COVANCE INC
Form 10-K
February 27, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
Commission File Number: 1-12213

COVANCE INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**22-3265977**
(State of Incorporation)	(I.R.S. Employer Identification No.)
210 Carnegie Center, Princeton, New Jersey	**08540**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (609) 452-4440

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes _X_ No ___

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act (the "Exchange Act") of 1934. Yes ___ No _X_

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to

such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer _X_ Accelerated Filer ___ Non-Accelerated Filer ___ Smaller Reporting Company ___

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No _X_

The aggregate market value of the shares of common stock held by non-affiliates of the Registrant was $2,629,859,159 on June 30, 2012, the last business day of Registrant's most recently completed second fiscal quarter.

As of February 15, 2013, the Registrant had 55,115,903 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Those portions of the Company's definitive Proxy Statement which are responsive to Items 10, 11, 12, 13, and 14 of Part III of this Form 10-K are incorporated by reference into this Form 10-K.

PART I

Item 1. Business

General

Covance Inc. is a leading drug development services company providing a wide range of early-stage and late-stage product development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. We also provide laboratory testing services to the chemical, agrochemical and food industries. We believe Covance is one of the world's largest drug development services companies, based on annual net revenues, and one of a few that are capable of providing comprehensive global product development services. Covance maintains offices in more than 30 countries.

Business Strategy

Drug development services companies like Covance typically derive substantially all of their revenue from the research, development and marketing expenditures of the pharmaceutical, biotechnology and medical device industries. We believe outsourcing of these services has increased in the past and will increase in the future because of several factors, including: pressures to contain costs, limitations on internal capacity, the need for faster development time for new drugs, simultaneous research in multiple countries, stringent government regulation and expertise that customers lack internally. We believe the investment and amount of time required to develop new drugs has been increasing, and that these trends create opportunities for companies that can help make the process of drug development more efficient.

Our strategy is to provide services that will generate high-quality and timely data in support of new drug approval or use expansion. We do this by developing and delivering innovative high-quality services that apply science, technology and global reach to capture, manage and integrate a vast array of drug development data. An increasing portion of our business is being provided through strategic, long-term arrangements with clients. These strategic arrangements began with dedicated laboratory testing services contracts for preclinical studies, in which our clients commit to purchasing a specific dollar amount of services in exchange for guaranteed long term access to a portion of our facilities. The trend towards dedicated service agreements and strategic collaborations has over time been moving from preclinical work to broader drug-development contracts, such as multi-year sole source central laboratory agreements and strategic clinical development alliances. Sole source contracts for central laboratory services benefit our clients by reducing the time and effort spent contracting services on a project-by-project basis. Under strategic clinical development alliances, a pharmaceutical sponsor contracts with one, two or three trusted clinical development providers to perform most outsourced clinical trial management activities, typically within selected therapeutic classes.

In 2010, Covance entered into agreements with Sanofi to provide Sanofi with a broad range of early and late-stage drug development services over a ten year period as well as services at facilities Covance acquired from Sanofi in Porcheville, France and Alnwick, United Kingdom over a five year period. In 2011, the agreements were expanded to include other Sanofi subsidiaries. In total, estimated payments under the agreements range from $1.2 billion to $2.2 billion. In 2009, Covance acquired Merck & Co., Inc.'s ("Merck") Seattle, Washington-based gene expression laboratory, which performs genomic analysis services, and entered into a contract to supply services to Merck. In 2009, Covance entered into a seven year $42 million agreement with Kellogg Company for the provision of nutritional chemistry services in a facility in Battle Creek, Michigan. In 2008, Covance entered into a strategic research and development collaboration with Eli Lilly and Company ("Lilly"). Under this agreement, Covance acquired Lilly's 450 acre early development campus in Greenfield, Indiana. Covance agreed to provide Lilly with a broad range of drug development services over a ten year period for a minimum agreement value of $1.6 billion. Under this agreement, Lilly transferred responsibility to Covance for its non-GLP (Good Laboratory Practice) toxicology, *in vivo* pharmacology, quality control laboratory and imaging services. In addition, the agreement includes a committed level of clinical pharmacology, central laboratory, GLP toxicology studies and clinical Phase II-IV services.

Operational Excellence. Our goal is to consistently deliver outstanding service to our clients on a global scale through our platform focused on people, process and clients. As a drug development scientific services company, people are integral to our success. We work to recruit, develop and retain talented people through our "Compelling Offer" program which is designed to provide and encourage highly qualified people to initiate and build a career at Covance. We aim to enhance the effectiveness of these people with superior processes to efficiently deliver a high level of client service. We use Six Sigma and other proven improvement methodologies to optimize our processes to increase our cost competitiveness, eliminate variability in our client service levels and build competitive advantage. Finally, we seek to leverage consistent outstanding client service by building strategic relationships with our clients that drive growth and help sustain our competitive advantage. Across our people, process and clients platform, we seek to utilize technology to augment the talent of our people, to automate robust processes, and to link us more closely to our clients via proprietary systems such as Xcellerate®, StudyTracker® and LabLink.

Global Reach. We believe that it is important to provide a broad range of drug research and development services on a global basis. We have offices, regional monitoring sites and laboratories in over 50 locations in more than 30 different countries and conduct field work in many other countries. We believe we are a leader among drug development services companies in our ability to support large, global clinical trial programs.

Acquisitions. In addition to organic development of services, we consider acquisitions that are complementary to our existing services and that expand our ability to serve our clients. While we cannot exclude the possibility that we may opportunistically seek to take advantage of other situations, we generally expect acquisitions to enhance our existing services either qualitatively or geographically or to add new services that can be integrated with our existing services. In 2011, Covance acquired certain assets of TRAC Microbiology, Inc., a Wisconsin-based food microbiology and chemistry laboratory. In 2010, Covance acquired Sanofi's preclinical facilities in Porcheville, France and Alnwick, United Kingdom including its CMC (Chemistry, Manufacturing and Controls) services. In 2009, we purchased Merck's gene expression laboratory in Seattle, Washington. In 2008, we acquired Lilly's 450 acre early development campus in Greenfield, Indiana.

Services

The services we provide constitute two segments for financial reporting purposes: (1) early development services, which includes discovery support services, preclinical services and clinical pharmacology services, and (2) late-stage development services, which includes central laboratory, Phase II-IV clinical development, and market access services. Although each segment has separate services within it, they can be and increasingly are combined in integrated service offerings.

Early Development

Preclinical Services

Our preclinical services include toxicology services, pharmaceutical chemistry, nutritional chemistry and related services. Our preclinical area has been a source of innovation by introducing new technologies for client access to data such as StudyTracker®, electronic animal identification, multimedia study reports and animal and test tube measures of induced cell proliferation or reproduction. StudyTracker® is an internet-based client access product which allows clients of toxicology, bioanalytical, metabolism and reproductive and developmental toxicology services to review study data and schedules on a near real-time basis. We have laboratories in locations which include Madison, Wisconsin and Greenfield, Indiana in the United States and Harrogate, United Kingdom; Alnwick, United Kingdom; Muenster, Germany; and Porcheville, France in Europe. In 2010, we opened our preclinical facility near Shanghai, China. We also have bioanalytical laboratories in the United States in Indianapolis, Indiana and Chantilly, Virginia, and an administrative and a sales office in Tokyo, Japan. In 2008, Covance purchased Lilly's 450 acre research campus in Greenfield, Indiana for cash payments totaling $51.6 million and is currently providing a number of services at that location,

including non-GLP toxicology, *in vivo* pharmacology, quality control laboratory and imaging. Covance renovated a facility in Battle Creek, Michigan for nutritional chemistry services, which opened in 2010.

Toxicology. Our preclinical toxicology services include *in vivo* toxicology studies, which are studies of the effects of drugs in animals; genetic toxicology studies, which include studies of the effects of drugs on chromosomes, as well as on genetically modified mice; and other specialized toxicology services. For example, we provide immunotoxicology services in which we assess the impact of drugs or chemicals on the structure and function of the immune system and reproductive toxicology services which help our clients assess the risk that a potential new medicine may cause birth defects.

Pharmaceutical Chemistry. In our pharmaceutical chemistry services, we determine the metabolic profile and bioavailability of drug candidates. In 2011, Covance launched a set of chemistry, manufacturing and controls (CMC) pharmaceutical development services including active pharmaceutical ingredient (API) development and supply, API characterization, preformulation, formulation and regulatory submission.

Nutritional Chemistry and Food Safety. In our nutritional chemistry services, we offer a broad range of services to the food, nutriceutical and animal feed industries, including nutritional analysis and equivalency, nutritional content fact labels, microbiological and chemical contaminant safety analysis, pesticide screening and stability testing. In 2011, Covance acquired certain assets of TRAC Microbiology, Inc., a Wisconsin-based food microbiology and chemistry laboratory which provides testing, research, auditing and consulting services to food-based businesses.

Research Products. We provide purpose-bred animals for biomedical research. The purpose-bred research animals we provide are purchased by pharmaceutical and biotechnology companies, university research centers and contract research organizations as part of required preclinical animal safety and efficacy testing. Through a variety of processes, technology and specifically constructed facilities, we provide purpose-bred, pre-acclimated and specific pathogen free animals that meet our clients' rigorous quality control requirements. Covance also has a dedicated animal biosafety level 2 (ABSL-2) containment vivarium to allow us to provide full service vaccine testing.

Discovery and Translational Services. We provide lead optimization services including custom immunology and polyclonal and monoclonal antibody services, metabolism studies and pharmacokinetic screening as well as non-GLP toxicology, *in vivo* pharmacology, imaging services and biomarker services. We provide high throughput GLP and non-GLP biomarker services and offer bioimaging capabilities and cardiac related biomarkers for animals and humans. We substantially enhanced our ability to provide discovery services in 2008 with our acquisition of Lilly's Greenfield, Indiana campus and in 2009 with our acquisition of Merck's gene expression laboratory in Seattle, Washington. In 2009, Covance formed a Biomarker Center of Excellence dedicated to the development, validation and testing of biomarkers. In 2011, we commenced offering discovery and translational services from Alnwick, United Kingdom and Shanghai, China.

