

QUEST DIAGNOSTICS INC
Form DEF 14A
April 02, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant T
Filed by a Party other than the Registrant £

Check the appropriate box:

- | | |
|---|---|
| <input type="checkbox"/> £ Preliminary Proxy Statement | <input type="checkbox"/> £ Confidential, for Use of the Commission Only |
| <input type="checkbox"/> T Definitive Proxy Statement | (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> £ Definitive Additional Materials | |
| <input type="checkbox"/> £ Soliciting Material Pursuant to § 240.14a-12 | |

Quest Diagnostics

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

- T No fee required.
- £ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transactions applies:

Edgar Filing: QUEST DIAGNOSTICS INC - Form DEF 14A

- (2) Aggregate number of securities to which transactions applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11(set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

£ Fee paid previously with preliminary materials.

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount previously paid:
 - (2) Form, schedule or registration statement no.:
 - (3) Filing party:
 - (4) Date filed:
-

Quest Diagnostics Incorporated
1290 Wall Street West
Lyndhurst, New Jersey 07071
(201) 393-5000

March 28, 2007

Dear Fellow Shareholder:

It is my pleasure to invite you to attend the 2007 Annual Meeting of Shareholders of Quest Diagnostics Incorporated. The meeting will be held at 10:30 a.m. EDT on Tuesday, May 8, 2007, at The Waldorf-Astoria, 301 Park Avenue, New York, New York.

Attendance at the meeting will be limited to shareholders of record at the close of business on March 12, 2007, or their duly appointed proxy holders (not to exceed one proxy per shareholder). If you plan to attend the meeting, please review, *How can I attend the annual meeting?* on page 3, for information about our admittance procedures.

At the meeting, you will vote on a number of important matters described in the attached proxy statement.

Your vote is very important. Whether you plan to attend the meeting or not, I urge you to vote your shares. Most shareholders have a choice of voting by signing and returning your proxy card or by voting by telephone or the Internet. Instructions on how to vote are included with your proxy card and these proxy materials.

Thank you for your continued support of Quest Diagnostics.

Sincerely,

Surya N. Mohapatra, Ph.D.
*Chairman, President and
Chief Executive Officer*

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

March 28, 2007

To the Shareholders of
Quest Diagnostics Incorporated:

Date: Tuesday, May 8, 2007

Time: 10:30 a.m. EDT

Place: The Waldorf-Astoria
301 Park Avenue
New York, New York 10022

Items of Business: Elect one class of directors for a three-year term;
Ratify the selection of our independent registered public accounting firm for 2007; and
Consider any other business properly brought before the meeting.

Record Date: March 12, 2007. Holders of Quest Diagnostics common stock of record at the close of
business on that date are entitled to vote at the meeting.

By order of the Board of Directors,

Leo C. Farrenkopf, Jr.
Corporate Secretary

**It is important that your shares be represented and voted
whether or not you plan to attend the meeting.**

YOU CAN VOTE BY PROXY IN ONE OF THREE WAYS:

**1. VIA THE
INTERNET:**

Visit
www.cesvote.com.

2. BY PHONE:

Call
1-888-693-8683.

3. BY MAIL:

**Promptly return
your signed and
dated proxy
card/voting form
in the enclosed**

**postage pre-paid
envelope.**

Table of Contents

	Page
<u>Information About Our 2007 Annual Meeting</u>	1
<u>Information About Shareholder Proposals and Nominations for Our 2008 Annual Meeting</u>	4
<u>Matters To Be Considered at the 2007 Annual Meeting</u>	5
<u>Proposal No. 1 Election of Directors</u>	5
<u>Proposal No. 2 Ratification of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for 2007</u>	7
<u>Information About Our Corporate Governance</u>	9
<u>Governance Practices</u>	9
<u>Independence of the Board of Directors</u>	9
<u>Shareholder Access and Rights</u>	9
<u>Board Nomination Process</u>	10
<u>Board Practices</u>	11
<u>Code of Business Ethics and Stock Ownership of Directors and Officers</u>	11
<u>Board Membership Changes Since Date of Last Annual Meeting</u>	12
<u>Board Committees</u>	12
<u>Audit and Finance Committee</u>	12
<u>Compensation Committee</u>	13
<u>Governance Committee</u>	13
<u>Quality, Safety & Compliance Committee</u>	14
<u>Executive Committee</u>	14
<u>Lead Independent Director</u>	15
<u>Director Independence</u>	15
<u>Related Person Transactions</u>	16
<u>Stock Ownership Information</u>	18
<u>Directors' Compensation</u>	19
<u>Compensation Discussion and Analysis</u>	21
<u>Executive Compensation Philosophy and Components</u>	21
<u>Establishing Executive Compensation</u>	21
<u>Role of Executive Officers and Compensation Committee in Compensation Process</u>	22
<u>Base Salary</u>	23
<u>Senior Management Incentive Plan (SMIP)</u>	23
<u>Employee Long-Term Incentive Plan (ELTIP)</u>	24
<u>Non-Qualified Stock Options</u>	24
<u>Performance Shares</u>	25
<u>Deferred Compensation</u>	26
<u>Supplemental Executive Retirement Plan (SERP)</u>	26
<u>Perquisites</u>	26
<u>Other Benefits</u>	27

<u>Impact of Accounting and Tax Treatments of Executive Compensation</u>	27
<u>Employment Agreements</u>	27
<u>Termination and Change in Control Arrangements</u>	28
<u>Executive Share Retention Guidelines and Hedging Policy</u>	28
<u>Report of the Compensation Committee</u>	29

	Page
<u>Additional Information Regarding Executive Compensation</u>	30
<u>Summary Compensation Table</u>	30
<u>Grants of Plan-Based Awards</u>	31
<u>Outstanding Equity Awards at 2006 Fiscal Year-End</u>	33
<u>Option Exercises and Stock Vested</u>	35
<u>Pension Benefits</u>	35
<u>Nonqualified Deferred Compensation</u>	36
<u>Potential Payments Upon Termination</u>	38
<u>Equity Compensation Plan Information</u>	43
<u>Employment Agreement</u>	43
<u>Compensation Committee Interlocks and Insider Participation</u>	44
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	44
<u>Report of the Audit and Finance Committee</u>	44
<u>Fees and Services of PricewaterhouseCoopers LLP</u>	46
<u>Audit and Finance Committee Pre-Approval Policies and Procedures</u>	46
<u>Additional Information</u>	46
<u>Appendix A Charter of the Audit and Finance Committee</u>	A-1

PROXY STATEMENT

QUEST DIAGNOSTICS INCORPORATED

**1290 Wall Street West
Lyndhurst, New Jersey 07071
(201) 393-5000**

INFORMATION ABOUT OUR 2007 ANNUAL MEETING

This proxy statement and form of proxy and voting instructions are being mailed, starting April 2, 2007.

Who is soliciting my vote?

