

QUEST DIAGNOSTICS INC
Form 11-K
June 15, 2018

UNITED STATES
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, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 001-12215

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
500 PLAZA DRIVE
SECAUCUS, NJ 07094

The Profit Sharing Plan of Quest Diagnostics Incorporated
As of December 31, 2017 and 2016
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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Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are no longer applicable.

Exhibit

Exhibit 23 - Consent of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

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

Opinion on the financial statements

We have audited the accompanying statements of net assets available for benefits of The Profit Sharing Plan of Quest Diagnostics, Inc. (the “Plan”) as of December 31, 2017 and 2016, the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on the Plan’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental information

The supplemental information in the accompanying schedules, Schedule H, Line 4(a) - Schedule of Delinquent Participant Contributions for the year ended December 31, 2017 and Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year) as of December 31, 2017, has been subjected to audit procedures performed in conjunction with the audit of the Plan’s financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements but includes supplemental information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan’s management. Our audit procedures included determining whether the supplemental information reconciles to the basic financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and

Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

We have served as the Plan's auditor since 2008.

New York, New York
June 15, 2018

The Profit Sharing Plan of Quest Diagnostics Incorporated
Statements of Net Assets Available for Benefits
December 31, 2017 and 2016
(in thousands)

	2017	2016
Assets		
Investments, at fair value	\$4,142,668	\$3,597,459
Notes receivable from participants	88,458	86,769
Net assets available for benefits	\$4,231,126	\$3,684,228

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, 2017
 (in thousands)

Additions:	
Investment Income	
Net appreciation in fair values of investments	\$458,326
Dividends and interest	186,643
Total investment income	644,969
Interest income on notes receivable from participants	3,877
Contributions	
Employer	78,591
Participants	154,668
Total contributions	233,259
Total additions	882,105
Deductions:	
Benefits paid to participants	334,829
Administrative expenses	378
Total deductions	335,207
Net increase	546,898
Net assets available for benefits:	
Beginning of year	3,684,228
End of year	\$4,231,126

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

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The Profit Sharing Plan of Quest Diagnostics Incorporated
December 31, 2017 and 2016
Notes to Financial Statements (dollars in thousands)

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, as amended ("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.

Eligibility and Participant Contributions - All eligible employees who have completed one month of service, as defined, may participate in the Plan. Participants may contribute an amount between 1% and 35% of their eligible compensation, as defined, for the contribution period. Catch-up contributions, as defined in the Internal Revenue Code, are permissible for eligible participants. Participants may modify their contribution percentage at any time.

Employer Matching Contributions - The Company matches 100% of a participant's contribution, up to 5% of eligible compensation, in cash after the participant completes 12 months of service, as defined, with the Company. Company contributions are remitted to the Plan at the same time that the corresponding participants' contributions are remitted.

Participant Accounts - A separate individual account is established for each participant in the Plan. Each participant's account is credited with the participant's contributions and the Company's matching contributions, plus actual earnings thereon. Earnings are allocated by fund based on the ratio of the participant's account invested in a particular fund to all participants' investments in that fund.

Vesting - Participants immediately vest in their voluntary contributions and Company contributions plus actual earnings thereon. Certain participants who were active in plans sponsored by previous employers have vesting requirements applied to their previous employer contribution accounts consistent with the vesting requirements in effect before the assets were merged into the Plan.

Investment Options - Participants may elect to have their voluntary contributions and Company matching contributions invested in any or all of the available investment funds, most of which are managed by Fidelity Management & Research Company ("FMRC"). Participants may also elect to have their voluntary contributions and Company matching contributions invested in shares of the Company's common stock. Participants have the ability to modify their investment elections daily, subject to certain short-term trading restrictions imposed by FMRC and the Company's securities trading policy, which prohibits trading in the Company's common stock on a short-term basis and while in possession of material non-public information about the Company.