Bioanalytical Services. Our bioanalytical testing services, which are conducted in our bioanalytical laboratory in Indianapolis, Indiana and in our immunoanalytical facility in Chantilly, Virginia, as well as in our laboratories in Madison, Wisconsin; Harrogate, United Kingdom and Shanghai, China, help determine the appropriate dose and frequency of drug application from late discovery evaluation through Phase III clinical testing on a full-scale, globally integrated basis.

Clinical Pharmacology Services

We provide clinical pharmacology services, including first-in-human trials, and proof of concept studies of new pharmaceuticals at our four clinics located throughout the United States and our clinic in Leeds, United Kingdom.

Late-Stage Development

Central Laboratory Services

We are the world's largest provider of central laboratory services. We have four central laboratories, one in each of the United States, Switzerland, Singapore and China that provide central laboratory services to biotechnology and pharmaceutical customers. We also have an alliance for central laboratory services testing in Japan with BML, Inc., a leading Japanese laboratory testing company.

Our capabilities provide clients the flexibility to conduct studies on a multinational and simultaneous basis. The data we provide is combinable and results in global clinical trial reference ranges because we use consistent laboratory methods, identical reagents and calibrators, and similar equipment globally. Combinable data eliminates the cumbersome process of statistically correlating results generated using different methods and different laboratories on different equipment.

We also employ a proprietary clinical trials management system that enables us to enter a sponsor's protocol requirements directly into our database. The laboratory data can be audited because all laboratory data can be traced to source documents. In addition, the laboratories are capable of delivering customized data electronically within 24 hours of test completion. Covance also offers pharmacogenomic testing and sample storage technologies in conjunction with our central laboratory services. Central laboratory services also offers LabLink, an internet-based client access program that allows clients to review and query clinical trial lab data on a near real-time basis, and the Covance Local Laboratories service, which uses a proprietary system to harmonize laboratory results from local and regional laboratories to help expand the reach of traditional central laboratory services.

Our central laboratories have an automated kit production line that is located in the United States and supplies kits to investigator sites around the world. This system allows the flexibility to expand kit production volume more quickly and uses consistent methods to reduce supply variation for our clients. We have also automated many lab testing procedures over the last several years.

In 2010, Covance opened a state-of-the-art biorepository facility in Greenfield, Indiana dedicated to long-term storage of clinical trial specimens. This facility is able to store a wide range of specimens, including plasma, serum, whole blood, DNA, PBMC and tissue.

Clinical Development Services

We offer a comprehensive range of clinical trial services, including the full management of Phase II through IV clinical studies. We have extensive experience in the majority of therapeutic areas, and we provide the following core services either on an individual or aggregated basis to meet clients' needs: study design and modeling; coordination of study activities; trial logistics; monitoring of study site performance; clinical data management and biostatistical analysis; and medical writing and regulatory services.

We have extensive experience in managing clinical trials in the North America, Europe, South America and Asia Pacific regions. These trials may be conducted separately or simultaneously as part of a multinational development plan. We can manage every aspect of clinical trials from clinical development plans and protocol design to New Drug Applications, among other supporting services. Over the last several years, clinical development services has continued its expansion into Eastern Europe, the Middle East, Asia Pacific and South America.

In 2011, we launched Xcellerate®, a proprietary methodology designed to help optimize clinical trial performance to assist biopharmaceutical companies in improving quality, reducing waste, and decreasing trial timelines. The Xcellerate methodology enables us to make custom recommendations on site, investigator and geographic selection to enhance clinical trial design and execution.

Periapproval Services. Periapproval trials are studies conducted "around the time of New Drug Application approval," generally after a drug has successfully undergone clinical efficacy and safety testing and the New Drug Application has been submitted to the Food and Drug Administration ("FDA"). We offer a range of periapproval services, including: Treatment Investigational New Drug applications; Phase IIIb clinical studies, which involve studies conducted after New Drug Application submission, but before regulatory approval is obtained; Phase IV clinical studies, which are studies conducted after initial approval of the drug; product withdrawal support services and other types of periapproval studies such as post-marketing surveillance studies, FDA mandated post-marketing commitments generally focusing on characterizing a drug's safety in large, diverse patient groups, and prescription to over-the-counter switch studies.

Market Access Services

We offer a wide range of reimbursement and healthcare economics consulting services, including outcomes and pharmacoeconomic studies, reimbursement planning, reimbursement advocacy programs, risk evaluation and mitigation strategy (REMS) services, registry services, specialty pharmacy services and managed market contracting services. Pharmaceutical, biotechnology and medical device manufacturers purchase these services from us to help optimize their return on research and development investments. We offer InTeleCenter® services that employ state of the art phone, internet and electronic media to manage customer communications. InTeleCenter programs include reimbursement hotlines, patient assistance programs and patient compliance REMS programs.

Clinical Trial Support Services

Cardiac Safety Services. In November 2007, we sold our centralized ECG business to eResearch Technology Inc. for an upfront cash payment of approximately $35 million with the opportunity to receive additional contingent consideration relating to transferred backlog as well as from revenues generated from new contracts secured under a long-term marketing arrangement. We continue to offer this service to our clients through this marketing arrangement.

Interactive Voice and Web Response Services. In 2009, we sold our interactive voice and web response services business to Phase Forward for $10 million in cash. In addition, Covance and Phase Forward entered into a five year marketing agreement with respect to certain of Phase Forward's services which Covance offers to its clinical development clients. In 2010, Phase Forward was acquired by Oracle.

Customers and Marketing

We provide product development services on a global basis to, among others, the pharmaceutical and biotechnology industries. In 2012, we served in excess of 1,000 biopharmaceutical companies, ranging from the world's largest pharmaceutical companies and biotechnology companies to small and start-up organizations.

Other than one customer that accounted for 10.1% of our aggregate net revenue in 2012, no other customer accounted for ten percent or more of our aggregate net revenue. We had four customers accounting for more than five but less than ten percent of our net revenues. In our early development segment, one customer accounted for more than ten percent of net revenues and two customers accounted for more than five but less than ten percent of its aggregate net revenues. In our late-stage development segment, two customers accounted for more than ten percent of net revenues and four customers accounted for more than five but less than ten percent of aggregate net revenues.

For net revenues from external customers, assets attributable to each of our business segments, revenues by significant service area and other segment information for each of the last three fiscal years, please review Note 14 to the audited consolidated financial statements included elsewhere in this Annual Report.

For net revenues from external customers and long-lived assets attributable to operations in the United States, United Kingdom, Switzerland and other countries for each of the last three fiscal years, please review Note 14 to the audited consolidated financial statements included elsewhere in this Annual Report.

Our global sales activities are conducted by sales personnel based in our operations in the United States, Europe, South America and Asia Pacific.

Contractual Arrangements

Many of our contracts with our clients are either fixed price or fee-for-service with a cap. To a lesser extent, some of our contracts are fee-for-service without a cap. In cases where the contracts are fixed price, we may bear the cost of overruns, or we benefit if the costs are lower than we anticipated. In cases where our contracts are fee-for-service with a cap, the contracts contain an overall budget for the trial based on time and cost estimates. If our costs are lower than anticipated, the client generally keeps the savings, but if our costs are higher than estimated, we may be responsible for the overrun unless the increased cost is a result of a scope change or other factors outside of our control, such as an increase in the number of patients to be enrolled or the type or amount of data to be collected. Contracts may range in duration from a few months to several years or longer depending on the nature of the work performed. Billing schedules and payment terms are generally negotiated on a contract-by-contract basis. In some cases, we bill the client for the total contract value in progress-based installments as we reach certain non-contingent billing milestones over the contract duration. For additional information please refer to Item 7. Critical Accounting Policies Revenue Recognition.

Most of our contracts may be terminated by the client either immediately or upon notice. These contracts often require payment to Covance of expenses to wind down a study or project, payment to Covance of fees earned to date, and, in some cases, a termination fee or payment to Covance of some portion of the fees or profit that could have been earned under the contract if it had not been terminated early.

We also have contracts with minimum volume commitments with certain clients with initial terms that generally range in duration from three to ten years. Underlying these arrangements are individual project contracts for the specific services to be provided. These arrangements enable our clients to secure space in our facilities or time of our personnel in exchange for which they agree to provide a guaranteed annual minimum dollar value ("volume") of work. Under these types of arrangements, if the annual minimum volume commitment is not reached, the client is required to pay Covance for the shortfall. Progress towards the achievement of annual minimum volume guarantees is monitored throughout the year. Annual minimum guarantee shortfalls are not included in net revenues until the amount of the shortfall has been determined and agreed to by the client.

Backlog

Some of our studies and projects are performed over an extended period of time, which may exceed several years. We maintain an order backlog to track anticipated net revenues yet to be earned for work that has not yet been performed. However, we do not maintain an order backlog for other services that are performed within a short period of time or where it is not otherwise practical or feasible to maintain an order backlog. Our aggregate backlog at December 31, 2012 and 2011 was $6.64 billion and $6.14 billion, respectively.

Backlog generally includes work to be performed under signed agreements (i.e., contracts and letters of intent). Once work under a signed agreement begins, net revenues are recognized over the life of the project. However, in some cases we will begin work on a project once we conclude we have a legally binding agreement, but before executing a signed agreement, and backlog may include the net revenues expected from that project.

We cannot provide any assurance that we will be able to realize all or most of the net revenues included in backlog or estimate the portion expected to be filled in the current year. Although backlog can provide meaningful information to our management with respect to a particular study, we believe that our aggregate backlog as of any date is not necessarily a meaningful indicator of our future results for a variety of reasons. These reasons include the following: studies vary in duration; the scope of studies may change, which may either increase or decrease their value; and studies may be terminated, reduced in scope or delayed at any time by the client or regulatory authorities.