The Board of Directors of Quest Diagnostics Incorporated, a Delaware corporation (Quest Diagnostics, the Company, we or our) is soliciting your vote for our 2007 annual meeting.

What will I vote on?

You are being asked to vote on:

the election
of three
directors for
a three-year
term; and

the
ratification
of the
selection of
our
independent
registered
public
accounting
firm for
2007.

What is the record date for the annual meeting?

The close of business on March 12, 2007 is the record date for determining those shareholders who are entitled to vote at the annual meeting and at any adjournment or postponement.

How many votes can be cast by all shareholders?

Holders of our common stock, par value \$0.01 per share, as of the close of business on the record date will be entitled to vote at the annual meeting of shareholders. On that date, there were 193,311,295 shares of our common stock outstanding, each of which is entitled to one vote for each matter to be voted on at the annual meeting. There is no cumulative voting.

How many votes must be present to hold the annual meeting?

Edgar Filing: QUEST DIAGNOSTICS INC - Form DEF 14A

A majority of the votes that may be cast, or 96,655,648 votes, present in person or represented by proxy, is needed to hold the annual meeting. We urge you to vote by proxy even if you plan to attend the annual meeting. That will help us to know as soon as possible that enough votes will be present to hold the annual meeting.

How do I vote?

You may vote at the annual meeting by proxy or in person.

If you are a *holder of record* (that is, if your shares are registered in your own name with our transfer agent), you may vote by mail using the enclosed proxy card, by telephone, on the Internet or by attending the annual meeting and voting in person as described below.

If you hold your shares in street name (that is, you hold your shares through a broker, bank or other holder of record), please refer to the information on the voting instruction form forwarded to you by your bank, broker or other holder of record to see which voting options are available to you.

Vote on the Internet

You can choose to vote on the Internet by visiting www.cesvote.com. The directions for Internet voting are on your proxy card or voting instruction form.

Vote by Mail

If you choose to vote by mail, simply mark, sign and date your proxy card and return it in the enclosed postage pre-paid envelope.

Vote by Telephone

You can also vote by calling 1-888-693-8683.

Vote at the Annual Meeting

If you want to vote in person at the annual meeting and you hold your shares in street name, you must obtain an additional proxy from your broker, bank or other holder of record authorizing you to vote. You must bring this proxy to the annual meeting.

How many votes will be required to elect a director or to adopt the proposals?

To elect directors to the Board, a plurality of the votes cast at the annual meeting is needed. A plurality means that the three nominees receiving the largest number of votes cast will be elected.

To ratify the selection of our independent registered public accounting firm, a majority of the shares represented at the annual meeting and

entitled to
vote is
needed.

Can I change or revoke my proxy?

Yes, you may change your vote or revoke your proxy at any time before it is exercised. To do so, you should:

send in a
new proxy
card with a
later date;

send a
written
revocation
to the
Corporate
Secretary;

cast a new
vote by
telephone
or the
Internet; or

attend the
annual
meeting
and vote in
person.

Written revocations of a prior vote must be sent by mail to Leo C. Farrenkopf, Jr., Corporate Secretary, at Quest Diagnostics Incorporated, 1290 Wall Street West, Lyndhurst, New Jersey 07071. If you attend the annual meeting and vote in person, your vote will revoke any previously submitted proxy.

What if I do not indicate my vote for one or more of the matters on my proxy card?

If you return a signed proxy card without indicating your vote, your shares will be voted:

for the election of the three persons named under the caption Election of Directors; and
for the ratification of the selection of the independent registered public accounting firm.

What if I withhold my vote or I vote to abstain?

In the election of directors, you can vote for the three directors named on the proxy card, or you can indicate that you are *withholding* your vote from one or more of the directors. *Withheld* votes will not affect the vote on the election of directors.

In connection with the proposals to ratify the selection of our independent registered public accounting firm, you may vote *for* or *against* the proposal, or you may *abstain* from voting on the proposal. Abstentions on the proposal to ratify the selection of our independent registered public accounting firm will have the same effect as a vote against the proposals.

What happens if I do not vote?

If you do not vote shares held in your name, those shares will not be voted.

If your shares are held through a broker, your shares can be voted on the election of directors and the ratification of the selection of our independent registered public accounting firm.

If your broker votes your shares on some, but not all, of the proposals, the votes will be broker non-votes for any proposal on which they do not vote. Broker non-votes will have no effect on the election of directors and the ratification of the selection of the independent registered public accounting firm.

What if there is voting on other matters?

Our by-laws require prior notification of a shareholder's intent to vote on other matters at the annual meeting. The deadline has passed and we have not received any notifications. If other matters properly arise at the annual meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you.

Will the Company's independent registered public accounting firm be present at the annual meeting?

Yes, representatives of PricewaterhouseCoopers LLP are expected to attend the annual meeting to answer your questions and will have the opportunity to make a statement, if they desire to do so. The Audit and Finance Committee of the Board of Directors of the Company has approved the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the 2007 fiscal year, subject to ratification by shareholders.

Will the directors attend the annual meeting?

Our policy is, where practical, to schedule the annual meeting of shareholders on a day on which we also schedule a regular meeting of the Board. This year, we have scheduled a regular meeting of the Board on the date of the annual meeting of shareholders. We encourage our directors to attend each annual meeting of shareholders and expect that all of our directors will attend the annual meeting this year. All of our directors other than William Grant attended the 2006 annual meeting of shareholders.

How can I attend the annual meeting?

Only shareholders as of the record date, March 12, 2007 (or their proxy holders), may attend the annual meeting. If you plan to attend the annual meeting or appoint someone to attend as your proxy, please check the box on your proxy card, or, if you are voting by telephone or on the Internet, follow the instructions provided to indicate your plan to attend. You or your proxy holder will then need to show photo identification to pick up your admittance card at the shareholders' admittance desk at the annual meeting.

If you do not inform us in advance that you plan to attend the annual meeting, you will need to bring with you:

photo
identification;
and

if you hold
your shares in
street name,
proof of
ownership of
your shares as
of the record
date, such as a
letter or
account
statement

from your
broker or
bank.

What happens if the annual meeting is postponed or adjourned?

Your proxy will still be valid and may be voted at the postponed or adjourned annual meeting. You will still be able to change or revoke your proxy until it is voted.

Do any shareholders beneficially own more than 5% of our common stock?

Yes. According to public filings, as of March 12, 2007, GlaxoSmithKline plc (GlaxoSmithKline) is the only holder known to us to be the beneficial owner of more than 5% of our common stock. For further information, please see Stock Ownership Information on page 18.

How can I review the list of shareholders eligible to vote?

A list of shareholders as of the record date will be available for inspection and review upon request of any shareholder to our Corporate Secretary at 1290 Wall Street West, Lyndhurst, New Jersey 07071. We will also make the list available at the annual meeting.