Participants cannot contribute greater than 25% per pay period of pre-tax contributions into Quest Diagnostics common stock. In addition, participants can transfer monies into Quest Diagnostics stock only to the extent the percentage of holdings in Quest Diagnostics stock after the transfer remains below 25% of the participant's entire account balance.

Participants may elect to receive their dividends on investments in Quest Diagnostics stock as a taxable cash payment or to have those dividends automatically reinvested.

Distribution Options - Participants can elect to have their benefit distributions, equal to the value of the vested portion of their account balance, paid in the form of a lump sum distribution, a direct rollover into another eligible retirement plan or traditional individual retirement account, installment payments, or for appropriate assets, an annuity.

Withdrawals - Withdrawals may be made for qualified emergencies, 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 without penalty at age 59 ½, subject to certain limitations as defined by the Plan.

Forfeitures - Employer contributions in forfeited nonvested accounts may be used to reduce future employer contributions or pay the Plan's expenses. The forfeiture activity and account balance was not material as of December 31, 2017 and 2016.

The Profit Sharing Plan of Quest Diagnostics Incorporated
December 31, 2017 and 2016
Notes to Financial Statements (dollars in thousands) - continued

Parties-in-Interest - Certain investments of the Plan, as of December 31, 2017 and 2016, are shares of mutual funds, a money market fund, and a collective fund managed by FMRC. These transactions qualify as party-in-interest transactions. As of December 31, 2017 and 2016, investments with a fair value of \$3,331,875 and \$2,844,005, respectively, were managed by FMRC.

The Company also is a party-in-interest to the Plan under the definition provided in Section 3(14) of ERISA. Therefore, Quest Diagnostics stock transactions qualify as party-in-interest transactions. As of December 31, 2017 and 2016, the total fair value of the Plan's investment in Quest Diagnostics stock was \$328,637 and \$323,887, respectively. During 2017, total purchases and sales of Quest Diagnostic stock by the Plan were \$41,187 and \$23,801, respectively.

Revenue Sharing Credits - A portion of the operating expenses and management fees are paid by the Plan using revenue sharing credits which are included in net appreciation in fair values of investments. Any amount in excess of the fees is allocated to participant accounts. For the year ended December 31, 2017, \$1,425 of the revenue sharing credit was used for permissible management and recordkeeping fees and \$3,363 was allocated to participant accounts.

Notes Receivable from Participants - Participants are permitted to obtain loans in amounts not less than one thousand dollars and up to the lesser of (1) fifty thousand dollars, subject to certain limitations as defined by the Plan, or (2) 50% of the participant's vested portion of their account value. Except with respect to pre-existing loans transferred or merged into the Plan, a participant may have only one outstanding loan at a time and loans are repayable over a period of up to five years, unless the proceeds are used to purchase a primary residence, in which case a period of up to ten years is permitted. Loans are secured by one-half of a participant's vested account balance and bear interest at prime plus 1%. Principal and interest are repaid to the Plan through payroll deductions for active employees. Participants can elect to pay the entire outstanding balance of a loan directly to Fidelity Management Trust Company ("FMTC"). Actively employed participants can also submit a partial loan repayment directly to FMTC outside the normal payroll deductions, accelerating the payoff date. Participants who are no longer active employees may continue to repay outstanding loan balances directly to FMTC.

In addition, notes receivable from participants qualify as party-in-interest transactions. As of December 31, 2017 and 2016, the carrying value of the Plan's notes receivable from participants was \$88,458 and \$86,769, respectively.

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

Tax Status - The Internal Revenue Service ("IRS") has determined and informed the Company by letter dated September 22, 2014, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code. The Plan Sponsor believes that the Plan, which has been amended since the IRS determination, continues to be designed and operated in compliance with the applicable requirements of the Internal Revenue Code and, therefore, believe that the Plan is qualified and related trust is tax-exempt.