Competition

The contract research organization industry has many participants ranging from hundreds of small, limited-service providers to a limited number of full-service contract research organizations with global capabilities. We primarily compete against in-house departments of pharmaceutical companies, full-service and limited-service contract research organizations and, to a lesser extent, selected universities and teaching hospitals.

In early development services, our most significant competitors include Charles River Laboratories International, Inc., Pharmaceutical Product Development, Inc., ("PPD"), WIL Research Laboratories, Inc., WuXi PharmaTech Inc. and MPI Research Inc., among others. In late-stage development services, our significant competitors include Quintiles Transnational Corp., PPD, Parexel International Corporation, INC Research, LLC, ICON plc, PRA International, inVentiv Health Clinical and Quest Diagnostics Incorporated, among others.

There is competition for customers on the basis of many factors, including the following: reputation for on-time quality performance; expertise and experience in specific areas; scope of service offerings; strengths in various geographic markets; therapeutic areas; price; technological expertise and efficient drug development processes; ability to acquire, process, analyze and report data in a rapid and accurate manner; historic experience and relationships; ability to manage large-scale clinical trials both domestically and internationally; quality of facilities; expertise and experience in reimbursement and healthcare consulting; and size. We believe that we compete favorably in these areas.

Government Regulation

Our laboratory services are subject to various regulatory requirements designed to ensure the quality and integrity of the testing processes. Covance's standard operating procedures are written in accordance with regulations and guidelines appropriate to the region and the nation where they will be used.

The industry standards for conducting preclinical laboratory testing are embodied in the Good Laboratory Practice ("GLP") and for central laboratory operations in the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"). The standards of GLP are required by the FDA, by the Department of Health in the United Kingdom, by the European Agency for the Evaluation of Medicinal Products ("EMEA") in Europe, by the SFDA in China and by similar regulatory authorities in other parts of the world. To help satisfy its compliance obligations, Covance has established quality assurance controls at its laboratory facilities which monitor ongoing compliance with GLP and CLIA.

Our clinical services are subject to industry standards for the conduct of clinical research and development studies that are embodied in the regulations for Good Clinical Practice ("GCP"). The FDA, EMEA and other regulatory authorities require that test results submitted to such authorities be based on studies conducted in accordance with GCP. As with GLP and Good Manufacturing Practice ("GMP"), noncompliance with GCP can result in the disqualification of data collected during the clinical trial.

We strive to perform all clinical research in accordance with the International Conference on Harmonization Good Clinical Practice Guidance, and the requirements of the applicable country. Although the United States is a signatory to this guidance, the FDA has not adopted all of this guidance as statutory regulations, but has currently adopted it only as guidance. From an international perspective, when applicable, we have implemented common standard operating procedures across regions to assure consistency whenever it is feasible and appropriate to do so.

Our animal import and breeding facilities and toxicology facilities are also subject to a variety of U.S. federal and state laws and regulations, including The Animal Welfare Act and the rules and regulations promulgated thereunder by the United States Department of Agriculture ("USDA") and corresponding rules and regulations in other countries. These facilities maintain detailed standard operating procedures and the documentation necessary to comply with applicable regulations for the humane treatment of the animals in

their custody. Besides being licensed by the USDA as a dealer and/or research facility, as appropriate, these businesses are also accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International and have registered assurance with the United States National Institutes of Health Office of Laboratory Animal Welfare.

The use of controlled substances in testing for drugs with a potential for abuse is regulated in the United States by the U.S. Drug Enforcement Administration and by similar regulatory bodies in other parts of the world. All Covance United States laboratories using controlled substances for testing purposes are licensed by the U.S. Drug Enforcement Administration.

Our laboratories are subject to licensing and regulation under federal, state and local laws, as well as the law of other countries in which our laboratories operate, relating to hazard communication and employee right-to-know regulations, the handling and disposal of medical specimens and hazardous waste and radioactive materials, as well as the safety and health of laboratory employees. All of our laboratories are subject to applicable laws and regulations relating to the storage and disposal of all laboratory specimens including the regulations of the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Transportation, the National Fire Protection Agency, the Resource Conservation and Recovery Act and similar laws outside the United States. Although we believe that Covance is currently in compliance in all material respects with such laws, failure to comply could subject Covance to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

In addition to its comprehensive regulation of safety in the workplace, the Occupational Safety and Health Administration and similar regulatory authorities in foreign countries have established extensive requirements relating to workplace safety for healthcare employers whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. Covance employees receive initial and periodic training focusing on compliance with applicable hazardous materials regulations and health and safety guidelines.

The United States and other national governments are concerned about the disclosure of confidential personal data and have addressed this concern with increased regulation. The European Union, or EU, prohibits certain disclosures of personal confidential information, including medical information, to any entity that does not comply with certain security safeguards. In the United States, various federal and state laws address the security and privacy of health and other personal information. We will continue to monitor our compliance with applicable regulations.

The regulations of the U.S. Department of Transportation, the U.S. Public Health Service and the U.S. Postal Service, as well as similar regulations in other countries, apply to the surface and air transportation of laboratory specimens. Covance's laboratories also must comply with the applicable International Air Transport Association regulations, which govern international shipments of laboratory specimens.

Intellectual Property

We have developed certain computer software and technically derived procedures and products intended to maximize the quality and effectiveness of our services. Although our intellectual property rights are important to our results of operations, we believe that such factors as the technical expertise, knowledge, ability and experience of our professionals are more important, and that, overall, these technological capabilities provide significant benefits to our clients.

Employees

At December 31, 2012, we had 11,790 employees, approximately 47% of whom were employed outside of the United States and 11,160 of whom were full time employees. Our records indicate that more than 100 of our employees hold M.D. degrees, more than 750 hold Ph.D. degrees, and more than 2,100 hold masters or other postgraduate degrees. We believe that Covance's relations with its employees are good.

Executive Officers

Joseph L. Herring, 57, has been Covance's Chief Executive Officer since January 2005, and Chairman since January 2006. Mr. Herring was President and Chief Operating Officer from November 2001 to December 2004, and was Covance's Corporate Senior Vice President and President Early Development Services from 1999 to November 2001. From September 1996 to September 1999, Mr. Herring was Corporate Vice President and General Manager of Covance Laboratories North America. Prior to joining Covance, Mr. Herring spent 18 years at the American Hospital Supply/Baxter International/Caremark International family of healthcare service companies where he held a variety of senior leadership positions, culminating in the position of Vice President and General Manager of its oncology business. Mr. Herring has been a member of the Covance Board since 2004.

William E. Klitgaard, 59, has been Covance's Corporate Senior Vice President and Chief Information Officer since May 8, 2012. Prior to that, Mr. Klitgaard was Covance's Corporate Senior Vice President, Chief Financial Officer and Treasurer since September 2000. From September 1999 to September 2000, Mr. Klitgaard was Covance's Corporate Vice President, Strategy and Corporate Development and Treasurer. From October 1996 to September 1999, Mr. Klitgaard was Covance's Corporate Vice President and Treasurer. Prior to that, Mr. Klitgaard was Treasurer at Kenetech Corporation in San Francisco, before which, Mr. Klitgaard had spent eleven years in positions of increasing responsibility with Consolidated Freightways Inc.

Alison Cornell, 50, has been Covance's Corporate Vice President and Chief Financial Officer since May 8, 2012. Ms. Cornell was Vice President, Global Financial Planning and Analysis from March 2009 to May 7, 2012. Ms. Cornell joined Covance in August 2004 as Vice President, Late Stage Development Services. Prior to joining Covance, Ms. Cornell spent 19 years at AT&T where she held a variety of senior leadership positions.

Richard Cimino, 53, has been Covance's Executive Vice President and Group President, Clinical Development since November 2010. From December 2004 through October 2010, Mr. Cimino was Corporate Senior Vice President and President Clinical Development. Prior to that, Mr. Cimino was Covance's General Manager of Cardiac Safety Services commencing December 2003. Prior to that, Mr. Cimino was General Manager, America's Health Imaging Group and Corporate Vice President of Eastman Kodak Company.

James W. Lovett, 48, has been Covance's Corporate Senior Vice President, General Counsel and Secretary since February 2003, has headed Covance's Nutritional Chemistry and Food Safety Services since January 2008 and has led Covance's Market Access Services since November 2010. From December 2001 to February 2003, Mr. Lovett was Corporate Vice President, General Counsel and Secretary of Covance. From 1997 to 2001, Mr. Lovett was with FMC Corporation in positions of increasing responsibility and, prior to that, was a partner in the law firm of McDermott, Will & Emery.

Deborah L. Keller Tanner, 50, has been Covance's Executive Vice President and Group President, Research and Development Laboratories since November 2010. Ms. Keller Tanner was Corporate Senior Vice President and President Global Central Laboratory Services from February 2006 through October 2010. Prior to that Ms. Keller Tanner was Covance's Global Vice President of Operations in Central Laboratory Services commencing in August 2001 and prior to that, Vice President Analytical Services for Covance Laboratories Europe. Ms. Keller Tanner has been with Covance for 25 years in positions of increasing responsibility.

John E. Watson, 53, has been Covance's Corporate Senior Vice President, President of Strategic Partnering and Chief Commercial Officer since November 2010. Mr. Watson was Corporate Vice President and President Strategic Partnering & Integrated Drug Development from January 2009 to November 2010. Prior to that, Mr. Watson was Covance's Vice President of Corporate Marketing & Sales. Mr. Watson has been with Covance in positions of increasing responsibility beginning in February 1999. Prior to joining Covance, Mr. Watson spent 12 years in roles of increasing responsibility within the Bristol-Myers Squibb companies.

Brian H. Nutt, 43, has been Covance's Principal Accounting Officer and Director of External Reporting since May 2011. Mr. Nutt was Director, Corporate Finance from 2010 to 2011. Prior to that, Mr. Nutt was a Senior Manager, Corporate Finance. Prior to joining Covance in 2006, Mr. Nutt was Senior Director, Corporate Finance and Internal Audit for MedPointe Pharmaceuticals.

