QUEST DIAGNOSTICS INC
Form DEF 14A
April 22, 2009

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:

£ Preliminary Proxy Statement
T Definitive Proxy Statement
£ Definitive Additional Materials
£ Soliciting Material Pursuant to § 240.14a-12

£ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

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:

(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:

Notice of 2009 Annual Meeting of Shareholders
Quest Diagnostics Incorporated
Three Giralda Farms
Madison, New Jersey
May 14, 2009, 10:30 a.m. local time

April 22, 2009

Dear Fellow Shareholder:

It is my pleasure to invite you to attend Quest Diagnostics 2009 Annual Meeting of Shareholders. At the meeting, we will:

- elect three members of the Board of Directors;
- consider approving amendments to the Amended and Restated Employee Long-Term Incentive Plan;
- consider approving amendments to the Amended and Restated Long-Term Incentive Plan for Non-Employee Directors;
- consider ratifying the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009; and
- transact such other business as may properly come before the meeting.

Our Board of Directors recommends that you vote **FOR** the election of directors, the plan amendments and the ratification of the appointment of the accounting firm.

Attendance at the meeting is limited to shareholders of record at the close of business on March 16, 2009, or their duly appointed proxy holder.

We enclose our proxy statement, our annual report and a proxy card. *Your vote is very important*. Whether or not you plan to attend the meeting, I urge you to vote your shares. Most shareholders may vote via mail, telephone or the Internet. Instructions on how to vote are included with your proxy card and these proxy materials. Please submit your proxy promptly.

Thank you for your continued support of Quest Diagnostics.

Sincerely,

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

Table of Contents

PROXY STATEMENT

QUEST DIAGNOSTICS INCORPORATED
Three Giralda Farms
Madison, New Jersey 07940
(973) 520-2700

INFORMATION ABOUT OUR 2009 ANNUAL MEETING

This proxy statement and form of proxy and voting instructions are being mailed starting on or about April 22, 2009.

Who is soliciting my vote?

The Board of Directors (the Board of Directors or the Board) of Quest Diagnostics Incorporated, a Delaware corporation (Quest Diagnostics, the Company, we or our), is soliciting your vote for our 2009 annual meeting.

What will I vote on?

You are being asked to vote on:

- election of three directors for a three-year term;
- approval of amendments to the Amended and Restated Employee Long-Term Incentive Plan (Employee Plan);
- approval of amendments to the Amended and Restated Long-Term Incentive Plan for Non-Employee Directors (Director Plan); and
- ratification of the appointment of PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for 2009.

Who can vote at the annual meeting?

Holders of our common stock as of the close of business on the record date will be entitled to vote at the annual meeting and at any adjournment or postponement of the annual meeting. March 16, 2009 is the record date.

How many votes can be cast by all shareholders?

On the record date, there were 189,889,187 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.

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

We need a majority of the votes that may be cast, present in person or represented by proxy, 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 sufficient votes will be present to hold the annual meeting.

How do I vote if I am a holder of record (that is, I hold my shares in my name with the Company s transfer agent)?

If you are a holder of record, you may vote by submitting your proxy via mail, telephone or the Internet or by attending the annual meeting and voting in person. If you choose to submit your proxy by mail, simply mark, sign and date your proxy card and return it in the enclosed postage pre-paid envelope. You can also submit your proxy by calling 1-888-693-8683. If you choose to submit your proxy on the Internet, go to www.cesvote.com. The directions for telephone and Internet proxy submission are on your proxy card. If you return a signed proxy card without indicating your vote, your shares will be voted according to the Board s recommendations.

How do I vote if I hold my shares in street name (that is, through a broker, bank or other holder of record)?

If you hold your shares in street name, please follow the voting instructions forwarded to you by your bank, broker or other holder of record. If you want to vote in person at the annual meeting, you must obtain a proxy from your broker, bank or other holder of record authorizing you to vote and bring the proxy to the annual meeting.

How many votes will be required to elect directors?

Each director will be elected by a majority of votes cast with respect to such director. A majority of votes cast means that the number of votes cast for a director nominee exceeds the number of votes cast against that director nominee. Under Delaware law, if the director is not elected at the annual meeting, the director will continue to serve on the Board as a holdover director. As required by the Company s by-laws, each director nominee has submitted an irrevocable letter of resignation as director that becomes effective if he or she is not elected by the shareholders and the Board accepts the resignation. If a director is not elected, the Governance Committee will consider the director s resignation and recommend to the Board whether to accept or reject the resignation or take other action. The Board will decide whether to accept or reject the resignation or take other action and publicly disclose its decision and, if it rejects the resignation, the rationale behind the decision, within 120 days after the election results are certified.

How many votes will be required to adopt the other proposals?

The ratification of PwC s appointment and the approval of the amendments to the Employee Plan and the Director Plan each requires the affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon.

Can I change or revoke my proxy?

Yes. You may revoke your proxy at any time before your shares are voted by:

- submitting a later proxy, including by telephone or the Internet;
- delivering a written revocation notice to William J. O Shaughnessy, Jr., Corporate Secretary, Quest Diagnostics Incorporated, Three Giralda Farms, Madison, New Jersey 07940; or

voting in person at the annual meeting.

