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QUEST DIAGNOSTICS INC
Form 11-K
June 24, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 333-17079

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

THE PROFIT SHARING PLAN OF QUEST DIAGNOSTICS INCORPORATED

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

QUEST DIAGNOSTICS INCORPORATED
ONE MALCOLM AVENUE
TETERBORO, NEW JERSEY 07608

The Profit Sharing Plan of Quest Diagnostics Incorporated

Index to Financial Statements and Additional Information

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* Other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Exhibit

Exhibit 23 - Consent of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
The Profit Sharing Plan of Quest Diagnostics Incorporated

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of The Profit Sharing Plan of Quest Diagnostics Incorporated (the "Plan") at December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) at December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
Stamford, Connecticut
June 23, 2004

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The Profit Sharing Plan of Quest Diagnostics Incorporated Statements of Net Assets Available for Benefits December 31, 2003 and 2002

	2003	2002
	-----	-----
Assets		
Investments, at Fair Value	\$1,237,202,875	\$887,053,639
Participant Loans	41,670,117	33,448,232
	-----	-----
Total Investments	1,278,872,992	920,501,871
	-----	-----
Cash and Cash Equivalents	7,896,280	10,246,644
Other Assets	18,011	136,587
	-----	-----
Net Assets Available for Benefits	\$1,286,787,283	\$930,885,102
	=====	=====

The accompanying notes are an integral part of these financial statements.

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The Profit Sharing Plan of Quest Diagnostics Incorporated
Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2003

	2003

Additions to Net Assets Attributed to:	
Investment Income:	
Interest and Dividends	\$ 23,980,916
Net Appreciation in Fair Value of Investments	215,079,897

Investment Income	239,060,813

Contributions:	
Employer	55,836,117
Participants	90,050,255

Total Contributions	145,886,372

Transfers from Other Plans	44,180,888

Total Additions	429,128,073

Deductions from Net Assets Attributed to:	
Benefits Paid to Participants	72,930,697
Other Fees	295,195

Total Deductions	73,225,892

Net Increase	355,902,181
Net Assets Available for Benefits:	
Beginning of Year	930,885,102

End of Year	\$1,286,787,283
	=====

The accompanying notes are an integral part of these financial statements.

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The Profit Sharing Plan of Quest Diagnostics Incorporated

Notes to Financial Statements

1. Description of the Plan

Background - The Profit Sharing Plan of Quest Diagnostics Incorporated (the "Plan"), is a defined contribution plan established by Quest Diagnostics Incorporated (the "Company" or the "Plan Sponsor") to provide its eligible employees with retirement benefits. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The following description of the Plan provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

Effective January 31, 2003, the AML 401(k) Plan ("AML-East Plan") was merged into the Plan. Effective February 2, 2003, the APL Healthcare Group Inc. Profit Sharing and 401(k) Plan ("AML-West Plan") was merged into the Plan. Effective June 2, 2003, the Clinical Diagnostic Services 401(k) Plan ("CDS Plan") was merged into the Plan. Participant account balances totaling \$22,669,619, \$18,897,272 and \$1,124,199 were transferred from the AML-East Plan, AML-West Plan and the CDS Plan, respectively, into the Plan. In addition, there were outstanding participant loans totaling \$1,489,798 transferred into the Plan from the AML-East and AML-West Plans. The assets from the AML-East, AML-West and CDS Plans were liquidated and the money was transferred to the investments in the Plan with similar investment objectives, unless redirected by the participant.

Eligibility and Participant Contributions - All eligible employees who have completed one month of service may participate in the Plan. The maximum Basic Contribution is 6%. Participants may elect to make a Supplemental Contribution of between 1% and 29%. Catch-up contributions (as defined in the Internal Revenue Code) are permissible for eligible participants. Participants' contributions are generally remitted within one-to-two weeks from when the payroll deductions are made.

Company Matching Contributions - The Company matches 100% of the participants' Basic Contribution in cash after the participant completes twelve months of service with the Company. The Company may make additional contributions at the discretion of the Company's Board of Directors. Company contributions are remitted at the same time that the corresponding participants' contributions are made.

Vesting - Participants immediately vest in their voluntary contributions and Company contributions plus actual earnings thereon. "Prior Employer Match Sub-Account" contributions merged into the Plan from the AML-East and AML-West Plans are subject to three-year vesting requirements as follows: 25% after one year of vesting service, 50% after two years of vesting service and 100% after three years of vesting service.