Available Information

Covance makes available free of charge on its website at www.covance.com, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The charters of the Audit Committee, the Compensation Committee, and the Corporate Governance Committee, as well as the Corporate Governance Guidelines, the Code of Ethics for Financial Professionals and the Company's Business Integrity Program may be accessed through our website at *www.covance.com.*

Item 1A. Risk Factors

This section discusses various risk factors that are attendant with our business and the provision of our services. If the events outlined below were to occur individually or in the aggregate, our business, results of operations, financial condition, and cash flows could be materially adversely affected.

Changes in government regulation or in practices relating to the pharmaceutical industry could decrease the need for the services we provide.

Governmental agencies throughout the world, including in the United States, strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services. Also, if government efforts contain drug costs and impact pharmaceutical and biotechnology company profits from new drugs, our customers may spend less, or reduce their growth in spending on research and development. If health insurers were to change their practices with respect to reimbursements for pharmaceutical products, our customers may spend less, or reduce their growth in spending on research and development.

Failure to comply with existing regulations could result in a loss of revenue or earnings or in increased costs.

Any failure on our part to comply with applicable regulations could result in the termination of on-going research or the disqualification of data for submission to regulatory authorities. For example, if we were to fail to properly monitor compliance by clinical trial investigators with study protocols, the data collected from that trial could be disqualified. If this were to happen, we could be contractually required to repeat the trial at no further cost to our customer, but at substantial cost to us, or could be exposed to a lawsuit seeking substantial monetary damages.

We may bear financial losses because most of our contracts are of a fixed price nature and may be delayed or terminated or reduced in scope for reasons beyond our control.

Many of our contracts provide for services on a fixed price or fee-for-service with a cap basis and they may be terminated or reduced in scope either immediately or upon notice. Cancellations may occur for a variety of reasons, including:

- the failure of products to satisfy safety requirements;
- unexpected or undesired results of the products;
- insufficient patient enrollment;
- insufficient investigator recruitment;
- the client's decision to terminate the development of a product or to end a particular study; and
- our failure to perform properly our duties under the contract.

The loss, reduction in scope or delay of a large contract or the loss, delay or conclusion of multiple contracts could materially adversely affect our business, although our contracts often entitle us to receive the costs of winding down the terminated projects, as well as all fees earned by us up to the time of termination.

We may bear financial risk if we underprice our contracts or overrun cost estimates.

Since our contracts are often structured as fixed price or fee-for-service with a cap, we bear the financial risk if we initially underprice our contracts or otherwise overrun our cost estimates. Such underpricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We may not be able to successfully develop and market or acquire new services.

We may seek to develop and market new services that complement or expand our existing business or expand our service offerings through acquisition. If we are unable to develop new services and/or create demand for those newly developed services, or to expand our service offerings through acquisition, our future business, results of operations, financial condition, and cash flows could be adversely affected.

Our quarterly operating results may vary.

Our operating results may vary significantly from quarter to quarter and are influenced by factors over which we have little control such as:

changes in the general global economy;

exchange rate fluctuations;

the commencement, completion, delay or cancellation of large projects or groups of projects;

the progress of ongoing projects;

the timing of and charges associated with completed acquisitions or other events; and

changes in the mix of our services.

We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results. While fluctuations in our quarterly operating results could negatively or positively affect the market price of our common stock, these fluctuations may not be related to our future overall operating performance.

We depend on the pharmaceutical and biotechnology industries.

Our revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries in research and development. In some instances, companies in these industries are reliant on their ability to raise capital in order to fund their research and development projects. Accordingly, economic factors and industry trends that affect our clients in these industries also affect our business. If companies in these industries were to reduce the number of research and development projects they conduct or outsource, whether through inability to raise capital, industry trends, economic conditions or otherwise, our business could be materially adversely affected.

We operate in a highly competitive industry.

Competitors in the contract research organization industry range from small, limited-service providers to full service global contract research organizations. Our main competition consists of in-house departments of pharmaceutical companies, full-service and functional contract research organizations, and, to a lesser degree, universities and teaching hospitals. We compete on a variety of factors, including:

reputation for on-time quality performance and regulatory compliance;

expertise and experience in specific areas;

scope of service offerings;

strengths in various geographic markets;

price;

technological expertise and efficient drug development processes;

quality of facilities;

ability to acquire, process, analyze and report data in an accurate manner;

ability to manage large-scale clinical trials both domestically and internationally;

expertise and experience in market access services; and

size.

For instance, our clinical and other development services have from time-to-time experienced periods of increased price competition which had a material adverse effect on Covance's late-stage development profitability and consolidated net revenues and net income.

There is competition among the larger contract research organizations for both clients and potential acquisition candidates. Additionally, small, limited-service entities considering entering the contract research organization industry will find few barriers to entry, thus further increasing possible competition. These competitive pressures may affect the attractiveness of our services and could adversely affect our financial results.

Unfavorable general economic conditions could negatively impact our operating results and financial condition.

Unfavorable global economic conditions, such as the recent recession in the United States and the financial crisis affecting the banking system and financial markets, could negatively affect our business. While it is difficult for us to predict the impact of general economic conditions on our business, unfavorable economic conditions could reduce customer demand for some of our services, which could cause our revenue to decline. Also, our customers, particularly smaller biotechnology companies which are especially reliant on the credit and capital markets, may not be able to obtain adequate access to credit or equity funding, which could affect their demand for our services and ability to make timely payments to us. If that were to occur, we could be required to increase our allowance for doubtful accounts, and the number of days outstanding for our accounts receivable could increase. For these reasons, among others, if economic conditions stagnate or decline, our operating results and financial condition could be adversely affected.

We may expand our business through acquisitions.

We review many acquisition candidates and, in addition to acquisitions which we have already made, we are continually evaluating new acquisition opportunities. Factors which may affect our ability to grow successfully through acquisitions include:

- difficulties and expenses in connection with integrating the acquired companies and achieving the expected benefits;
- diversion of management's attention from current operations;
- the possibility that we may be adversely affected by risk factors facing the acquired companies;
- acquisitions could be dilutive to earnings, or in the event of acquisitions made through the issuance of our common stock to the shareholders of the acquired company, dilutive to the percentage of ownership of our existing stockholders;
- potential losses resulting from undiscovered liabilities of acquired companies not covered by the indemnification we may obtain from the seller;
- risks of not being able to overcome differences in foreign business practices, language and other cultural barriers in connection with the acquisition of foreign companies; and
- loss of key employees of the acquired companies.

We may be affected by health care reform and potential additional reforms.

In March 2010, the United States Congress enacted health care reform legislation intended to expand, over time, health insurance coverage and impose health industry cost containment measures. This legislation may significantly impact the pharmaceutical and biotechnology industries. In addition, governments in the United States and other nations may consider various types of health care reform in order to control growing health care costs. We are presently uncertain as to the effects of the recently enacted legislation on our business and are unable to predict what legislative proposals will be adopted in the future, if any.

Implementation of health care reform legislation that contains costs could limit the profits that can be made from the development of new drugs. This could adversely affect research and development expenditures by pharmaceutical and biotechnology companies which could in turn decrease the business opportunities available to us both in the United States and abroad. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings.

We rely on third parties for important services.

We depend on third parties to provide us with services critical to our business. The failure of any of these third parties to adequately provide the needed services including, without limitation, transportation services, could have a material adverse effect on our business.

Our revenues and earnings are exposed to exchange rate fluctuations.

We derive a large portion of our net revenues from international operations. For the years ended December 31, 2012 and 2011, we derived approximately 49% and 48%, respectively, of our net revenues from operations outside the United States. Since our consolidated financial statements are denominated in U.S. dollars, fluctuations in exchange rates from period to period will have an impact on our reported results. In addition, in certain circumstances, we may incur costs in one currency related to our services or products for which we are paid in a different currency. As a result, factors associated with international operations, including changes in foreign currency exchange rates, could significantly affect our results of operations, financial condition and cash flows.

The loss of our key personnel could adversely affect our business.

Our success depends to a significant extent upon the efforts of our senior management team and other key personnel. The loss of the services of such personnel could adversely affect our business. Also, because of the nature of our business, our success is dependent upon our ability to attract and retain technologically qualified personnel. There is substantial competition for qualified personnel, and an inability to recruit or retain qualified personnel may impact our ability to grow our business and compete effectively in our industry.

Contract research services create a risk of liability.

In contracting to work on drug development trials and studies, we face a range of potential liabilities, for example:

errors or omissions that create harm during a trial to study volunteers or after a trial to consumers of the drug after regulatory approval of the drug;

general risks associated with clinical pharmacology facilities, including negative consequences from the administration of drugs to clinical trial participants or the professional malpractice of clinical pharmacology medical care providers;

errors or omissions from tests conducted for the agricultural, food, beverage and dietary supplement industries;

risks that animals in our breeding facilities may be infected with diseases that may be harmful and even lethal to themselves and humans despite preventive measures contained in our company policies for the quarantine and handling of imported animals; and

errors and omissions during a trial that may undermine the usefulness of a trial or data from the trial or study or may delay the entry of a drug to the market.

We also contract with physicians, also referred to as investigators, to conduct the clinical trials to test new drugs on human volunteers. These tests can create a risk of liability for personal injury or death to volunteers, resulting from negative reactions to the drugs administered or from professional malpractice by third party investigators.

While we endeavor to include in our contracts provisions entitling us to be indemnified or entitling us to a limitation of liability, these provisions do not uniformly protect us against liability arising from certain of our own actions, such as negligence or misconduct. We could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim which is not covered by a contractual indemnification provision or in the event that a party who must indemnify us does not fulfill its indemnification obligations or which is beyond the level of our insurance coverage. There can be no assurance that we will be able to maintain such insurance coverage on terms acceptable to us.

Hardware and software failures, delays in the operation of our computer and communications systems, the failure to implement system enhancements or cyber security breaches may harm our business.