What if I vote to abstain?

Shares voting abstain for any nominee for director will be excluded entirely from the vote and will have no effect on the election of that nominee. Shares voting abstain on any other proposal will be counted as present for purposes of that proposal and will have the effect of a vote against the proposal.

What happens if I do not vote?

If you are a record holder and do not vote your shares, your shares will not be voted.

If you are a participant in the Quest Diagnostics Profit Sharing Plan and you do not submit voting instructions in respect of shares held on your behalf in that plan, then, except as otherwise required by law, the plan trustee will vote your shares in the same proportion as the voting instructions that it receives from other participants in that plan. If you hold shares in the Company s Employee Stock Purchase Plan and you do not submit voting instructions in respect of shares held in that plan, those shares will not be voted.

If your shares are held in street name through a broker and you do not provide voting instructions, your broker may be permitted to vote your shares. New York Stock Exchange member brokers may vote in their discretion on the election of directors and the ratification of the appointment of our independent registered public accounting firm; they may not vote in their discretion on the proposed amendments of the Employee Plan or the Director Plan. If you do not provide voting instructions with respect to a matter and your broker does not vote your shares, your shares will not be voted on that matter.

What if there is voting on other matters?

We do not know of any other matters that may be presented for action at the meeting other than those described in this proxy statement. If any other matter is properly brought before the meeting, the proxy holders will have the discretion to vote on those matters for you.

How can I attend the annual meeting?

Only shareholders as of the record date (or their proxy holders) may attend the annual meeting. All shareholders seeking admission to the meeting must present photo identification. If you hold your shares in street name, to gain admission to the meeting you also must provide proof of ownership of your shares as of the record date. Proof of ownership may be 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.

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. Our directors, officers and employees may solicit proxies on our behalf by telephone, mail, electronic or facsimile transmission, in person or by other means of communication. We also have hired Georgeson Inc. to solicit proxies and for these services we will pay an estimated fee of $12,000, plus expenses.

Whom should I call with other questions?

If you have additional questions about this proxy statement or the annual meeting or would like additional copies of this document or our 2008 Annual Report on Form 10-K, please contact Investor Relations, Quest Diagnostics Incorporated, 3 Giralda Farms, Madison, N.J. 07940; email address: investor@QuestDiagnostics.com.

MATTER TO BE CONSIDERED AT THE ANNUAL MEETING

Proposal No. 1 Election of Directors

The Company s Restated Certificate of Incorporation requires that the Company have at least three but not more than twelve directors, as the Board determines from time to time. The Board presently consists of nine directors divided into three classes, each with three-year terms. At this meeting, three directors are seeking re-election for a three-year term expiring in 2012. Information regarding each of the nominees and continuing directors is provided below.

Nominees for Election

Based on the recommendation of the Governance Committee, the Board nominated three individuals to serve as directors for a term expiring at the 2012 annual meeting. Each nominee is currently a director of the Company. Each nominee has consented to serve if elected. The terms of these three directors seeking re- election expire at the adjournment of the 2009 annual meeting.

Directors with Terms Expiring at the 2009 Annual Meeting

Jenne K. Britell, Ph.D., 66, has been the Chairman and Chief Executive Officer of Structured Ventures, Inc., a firm that advises domestic and foreign companies on financial services products and 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 the non-executive chair of United Rentals, Inc. and a director of Crown Holdings, Inc. She is a trustee of the Fox Chase Cancer Center and a director of the U.S. Russia Foundation for Economic Advancement and the Rule of Law. Dr. Britell has been a director of Quest Diagnostics since August 2005.

Gail R. Wilensky, Ph.D., 65, is a Senior Fellow at Project HOPE, an international non-profit health foundation, which she joined in 1993. Dr. Wilensky currently serves as President of the Defense Health Board, an advisory board in the Department of Defense. From 1997 to 2001, she was the chair of the Medicare Payment Advisory Commission. From 1995 to 1997, she chaired the Physician Payment Review Commission. 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., SRA International, Inc. and UnitedHealthcare Corporation. She also served 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 of Health Care. Dr. Wilensky has been a director of Quest Diagnostics since January 1997.

John B. Ziegler, 63, 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 GlaxoSmithKline on page 12.

Directors Continuing in Office

Directors with Terms Expiring at the 2010 Annual Meeting

John C. Baldwin, M.D., 60, is the President of Texas Tech University Health Sciences Center. From 2005 to 2007, he was 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., 59, 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, Chief Executive Officer in May 2004, and Chairman of the Board in December 2004. Dr. Mohapatra also is a director of ITT Corporation. Dr. Mohapatra has been a director of Quest Diagnostics since October 2002.

Gary M. Pfeiffer, 59, has been the Secretary of Finance for the State of Delaware since January 2009. Mr. Pfeiffer retired in 2006 as the Senior Vice President and Chief Financial Officer of E.I. du Pont de Nemours and Company. He 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 InterNAP Network Services Corporation and Talbots, Inc. Mr. Pfeiffer has been a director of Quest Diagnostics since December 2004.