Who will pay the expenses incurred in connection with the solicitation of my vote?

The Company pays the cost of preparing proxy materials and soliciting your vote. Proxies may be solicited on our behalf by our directors, officers or employees by telephone, electronic or facsimile transmission or in person. We have hired Georgeson Shareholder Communications, Inc. to distribute and solicit proxies and for these services we will pay an estimated fee of \$12,000, plus expenses.

INFORMATION ABOUT SHAREHOLDER PROPOSALS AND NOMINATIONS FOR OUR 2008 ANNUAL MEETING

How do I submit a proposal for the 2008 annual meeting?

If you want your proposal to be included in next year's proxy statement or if you want to present your proposal for consideration at the 2008 annual meeting, you should send it to the Corporate Secretary at the Company's principal executive offices at 1290 Wall Street West, Lyndhurst, New Jersey 07071. We must receive your proposal by the close of business on December 1, 2007.

How do I nominate a candidate for director at the 2008 annual meeting?

You must notify the Lead Independent Director of your nominations by sending an e-mail to LeadIndependentDirector@questdiagnostics.com or by writing to the Board of Directors or any independent board member c/o the Corporate Secretary at the Company's principal executive offices at 1290 Wall Street West, Lyndhurst, New Jersey 07071 by December 1, 2007. Your notice must also comply with the requirements in our by-laws.

MATTERS TO BE CONSIDERED AT THE 2007 ANNUAL MEETING

Proposal No. 1 Election of Directors

The Company's Restated Certificate of Incorporation, as amended, requires the Company to have at least three but not more than twelve directors. The number of directors is set by the Board of Directors of the Company (the Board of Directors or the Board). The Board presently consists of ten directors. The Board is divided into three classes, each with three-year terms. New directors elected by the Board serve until the next succeeding annual meeting and are then assigned to a class for election by shareholders. At this meeting, three directors are seeking election for a three-year term expiring in 2010. Certain information concerning each of the nominees and continuing directors and their respective business experience during the past five years is provided below.

William R. Grant, who is 82 and whose term expires at the 2007 annual meeting of shareholders, will retire from the Board as of May 8, 2007, thus reducing the number of directors from ten to nine. The Company does not currently intend to nominate a director to fill the vacancy created by Mr. Grant's retirement. As a result of the potential vacancy, the classes of directors would otherwise consist of three directors with terms ending in 2009, two directors with terms ending in 2007, and four directors with terms ending in 2008. On February 13, 2007, at its regularly scheduled meeting, the Board determined that the terms of the current directors be restructured so that there are three directors in each group, and that the directors standing for election at the 2007 annual meeting of shareholders consist of Dr. Baldwin, Dr. Mohapatra and Mr. Pfeiffer (whose current term would otherwise expire in 2008).

Nominees for Election

Each nominee is currently a director of the Company. Each nominee has consented to serve if elected. The terms of these three directors seeking election expire at the adjournment of the 2007 annual meeting.

Nominees for the Board with Terms Expiring at the 2010 Annual Meeting

John C. Baldwin, M.D., 58, is the President and Chief Executive Officer of CBR Institute for Biomedical Research. From 1998 to 2005, Dr. Baldwin was the Associate Provost for Health Affairs at Dartmouth College and Professor of Surgery at Dartmouth Medical School. From 1994 to 1998, Dr. Baldwin was the head of the surgical programs at Baylor College of Medicine and its affiliated hospitals. Dr. Baldwin was also the Governor of the American College of Surgeons from 1991 through 1997 and the President of the International Society of Cardiothoracic Surgeons in 1999. Dr. Baldwin has served as the Vice-Chair of the Board of Overseers of Harvard University. Dr. Baldwin has been a director of Quest Diagnostics since May 2004.

Surya N. Mohapatra, Ph.D., 57, is Chairman of the Board, President and Chief Executive Officer of Quest Diagnostics. Prior to joining the Company in February 1999 as Senior Vice President and Chief Operating Officer, he was Senior Vice President of Picker International, a worldwide leader in advanced medical imaging technologies, where he served in various executive positions during his 18-year tenure. Dr. Mohapatra was appointed President and Chief Operating Officer of the Company in June 1999, the Chief Executive Officer in May 2004, and Chairman of the Board in December 2004. Dr. Mohapatra has been a director of Quest Diagnostics since October 2002.

Gary M. Pfeiffer, 57, retired in 2006 as the Senior Vice President and Chief Financial Officer of E.I. du Pont de Nemours and Company. Mr. Pfeiffer joined DuPont in 1974, where he held positions of increasing responsibility in finance and international operations, as well as in various DuPont divisions. Mr. Pfeiffer is a director of Talbots, Inc. Mr. Pfeiffer has been a director of Quest Diagnostics since December 2004.

Directors Not Up for Election

Members of the Board Continuing in Office with Terms Expiring at the 2008 Annual Meeting

William F. Buehler, 67, retired in 2001 as Vice Chairman of Xerox Corporation, which he joined in 1991. At Xerox, Mr. Buehler was responsible for five business groups: Production Systems, Office Document Products, Document Services, Channels and Supplies. He also oversaw Corporate Strategic Services, Business Development and Systems Software and Architecture. Prior to joining Xerox, Mr. Buehler spent 27 years with AT&T, primarily in sales, marketing and general management positions. Mr. Buehler is a director of A.O. Smith. Mr. Buehler has been a director of Quest Diagnostics since July 1998.

Rosanne Haggerty, 46, is the founder and President of Common Ground Community, a not-for-profit organization that develops strategies to end homelessness in New York City. Prior to founding Common Ground Community in 1990, she was the coordinator of housing development at Brooklyn Catholic Charities. Ms. Haggerty is a 2001 MacArthur Foundation Fellow. Ms. Haggerty has been a director of Quest Diagnostics since February 2002.

Daniel C. Stanzione, Ph.D., 61, retired from Lucent Technologies Incorporated in 2000 and is President Emeritus of Bell Laboratories. Dr. Stanzione began his career in 1972 with Bell Laboratories, where he led the teams working on the first microprocessors and digital signal processors. He was appointed President of Network Systems, Lucent's largest business unit, in 1996 and was appointed Chief Operating Officer of Lucent in 1997. Dr. Stanzione is a director of Avaya Inc. and Internap Network Services Corporation. Dr. Stanzione has been a director of Quest Diagnostics since January 1997.

Members of the Board Continuing in Office with Terms Expiring at the 2009 Annual Meeting

Jenne K. Britell, Ph.D., 64, has been the Chairman and Chief Executive Officer of Structured Ventures, Inc., a firm that advises domestic and foreign companies on product and financial services strategy, since 2001. From 1996 to 2000, she was a senior officer of GE Capital, serving as President of GE Capital Global Commercial & Mortgage Banking and Executive Vice President of GE Capital Global Consumer Finance from 1999 to 2000 and serving as President and Chief Executive Officer of GE Capital Central and Eastern Europe from 1998 to mid-1999. Dr. Britell is a director of Crown Holdings, Inc., United Rentals, Inc., and West Pharmaceutical Services, Inc. Dr. Britell has been a director of Quest Diagnostics since August 2005.