Our success depends on the efficient and uninterrupted operation of our computer and communications systems. A failure of our network or data gathering procedures could impede the processing of data, delivery of databases and services, client orders and day-to-day management of our business and could result in the corruption or loss of data. While certain of our operations have appropriate disaster recovery plans in place, we currently do not have redundant facilities everywhere in the world to provide IT capacity in the event of a system failure. Despite any precautions we may take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins, cybersecurity breaches and similar events at our various computer facilities could result in interruptions in the flow of data to our servers and from our servers to our clients. In addition, any failure by our computer environment to provide our required data communications capacity could result in interruptions in our service. In the event of a delay in the delivery of data, we could be required to transfer our data collection operations to an alternative provider of server hosting services. Such a transfer could result in delays in our ability to deliver our products and services to our clients. Additionally, significant delays in the planned delivery of system enhancements, improvements and inadequate performance of the systems once they are completed could damage our reputation and harm our business. Finally, long-term disruptions in the infrastructure caused by events such as natural disasters, the outbreak of war, the escalation of hostilities, acts of terrorism (particularly involving cities in which we have offices) and cybersecurity breaches could adversely affect our business. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur.

Reliance on facilities.

Covance relies on certain of its facilities. In particular, Covance's preclinical and central laboratory facilities are highly specific and would be difficult to replace in a short period of time. Any event that causes a disruption of the operation of these facilities might impact our ability to provide service to our customers and therefore could have a material adverse affect on our financial condition, results of operations and cash flows.

Reliance on air transportation.

Our central laboratories and certain of our other businesses are heavily reliant on air travel for transport of clinical trial kits and other material, research products, and people, and a significant disruption to the air travel system, or our access to it, could have a material adverse effect on our business.

Certain service offerings and research products are dependent on limited sources of supply of services or products which if interrupted could affect our business.

We depend on a limited number of suppliers for certain services and for certain animal populations. Disruptions to the continued supply of these services or products may arise from export/import restrictions or embargoes, foreign political or economic instability, or otherwise. Disruption of supply could have a material adverse effect on our business.

Actions of animal rights extremists may affect our business.

Our early development services utilize animals in preclinical testing of the safety and efficacy of drugs and also breed and sell animals for biomedical research. Such activities are required for the development of new medicines and medical devices under regulatory regimes in the United States, Europe, Japan and other countries. Acts of vandalism and other acts by animal rights extremists who object to the use of animals in drug development could have a material adverse effect on our business.

Our animal populations may suffer diseases that can damage our inventory, harm our reputation, result in decreased sales of research products or result in other liability to us.

It is important that our research products be free of diseases, including infectious diseases. The presence of diseases can distort or compromise the quality of research results, can cause loss of animals in our inventory, can result in harm to humans or outside animal populations if the disease is not contained to animals in inventory, or can result in other losses. Such results could harm our reputation or have a material adverse effect on our financial condition, results of operations, and cash flows.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Covance both owns and leases its facilities. Covance owns substantial facilities in the United States in Madison, Wisconsin and in Greenfield, Indiana, in Europe in Harrogate, United Kingdom, in Leeds, United Kingdom, in Alnwick, United Kingdom, in Porcheville, France and in Muenster, Germany for its early development services. Covance also owns a newly renovated facility in Battle Creek, Michigan used for nutritional chemistry services. In Asia, Covance owns a preclinical facility near Shanghai, China on land on which we have a 50 year land use right. Covance owns a substantial facility in Geneva, Switzerland and leases a substantial facility in the United States in Indianapolis, Indiana for its central laboratory services and leases facilities in Indianapolis, Indiana and Chantilly, Virginia for its bioanalytical services. Covance leases substantial facilities for its clinical development services in the United States in Princeton, New Jersey, and in the United Kingdom in Maidenhead. Covance also owns or leases other properties and facilities in the United States, Europe, South America and Asia Pacific. Covance believes that its facilities are adequate for its operations and that suitable additional space will be available when needed.

For additional information, please see Note 11 to the audited consolidated financial statements included elsewhere in this Annual Report.

Item 3. Legal Proceedings

Covance is party to lawsuits and administrative proceedings incidental to the normal course of its business. Covance does not believe that any liabilities related to such lawsuits or proceedings will have a material effect on its financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters and Issuer Purchases of Equity Securities

Covance's common stock is traded on the New York Stock Exchange (symbol: CVD). The following table shows the high and low sales prices on the New York Stock Exchange for each of the most recent eight fiscal quarters.

Quarter	High	Low
First Quarter 2011	$ 59.81	$ 49.97
Second Quarter 2011	$ 63.86	$ 54.87
Third Quarter 2011	$ 62.58	$ 44.36
Fourth Quarter 2011	$ 53.02	$ 42.86
First Quarter 2012	$ 49.68	$ 42.02
Second Quarter 2012	$ 50.93	$ 44.20
Third Quarter 2012	$ 49.51	$ 45.26
Fourth Quarter 2012	$ 59.31	$ 46.51

As of February 15, 2013, there were 3,353 holders of record of Covance's common stock.

Covance has not paid any dividends during 2012 or 2011. Covance does not currently intend to pay dividends, but rather, intends to reinvest earnings in its business.

Item 5a. Performance Graph

The graph below provides an indicator of cumulative total shareholder returns for Covance as compared with the Standard & Poor's 500 Stock Index® and the Standard & Poor's Health Care Sector Index®. The graph covers the period of time from December 31, 2007 through December 31, 2012 and assumes $100 was invested on December 31, 2007.

Item 6. Selected Financial Data

The following table presents selected historical consolidated financial data of Covance as of and for each of the years ended December 31, 2012, 2011, 2010, 2009 and 2008. This data has been derived from the audited consolidated financial statements of Covance. You should read this selected historical consolidated financial data in conjunction with Covance's audited consolidated financial statements and accompanying notes included elsewhere in this Annual Report. Historical consolidated financial data may not be indicative of Covance's future performance. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The information provided in the following table is on an "as reported" basis for all years presented, and includes the results of Covance's interactive voice and web response service offering ("IVR Services") through its divestiture on August 20, 2009. Items affecting comparability between periods have been noted in the following table.

	Year Ended December 31				
	2012	2011	2010	2009	2008
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Net revenues	$ 2,180,621	$ 2,095,938	$ 1,925,630	$ 1,867,634	$ 1,728,098
Reimbursable out-of-pocket expenses	185,138	140,508	112,843	94,992	98,969
Total revenues	2,365,759	2,236,446	2,038,473	1,962,626	1,827,067
Costs and expenses:					
Cost of revenue	1,570,223	1,467,051	1,348,498	1,277,142	1,142,697
Reimbursable out-of-pocket expenses	185,138	140,508	112,843	94,992	98,969
Selling, general and administrative	358,854	343,044	307,386	270,593	250,180
Depreciation and amortization	117,708	105,214	103,024	91,289	71,571
Impairment charges	17,959		119,229		
Total	2,249,882(a)	2,055,817(d)	1,990,980(g)	1,734,016	1,563,417
Income from operations	115,877(a)	180,629(d)	47,493(g)	228,610	263,650
Other expense (income), net:					
Interest expense (income), net	3,506	1,979	52	201	(6,461)
Foreign exchange transaction loss (gain), net	1,474	1,248	3,649	245	(142)
Impairment of equity investment	7,373	12,119			
Gain on sale of investment	(1,459)				
Loss (gain) on sale of businesses	169			(9,681)	(4,070)
Other expense (income), net	11,063(b)	15,346(e)	3,701	(9,235)(i)	(10,673)(k)
Income before taxes and equity investee earnings	104,814(a),(b)	165,283(d),(e)	43,792(g)	237,845(i)	274,323(k)
Tax expense (benefit)(l)	10,099(c)	33,574(f)	(23,655)(h)	62,870(j)	79,415
Equity investee earnings	17	480	807	907	1,852
Net income	$ 94,732(a),(b),(c)	$ 132,189(d),(e),(f)	$ 68,254(g),(h)	$ 175,882(i),(j)	$ 196,760(k)
Basic earnings per share	$ 1.73	$ 2.22	$ 1.08	$ 2.76	$ 3.12
Diluted earnings per share	$ 1.68(a),(b),(c)	$ 2.16(d),(e),(f)	$ 1.06(g),(h)	$ 2.73(i),(j)	$ 3.08(k)
Balance Sheet Data:					
Working capital	$ 352,131	$ 549,881	$ 446,637	$ 474,928	$ 277,895
Total assets	$ 2,288,342	$ 2,108,008	$ 1,965,542	$ 1,974,944	$ 1,753,088
Long term debt	$	$	$ 97,500	$	$
Stockholders' equity	$ 1,307,192	$ 1,457,795	$ 1,279,821	$ 1,411,004	$ 1,194,849
Other Financial Data:					
Gross margin	28.0%	30.0%	30.0%	31.6%	33.9%
Operating margin	5.3%	8.6%	2.5%	12.2%	15.3%
Net income margin	4.3%	6.3%	3.5%	9.4%	11.4%
Current ratio	1.40	2.02	1.89	2.18	1.60
Debt to equity	0.00	0.00	0.07	0.00	0.00
Book value per share	23.77	23.96	21.24	22.01	18.88
Net days sales outstanding	36	38	31	40	37

(a) Includes restructuring costs ($33,930), an inventory write-down and costs associated with the expected settlement of an inventory supply agreement ($21,168) and goodwill impairment charges ($17,959) totaling $73,057 ($55,749 net of tax or $0.99 per diluted share).

(b) Includes impairment of equity investment ($7,373) and gain on sale of investment $1,459 totaling $5,914 ($6,428 net of tax or $0.11 per diluted share).

(c)

Includes $11,501 or $0.20 per diluted share income tax benefit recorded in connection with favorable income tax matters.

(d)

Includes restructuring costs ($24,369) and costs associated with the termination of an inventory supply agreement and related inventory write-down ($10,287) totaling $34,656 ($23,197 net of tax or $0.38 per diluted share).

(e)

Includes impairment of equity investment totaling $12,119 ($12,119 net of tax or $0.20 per diluted share).

(f)

Includes $2,469 or $0.04 per diluted share income tax benefit recorded in connection with favorable income tax matters.

