economically provides a highly automated and very high quality specialized testing capability.

From the new products we develop at Nichols Institute Diagnostics to the important job our Academic Associates perform in helping us transfer academic research to the commercial marketplace, we are working hard to provide answers for better health care decisions.

Our 57 Academic Associates in leading research institutions around the world help us translate the latest medical discoveries into clinical applications for our laboratories. Jorge Leon, Ph.D., Director of Biotechnology Research & Development at Quest Diagnostics Nichols Institute, is working closely with renowned breast cancer specialist Dr. Marc Lippman, Director of the Vincent T. Lombardi Cancer Research Center at the Georgetown University Medical Center, to develop new tests to help doctors select more effective therapies for breast cancer patients.



M. S. Lippman, M.D.



Kim Fatovich
Client Services



Steve Kovach
Logistics



Gina Talmadge
Phlebotomy



Gladys Cuezas
Auto Chemistry Lab

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Teterboro, NJ

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President, Network Systems
and Bell Laboratories
Lucent Technologies Incorporated
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Gail R. Wilensky, Ph.D.

Senior Fellow
Project HOPE
Bethesda, MD

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Raymond C. Marier

Vice President and
General Counsel

C. Kim McCarthy

Vice President
Compliance and Government Affairs

Alister W. Reynolds

Vice President
Strategic Planning

Major Facilities

Regional Laboratories

Auburn Hills, Michigan
Baltimore, Maryland
Cambridge, Massachusetts
Denver, Colorado
Horsham, Pennsylvania
Irving, Texas
Lincoln, Nebraska
Phoenix, Arizona
Pittsburgh, Pennsylvania
Portland, Oregon
St. Louis, Missouri
San Diego, California
Smyrna, Georgia
Tampa, Florida
Teterboro, New Jersey
Wallingford, Connecticut
Wood Dale, Illinois

Nichols Institute

San Juan Capistrano, California

Associated Clinical Laboratories

Erie, Pennsylvania
(54% owned by Quest Diagnostics)

Corporate Profile

Quest Diagnostics Incorporated 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 annually on approximately 60 million requisitions for testing. 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 specializes in esoteric testing using genetic screening and other advanced technologies, and produces test kits.

Corporate Headquarters

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Additional Information

Investment analysts who need additional information may contact: Investor Relations, Quest Diagnostics Incorporated, One Malcolm Avenue, Teterboro, New Jersey 07608. Shareholders may call the toll-free Quest Diagnostics News and Information Line at 888-DGX-0002.

Form 10-K

A copy of the Quest Diagnostics 1996 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is contained in this Annual Report, starting after page 21.

Additional copies are available upon written request to:

Investor Relations
Quest Diagnostics Incorporated
One Malcolm Avenue
Teterboro, New Jersey 07608.

Common Stock

Shares of Quest Diagnostics Incorporated common stock (ticker symbol: "DGX") are listed on the New York Stock Exchange and also trade on the Stuttgart (Germany) Stock Exchange. Options on Quest Diagnostics shares are traded on the Chicago Board Options Exchange.

Transfer Agent and Registrar

[No dividends have been declared on common stock]

Harris Trust and Savings Bank
Shareholder Services Division
P.O. Box 755
Chicago, Illinois 60690-0755
Telephone: 800-255-0461

For the hearing impaired, Harris Bank has a Telecommunication Device for the Deaf (TDD) telephone. The listing is Harris Bank Hearing Impaired Telephone TDD 312-461-5633 or TDD 312-461-5637.

Change of Address

Report change of address to Harris Trust and Savings Bank at the above address.

Independent Accountants

Price Waterhouse LLP
1177 Avenue of the Americas
New York, New York 10036

'Safe Harbor' Statement under the Private Securities Litigation Reform Act of 1995

The statements in this Annual Report 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 on pages 21 and 22 of the 1996 Annual Report on Form 10-K contained in this Annual Report. These risks and uncertainties include heightened competition, impact of changes in payor mix, adverse actions by governmental and other third-party payors, the impact upon Quest Diagnostics' collection rates or general or administrative expenses resulting from compliance with Medicare administrative policies, adverse results from pending governmental investigations, reduction in tests ordered by existing customers, material increases in premiums for insurance coverage, denial of licensure, computer or other system failures, development of technologies that substantially alter the practice of medicine and changes in interest rates.

Compliance

Quest Diagnostics is committed to the highest ethical standards and complying with all applicable laws and regulations that govern its business operations, including those that apply to reimbursement for testing under the federal Medicare and Medicaid programs. Quest Diagnostics requires that all employees abide by these laws, rules and regulations and provides annual compliance training for all employees. Quest Diagnostics is committed to protecting the health and safety of its employees as well as the environmental resources of the communities in which it operates.

The Raymond Gambino Quality Award

The purpose of the Raymond Gambino Quality Award is to encourage and recognize quality excellence and best practices within Quest Diagnostics. The award is named for Quest Diagnostics' distinguished Chief Medical Officer Emeritus whose long career includes service as Director of Laboratories and Chief Pathologist at New York's St. Luke's-Roosevelt Hospital as well as a tenured professorship of pathology at Columbia University College of Physicians and Surgeons.