Accounting principles generally accepted in the United States ("US GAAP") requires the Plan Administrator to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2017 and 2016 there are no uncertain positions taken or

expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

Administrative Expenses - Accounting fees and certain administrative expenses of the Plan may be paid by the Plan or the Company. Loan origination and certain distribution fees are charged against participant accounts.

Management Fees - Management fees and operating expenses charged to the Plan for investments in the Plan are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

The Profit Sharing Plan of Quest Diagnostics Incorporated
December 31, 2017 and 2016
Notes to Financial Statements (dollars in thousands) - continued

Plan 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.

2. Summary of Significant Accounting Policies

Basis of Presentation - The Plan maintains its financial records on the accrual basis of accounting.

Use of Estimates - The preparation of financial statements in conformity with US GAAP 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 Company matching 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, changes in these risks could 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.

Benefits paid to participants - Benefits payments to participants are recorded when paid.

Valuation of Investments - Investments are stated at fair value at year end. Refer to Note 3 for additional information related to the valuation of Plan investments.

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

Net appreciation in fair values of investments represents the Plan's net realized and unrealized gains (losses) on investments held by the Plan.

Notes Receivable from Participants - Notes receivable from participants are valued at their unpaid principal balance, plus any accrued but unpaid interest. Interest income from notes receivable from participants is recorded on an accrual basis.

3. Fair Value Measurements

Fair value measurements are based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, and are determined by either the principal market or the most advantageous market.

Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy to prioritize the inputs used in the valuation techniques to derive fair values. The basis for fair value measurements for each level within the hierarchy is described below with Level 1 having the highest priority and Level 3 having the lowest.

Level
1: Quoted prices in active markets for identical assets or liabilities.

Level
2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level
3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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The Profit Sharing Plan of Quest Diagnostics Incorporated
 December 31, 2017 and 2016
 Notes to Financial Statements (dollars in thousands) - continued

The following table provides a summary of the assets in the Plan that are measured at fair value on a recurring basis:

	Basis of Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
December 31, 2017				
Mutual funds	\$3,536,607	\$3,536,607	\$—	\$ —
Quest Diagnostics stock	328,637	328,637	—	—
Money market fund	52,438	—	52,438	—
Subtotal	\$3,917,682	\$3,865,244	\$52,438	\$ —
Investments measured at NAV as a practical expedient: (A)	224,986			
Total investments, at fair value	\$4,142,668			

The following table provides a summary of the assets in the Plan that are measured at fair value on a recurring basis:

	Basis of Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
December 31, 2016				
Mutual funds	\$2,988,419	\$2,988,419	\$—	\$ —
Quest Diagnostics stock	323,887	323,887	—	—
Money market fund	49,950	—	49,950	—
Subtotal	\$3,362,256	\$3,312,306	\$49,950	\$ —
Investments measured at NAV as a practical expedient: (A)	235,203			
Total investments, at fair value	\$3,597,459			

(A) Certain investments, including the Collective Funds, that were measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient were not classified in the fair value hierarchy. There are no unfunded commitments or redemption restrictions related to these investments.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no significant changes in the methodologies used as of December 31, 2017 and 2016.

Mutual Funds: Valued at the NAV of shares held by the Plan at year end reported on an active market.

Quest Diagnostics stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Collective Funds: Valued at NAV per unit as determined by the trustee at year end. The NAV is used as a practical expedient to estimate fair value.

Money market fund: Valued at amortized cost, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Profit Sharing Plan of Quest Diagnostics Incorporated
December 31, 2017 and 2016
Notes to Financial Statements (dollars in thousands) - continued

4. Subsequent Events

As a result of the acquisition of MedFusion, LLC by the Plan Sponsor, the MedFusion 401(k) Plan was merged into the Plan effective January 2018, with participant account balances totaling \$12,682 and notes receivable from participants totaling \$287.