Directors with Terms Expiring at the 2011 Annual Meeting

William F. Buehler, 69, 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 Corporation. Mr. Buehler has been a director of Quest Diagnostics since July 1998.

Rosanne Haggerty, 48, 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., 63, 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 InterNAP Network Services Corporation. Dr. Stanzione has been a director of Quest Diagnostics since January 1997.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE FOR DIRECTOR. PROXIES SOLICITED BY THE BOARD WILL BE VOTED FOR THESE NOMINEES UNLESS OTHERWISE INSTRUCTED.

INFORMATION ABOUT OUR CORPORATE GOVERNANCE

Governance Practices

The Board of Directors believes that good corporate governance is important. The Board has adopted a set of Corporate Governance Guidelines to enhance its own effectiveness and to demonstrate its commitment to strong corporate governance for the Company. The Board reviews these Guidelines from time to time for possible revision, including to respond to changing regulatory requirements, evolving practices and the concerns of our shareholders.

In February 2009, following study and deliberation during 2008 of majority voting in uncontested director elections, the Board amended the Company s by-laws to provide for majority voting in uncontested director elections. Operation of the amended by-laws is discussed on page 2 at the question How many votes will be required to elect directors?

The Company has adopted a Code of Business Ethics applicable to all directors, officers and employees.

Our Corporate Governance Guidelines and our Code of Business Ethics are published on our corporate governance website at www.QuestDiagnostics.com/governance. Paper copies are available without charge upon written request to the Corporate Secretary.

Additional highlights of our corporate governance practices are described below.

Director Independence

The Board of Directors assesses annually the independence of each director in accordance with the Company s Corporate Governance Guidelines and New York Stock Exchange listing standards. The independence guidelines in the Company s Corporate Governance Guidelines are consistent with the independence requirements in the New York Stock Exchange listing standards and include guidelines as to categories of relationships that are not considered material for purposes of director independence. Our Corporate Governance Guidelines are available on our corporate governance website at www.QuestDiagnostics.com/governance.

The Board has determined that a substantial majority (eight of nine) of our directors is independent. Each member, including the chair, of each of the Audit and Finance Committee, the Compensation Committee, the Governance Committee and the Quality, Safety & Compliance Committee qualifies as independent. The Board has determined the following directors to be independent: John C. Baldwin, Jenne K. Britell, William F. Buehler, Rosanne Haggerty, Gary M. Pfeiffer, Daniel C. Stanzione, Gail R. Wilensky and John B. Ziegler. Surya N. Mohapatra, the Chairman of the Board, President and Chief Executive Officer of the Company, is not independent because he is a Company officer.

In considering the independence of Mr. Ziegler, the Board considered that prior to January 31, 2006, when he retired from GlaxoSmithKline, Mr. Ziegler was President, Worldwide Consumer Healthcare of GlaxoSmithKline, which beneficially owned approximately 16.5% of the Company s outstanding common stock as of March 20, 2009. The Board also considered that Mr. Ziegler has been recommended by SmithKline Beecham for nomination as a director of the Company, and the Company s relationship with GlaxoSmithKline, including the transactions between the Company and GlaxoSmithKline during 2008. For a discussion of the Company s relationship with GlaxoSmithKline, including transactions between the Company and GlaxoSmithKline during 2008, see Related Person Transactions GlaxoSmithKline on page 12. Mr. Ziegler was not involved with the negotiation of any of these arrangements or transactions.

Shareholder Access

Shareholders and any other person may communicate with the Board by sending an email to our Lead Independent Director at LeadIndependentDirector@QuestDiagnostics.com or by writing to the full Board or any individual director or any group or committee of directors, c/o Corporate Secretary, Three Giralda Farms, Madison, New Jersey 07940. Communications received at the email address are automatically routed to our Lead Independent Director with a copy to our General Counsel and Corporate Secretary. The Lead Independent Director determines whether any such communication should be distributed to other members of the Board. All communications received by the Corporate Secretary addressed as set forth above and that involve the interest of the Company or its shareholders, other than solicitations, are forwarded to the intended directors.

The Audit and Finance Committee 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 shareholders meeting on a day on which we also schedule a regular Board meeting. This year, we have scheduled a regular Board meeting on the date of the annual meeting. We encourage our directors to attend each annual shareholders meeting and expect that all of our directors will attend the annual meeting this year. 8 of our 9 directors attended the 2008 annual shareholders meeting.

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 Company s Corporate Governance Guidelines, which set forth the Board s philosophy regarding Board composition and identify key qualifications and other considerations.

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 practitioner and/or science and health thought leader.

Other considerations:

< Independence;

< 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 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, Three Giralda Farms, Madison, New Jersey 07940. The recommendation should contain the proposed nominee s name, biographical information and relationship to the shareholder. The Governance Committee evaluates shareholder recommendations for director candidates in the same manner as other director candidate recommendations. Shareholders may also nominate director candidates. See Information About Our 2010

Annual Meeting on page 52 for information regarding the process and deadline for shareholders to submit director nominations for the 2010 annual meeting.