(g)

Includes asset impairment charges ($119,229) and restructuring costs ($28,030) totaling $147,259 ($93,604 net of tax or $1.45 per diluted share).

(h)

Includes a $17,298 or $0.27 per diluted share income tax benefit recorded in connection with the favorable resolution of several income tax matters and the recognition of previously unrecognized benefits.

(i)

Includes a $9,026 gain on 2009 sale of IVR Services ($5,867 net of tax or $0.09 per diluted share) and a $655 gain ($426 net of tax or $0.01 per diluted share) resulting from contingent consideration received in 2009 associated with the 2007 sale of Cardiac Safety Services related to transferred backlog.

(j)

Includes a $2,072 or $0.03 per diluted share income tax gain associated with the reduction of income tax reserves resulting from the completion of an income tax audit and the recognition of previously unrecognized tax benefits in jurisdictions where the period of review of filings has expired.

(k)

Includes a $4,070 gain ($2,646 net of tax or $0.05 per diluted share) resulting from contingent consideration received in 2008 associated with the 2007 sale of Cardiac Safety Services related to transferred backlog.

(l)

Includes the tax effect of the items listed in footnotes (a) through (k) above, as applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Covance is a leading drug development services company providing a wide range of early-stage and late-stage product development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. Covance also provides services such as laboratory testing to the chemical, agrochemical and food industries. The foregoing services comprise two reportable segments for financial reporting purposes: early development services, which includes discovery support services, preclinical and clinical pharmacology service offerings; and late-stage development services, which includes central laboratory, Phase II-IV clinical development and market access services. Although each segment has separate services within it, they can be and increasingly are, combined in integrated service offerings. Covance believes it is one of the largest drug development services companies, based on annual net revenues, and one of a few that is capable of providing comprehensive global product development services. Covance offers its clients high quality services designed to provide data to clients as rapidly as possible and reduce product development time. We believe this enables Covance's customers to introduce their products into the marketplace faster and as a result, maximize the period of market exclusivity and monetary return on their research and development investments. Additionally, Covance's comprehensive services and broad experience provide its customers with a variable cost alternative to fixed cost internal development capabilities.

Critical Accounting Policies

Covance's consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. The following discussion highlights what we believe to be the critical accounting policies and judgments made in the preparation of these consolidated financial statements.

Revenue Recognition. Covance recognizes revenue either as services are performed or products are delivered, depending on the nature of the work contracted. Historically, a majority of Covance's net revenues have been earned under contracts which range in duration from a few months to two years, but can extend in duration up to five years or longer. Covance also has committed minimum volume arrangements with certain clients with initial terms that generally range in duration from three to ten years. Underlying these arrangements are individual project contracts for the specific services to be provided. These arrangements enable our clients to secure our services in exchange for which they commit to purchase an annual minimum dollar value ("volume") of services. Under these types of arrangements, if the annual minimum volume commitment is not reached, the client is required to pay Covance for the shortfall. Progress towards the achievement of annual minimum volume commitments is monitored throughout the year. Annual minimum commitment shortfalls are not included in net revenues until the amount has been determined and agreed to by the client.

Covance does not have any individual significant contracts as pertains to revenue recognition. By way of background, at any point in time Covance is working on thousands of active client projects, which are governed by individual contracts. In addition, the Company had one customer that accounted for 10.1% of consolidated net revenues in 2012. There were no customers accounting for 10% or more of consolidated net revenues in 2011 or 2010. Covance serves in excess of 1,000 biopharmaceutical companies and has over 14,800 active client projects. Most projects are customized based on the needs of the client, the type of services being provided, therapeutic indication of the drug, geographic locations and other variables. Project specific terms related to pricing, billing milestones and the scope and type of services to be provided are generally negotiated and contracted on a project-by-project basis.

Service contracts generally take the form of fee-for-service or fixed-price arrangements. In cases where performance spans multiple accounting periods, revenue is recognized as services are performed, measured on a proportional-performance basis, generally using output measures that are specific to the service provided. Examples of output measures in our early development segment include the number of slides read, dosings performed, or specimens prepared for preclinical laboratory services, or number of dosings or number of volunteers enrolled for clinical pharmacology. Examples of output measures in our late-stage development segment's Phase II-IV clinical development service offering include among others, number of investigators enrolled, number of sites initiated, number of patients enrolled and number of monitoring visits completed. Revenue is determined by dividing the actual units of work completed by the total units of work required under the contract and multiplying that percentage by the total contract value. The total contract value, or total contractual payments, represents the aggregate contracted price for each of the agreed upon services to be provided. Covance does not have any contractual arrangements spanning multiple accounting periods where revenue is recognized on a proportional-performance basis under which the Company has earned more than an immaterial amount of performance-based revenue (i.e. potential additional revenue tied to specific deliverables or performance). Changes in the scope of work are common, especially under long-term contracts, and generally result in a change in contract value. Once the client has agreed to the changes in scope and renegotiated pricing terms, the contract value is amended and revenue is recognized, as described above. Estimates of costs to complete are made to provide, where appropriate, for losses expected on contracts. Costs are not deferred in anticipation of contracts being awarded, but instead are expensed as incurred. For the years ended December 31, 2012, 2011 and 2010, Covance did not experience a change in the estimates used to determine the amounts recognized as revenue (i.e. output measures or costs to complete) for any project resulting in a material impact on our financial position, results of operations or cash flows.

Billing schedules and payment terms are generally negotiated on a contract-by-contract basis. In some cases, Covance bills the client for the total contract value in progress-based installments as certain non-contingent billing milestones are reached over the contract duration, such as, but not limited to, contract signing, initial dosing, investigator site initiation, patient enrollment or database lock. The term "billing milestone" relates only to a billing trigger in a contract whereby amounts become billable and payable in accordance with a negotiated predetermined billing schedule throughout the term of a project. These billing milestones are not performance-based (i.e., potential additional arrangement consideration tied to specific deliverables or performance). In other cases, billing and payment terms are tied to the passage of time (e.g., monthly billings). In either case, the total contract value and aggregate amounts billed to the client would be the same at the end of the project. While Covance attempts to negotiate terms that provide for billing and payment of services prior or within close proximity to the provision of services, this is not always the case, as evidenced by fluctuations in the levels of unbilled services and unearned revenue from period to period. While a project is ongoing, cash payments are not necessarily representative of aggregate revenue earned at any particular point in time, as revenues are recognized when services are provided, while amounts billed and paid are in accordance with the negotiated billing and payment terms.

In some cases, payments received are in excess of revenue recognized. For example, a contract invoicing schedule may provide for an upfront payment of 10% of the full contract value upon contract signing, but at the time of signing, performance of services has not yet begun, and therefore, no revenue has yet been recognized. Payments received in advance of services being provided, such as in this example, are deferred as unearned revenue on the balance sheet. As the contracted services are subsequently performed and the associated revenue is recognized, the unearned revenue balance is reduced by the amount of revenue recognized during the period.

In other cases, services may be provided and revenue is recognized before the client is invoiced. In these cases, revenue recognized will exceed amounts billed, and the difference, representing an unbilled receivable, is recorded for this amount which is currently unbillable to the customer pursuant to contractual terms. Once the client is invoiced, the unbilled services are reduced for the amount billed, and a corresponding account receivable is recorded. All unbilled services are billable to customers within one year from the respective balance sheet date.

Most contracts are terminable by the client, either immediately or upon notice. These contracts often require payment to Covance of expenses to wind down the study or project, fees earned to date and, in some cases, a termination fee or a payment to Covance of some portion of the fees or profits that could have been earned by Covance under the contract if it had not been terminated early. Termination fees are included in net revenues when realization is assured.

Bad Debts. Covance endeavors to assess and monitor the creditworthiness of its customers to which it grants credit terms in the ordinary course of business. Covance maintains a provision for doubtful accounts relating to amounts due that may not be collected. This bad debt provision is monitored on a monthly basis and adjusted as circumstances warrant. Since the recorded bad debt provision is based upon management's judgment, actual bad debt write-offs may be greater or less than the amount recorded. Historically, bad debt write-offs have not been material. The allowance for doubtful accounts amounted to $6.2 million and $5.5 million at December 31, 2012 and 2011, respectively.

Taxes. Since Covance conducts operations on a global basis, its effective tax rate has and will continue to depend upon the geographic distribution of its pre-tax earnings among locations with varying tax rates. Covance's profits are further impacted by changes in the tax rates of the various jurisdictions in which Covance operates. In addition, Covance maintains a reserve for unrecognized tax benefits, changes to which could impact Covance's effective tax rate in the period such changes are made.

The Company recognizes a tax benefit from an uncertain tax position only if the Company believes it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that the Company believes is more likely than not to be realized upon ultimate settlement of the position. Components of the reserve are classified as either a current or long-term liability in the consolidated balance sheet based on when the Company expects each of the items to be settled. Covance accrues interest and penalties in relation to unrecognized tax benefits as a component of income tax expense.

Covance maintains a reserve for unrecognized tax benefits for income tax exposures, such as transfer pricing, nexus and deemed income, which is recorded as a long-term liability in other liabilities on the consolidated balance sheets. As of December 31, 2012 and 2011, the balance of the reserve for unrecognized tax benefits was $9.4 million and $16.4 million, respectively. Included in the balance of the reserve for unrecognized tax benefits as of December 31, 2012 and 2011 is accrued interest of $0.6 million and $1.6 million, respectively. During the year ended December 31, 2012, the reserve for unrecognized tax benefits decreased by $7.0 million, primarily associated with the settlement of various income tax audits, partially offset by the accrual of additional reserves of $2.4 million, primarily relating to transfer pricing and the accrual of interest on existing reserves. During the year ended December 31, 2011, the reserve for unrecognized tax benefits was increased by $1.4 million, resulting from the accrual of additional reserves of $3.8 million, primarily relating to transfer pricing and the accrual of interest on existing reserves, partially offset by $2.4 million in reductions due to settlements and the expiration of the period of review of filings in certain jurisdictions.