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The Profit Sharing Plan of Quest Diagnostics Incorporated
 EIN: #16-1387862 Plan: #333

Schedule H, Line 4(a) - Schedule of Delinquent Participant Contributions
 For the Year Ended December 31, 2017
 (dollars in thousands)

Total that Constitute Nonexempt Prohibited Transactions				Total
Participant Contributions	Contributions Transferred	Contributions Corrected	Contributions Pending Correction	Fully Corrected Under VFCP and PTE
Late to Plan	Not Corrected	Outside VFCP	in VFCP	2002-51
\$ 398	\$ —	\$ —	\$ —	\$ 398

* Includes late participant loan repayments.

The Profit Sharing Plan of Quest Diagnostics Incorporated
 EIN: #16-1387862 Plan: #333

Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year)
 December 31, 2017 (dollars in thousands)

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description	(d) Cost	(e) Current Value
*	Fidelity Managed Income Portfolio II - Class 3	Collective Funds	***	\$217,170
	Prudential Core Plus Bond Fund Class 5	Collective Funds	***	7,816
*	Quest Diagnostics Stock	Common Stock	***	328,637
	Vanguard Total International Stock Index Fund Institutional Shares	Mutual Funds	***	26,421
	Invesco Global Real Estate Fund - R5 class	Mutual Funds	***	11,172
	T. Rowe Price Institutional Large Cap Value Fund	Mutual Funds	***	111,808
	DFA U.S. Small Cap Value Portfolio Institutional Class	Mutual Funds	***	78,970
	Vanguard Extended Market Index Fund Institutional Shares	Mutual Funds	***	22,457
	T. Rowe Price Institutional Large Cap Growth Fund	Mutual Funds	***	95,393
	Vanguard Total Bond Market Index Fund - Institutional Plus Share Class	Mutual Funds	***	110,901
	MFS Global Equity Fund Class R4	Mutual Funds	***	17,217
*	Fidelity Contrafund Class K	Mutual Funds	***	264,703
*	Fidelity Diversified International Fund Class K	Mutual Funds	***	106,045
*	Fidelity Low-Priced Stock Fund Class K	Mutual Funds	***	102,425
*	Fidelity OTC Portfolio Class K	Mutual Funds	***	139,993
*	Fidelity Puritan Fund Class K	Mutual Funds	***	376,158
*	Fidelity Freedom K Income Fund	Mutual Funds	***	20,016
*	Fidelity Freedom K 2005 Fund	Mutual Funds	***	5,487
*	Fidelity Freedom K 2010 Fund	Mutual Funds	***	28,594
*	Fidelity Freedom K 2015 Fund	Mutual Funds	***	94,098
*	Fidelity Freedom K 2020 Fund	Mutual Funds	***	255,466
*	Fidelity Freedom K 2025 Fund	Mutual Funds	***	322,365
*	Fidelity Freedom K 2030 Fund	Mutual Funds	***	300,669
*	Fidelity Freedom K 2035 Fund	Mutual Funds	***	236,796
*	Fidelity Freedom K 2040 Fund	Mutual Funds	***	181,021
*	Fidelity Freedom K 2045 Fund	Mutual Funds	***	129,983
*	Fidelity Freedom K 2050 Fund	Mutual Funds	***	72,722
*	Fidelity 500 Index Fund - Institutional Premium Class	Mutual Funds	***	397,749
*	Fidelity Freedom K 2055 Fund	Mutual Funds	***	24,392
*	Fidelity Investments Money Market Government Portfolio - Institutional Class	Mutual Funds	***	52,438
*	Fidelity Freedom K 2060 Fund	Mutual Funds	***	3,586
				4,142,668
*	Loans to participants **			88,458
	Total assets held			\$4,231,126

* Party-in-interest to the Plan.

** Rates range from 3.75% to 10.25%; maturities vary by participant.

*** The cost of participant-directed investments is not required to be disclosed.

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 15, 2018

The Profit Sharing Plan of Quest Diagnostics Incorporated

By: /s/ Mark J. Guinan

Mark J. Guinan

Executive Vice President, Chief Financial Officer and Member of the Quest Diagnostics Incorporated Benefits Administration Committee