When the Governance Committee identifies a need to add a new Board member, the Governance Committee identifies candidates by seeking input from Board members and considering recommendations for nominees submitted by other sources, including 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, President and Chief Executive Officer, the Lead Independent Director and other

Board members interview the candidates selected by the Governance Committee. Members of senior management also may interview candidates. After the interview process, the Governance Committee re-assesses the candidates and then makes its recommendation for director candidates to the Board, which determines which candidates are nominated for election by the shareholders or elected by the Board.

Board Practices

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

Directors are regularly updated by senior management, our independent registered public accounting firm and compensation consultants on changes in the Company s businesses, its markets and best practices in general. Directors also are 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 their interests with the interests of our shareholders.

The Board and each committee have access to independent legal, financial or other advisors as they deem necessary, without obtaining management approval, but no committee may engage the Company s independent registered public accounting firm to perform any services without the approval of the Audit and Finance Committee.

In considering committee assignments for directors, the

Governance Committee considers the rotation of committee chairs and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors.

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.

Board Committees

In order to fulfill its responsibilities, the Board has delegated certain authority to its committees. There are five standing committees. During 2008, the Board held 7 meetings. Each of our directors attended at least 75% of the total number of meetings of the Board and the committees on which he or she served. Any director may attend meetings of any committee of which the director is not a member. The following table shows the membership of each of the committees since the 2008 annual shareholders meeting and the number of meetings held by each committee in 2008.

	Audit and Finance	*Compensation*	*Governance*	*Quality, Safety & Compliance*	*Executive*
John C. Baldwin, M.D					
Jenne K. Britell, Ph.D					
William F. Buehler					
Rosanne Haggerty					
Surya N. Mohapatra, Ph.D.					
Gary M. Pfeiffer					
Daniel C. Stanzione, Ph.D.					
Gail R. Wilensky, Ph.D.					
John B. Ziegler					
Number of meetings	12	6	4	4	0

For each year, a schedule of Board meetings is established before the year begins. Committee meetings are generally scheduled for the day before, or the day of, meetings of the full Board. The Board and each committee also hold such additional meetings as the Board or committee, respectively, determines necessary or appropriate.

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 their charters, which are available on our corporate governance website at www.QuestDiagnostics.com/governance or without charge upon written request to the Corporate Secretary.

Audit and Finance Committee

The Audit and Finance Committee:

Assists the Board in monitoring the quality and integrity of the financial statements and financial reporting procedures of the Company 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 performed internally and by the outside independent registered public accounting firm.

Appoints the independent registered public accounting firm, monitors its qualifications, independence and performance, approves its compensation and pre-approves the services it performs.

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.

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

Reviews annually its performance.

The Board has determined that Jenne K. Britell and Gary M. Pfeiffer qualify as audit committee financial experts as defined by the Securities and Exchange Commission. For descriptions of the experience of Dr. Britell and Mr. Pfeiffer, see Proposal No. 1 Election of Directors beginning on page 3.

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, competitive compensation data and other factors.

- Oversees the performance of other executive officers and annually reviews and approves their annual base salary, annual incentive compensation and long-term incentive compensation.

- Annually reviews and recommends to the Board the compensation of the Company s non-employee directors.

Administers, or makes recommendations to the Board regarding, the equity-based, incentive compensation and retirement plans, policies and programs of the Company. The Committee may delegate the administration of plans, policies and programs as appropriate, including to executive officers of the Company and to the Company s Human Resources department.

Supports the Board in the senior management succession planning process.

Reviews and approves, for executive officers, employment agreements, severance benefits and other special benefits.

Reviews annually its performance.

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 page 16.

Governance Committee

The Governance Committee:

Identifies 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.

Monitors developments in corporate governance.

Reviews the Company s Corporate Governance Guidelines and recommends to the Board such changes to the Guidelines, if any, as the Committee may determine.

Recommends for Board approval assignments of directors to Board 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.

- Oversees the Board and each Board committee in their annual self-evaluation.

- Reviews annually its performance.

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.

Reviews the organization, responsibilities, plans, results, budget and staffing of the compliance function, and reviews significant reports to management, or summaries thereof, prepared by the Compliance Department and management s responses thereto.

Monitors significant external and internal investigations of the Company s business as they relate to possible violations of law by the Company or its directors, officers, employees or agents.

Monitors significant regulatory, legislative and legal developments affecting the Company s business.

Monitors material legal

and medical quality matters and compliance with legal and regulatory requirements, and reports to the Audit and Finance Committee regarding the same.

Reviews annually its performance.

Executive Committee

The Executive Committee:

May act for the Board, 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 matters delegated to other Board committees.

Lead Independent Director

Daniel C. Stanzione, Ph.D., is the Company s 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 agendas 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.

- Monitor, and if appropriate discuss with other directors, communications

received from
shareholders and
others.

Related Person Transactions

Review and Approval of Related Person Transactions

The Company has a written policy pursuant to which it evaluates proposed transactions involving a related person and the Company in which the amount involved exceeds $120,000. 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. The office of the General Counsel is primarily responsible for the administration of the policy and 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. Certain transactions are defined not to be related person transactions under the policy.