1996 Winners:

Grand Rapids, Michigan
Auburn Hills, Michigan
Wallingford, Connecticut

1996 Challengers:

Denver, Colorado
Wood Dale, Illinois

Trademarks

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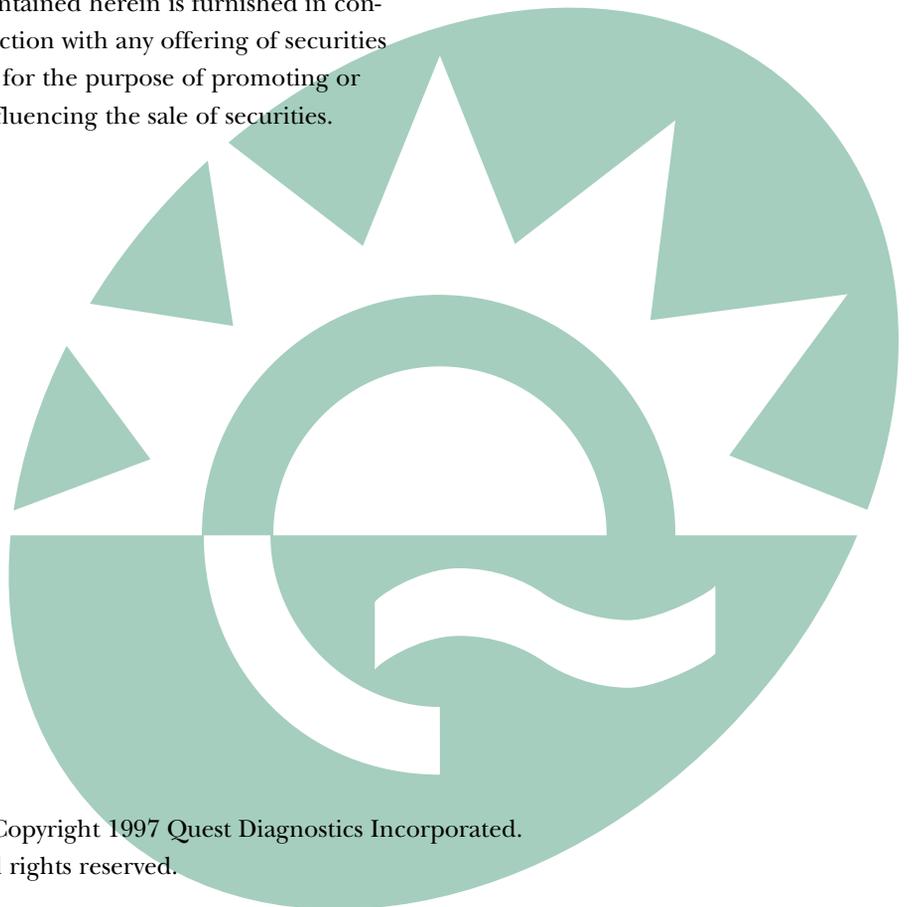
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FINANCIAL HIGHLIGHTS

<i>(in millions, except per share data)</i>	Y E A R S E N D E D D E C E M B E R 3 1			
	Pro Forma 1996 (a)	1996	1995	1994
Net revenues	\$ 1,616.3	\$ 1,616.3	\$ 1,629.4	\$ 1,633.7
Net income (loss) before restructuring and other non-recurring charges	15.6	(15.9)	(19.2)	82.3
Net income (loss) (b)	(594.5)	(626.0)	(52.1)	28.3
Weighted average common shares outstanding	28.8			
Earnings per common share before restructuring charges and other non-recurring charges (c)	\$ 0.54			
Adjusted EBITDA (d)	\$ 166.4	\$ 166.4	\$ 176.5	\$ 295.4

(a)

Assumes that the spin-off from Corning Incorporated had been completed and the change in accounting policy for intangible assets had been adopted as of January 1, 1996.

(b)

Includes non-recurring charges totaling \$669 million, \$51 million, and \$80 million in 1996, 1995, and 1994, respectively.

(c)

Historical earnings per share data 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.

(d)

Adjusted EBITDA represents income (loss) before income taxes, net interest expense, depreciation, amortization and restructuring and other non-recurring charges.

Quality

The patient comes first in everything we do. Our passion is to provide every patient and every customer with services and products of uncompromising quality — error free, on time, every time. We do that by dedicating ourselves to the relentless pursuit of excellence in the services we provide.

Integrity

Credibility is the key to our success; therefore, all of our processes, decisions and actions ultimately are driven by integrity. We are honest and forthright in all our dealings with our customers and with each other. We are responsible corporate citizens in the communities we serve. We strictly comply with the laws and regulations governing our business, not only as a legal obligation and a competitive necessity, but because it is the right thing to do.

Innovation

We constantly seek innovative ways to enhance patient care and provide value to our customers. We support the creativity, courage and persistence that transform information into knowledge, and knowledge into insights. We seek continuous advancement through the adaptation of existing knowledge as well as through experimentation, with the full understanding that we learn from our failures as well as our successes.

Accountability

As a company and as individuals, we accept full responsibility for our performance and acknowledge our accountability for the ultimate outcome of all that we do. We strive for continuous improvement, believing that competence, reliability, and rigorous adherence to process discipline are the keys to excellence.

Collaboration

We believe in teamwork and the limitless possibilities of collaborative energy. We achieve excellence by putting collective goals ahead of personal interests. We support and encourage open communication and meaningful cooperation among colleagues from varying backgrounds and disciplines. We respect individual differences, and we value diversity.

Leadership

We strive to be the best at what we do — both as a company, and as individuals. We embrace the qualities of personal leadership — courage, competence, confidence and a passion for surpassing expectations. We will provide growth opportunities for our employees, quality services and products to our customers and superior returns to our shareholders.





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