Following is a reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding accrued interest, for the years ended December 31, 2012, 2011 and 2010:

(dollars in millions)	
Unrecognized tax benefits as of December 31, 2009	$ 16.0
Additions related to tax positions in the prior year	3.8
Additions related to tax positions in the current year	1.9
Reductions due to settlements and payments	(7.2)
Reductions due to statute expiration	(0.5)
Unrecognized tax benefits as of December 31, 2010	14.0
Additions related to tax positions in the current year	3.0
Reductions due to settlements and payments	(1.9)
Reductions due to statute expiration	(0.3)
Unrecognized tax benefits as of December 31, 2011	14.8
Additions related to tax positions in the current year	2.2
Reductions due to settlements and payments	(7.9)
Reductions due to statute expiration	(0.3)
Unrecognized tax benefits as of December 31, 2012	$ 8.8

Any future changes in the liability for unrecognized tax benefits, resulting from the recognition of tax benefits, would impact the effective tax rate of Covance. Over the next twelve months, it is reasonably possible that the uncertainty surrounding up to $1.0 million, including accrued interest of $0.1 million, of the reserve for unrecognized tax benefits related to certain income taxes, deemed income and transfer pricing will be resolved as a result of the expiration of the statute of limitations or the conclusion of various federal, state and foreign tax audits.

The following tax years remain open to investigation as of December 31, 2012, for the Company's major jurisdictions:

Tax Jurisdiction	**Years**
U.S. Federal and State	2007-2012
United Kingdom	2011-2012
Switzerland	2007-2012
Germany	2009-2012

The Company also maintains a tax reserve related to exposures for non-income tax matters, including value-added tax, state sales and use and other taxes. The balance of this reserve at December 31, 2012 and 2011 was $1.1 million and $1.0 million, respectively, and is recorded as a current liability in accrued expenses and other current liabilities on the consolidated balance sheets.

While Covance believes it has identified all reasonably identifiable exposures and the reserve it has established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures will be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause Covance to either materially increase or reduce the carrying amount of its tax reserve.

Covance's policy is to provide income taxes on earnings of foreign subsidiaries only to the extent those earnings are taxable or are expected to be remitted. Covance's historical policy has been to leave its unremitted foreign earnings invested indefinitely outside the United States, except for amounts remitted under the American Jobs Creation Act of 2004. Covance intends to continue to leave its unremitted foreign earnings invested indefinitely outside the United States. As a result, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings totaling approximately $765 million at December 31, 2012.

Stock-Based Compensation. The Company sponsors several stock-based compensation plans pursuant to which non-qualified stock options and restricted stock awards are granted to eligible employees.

The grant-date fair value of awards expected to vest is expensed on a straight-line basis over the vesting period of the related awards. The grant-date fair value of stock awards is based upon the underlying price of the stock on the date of grant. The grant-date fair value of stock option awards must be determined using an option pricing model. Option pricing models require the use of estimates and assumptions as to (a) the expected term of the option, (b) the expected volatility of the price of the underlying stock, (c) the risk-free interest rate for the expected term of the option and (d) pre-vesting forfeiture rates. The Company uses the Lattice-Binomial option pricing formula for determining the grant-date fair value of stock option awards.

The expected term of the option is based upon the contractual term and expected employee exercise and expected post-vesting employment termination behavior. The expected volatility of the price of the underlying stock is based upon the volatility of the Company's stock computed over a period of time equal to the expected term of the option. The risk free interest rate is based upon the implied yields currently available from the U.S. Treasury zero-coupon yield curve for issues with a remaining duration equal to the expected term of the option. Pre-vesting forfeiture rates are estimated based upon past voluntary termination behavior and past option forfeitures.

The following table sets forth the weighted-average assumptions used to calculate the fair value of options granted for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Expected stock price volatility	38%	37%	35%
Range of risk free interest rates	0.03% - 2.01%	0.10% - 3.62%	0.06% - 3.78%
Expected life of options (years)	5.2	4.8	4.7

Changes in any of these assumptions could impact, potentially materially, the amount of expense recorded in future periods related to stock-based awards.

As of December 31, 2012, the total unrecognized compensation cost related to non-vested stock options granted was $19.0 million and is expected to be recognized over a weighted average period of 2.4 years, and the total unrecognized compensation cost related to non-vested performance-based shares and restricted stock awards was $38.0 million and is expected to be recognized over a weighted average period of 2.1 years.

Impairment of Assets. Covance reviews its long-lived assets, other than goodwill and other indefinite lived intangible assets, for impairment when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based upon Covance's judgment of its ability to recover the value of the asset from the expected future undiscounted cash flows of the related operations. Actual future cash flows may be greater or less than estimated. During the fourth quarter of 2011, Covance determined that the carrying value of its equity method investment in a supplier of research products was no longer fully recoverable based upon changes in the research product market. The impairment was determined to be other-than-temporary and Covance recorded a charge of $12.1 million to reduce the carrying value of the equity investment to its estimated fair value as of December 31, 2011. Further, during the second quarter of 2012, the equity investment was determined to have experienced an additional impairment in value due to a further decline in demand for the research products from this supplier. As a result, Covance recorded a $7.4 million impairment charge to write off the remaining carrying value of the equity investment as of June 30, 2012, net of the elimination of profit on inventory purchased from this supplier. During the third quarter of 2010, Covance determined that long-lived assets used in its North American toxicology operations, located in Chandler, Arizona and Manassas, Virginia with carrying values of $182.7 million and $23.4 million, respectively, were no longer fully recoverable from the cash flows expected from those assets. Accordingly, as of September 30, 2010, Covance recorded an asset impairment charge totaling $119.2 million ($103.0 million of

which relates to the Chandler, Arizona assets and $16.2 million relates to the Manassas, Virginia assets), representing the excess of the carrying value of those assets over their respective fair market values.

Covance performs an annual test for impairment of goodwill and other indefinite lived intangible assets during the fourth quarter. Covance tests goodwill for impairment at the reporting unit level only when, after completing a qualitative analysis, it is determined that it is more likely than not that the fair value of a reporting unit is below its carrying value. This test is performed by comparing the carrying value of the reporting unit to its fair value. Covance assesses fair value based upon its estimate of the present value of the future cash flows that it expects to be generated by the reporting unit. In the second quarter of 2012, Covance commenced actions to close its clinical pharmacology operations located in Basel, Switzerland and as a result determined the goodwill associated with the acquisition of the Basel clinic was impaired and recorded a charge of $18.0 million to write off the carrying value of the goodwill as of June 30, 2012. The Basel clinic is part of Covance's early development segment and clinical pharmacology reporting unit, however, because the clinic was operated on a standalone basis and was not integrated into the reporting unit after its acquisition, the related goodwill was evaluated for impairment at the site level and not the reporting unit level. The annual test for impairment performed for 2012, 2011 and 2010 indicated that no reporting units were at significant risk for impairment. However, changes in expectations as to the present value of a reporting unit's future cash flows might impact subsequent years' assessments of impairment.

Defined Benefit Pension Plans. Covance sponsors defined benefit pension plans for the benefit of its employees at several foreign subsidiaries as well as a non-qualified supplemental executive retirement plan and a post-employment retiree health and welfare plan for the benefit of eligible employees at certain U.S. subsidiaries. The measurement of the related benefit obligation and net periodic benefit cost recorded each year is based upon actuarial computations which require the use of judgment as to certain assumptions. The more significant of these assumptions are: (a) the appropriate discount rate to use in computing the present value of the benefit obligation; (b) the expected return on plan assets (for funded plans); and (c) the expected future rate of salary increases (for pay-related plans). Actual results (such as the return on plan assets, future rate of salary increases and plan participation rates) will likely differ from the assumptions used. Those differences, along with changes that may be made in the assumptions used from period to period, will impact the amounts reported in the financial statements and footnote disclosures.

Set forth below is a discussion of the impact that (a) differences between assumed results and actual results and (b) assumption changes have had on our results of operations for the years ended December 31, 2012, 2011 and 2010 and on the financial position of the plans as of December 31, 2012 and 2011 for our United Kingdom defined benefit pension plans (the largest of our defined benefit-type pension plans).

	United Kingdom Plans			
(dollars in millions)	**2012**	**2011**	**2010**	**2009**
Net periodic pension cost	$ 0.9	$ 1.6	$ 1.6	$ 2.0
Assumptions used to determine net periodic pension cost:				
Discount rate	4.60%	5.20%	5.75%	6.25%
Expected rate of return on assets	5.90%	6.50%	6.75%	6.75%
Salary increases	4.00%	4.50%	4.50%	4.25%

The movement in the net periodic benefit cost from period to period is attributable to the following:

	United Kingdom Plans		
(dollars in millions)	**2011 to 2012**	**2010 to 2011**	**2009 to 2010**
Change in discount rate	$ 2.3	$ 2.1	$ 1.3
Change in rate of salary increases	0.1		(0.1)
Other, including differences between actual experience and assumptions used	(3.1)	(2.1)	(1.6)
Net change in periodic benefit cost	$ (0.7)	$	$ (0.4)

	United Kingdom Plans		
	2012	**2011**	**2010**
Assumptions used to determine benefit obligation:			
Discount rate	4.60%	4.60%	5.20%
Salary increases	3.60%	4.00%	4.50%

The change in the projected benefit obligation from period to period is attributable to the following:

	United Kingdom Plans	
(dollars in millions)	**2011 to 2012**	**2010 to 2011**
Projected benefit obligation, beginning of year	$ 167.7	$ 156.6
Service/interest cost components of net periodic benefit cost in year	11.9	12.7
Benefits paid	(2.5)	(2.3)
Actuarial loss:		
Decrease in discount rate		23.8
Other, including differences between actual experience and assumptions used	(2.4)	(25.0)
Foreign currency exchange rate changes	6.3	1.9
Projected benefit obligation, end of year	$ 181.0	$ 167.7

Foreign Currency Risks

Since Covance operates on a global basis, it is exposed to various foreign currency risks. Two specific risks arise from the nature of certain contracts. The first risk can occur when Covance executes contracts with its customers where the contracts are denominated in a currency different than the local currencies of the Covance subsidiaries performing work under the contracts. As a result, revenue recognized for services rendered may be denominated in a currency different from the currencies in which the subsidiaries' expenses are incurred. Fluctuations in exchange rates (from those in effect at the time the contract is executed and pricing is established to the time services are rendered and revenue is recognized) can affect the subsidiary's net revenues and resultant earnings. This risk is generally applicable only to a portion of the contracts executed by Covance's subsidiaries providing clinical services. Historically, fluctuations in exchange rates from those in effect at the time contracts were executed have not had a material effect upon Covance's consolidated financial results. See "Risk Factors".