The Governance Committee reviews any proposed transaction in which a related person has a direct or indirect material interest, except for any compensation arrangements involving an immediate family member of a director or an executive officer. In the event that the General Counsel becomes aware of a related person transaction 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. Any member of the Governance Committee who is a related person with respect to a transaction under review may not participate in any review, consideration or approval of the transaction.

In considering any related person transaction, the Governance Committee determines whether the transaction is fair to the Company. In considering a proposed transaction involving a director or the immediate family member of a director, the Governance Committee also assesses whether the proposed 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 criteria outlined above.

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. Compensation arrangements involving an immediate family member of a director are reviewed and approved by the Compensation Committee.

GlaxoSmithKline

As of March 20, 2009, SB Holdings Capital Inc., a subsidiary of SmithKline Beecham Corporation (SmithKline Beecham), owns 30,755,151 shares of the Company s common stock. SmithKline Beecham, which is a subsidiary of GlaxoSmithKline plc. (GSK), obtained the shares on August 16, 1999 as partial consideration for its sale of SmithKline Beecham Clinical Laboratories, Inc. to the Company. In connection with the purchase, 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.

At the closing of the acquisition, SmithKline Beecham and the Company entered into a stockholders agreement. During the term of the stockholders agreement, SmithKline Beecham has the right to designate two nominees to the Board (or, if required by UK GAAP, three nominees if the Board consists of more than ten directors) as long as SmithKline Beecham owns at least 20% of our outstanding common stock and one nominee to the Board as long as SmithKline Beecham owns at least 10% of our outstanding common stock. The stockholders agreement currently 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 our outstanding common stock.

Since the closing of the acquisition, SmithKline Beecham (or an affiliate) and the Company have been parties to a global clinical trials testing agreement under which the Company would serve as the primary or exclusive provider of SmithKline Beecham s clinical trials testing requirements. Effective January 1, 2008, SmithKline Beecham, together and on behalf of its affiliates, and the Company entered into a new agreement, which has a scheduled termination date of December 31, 2014, under which the Company will be the principal provider of central laboratory testing services to support GSK s clinical trials testing. In addition, on a selected basis, the Company may provide support for other early stage research and development activity. The new agreement was approved by the Board s Governance Committee pursuant to the Company s related person transaction policy. GSK pays the Company based upon a fee schedule attached to the agreement, subject to adjustment. Net revenues with respect to services provided to GSK under the clinical trials agreement were approximately $71 million in 2008. This amount represents approximately one percent of the 2008 net revenues of the Company and less than one percent of the 2008 net revenues of GSK.

During 2008, the Company and GSK purchased additional goods and services from each other. These transactions were in the ordinary course of business and at prevailing market prices and were not material to either party.

STOCK OWNERSHIP INFORMATION

We encourage our directors, officers and employees to own our common stock; owning our common stock aligns their interests with your interests as shareholders. The Board s stock ownership guidelines require each non-management director to own at least 6,000 shares of our common stock before the director

12

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 our common stock before they can receive full cash settlement for their stock option exercises. See also Compensation Discussion and Analysis beginning on page 16.

The following table shows 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. Information in the table regarding the Company s directors and executive officers is provided as of March 10, 2009. Information in the table regarding GSK is provided as of March 20, 2009.

Name	*Number of Shares Beneficially Owned*	*Percentage of Class*
GSK (1)	30,755,151	16.5 %
Named Executive Officers (2)(3)(4)		
Surya N. Mohapatra (5)	1,859,877	*
Robert A. Hagemann	812,153	*
Michael E. Prevoznik	480,784	*
Joan E. Miller	273,160	*
Wayne R. Simmons	169,697	*
Directors (2)(4)(6)		
John C. Baldwin	51,667	*
Jenne K. Britell	28,000	*
William F. Buehler	121,961	*
Rosanne Haggerty	82,399	*
Gary M. Pfeiffer	41,667	*
Daniel C. Stanzione	117,891	*
Gail R. Wilensky	116,891	*
John B. Ziegler (7)	107,033	*
All directors and executive officers as a group (13 persons) (2, 3, 4, 5, 6, 7)	4,263,180	2.2 %

* Less than 1%.

(1) The business address of GSK is 980 Great West Road, Brentford, Middlesex TW8 9GS England. The ownership information is based on the information

contained on a Schedule 13D amendment filed by GSK with the SEC on March 20, 2009. SB Holdings Capital Inc., a wholly owned subsidiary of GSK, holds the shares of record. The Schedule 13D also discloses that GSK has shared voting and dispositive power with respect to all of the shares owned by it.

(2) All directors and executive officers have sole voting power and sole dispositive power over all shares of common stock beneficially owned by them.

(3) Includes shares of common stock which are subject to options issued under the Employee Plan that are exercisable as of, or will become exercisable within 60 days of, March 10, 2009. Dr. Mohapatra, Mr.

Hagemann, Mr. Prevoznik, Dr. Miller and Mr. Simmons have the right to purchase 1,629,574; 713,836; 442,109; 199,465 and 155,426 shares, respectively, pursuant to such options.