Gail R. Wilensky, Ph.D., 63, is a Senior Fellow at Project HOPE, an international non-profit health foundation, which she joined in 1993. From 1997 to 2001, she was the chair of the Medicare Payment Advisory Commission, which advises Congress on all issues relating to Medicare. From 1995 to 1997, she chaired the Physician Payment Review Commission, which advised Congress on physician payment and other Medicare issues. In 1992 and 1993, Dr. Wilensky served as a deputy assistant to the President of the United States for policy development relating to health and welfare issues. From 1990 to 1992, she was the administrator of the Health Care Financing Administration where she directed the Medicare and Medicaid programs. Dr. Wilensky is a director of Cephalon Inc., Gentiva Health Services, Inc., Manor Care Inc., SRA International, Inc. and UnitedHealthcare Corporation. She also serves as a Commissioner of the World Health Organization's Commission on the Social Determinants of Health and as the Non-Department Co-Chair of the Defense Department's Task Force on the Future Health Care. Dr. Wilensky has been a director of Quest Diagnostics since January 1997.

John B. Ziegler, 61, retired in January 2006 as the President, Worldwide Consumer Healthcare, of GlaxoSmithKline plc (the parent of SmithKline Beecham plc). Mr. Ziegler joined SmithKline Beecham in 1991 as the head of SB Consumer Healthcare-North American Division. He was Executive Vice President of SmithKline Beecham from 1996 to 1998 and became President, Worldwide Consumer Healthcare in 1998. He has been a director of Quest Diagnostics since May 2000. Mr. Ziegler has been recommended by SmithKline Beecham for nomination as a director of Quest Diagnostics pursuant to the Stockholders Agreement with SmithKline Beecham. See Related Person Transactions.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE FOR DIRECTOR.

Proposal No. 2 Ratification of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for 2007

The Audit and Finance Committee has approved the selection of PricewaterhouseCoopers LLP (PWC) to serve as our independent registered public accounting firm for 2007.

Our by-laws do not require that our shareholders ratify the selection of PWC as the independent registered public accounting firm. The Audit and Finance Committee will consider the outcome of this vote in its decision to appoint an independent registered public accounting firm next year, but is not bound by the shareholders' vote. Even if the selection of PWC is ratified, the Audit and Finance Committee may change the appointment at any time during the year if it determines that a change would be in the best interest of the Company and its shareholders.

Representatives of PWC are expected to be present at the annual meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

For information concerning the selection of PWC, see Report of the Audit and Finance Committee on page 44. For information concerning fees paid to PWC, see Fees and Services of PricewaterhouseCoopers LLP on page 46.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2007.

INFORMATION ABOUT OUR CORPORATE GOVERNANCE

Governance Practices

The Board of Directors believes that good corporate governance is critical to achieve business success. The Board has adopted a set of Corporate Governance Guidelines to enhance its own effectiveness and to implement best practices for the Company's corporate governance. These principles are reviewed from time to time for possible revision to respond to changing regulatory requirements, evolving best practices and the concerns of our shareholders. Our Corporate Governance Guidelines are published on our website at www.questdiagnostics.com. Highlights of our corporate governance practices are described below.

Independence of the Board of Directors

A substantial majority of the directors were independent during 2006 (9 of 10 members) and will be independent directors following the 2007 Annual Meeting of Shareholders (8 of 9 members), as defined under the New York Stock Exchange listing standards. See Director Independence on page 15 for further information regarding the independence of the directors.

The Audit and Finance Committee, Compensation Committee,

Governance
Committee
and Quality,
Safety &
Compliance
Committee are
composed
solely of
independent
directors.

Each standing
committee,
other than the
Executive
Committee, is
chaired by an
independent
director.

None of the
independent
directors
receives any
consulting or
other
non-director
fees from the
Company.

Shareholder Access and Rights

Shareholders are asked to ratify the selection of the independent registered public accounting firm at our annual meeting.

All equity compensation plans have been approved by shareholders.

The Company provides a process for shareholders and any other person to send communications to the Board of Directors. Shareholders may communicate directly with the full Board or any of the independent Board members by sending an email to our Lead Independent Director at LeadIndependentDirector@questdiagnostics.com or writing to the full Board or any independent Board member, c/o Corporate Secretary, 1290 Wall Street West, Lyndhurst, New Jersey 07071. Communications received at the email address are automatically routed to the Company's Lead

Independent Director with a copy to the Company's General Counsel and Corporate Secretary. The Lead Independent Director determines whether any such communication received from a shareholder should be distributed to other members of the Board. All communications received by the Corporate Secretary addressed to any director and that involves the interest of the Company or its shareholders, other than solicitations, are forwarded to the intended directors.

The Audit and Finance Committee and the Board of Directors have established a procedure whereby complaints and concerns with respect to accounting, internal controls and auditing matters may be submitted to the Audit and Finance Committee. All communications received by a director from a shareholder relating to the Company's accounting, internal controls or auditing matters are immediately forwarded to the Chairman of the Audit and Finance Committee and are investigated and responded to in accordance with the procedures established by the Audit and Finance Committee. In addition, the Company has established a hotline (known as CHEQline) pursuant to which employees can anonymously report accounting, internal controls and financial irregularities (as well as compliance concerns on other laws).

Our policy is, where practical, to schedule the annual meeting of shareholders on a day on which we also schedule a regular meeting of the Board. This year, we have scheduled a regular meeting of the Board on the date of the annual meeting of shareholders. We encourage our directors to attend each annual meeting of shareholders and expect that all of our directors will attend the annual meeting this year. All of our directors attended the 2006 annual meeting of shareholders other than Mr. Grant.

Board Nomination Process

The Governance Committee is responsible for reviewing with the Board, on an annual basis, the composition of the Board as a whole and whether the Company is being well served by the directors taking into account each director's independence, skills, experience, availability for service to the Company and other factors the Governance Committee deems appropriate. The Governance Committee is responsible for recommending director nominees to the Board, including renomination of persons who are already directors. The Governance Committee does not set specific, minimum qualifications that nominees must meet in order for the Governance Committee to recommend them to the Board, but rather believes that each nominee should be evaluated based on

his or her own merits, taking into account the needs of Quest Diagnostics and the composition of the Board.

Recommendations are made by the Governance Committee in accordance with the policies and principles of its charter and taking into account the following key qualifications and factors established by the Governance Committee and the Board:

Qualifications:

< Reputation for highest ethical standards and integrity consistent with Quest Diagnostics values of Quality, Integrity, Innovation, Accountability, Collaboration and Leadership; and

< Relevant experience such as:

Chief Executive Officer or Chief Operating Officer (or similar responsibilities)

current or past;

Demonstrated expertise in business function(s) such as sales, operations, finance, strategy, legal or human resources; or

Medical practitioners and/or science and health thought leaders.