Investment Options - Participants may elect to have their voluntary contributions and the Company contributions invested in any or all of the open investment funds, most of which are managed by Fidelity Management & Research Company. Participants may elect to have their voluntary contributions and the Company contributions invested in common shares of the Company. Contributions and transfers into the Covance Stock fund and the Corning Stock fund are prohibited. Participants are permitted to transfer money invested in these funds into other funds. Effective March 1, 2002, the Managed Income Portfolio II Class 2 fund was added to the Plan, with the assets from the Managed Income Portfolio

The Profit Sharing Plan of Quest Diagnostics Incorporated

Notes to Financial Statements - continued

fund transferred into the Managed Income Portfolio II Class 2 fund over the twelve-month period ended March 1, 2003. With the addition of the Managed Income Portfolio II Class 2 fund, all new contributions to the Managed Income Portfolio fund were prohibited. Effective June 1, 2003, the following funds were added to the Plan: Fidelity Freedom 2000, Fidelity Freedom 2010, Fidelity Freedom 2020, Fidelity Freedom 2030, Fidelity Freedom 2040 and Fidelity Freedom Income.

Distribution Options - Participants can elect to have their benefit distributions paid in the form of a lump sum distribution or by monthly, quarterly or annual installments.

Withdrawals - Withdrawals may be made for qualified emergencies and hardships, as defined in the Internal Revenue Code. Depending upon the type of withdrawal and the status of the contribution, penalties upon withdrawal may apply. Participants may also begin to make withdrawals at age 59 1/2. Participant benefit claims which have been processed and approved but not paid (i.e., distributions payable) are recorded as a reduction to net assets available for benefits when paid.

Forfeitures - Forfeited nonvested accounts are used to reduce future employer contributions.

Plan Administration - The Plan Administrator is the Employee Benefits Administration Committee, which is appointed by the Company's Board of Directors. The Plan's trustee and recordkeeper are Fidelity Management Trust Company and Fidelity Investments Institutional Operations Company, Inc., respectively.

Loans to Participants - Participants are permitted to obtain loans that have as collateral their account values in amounts not less than \$1,000 and not greater than the lesser of (1) \$50,000, subject to certain limitations as defined by the Plan, or (2) 50% of the participant's vested portion of their account value. These loans bear interest at prevailing market interest rates at the time the loans are issued.

Tax Status - The Internal Revenue Service has determined and informed the Company by letter dated May 17, 2002, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. The Plan has subsequently been amended. However, the Plan Sponsor and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Termination - The Company intends to continue the Plan indefinitely, but reserves the right to change or discontinue the Plan at its discretion. Participants will become fully vested in their rights under the Plan if it is terminated or if Company contributions are completely discontinued.

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2. Summary of Significant Accounting Policies

Method of Accounting - The Plan maintains its financial records on the accrual basis of accounting.

Benefits - Benefits are recorded when paid.

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The Profit Sharing Plan of Quest Diagnostics Incorporated

Notes to Financial Statements - continued

Valuation of Investments - Investments in mutual funds, common stock and common/collective trusts are stated at fair value as determined by quoted market prices. Participants' loans are valued at cost, which approximates fair value.

Administrative Expenses - Accounting fees and certain administrative expenses of the Plan are currently paid by the Company.

Other Fees - Loan origination and certain distribution fees are charged against participant accounts. Effective October 1, 2003, trustee fees for the Quest Diagnostics Incorporated Stock Fund are charged against participant accounts holding Quest Diagnostics common stock.

Security Transactions and Investment Income - Realized and unrealized gains (losses) on securities are included in Net Appreciation in Fair Value of Investments in the Statement of Changes in Net Assets Available for Benefits.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income from other investments is recorded as earned on the accrual basis.

Cash and Cash Equivalents - Cash and cash equivalents include highly-liquid investments with maturities of three months or less.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties - The Plan provides for participant-directed investment of their voluntary contributions and the Company contributions in a number of investment funds. Certain underlying investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could

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materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

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The Profit Sharing Plan of Quest Diagnostics Incorporated

Notes to Financial Statements - continued

3. Net Appreciation in Fair Value of Investments

For the year ended December 31, 2003, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Type of investment	2003

Mutual Funds	\$122,005,077
Common Stock	93,074,820

Net Appreciation in Fair Value of Investments	\$215,079,897
	=====

4. Investments

The following presents investments that represented 5 percent or more of the Plan's net assets available for benefits at December 31, 2003 and 2002:

	2003	2002
	-----	-----
Quest Diagnostics Incorporated (4,787,180 and 5,293,644 shares, respectively)	\$349,990,730	\$301,208,344
Fidelity Puritan (14,155,879 and 10,337,761 shares, respectively)	261,459,088	163,233,247
Fidelity Magellan (1,848,465 and 1,665,292 shares, respectively)	180,668,922	131,491,486
Fidelity Managed Income Portfolio II Class 2 (143,122,316 and 114,185,038 shares, respectively)	143,122,316	114,185,038
Fidelity Contrafund (1,474,845 and 1,241,167 shares, respectively)	72,783,594	47,909,044

5. Subsequent Event

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Effective February 2, 2004, the Unilab 401(k) Plan (the "Unilab Plan") was merged into the Plan. Participant account balances totaling \$62,955,647 were transferred from the Unilab Plan into the Plan. In addition, there were outstanding participant loans totaling \$1,912,265 transferred into the Plan from the Unilab Plan. The assets from the Unilab Plan were liquidated and the money was transferred to the investments in the Plan with similar investment objectives, unless redirected by the participant. "Prior Unilab Employer Contributions" merged into the Plan from the Unilab Plan are subject to four-year vesting requirements as follows: 10% after one year of vesting service, 20% after two years of vesting service, 50% after three years of vesting service and 100% after four years of vesting service. Subsequent to the plan merger, participants will immediately vest in their voluntary contributions and Company contributions plus actual earnings thereon.

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The Profit Sharing Plan of Quest Diagnostics Incorporated Schedule H, line 4i

Schedule of Assets (Held at End of Year)
December 31, 2003

Identity of Issue -----	Description -----	Shares/Units -----	Cost ----	Current Value -----
Quest Diagnostics Incorporated*	Common Stock	4,787,180	\$137,032,007	\$349,990,7
Fidelity Puritan	Mutual Fund	14,155,879	248,803,008	261,459,0
Fidelity Magellan	Mutual Fund	1,848,465	177,449,918	180,668,9
Fidelity Managed Income Portfolio II Class 2	Common/Collective Trust	143,122,316	143,122,316	143,122,3
Fidelity Contrafund	Mutual Fund	1,474,845	69,023,417	72,783,5
Fidelity Low-Priced Stock	Mutual Fund	1,151,057	31,610,472	40,263,9
Fidelity Equity-Income	Mutual Fund	772,196	35,344,304	38,416,7
Fidelity Diversified International	Mutual Fund	1,201,309	23,924,915	28,975,5
Spartan U.S. Equity Index	Mutual Fund	708,838	27,903,275	27,935,3
Fidelity Growth & Income	Mutual Fund	733,199	26,935,163	26,123,8
Fidelity U.S. Bond Index	Mutual Fund	2,199,042	24,481,895	24,607,2
Corning Stock	Common Stock	1,638,742	10,383,483	17,092,0

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Fidelity Over-the-Counter Portfolio	Mutual Fund	195,992	5,980,204	6,363,8
Fidelity Freedom 2010	Mutual Fund	419,883	5,263,658	5,466,8
Fidelity Freedom 2020	Mutual Fund	399,807	4,840,819	5,205,4
Fidelity Freedom 2030	Mutual Fund	238,412	2,809,654	3,087,4
Covance Stock	Common Stock	111,062	1,516,692	2,976,4

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The Profit Sharing Plan of Quest Diagnostics Incorporated Schedule H, line 4i

Schedule of Assets (Held at End of Year) - continued
December 31, 2003

Identity of Issue	Description	Shares/Units	Cost	Current Value
Fidelity Freedom 2040	Mutual Fund	152,571	1,080,784	1,153,436
Fidelity Freedom 2000	Mutual Fund	91,827	1,060,293	1,081,717
Fidelity Freedom Income	Mutual Fund	38,605	425,264	428,128
Participant Loans*	**		--	41,670,117
Fidelity Institutional Cash Portfolio	Money Market Fund	7,896,280	7,896,280	7,896,280
			----- \$986,887,821 =====	----- \$1,286,769,272 =====

* "Party-in-interest" to the Plan.

** Rates approximate prime plus 1%; maturities vary by participant.

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the plan sponsor of The Profit Sharing Plan of Quest Diagnostics Incorporated has duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

June 24, 2004

The Profit Sharing Plan of
Quest Diagnostics Incorporated

By: /s/ Robert A. Hagemann

Robert A. Hagemann
Member of the Quest Diagnostics Incorporated Employee Benefits
Administration Committee, Plan Administrator