(4) Does not include unvested restricted share units corresponding to common stock held by the directors and executive officers. Mr. Hagemann, Mr. Prevoznik, Dr. Miller and Mr. Simmons held 19,893; 9,678; 11,828; and 9,678 restricted share units, respectively, all of which were part of equity awards made in February 2009 (Dr. Mohapatra s February 2009 equity award was in the form of restricted shares, which are included in the table above). Each nonemployee director held

1,667 restricted share units, except Dr. Britell and Mr. Ziegler have 3,334 stock units (of which 1,667 share units are vested).

(5) Includes 63,598 shares of common stock beneficially owned indirectly by Dr. Mohapatra as grantor/trustee of qualified grantor retained annuity trusts.

(6) Includes options issued under the Director Plan that are exercisable as of, or will become exercisable within 60 days of, March 10, 2009. Dr. Baldwin, Dr. Britell, Mr. Buehler, Ms. Haggerty, Mr. Pfeiffer, Dr. Stanzione, Dr. Wilensky and Mr. Ziegler have the right to purchase 46,666; 24,166; 106,666; 78,066; 36,666; 106,666; 106,666; and 96,997 shares, respectively,

pursuant to such options.

(7) Mr. Ziegler disclaims beneficial ownership of the shares of common stock owned by GSK.

2008 DIRECTORS COMPENSATION TABLE

The following table sets forth the 2008 compensation of our non-employee directors. Dr. Mohapatra, the only employee director, received no additional compensation for serving as a director.

Director	*Fees Earned or Paid in Cash ($)(1)*	*Stock Awards ($)(2)*	*Option Awards ($)(3)*	*Change in Pension Value and Non-Qualified Deferred Compensation Earnings($)(4)*	*All Other Compensation ($)(5)*	*Total ($)*
John C. Baldwin	62,000	83,250	110,394		36,000	291,644
Jenne K. Britell	63,500	83,250	110,394		36,000	293,144
William F. Buehler	61,250	83,250	110,394		36,000	290,894
Rosanne Haggerty	53,750	83,250	110,394		36,000	283,394
Gary M. Pfeiffer	99,500	83,250	110,394	66	36,000	329,210
Daniel C. Stanzione	99,500	83,250	110,394	2,636	36,000	331,780
Gail R. Wilensky	62,000	83,250	110,394		36,000	291,644
John B. Ziegler	56,750	83,250	110,394		36,000	286,394

(1) Includes amounts earned for 2008, including meeting fees for the fourth quarter of 2008 that were paid in January 2009. Does not include amounts paid in 2008 for 2007 meeting fees.

(2) Represents the dollar amount recognized for

financial statement reporting purposes in 2008 in accordance with the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) of restricted share unit grants, pursuant to the Director Plan, made in 2008 (also represents the grant date fair value of such restricted share units). As of December 31, 2008, each non-employee director held 1,667 restricted share units, except Dr. Britell and Mr. Ziegler have 3,334 restricted share units.

(3) Represents the dollar amount recognized for financial statement reporting

purposes in fiscal 2008 pursuant to SFAS 123R of stock option grants, pursuant to the Director Plan, made in 2008 (also represents the grant date fair value of such stock options). As of December 31, 2008, each non-employee director held options to purchase the following number of shares of the Company s common stock: Dr. Baldwin: 58,000; Dr. Britell: 35,500; Mr. Buehler: 118,000; Ms. Haggerty: 89,400; Mr. Pfeiffer: 48,000; Dr. Stanzione: 118,000; Dr. Wilensky: 130,000; and Mr. Ziegler: 129,297.

(4) Interest in excess of 120% of the applicable federal long-term rate credited to a deferred

compensation account maintained on behalf of the director under the Deferred Compensation Plan for Directors. Interest is credited to the account at the prime rate of Citibank, N.A. in effect on the first date of each calendar quarter.

(5) Represents payment to each director for fees, expenses, interest and tax gross-up in connection with revised tax reporting of certain prior restricted stock awards.

Fees and Plans for Non-Employee Directors

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

Annual Cash Retainer Fees. Non-employee directors receive an annual cash retainer fee of $35,000, payable in quarterly installments of $8,750.

Meeting Fees. Non-employee directors receive a meeting fee of $1,500 for attending each Board or committee meeting at which a majority of directors attend in person and $750 for attending a meeting at which a majority of directors attend by telephone. Each director who serves as committee chair receives an additional $6,000 annual fee, except the Chair of the Audit and Finance Committee and the Lead Independent Director (who is also the Chair of the Governance Committee), each of whom receives an additional $30,000 annual fee.

Long-Term Incentive Plan for Non-Employee Directors. Each non-employee director participates in the Director Plan. The Director Plan currently authorizes the grant of non-qualified stock options and/or a stock award on the date of the annual shareholders meeting, in such proportions as the Board may determine, covering an aggregate of not more than 20,000 shares of the Company s common stock. If a person is appointed or elected as a director other than on the date of the annual shareholders meeting, the Board may grant to such director a prorated option and/or stock award, in such proportions as the Board may determine. The Director Plan also permits a one-time grant to a non-employee director of stock options and stock awards covering an aggregate of not more than 40,000 shares of common stock of the Company upon initial election to the Board. The annual option grants become exercisable, and annual restricted share units generally vest, in three equal annual installments, beginning on the first anniversary of the date of grant, regardless of whether the non-employee director remains a director.