Other factors considered by the Governance Committee and the Board:

- < At least a majority of the directors meet the criteria for independence under the New York Stock Exchange listing standards and any categorical standards established by the Board;
- < Prior experience as a director or executive officer of a public company;

- < Number of current board positions and other time commitments; and
- < Overall range of skills, experience and seniority represented by the Board as a whole.

The Governance Committee considers suggestions from many sources, including shareholders, regarding possible candidates for director. Shareholders may recommend candidates for consideration as director to the Governance Committee by sending an email to our Lead Independent Director or writing to the Board at the address specified under Information About Our Corporate Governance Shareholder Access and Rights on page 9. See Information About Shareholder Proposals and Nominations for our 2008 Annual Meeting on page 4 for the deadlines and process by which you may submit director nominees for consideration by the Governance Committee for the 2008 annual meeting of shareholders. The notice should contain the proposed

nominee's full name, biographical information regarding the proposed nominee and the proposed nominee's relationship to the shareholder and should be submitted in compliance with our by-laws. The Governance Committee expects to consider qualified shareholder nominees for director in the same manner as recommendations it receives from any other source.

The process of nominating directors is as follows. First, the Governance Committee identifies a need to add a new Board member who meets specific criteria or to fill a vacancy on the Board. The Governance Committee then identifies candidates by seeking input from Board members and considering recommendations for nominees submitted by shareholders. The Governance Committee may also hire third-party search firms to assist in identifying and evaluating candidates for nomination. After the Governance Committee ranks the candidates, the Chairman of the Board and the Chief Executive Officer interviews the candidates selected by the Governance Committee. The Lead

Independent Director (who is the Chair of the Governance Committee) and other Board members conduct subsequent interviews of these candidates. After the interview process, the Governance Committee re-assesses the candidates and determines which candidates the Governance Committee will recommend to the Board for nomination as a director. The Governance Committee then makes its recommendation to the entire Board, which determines which candidates are nominated by the Board of Directors or elected to fill a vacancy. A

formal offer
is then
extended by
the
Chairman of
the Board
and the Lead
Independent
Director to
the
candidate(s)
nominated
or elected to
fill a
vacancy by
the Board of
Directors.

Board Practices

Non-management
directors meet
privately in
executive sessions
at all regularly
scheduled
meetings with the
Lead Independent
Director
presiding.

Independent
directors meet
privately in
executive sessions
at least once per
year with the Lead
Independent
Director
presiding.

The Board
performs an
annual assessment
of its structure and
performance,
including
reviewing the
Board's activities
against those set
out in its
Corporate

Governance
Guidelines and
committee
charters and
making
recommendations
for changes or
improvements in
practices or
structure.

The Board
reviews annually
senior
management
succession
planning and
reviews Company
policies for the
development of
management
personnel.

Independent
directors have
unlimited access
to officers and
employees of the
Company.

Director training
sessions are
scheduled
regularly with
senior
management, our
independent
registered public
accounting firm
and compensation
consultants to
keep the Board
updated on
changes in the
Company's
businesses, its
markets and best
practices in
general. Directors
are also offered
the opportunity to

attend director education programs offered by third parties.

Independent directors receive a significant portion of their annual compensation in equity to further align our directors with the interests of our shareholders.

The Board and each committee have unlimited access to independent legal, financial or other advisors as they may deem necessary, without obtaining management approval; provided, however, that no committee may engage the Company's independent auditors to perform any services without the approval of the Audit and Finance Committee.

The Governance Committee reviews incumbent directors prior to recommending the slate for election. The review emphasizes

directors
commitment to
serving the
Company,
attendance and
participation at
meetings and
commitment to
shareholders,
employees and
other
constituencies
served by the
Company.

Committee chairs
and members are
rotated from time
to time to give the
directors a broader
knowledge of the
Company's affairs.

Committees report
on their activities
to the Board at
each Board
meeting.

Materials related
to agenda items
are provided to
directors
sufficiently in
advance of
meetings to allow
the directors to
prepare for
discussion of the
items.

Code of Business Ethics and Stock Ownership of Directors and Officers

The Company has adopted a
Code of Business Ethics (the
Code) applicable to all
directors, officers and
employees. The Code is
posted on the Investor
Relations Corporate
Governance section of our

website at
www.questdiagnostics.com.
Any waivers from any
provisions of the Code for
executive officers, senior
financial officers and
directors will be promptly
disclosed to shareholders. In
addition, any amendments to
the Code, as well as any
waivers from certain
provisions of the Code
relating to our Chief
Executive Officer, other
executive officers and senior
financial officers will be
posted at the above website
address.

The Board's stock ownership
guidelines require each
non-management director to
own at least 6,000 shares of
common stock of the
Company before the director
can receive full cash
settlement for his or her
stock option exercises.

The Company's stock
ownership guidelines
require officers to maintain
a minimum ownership
position in the Company's
common stock before they
can receive full cash
settlement for their stock
option exercises. See
Compensation Discussion
and Analysis on page 28.

For stock ownership
information of directors and
executive officers, see Stock
Ownership Information on
page 18.

Board Membership Changes Since Date of Last Annual Meeting

There have been no changes to the Board of Directors since the 2006 annual meeting of shareholders.

Board Committees

In order to fulfill its responsibilities, the Board has delegated certain authority to its committees. There are five standing committees. During 2006, the Board held nine regular meetings. Each of our directors attended at least 75% of the total number of meetings of the Board of Directors and the committees on which he or she served, except for Mr. Grant. Any of our directors may attend meetings of any committee in which such director is not a member. The following table shows the membership of each of the committees since the 2006 annual meeting of shareholders and the number of meetings held by each committee in 2006.

<i>Directors</i>	<i>Audit and Finance</i>	<i>Compensation</i>	<i>Governance</i>	<i>Quality, Safety & Compliance</i>	<i>Executive</i>
John C. Baldwin, M.D	X			X	
Jenne K. Britell, Ph.D	X				
William F. Buehler		X *	X		
William R. Grant	X				
Rosanne Haggerty				X	
Surya N. Mohapatra, Ph.D					X *
Gary M. Pfeiffer	X *	X	X		X
Daniel C. Stanzione, Ph.D	X	X	X *		X
Gail R. Wilensky, Ph.D			X	X *	
John B. Ziegler		X		X	
Number of Meetings	13	10	4	4	1

* Chair of the committee.

A brief description of each of the Board committees and their functions is set forth below. Additional information about the committees can be found in the committee charters, which are available on the Investor Relations Corporate Governance section of our website at www.questdiagnostics.com. Printed copies of these charters, the Corporate Governance Guidelines or the Code may be obtained without charge by writing to the Corporate Secretary. The charter for the Audit and Finance Committee is also attached hereto as **Appendix A**.