A director may elect to receive annual retainer and meeting fees in stock options or stock awards in lieu of cash. The number of options issued in lieu of cash for the retainer and meeting fees is based on the estimated value of such options using the lattice-based option-valuation model for recognizing expense for financial statement reporting purposes pursuant to SFAS 123R. The number of shares issued in lieu of cash for the retainer and meeting fees is based on the fair market value of the stock on the date that the cash payment would otherwise be made. Options granted in lieu of retainer and meeting fees vest immediately. Options granted in 2008 under the Director Plan, once vested, are exercisable through the seventh anniversary of the date of grant even if the director s service on the Board terminates. The aggregate number of shares of the Company s common stock which may be issued pursuant to stock awards or the exercise of options granted under the Director Plan may not exceed 2,000,000 (subject to adjustments in certain circumstances). The exercise price of all stock options issued under the Director Plan is the fair market value of our common stock on the grant date.

Shareholders are being asked to approve amendments to the Director Plan at the annual meeting (see Proposal No. 3 Approval of Amendments to the Director Plan at page 46).

Deferred Compensation Plan for Directors. Under the Company s Deferred Compensation Plan for Non-Employee Directors, each non-employee director may elect to defer, until a date specified by the director or until the director s termination of service as a director, all or a portion of the director s cash compensation or any stock grants awarded pursuant to the Director Plan. Cash amounts deferred may be indexed to (i) a cash account under which amounts deferred earn interest, compounded quarterly, at the prime rate of Citibank, N.A. in effect on the first date of each calendar quarter or (ii) the Company s common stock.

2008 Changes in Director Compensation. Based on the recommendation of the Compensation Committee, effective at the 2008 annual shareholders meeting, the Board reduced the size of the annual equity grant to non-employee directors. The Board reduced the size of the annual stock option grant from 10,000 options to 8,000 options. The size of the annual restricted stock grant remained unchanged at 1,667 shares, and the form of the award was changed from restricted shares to restricted share units.

2009 Changes in Director Compensation. Based on the recommendation of the Compensation Committee, the Board proposes to increase the maximum term for stock options from 7 years to 10 years, consistent with the proposed change for employee options. This change would apply to stock options granted under the Director Plan on or after the date of the 2009 annual meeting, but would not affect stock options previously granted. The proposal is conditioned on shareholder approval of the proposed amendments to the Director Plan at the annual meeting (see Proposal No. 3 Approval of Amendments to the Director Plan on page 46 below). If shareholders do not approve the proposed amendments to the Director Plan at the annual meeting, then the term of the 2009 options granted to directors will remain 7 years.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The Compensation Committee (the Committee), in consultation with senior management and outside consultants, determined 2008 executive compensation after considering, among other things, the Company s performance, the current challenging economic environment and the general market focus on executive pay. We believe that our compensation programs are balanced and reasonable. They focus on the long term and do not rely on highly leveraged incentives that encourage risky short-term behavior. Our equity programs, including the vesting features of our equity awards, combined with our senior management share retention and ownership guidelines, are designed to link executive compensation to long-term stock performance. Our performance share awards, which are generally based on a three-year performance period, reward longer term financial and operational performance. Our annual cash incentives reward the achievement of annual performance, operating and strategic goals (both financial and non-financial). Our executive compensation in 2008 reflects our strong financial results and that the Company is financially sound and well positioned for continued growth.

Executive Compensation Philosophy and Components

The objectives of our executive compensation program are to attract and retain talented executives who have the skills and experience required to help us achieve our strategic objectives and advance the long-term interests of our shareholders. The compensation opportunity for our named executive officers is directly tied to corporate performance, both financial and non-financial results, and individual performance.

The principal components of compensation for our named executive officers are:

Base salary;

Annual performance-based cash incentives paid under the Senior Management Incentive Plan (SMIP);

Long-term incentive awards issued under the Employee Plan in the form of stock options, restricted shares and performance shares;

Deferred compensation, including Company matching contributions or credits, under the tax-qualified Quest Diagnostics Profit Sharing Plan (401(k) Plan) and the non-qualified Supplemental Deferred Compensation Plan (SDCP); and

Retirement income for our Chief Executive Officer under a Supplemental Executive Retirement Plan (SERP).

Our executive compensation program is designed to:

Attract and retain talented executives;

Incent executives to achieve results that appropriately balance the short-term and the long-term interests of our shareholders, employees and customers;

Reward corporate and individual performance;

Support our business strategy and financial objectives; and

Provide flexibility and responsiveness to changing business conditions, as well as the growth and diversification of the Company.

Setting Executive Compensation

The Committee establishes the Company s general compensation philosophy in consultation with our Chief Executive Officer and Vice President of Human Resources. The Committee oversees our executive compensation program and regularly monitors our executive compensation to ensure adherence to our compensation philosophy. The Committee has engaged Towers Perrin as its external compensation consultant. At the Committee s request, the consultant provides analyses and information regarding executive compensation trends and market practices, including, during 2008, an analysis of executive officer and director compensation. The consultant also performed calculations related to certain severance payments included in the tally sheets discussed below. In 2008, the consultant performed services for the Committee, but not for the Company.

Role of Executive Officers in Compensation Process

The Chief Executive Officer recommends to the Committee individual compensation adjustments for the executive officers, other than himself, based on market data and Company and individual performance. He also recommends incentive compensation measures to align compensation with our corporate objectives. The Chief Executive Officer is present during the portions of Committee meetings in which compensation decisions regarding the named executive officers other than the Chief Executive Officer are reviewed and decided, but the Committee retains the final authority for all such decisions.

Competitive Pay Information

For each named executive officer, the Committee annually reviews performance and approves all elements of compensation, including cash and equity awards, except for our broad-based employee benefit programs. After the Committee approves the compensation of our named executive officers, the Committee reports the compensation to the full Board.

To assist the Committee with its review, our Human Resources department, in consultation with the Committee s consultant, annually prepares analyses of each named executive officer s compensation, including tally sheets. The review includes current and prior year compensation information with base salary, target and paid annual incentive compensation, deferred compensation activity and balances, aggregate equity grant values, SERP benefits, perquisites, and all other compensation, as well as estimates of the amounts payable to each named executive officer upon termination of employment under various circumstances, including termination in connection with a change in control.

The compensation targets for, and compensation earned by, each named executive officer are analyzed relative to market data for comparable positions in a peer group, comprised of the companies in the S&P 500 Healthcare Equipment and Services Index, which includes Quest Diagnostics. Each company in the peer group is in the business of healthcare service, equipment or distribution. The peer group is used as a reference for all compensation comparisons except measuring payouts under our performance share awards, as discussed below. We periodically review our peer group to determine if it continues to be appropriate for comparison purposes. In 2008, the Committee s consultant did a separate, independent analysis of our peer group; the Committee determined that the peer group remained appropriate.

For the named executive officers, the Committee establishes target compensation consistent with comparable positions in the peer group and provides our named executive officers with the opportunity to earn greater rewards for performance that exceeds established goals. For each named executive officer, the key elements of base salary, total cash compensation, and long-term incentives, as well as the mix of these elements of direct compensation, are compared, to the extent possible, with amounts received by executives holding similar positions at companies in our peer group. We adjust the comparisons to take account of different scope of job responsibility where appropriate. Specific consideration is given to the weighting of fixed and at risk components of pay relative to the peer group. No single element of compensation is set without considering the total direct compensation of the named executive officers relative to the marketplace, as well as the impact of any change on the other components of our pay model. The economic value of each participant s prior equity awards at the date of grant is considered when setting annual compensation packages. We do not take into account realized or unrealized gains from previous equity awards in setting subsequent total compensation levels. Our practice is to establish base salary, annual cash incentive targets and equity grant levels and terms to deliver total direct compensation at market competitive levels, depending upon the named executive officer s responsibilities, expertise and experience, along with individual and Company performance. Consideration is also given to the criticality of retaining the executive. For 2008, the total direct compensation for the

Chief Executive Officer was in the 62nd percentile of the peer group, while the total direct compensation for the other named executive officers ranged from the 36th to 69th percentile. The Committee believes that the total direct compensation for each named executive officer was appropriate in 2008 in light of the factors discussed above.

Pay Components

Base Salary

We pay base salary to our executives to provide them a steady source of income for their exclusive services to the Company. The Committee annually reviews and approves base salaries for the named executive officers. Consistent with our executive compensation philosophy, base salaries are set at levels competitive with the peer group. The Committee determined whether base salary adjustments were warranted following an assessment of our 2007 results and each named executive officer s position, performance, scope of responsibility, current salary level and market comparables. After considering these factors, effective January 1, 2008, the Committee established each named executive officer s base salary as follows:

	Percentage Increase	*2008 Base Salary ($)*
Dr. Surya N. Mohapatra	4.5 %	1,143,868
Robert A. Hagemann	4.5 %	517,713
Michael E. Prevoznik	4.5 %	448,607
Dr. Joan E. Miller	3.5 %	439,875
Wayne R. Simmons	3.5 %	403,649

The total base salary paid to each named executive officer in 2008 is reported in the 2008 Summary Compensation Table on page 25.

SMIP

We pay annual incentives in accordance with the SMIP, which our shareholders approved at our 2003 annual shareholders meeting. The Committee selects a maximum of ten participants for inclusion in the SMIP each year. Pursuant to his employment agreement, Dr. Mohapatra, our Chief Executive Officer, must participate in the SMIP. Dr. Mohapatra s incentive target (expressed as a percentage of base salary) is specified in his employment agreement. For each participant, the threshold, target and maximum performance criteria are established with payout opportunities set at zero, one-times (1x), and two-times (2x) target incentive, respectively. Rewards for performance levels between these levels are interpolated. All SMIP payments are subject to the achievement of specific performance goals and, if achieved,