Audit and Finance Committee

The Audit and Finance Committee:

Assists the Board
in monitoring the
quality and
integrity of the
financial
statements of the
Company and

financial reporting procedures and the Company's compliance with legal and regulatory requirements.

Oversees management's accounting for the Company's financial results and reviews the timeliness and adequacy of the reporting of those results and related judgments.

Oversees the internal audit function and makes inquiry into the audits of the Company's books made internally and by outside independent registered public accounting firms.

Assists the Board in monitoring the independent registered public accounting firm's qualifications and independence and appoints and replaces the independent registered public accounting firm, oversees the independent registered public accounting firm and is responsible for the

compensation of the independent registered public accounting firm.

Pre-approves services to be performed by the independent registered public accounting firm.

Reviews with the Company's independent registered public accounting firm and informs the Board of any significant accounting matters, including critical accounting policies and judgments.

Advises and makes recommendations with regard to certain financing transactions and other significant financial policies and actions.

Establishes procedures for the receipt, retention and treatment of complaints relating to accounting, internal accounting controls, and for the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters.

May, to the extent it deems necessary or appropriate, retain independent legal, accounting or other advisors.

Reviews and reports to the Board on the Company's management of its financial resources.

Reviews the performance of the Audit and Finance Committee.

Each member of our Audit and Finance Committee is independent under the rules of the Securities and Exchange Commission (SEC) and the New York Stock Exchange listing standards. Each of Jenne K. Britell and Gary M. Pfeiffer qualifies as an audit committee financial expert as defined by the SEC. Each member of our Audit and Finance Committee is financially literate , as required by the New York Stock Exchange listing standards. For descriptions of the experience of Dr. Britell and Mr. Pfeiffer, see Election of Directors on pages 6 and 7.

Compensation Committee

The Compensation Committee:

Reports to the Board with respect to the performance of the Chief Executive Officer and reviews and approves the compensation of the Chief Executive Officer based on the directors evaluation of the Chief Executive Officer and the Company s financial performance, shareholder return, competitive compensation data and other factors.

Approves the compensation of the other executive officers and oversees the performance of other executive officers. Annually reviews and approves for other executive officers of the Company annual base salary, annual

incentive
compensation and
long-term
incentive
compensation.

Reviews and
recommends to
the Board the
compensation of
Company
directors.

Supports the
Board in the
senior
management
succession
planning process.

Recommends to
the Board the
equity-based,
incentive
compensation and
retirement plans,
policies and
programs of the
Company.

Reviews and
approves
employment
agreements,
severance
agreements and
change in control
agreements, and
any additional
special or
supplemental
benefits for
executive officers
and, with respect
to the Chief
Executive Officer,
makes
recommendations
to the Board for
approval by the
Board.

Administers the equity-based and incentive compensation plans of the Company.

Reviews the performance of the Compensation Committee.

Each member of our Compensation Committee is independent under the New York Stock Exchange listing standards.

For a discussion of the role of executive officers and compensation consultants in connection with determining or recommending executive compensation, see [Compensation Discussion and Analysis](#) on pages 21 and 22.

Governance Committee

The Governance Committee:

Actively seeks individuals qualified to become Board members, and reviews and recommends possible candidates for Board membership, taking into account such criteria as independence, diversity, age, skills, occupation and experience in the context of the needs of the Board.

Reviews the structure of the Board, its committee structure and overall size.

Advises the Board regarding significant developments in corporate governance matters.

Reviews the Company's Corporate Governance Guidelines periodically and advises the Board of the Company's compliance with its Corporate Governance Guidelines and applicable laws and regulations.

Recommends for Board approval assignments of Board members to committees.

Reviews relationships and transactions of directors, executive officers and senior financial officers for possible conflicts of interest.

Monitors compliance with the Company's Code of Business Ethics.

Reviews and approves transactions or proposed transactions in which a related person is likely to have a direct or indirect material interest pursuant to the Company's Statement of

Policy and Procedures for the Review and Approval of Related Person Transactions.

Determines a schedule for regular executive sessions of the Board in which non-management directors meet without management participation.

Oversees and assesses the processes by which management provides information to the Board, as well as the quality and timeliness of the information received.

Leads the Board and each committee of the Board in its annual performance self-evaluation.

Reviews the performance of the Governance Committee.

Each member of our Governance Committee is independent under the New York Stock Exchange listing standards.

Quality, Safety & Compliance Committee

The Quality, Safety & Compliance Committee:

Reviews the Company's policies, programs and performance relating to billing compliance, environmental health and safety, equal opportunity employment practices, fraud and abuse, and medical quality assurance to ensure continuous improvement and compliance with applicable rules and regulations.

Reviews legal matters pertinent to the Company and the Company's compliance with its legal and regulatory obligations.

Reviews and recommends to the Board action with respect to significant external and internal investigations as they relate to possible violations of

law by the
Company or
its directors,
officers,
employees or
agents.

Monitors and
reports to the
Board status of
significant
regulatory,
legislative and
legal
developments
affecting the
business of the
Company.

Reports to the
Audit and
Finance
Committee
regarding
material legal
matters and
compliance
with legal and
regulatory
requirements.

Reviews the
performance
of the Quality,
Safety &
Compliance
Committee.

Each member of our Quality, Safety & Compliance Committee is independent under the New York Stock Exchange listing standards.

Executive Committee

The Executive Committee:

Acts for the
Board when
Board
action is
required
except with

respect to certain major corporate matters, such as mergers, election of directors, removal of directors or the Chief Executive Officer, amendment of the Company's charter or by-laws, declaration of dividends and such matters as are delegated to other committees of the Board.

Lead Independent Director

The Board of Directors has elected Daniel C. Stanzione, Ph.D., as the Lead Independent Director. The principal responsibilities of the Lead Independent Director are to:

Preside over any executive session of the non-management directors or the independent directors;

Participate with the Chairman of the Board and Chief Executive Officer in the preparation of the agenda for Board meetings;

Serve as a member of the Executive Committee;

Coordinate providing timely feedback from the directors to the Chairman of the Board and Chief Executive Officer;

Be identified on the Company's website and in the Company's annual proxy statement as the principal contact for shareholder communications with the Board; and

Monitor on behalf of, and discuss

with, the non-management directors of the Company any shareholder communications received by such non-management directors.

Director Independence

The Board of Directors assesses the independence of each director annually in accordance with the Company's Corporate Governance Guidelines, the New York Stock Exchange listing standards and, with respect to members of the Audit and Finance Committee, the rules of the SEC. No director is considered independent unless the Board of Directors determines that the director has no direct or indirect material relationship with the Company. The Board has established guidelines to assist it in determining director independence, which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing standards. These guidelines are set forth in an attachment to the Company's Corporate Governance Guidelines, which are published on our website at www.questdiagnostics.com.

The Board has determined that, following the 2007 Annual Meeting of Shareholders, assuming election of the Board's three nominees for director, eight of the nine directors are independent in accordance with the standards specified above. The Board has determined the following directors to be independent: John C. Baldwin, Jenne K. Britell, William F. Buehler, William R. Grant (who is retiring from the Board), Rosanne Haggerty, Gary M. Pfeiffer, Daniel C. Stanzione, Gail R. Wilensky and John B. Ziegler. The one current director who the Board has determined is not independent is Surya N. Mohapatra, the Chairman of the Board, President and Chief Executive Officer of the Company. Dr. Mohapatra was not deemed independent as he is the President and Chief Executive Officer of the Company. James F. Flaherty, who served as a director until the 2006 annual meeting of shareholders, was not deemed independent under the New York Stock Exchange listing standards.

In considering the independence of each non-management director, the Board determined that there were no relationships that did not fall within the New York Stock Exchange listing standards categories that would prohibit a finding of independence or the guidelines established by the Board. However, the Board did consider several relationships discussed below that the Board determined did not constitute material relationships.

Between 2001 and 2004, the Company made certain investments in companies in which Mr. Grant and/or Galen Associates, of which Mr. Grant was the Vice-Chairman, also had made investments. In respect of certain investments made by the Company during 2001 and 2002, Mr. Grant and/or Galen Associates introduced the investment opportunities to the Company (but did not receive any fees from the Company) and co-invested on the same terms as the Company. In respect of the investments made by the Company during 2003 and 2004, the Company invested in companies in which Mr. Grant and/or Galen Associates had an investment on a direct basis without the involvement of Mr. Grant and/or Galen Associates. The Company has not made any investments since 2004 in any entity introduced by Mr. Grant and/or Galen Associates or in which Mr. Grant and/or Galen Associates has co-invested. None of these investments is material to the Company. In accordance with the procedures established by the Governance Committee beginning in July 2002, the Governance Committee reviewed all such transactions before they were consummated. Mr. Grant is retiring from the Board on May 8, 2007, when his current term ends.

Prior to January 31, 2006, when he retired from GlaxoSmithKline, Mr. Ziegler was the President, Worldwide Consumer Healthcare of GlaxoSmithKline, which beneficially owns 18.9% of the outstanding common stock of the Company. The common stock of the Company that GlaxoSmithKline beneficially owns was issued in August 1999 in connection with the acquisition by the Company of SmithKline Beecham Clinical Laboratories, Inc. (SBCL), which transaction was approved by the shareholders at the 1999 annual meeting of shareholders. In connection with the acquisition, the Company entered into a clinical trials agreement, which was described in the proxy statement for the 1999 annual meeting of shareholders. See *Related Person Transactions* Reportable Related Person Transactions GlaxoSmithKline on page 17 for a description of these transactions. Mr. Ziegler was not involved with the negotiation of any of these arrangements.

Dr. Wilensky is a director of UnitedHealthcare Corporation (UNH). During 2006, UNH, a healthcare insurer, accounted for approximately 7% of the Company's net revenues. As of January 1, 2007, the Company is no longer a national contracted provider of laboratory services to UNH. Dr. Wilensky was not involved with any negotiations between the Company and UNH.

Related Person Transactions

Review and Approval of Related Person Transactions

SEC rules require, with certain exceptions, disclosure of any transaction or proposed transaction involving more than \$120,000 per annum in which a related person has a direct or indirect material interest and in which the Company was or is to be a participant. A related person is any director or executive officer of the Company, any immediate family member of a director or executive officer, or any person who owns 5% or more of the Company's outstanding common stock. Pursuant to a policy adopted in February 2007, the Governance Committee reviews and approves or ratifies any related person transaction that is required to be disclosed in the proxy statement or the annual report on Form 10-K except for any compensation arrangements involving an immediate family member of an executive officer. Compensation arrangements involving an immediate family member of an executive officer are reviewed and approved by the Chief Executive Officer and the Vice President, Human Resources, unless such person is an immediate family member of the Chief Executive Officer, in which case the compensation arrangement is approved by the Compensation Committee. The Company's General Counsel and legal staff are primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions exceeding \$120,000. The General Counsel and legal staff are responsible for determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. In the event that the General Counsel becomes aware of any related person transaction exceeding \$120,000 not approved in advance, the General Counsel will arrange for the related person transaction to be reviewed and, if appropriate, ratified at the next regularly scheduled meeting of the Governance Committee.

In approving or ratifying any related person transaction, the Governance Committee determines whether the transaction is fair to the Company. In approving or ratifying a related person transaction involving a director or the immediate family member of a director, the Governance Committee also assesses whether the related person transaction could reasonably be expected to impact the independence of the director under the Company's Corporate Governance Guidelines, the New York Stock Exchange listing standards or other applicable rules. Each year at the first regular meeting of the Governance Committee, the Governance Committee reviews any previously approved or ratified related person transaction that remains ongoing. After considering the Company's contractual obligations, the Governance Committee determines whether to continue, modify or terminate the related person transaction based on the same criteria outlined above.

Any member of the Governance Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote on approval or ratification of the transaction.

Reportable Related Person Transactions

GlaxoSmithKline

SmithKline Beecham Corporation, a subsidiary of GlaxoSmithKline (SmithKline Beecham), owns 36,504,308 shares of the Company's common stock as of March 15, 2007, which it obtained on August 16, 1999 as consideration, together with \$1.025 billion in cash (prior to giving effect to a \$95 million post-closing purchase price reduction), for its sale of SBCL to Quest Diagnostics. SmithKline Beecham originally received 50,257,344 shares in the transaction (adjusted for the stock splits in May 2001 and June 2005). The issuance of the shares was approved by the shareholders at the 1999 annual meeting of shareholders. In addition to the two agreements discussed below, in connection with the purchase of SBCL, SmithKline Beecham agreed to indemnify Quest Diagnostics, on an after-tax basis, against certain matters primarily related to taxes and billing and professional liability claims. Included in the Company's consolidated balance sheet at December 31, 2006 was \$27 million due to SmithKline Beecham, primarily related to tax benefits associated with indemnifiable matters.

At the closing of the acquisition of SBCL, SmithKline Beecham and the Company entered into a stockholders agreement. During the term of the stockholders agreement, which expires on August 16, 2009, SmithKline Beecham has the right to designate two nominees to the Quest Diagnostics Board of Directors (or, if required by UK GAAP, three nominees if the Company's Board of Directors consists of more than ten directors) as long as SmithKline Beecham owns at least 20% of the outstanding common stock of the Company and one nominee to the Company's Board of Directors as long as SmithKline Beecham owns at least 10% of the outstanding common stock of Quest Diagnostics. The stockholders agreement imposes limitations on the right of SmithKline Beecham to sell or vote its shares and prohibits SmithKline Beecham from acquiring in excess of 29.5% of the outstanding common stock of Quest Diagnostics.

At the closing of the acquisition of SBCL, SmithKline Beecham and the Company entered into a global clinical trials testing agreement, under which the Company would serve as the primary provider of SmithKline Beecham's clinical trials testing requirements for ten years. In December 2002, the Company entered into a new long-term agreement with GlaxoSmithKline (formed from the merger of SmithKline Beecham and Glaxo Wellcome in December 2000) under which the Company is the exclusive provider of central laboratory testing services to support GlaxoSmithKline's clinical trial testing in certain markets. In addition, on a selected basis, the Company provides support for other early stage research and development activity. GlaxoSmithKline pays the Company based upon a fee schedule attached to the global clinical trials agreement, subject to adjustment. Net revenues with respect to services provided to GlaxoSmithKline, primarily performed under the clinical trials agreement, were \$87 million in 2006. This amount represents approximately 1.4% of Quest Diagnostics' net revenues for 2006 and about 0.2% of GlaxoSmithKline's net revenues for 2006.

Employment by LabOne of Immediate Family Members of W. Thomas Grant II

W. Thomas Grant II is Senior Vice President Insurance and Employer Services. Mr. Grant was previously President of LabOne, Inc., which the Company acquired in November 2005. Mr. Grant is not related to William R. Grant, a director of the Company. Two of Mr. Grant's sons and a daughter-in-law of Mr. Grant have been employed by LabOne. William T. Grant III, who was Manager, District Sales of LabOne through March 16, 2007, when he resigned from the Company, received in 2006 gross wages of \$236,785, consisting primarily of salary of \$101,822, a car allowance of \$4,800 and commissions of \$129,858. Joseph M. Grant, who is Manager, Sales Operations of LabOne, received in 2006 gross wages of \$95,819, consisting primarily of salary of \$70,004, a car allowance of \$4,200 and commissions of \$21,381. Joseph M. Grant is married to Shanna Shoemaker, who is a Regional Account Manager. Ms. Shoemaker received in 2006 gross wages of \$79,966.

STOCK OWNERSHIP INFORMATION

The following table shows, as of March 12, 2007, the number of shares of the Company's common stock beneficially owned by (1) each person who is known to the Company to own beneficially more than 5% of the Company's common stock, (2) each director of the Company and each nominee, (3) each named executive officer and (4) all directors, nominees and executive officers of the Company as a group.

<i>Name</i>	<i>Number of Shares Beneficially Owned(5)</i>	<i>Percentage of Class(2)(3)</i>
GlaxoSmithKline plc	36,504,308 (1)	18.9 %
John C. Baldwin	33,333 (2)	*
Jenne K. Britell	9,667 (2)	*
William F. Buehler	103,627 (2)	*
William R. Grant	23,510 (2)	*
Robert A. Hagemann	580,740 (3)	*
Rosanne Haggerty	83,629 (2)	*
Surya N. Mohapatra	1,359,596 (3)(6)	*
Robert E. Peters	123,680 (3)	*
Gary M. Pfeiffer	23,222 (2)	*
Michael E. Prevoznik	378,086 (3)	*
Daniel C. Stanzione	99,557 (2)	*
Gail R. Wilensky	110,557 (2)	*
David M. Zewe	309,117 (3)	*
John B. Ziegler	111,332 (2)(4)	*
All Directors, Nominees and Executive Officers as a Group (15 persons)	3,370,000 (2)(3)(5)(6)	1.7 %

* Less than 1%.

- (1) The business address of GlaxoSmithKline plc is 980 Great West Road, Brentford, Middlesex TW8 9GS England. The ownership information is based solely on the information contained on a Schedule 13D amendment filed by GlaxoSmithKline

plc with the SEC in February 2007. SmithKline Beecham Corporation, a wholly owned subsidiary of GlaxoSmithKline plc, holds the shares of record.

- (2) Includes options issued under the Amended and Restated Long-Term Incentive Plan for Non-Employee Directors that are presently exercisable or exercisable within 60 days. Dr. Baldwin, Dr. Britell, Mr. Buehler, Mr. Grant, Ms. Haggerty, Mr. Pfeiffer, Dr. Stanzione, Dr. Wilensky and Mr. Ziegler have the right to purchase 29,999, 5,833, 89,999, 20,176, 74,999, 16,665, 89,999, 101,999 and 103,388 shares, respectively, pursuant to such presently exercisable options.
- (3) Includes shares of common stock of the Company which are subject to options issued under the

Amended and Restated Employee Long-Term Incentive Plan that are presently exercisable or exercisable within 60 days. Dr. Mohapatra, Mr. Hagemann, Mr. Peters, Mr. Prevoznik and Mr. Zewe have the right to purchase 1,242,462, 513,003, 108,666, 353,817, and 273,021 shares, respectively, pursuant to such presently exercisable options.

- (4) Mr. Ziegler was nominated to be a director of the Company by SmithKline Beecham Corporation, a subsidiary of GlaxoSmithKline plc, pursuant to the Shareholders Agreement discussed above. Mr. Ziegler, the former President, Worldwide Consumer Healthcare of GlaxoSmithKline, disclaims beneficial ownership of the shares of common stock of the Company owned by SmithKline

Beecham
Corporation.

- (5) All directors and executive officers have sole voting power and sole dispositive power over all shares of common stock of the Company beneficially owned by them.
- (6) Includes 29,542 shares of common stock of the Company directly beneficially owned by Dr. Mohapatra as grantor/trustee of a qualified Grantor Retained Annuity Trust.

DIRECTORS COMPENSATION

The following table sets forth the compensation of the non-employee directors of the Company during 2006.

<i>Director</i>	<i>Fees Earned or Paid in Cash (\$)(1)</i>	<i>Stock Awards (\$)(7)</i>	<i>Option Awards (\$)(8)</i>	<i>Non-Equity Incentive Plan Compensation (\$)</i>	<i>Change in Pension Value and Non-Qualified Deferred Compensation Earnings</i>	<i>All Other Compensation (\$)</i>	<i>Total (\$)</i>
John C. Baldwin	\$ 64,250	\$ 184,704	\$ 171,627	\$ 0	\$ 0	\$ 0	\$ 420,581
Jenne K. Britell	58,250	184,704	171,627	0	0	0	414,581
William F. Buehler	63,500	184,704	171,627	0	0	0	419,831
James F. Flaherty III (2)	25,000	92,352	0	0	0	0	117,352
William R. Grant (3)	42,500	184,704	171,627	0	0	0	398,831
Rosanne Haggerty (4)	56,750	184,704	171,627	0	0	0	413,081
Gary M. Pfeiffer (5)	101,750	184,704	171,627	0	0	0	458,081
Dan C. Stanzione (6)	100,250	184,704	171,627	0	0	0	456,581