We also have other cross-currency contracts executed by other Covance subsidiaries where the foreign currency amounts billed are determined by converting local currency revenue amounts to the contract billing currency using the exchange rates in effect at the time services are rendered. These contracts do not give rise to foreign currency denominated revenue and local currency denominated expenses, but they do give rise to a second type of risk. This second type of risk results from the passage of time between the invoicing of customers under both of these types of contracts and the ultimate collection of customer payments against such invoices. Because such invoices are denominated in a currency other than the subsidiary's local currency, Covance

recognizes a receivable at the time of invoicing for the local currency equivalent of the foreign currency invoice amount as of the invoice date. Subsequent changes in exchange rates from the time the invoice is prepared to the time payment from the customer is received will result in Covance receiving either more or less in local currency than the local currency equivalent of the invoice amount at the time the invoice was prepared and the receivable was recorded. This difference is recognized by Covance as a foreign currency transaction gain or loss, as applicable, in the consolidated statements of income.

Finally, Covance's consolidated financial statements are denominated in U.S. dollars. Accordingly, changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of each foreign subsidiary's financial results into U.S. dollars for purposes of reporting Covance's consolidated financial results. The process by which each foreign subsidiary's financial results are translated into U.S. dollars is as follows: income statement accounts are translated at average exchange rates for the period; balance sheet asset and liability accounts are translated at end of period exchange rates; and equity accounts are translated at historical exchange rates. Translation of the balance sheet in this manner affects the stockholders' equity account, referred to as the cumulative translation adjustment account. This account exists only in the foreign subsidiary's U.S. dollar balance sheet and is necessary to keep the foreign balance sheet stated in U.S. dollars in balance. At December 31, 2012, accumulated other comprehensive income on the consolidated balance sheet includes the cumulative translation account balance of $52.1 million.

Operating Expenses and Reimbursable Out-of-Pockets

Covance segregates its recurring operating expenses among four categories: cost of revenue; reimbursable out-of-pocket expenses; selling, general and administrative expenses; and depreciation and amortization. Cost of revenue includes direct labor and related benefits, other direct costs, shipping and handling fees, and an allocation of facility charges and information technology costs, and excludes depreciation and amortization. Cost of revenue, as a percentage of net revenues, tends and is expected to fluctuate from one period to another, as a result of changes in labor utilization and the mix of service offerings involving thousands of studies conducted during any period of time. Selling, general and administrative expenses consist primarily of administrative payroll and related benefit charges, advertising and promotional expenses, administrative travel and an allocation of facility charges and information technology costs, and excludes depreciation and amortization.

In connection with the management of multi-site clinical trials, Covance pays on behalf of its customers fees to investigators, volunteers and other out-of-pocket costs (such as for travel, printing, meetings, couriers, etc.), for which it is reimbursed at cost, without mark-up or profit. Investigator fees are not reflected in total revenues or expenses where Covance acts in the capacity of an agent on behalf of the pharmaceutical company sponsor, passing through these costs without risk or reward to Covance. All other out-of-pocket costs are included in total revenues and expenses.

Results of Operations

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011. Net revenues increased 4.0%, or 5.8% excluding the unfavorable impact of foreign exchange rate variances between both periods, to $2.18 billion for 2012 from $2.10 billion for 2011. Net revenues from Covance's early development segment decreased 6.6%, or 6.0% excluding the unfavorable impact of foreign exchange rate variances between both periods. The decline in the early development segment was due primarily to lower volumes in toxicology, clinical pharmacology, research products and discovery support, only partially offset by an increase in nutritional chemistry. Net revenues from Covance's late-stage development segment increased 12.5%, or 15.2% excluding the unfavorable impact of foreign exchange rate variances between both periods. Growth in the late-stage development segment was led by the continued strong performance of our Phase II-IV clinical development services on increased study activity and higher volumes in our central laboratory services, which was partially offset by decreased volume in our market access services.

Cost of revenue increased 7.0% to $1.57 billion or 72.0% of net revenues for the year ended December 31, 2012 as compared to $1.47 billion or 70.0% of net revenues for the corresponding 2011 period. Gross margins decreased by 200 basis points to 28.0% for 2012 from 30.0% for the corresponding 2011 period due to an inventory charge to write down certain preclinical inventory and costs associated with the expected settlement of an inventory supply agreement of $21.2 million (or 1.0% of net revenues) and lower volumes in early development, which was only partially offset by margin expansion in late-stage services from the operating leverage on the volume increase.

Overall, selling, general and administrative expenses increased 4.6% to $358.9 million for 2012 from $343.0 million for 2011. As a percentage of net revenues, selling, general and administrative expenses increased 10 basis points to 16.5% in 2012 from 16.4% in 2011. Included in selling, general and administrative expenses during 2012 is $30.5 million (or 1.4% of net revenues) in costs associated with the 2012 restructuring actions to better align capacity to preclinical market demand and further improve profitability going forward. These actions include the closure of the Company's toxicology facility in Chandler, Arizona, its clinical pharmacology facilities in Honolulu, Hawaii and Basel, Switzerland, as well as a capacity and workforce reduction in Muenster, Germany and in its corporate and functional support infrastructure. Included in selling, general and administrative expense during the corresponding 2011 period was $22.6 million (or 1.1% of net revenues) in costs associated with the 2011 restructuring initiatives to rationalize capacity, reduce the cost of overhead and support functions and to streamline processes, as well as $10.3 million (or 0.5% of net revenues) in costs associated with the termination of a long-standing inventory supply agreement and related inventory write-down. Selling, general and administrative expenses as a percentage of net revenues can and does vary depending on the timing and nature of various professional fees and other discretionary spending.

Depreciation and amortization increased 11.9% to $117.7 million for 2012 from $105.2 million for 2011. As a percentage of net revenues, depreciation and amortization increased by 40 basis points to 5.4% for the 2012 period from 5.0% for the corresponding 2011 period. Depreciation and amortization during the 2012 period includes $3.5 million (or 0.2% of net revenues) in accelerated depreciation associated with the restructuring initiatives described above, as compared to $1.8 million (or 0.1% of net revenues) in accelerated depreciation in the 2011 period. The balance of the growth results from an increase in assets placed in service over the last year.

Income from operations decreased 35.8% to $115.9 million or 5.3% of net revenues for 2012 from $180.6 million or 8.6% of net revenues for the corresponding 2011 period. The 2012 period includes a goodwill impairment charge of $18.0 million (or 0.8% of net revenues) related to the Basel clinic, which is included in our early development segment results, as well as the restructuring charges of $33.9 million (or 1.6% of net revenues) and the inventory write-down and costs associated with the expected settlement of an inventory supply agreement totaling $21.2 million (or 1.0% of net revenues) discussed above. Income from operations for 2011 included restructuring costs of $24.4 million (or 1.2% of net revenues) and costs associated with the termination of an inventory supply agreement and related inventory write-down of $10.3 million (or 0.5% of net revenues).

Income from operations from Covance's early development segment for the year ended December 31, 2012 decreased by $101.3 million to $4.0 million, compared to $105.3 million for the corresponding 2011 period. As a percentage of net revenues, early development income from operations decreased 1,080 basis points from 11.3% of early development net revenues in the 2011 period to 0.5% in the corresponding 2012 period. The decline in income from operations in Covance's early development segment for the 2012 period is primarily driven by restructuring and other charges of $30.3 million (or 3.5% of segment net revenues), the goodwill impairment charge of $18.0 million (or 2.1% of segment net revenues) and the inventory write-down and costs associated with the expected settlement of an inventory supply agreement totaling $21.2 million (or 2.4% of segment net revenues) versus restructuring costs of $11.4 million (or 1.2% of segment net revenues) and costs associated with the termination of an inventory supply agreement and related inventory write-down of $10.3 million (or 1.1% of segment net revenues) included in the 2011 period. In addition, the 2012 period

reflects the impact of lower volume in toxicology, clinical pharmacology, research products and discovery support services, as described above.

Income from operations from Covance's late-stage development segment for the year ended December 31, 2012 increased 22.7% or $51.3 million to $277.6 million as compared to $226.3 million for the corresponding 2011 period. As a percentage of net revenues, late-stage development income from operations increased 180 basis points from 19.4% of late-stage development net revenues in 2011 to 21.2% of net revenues in the corresponding 2012 period, resulting from operating leverage on the increase in volume in both Phase II-IV clinical development and central laboratories, partially offset by the decrease in volume in market access services. Income from operations from Covance's late-stage development segment for the 2012 period includes restructuring charges of $1.3 million (or 0.1% of segment net revenues) compared to $5.0 million (or 0.4% of net revenues) in the corresponding 2011 period.

Corporate expense increased $14.7 million to $165.7 million or 7.6% of net revenues for the year ended December 31, 2012, as compared to $151.0 million or 7.2% of net revenues for the corresponding 2011 period driven primarily by higher information technology spending associated with the corporate components of the Company's strategic IT initiatives. Corporate expenses for the year ended December 31, 2012 includes restructuring charges of $2.3 million (or 0.1% of net revenues) compared to $8.0 million (or 0.4% of net revenues) included in the corresponding 2011 period. Also included in corporate expense is stock-based compensation expense which totaled $40.8 million (or 1.9% of net revenues) for the year ended December 31, 2012, as compared to $40.1 million (or 1.9% of net revenues) for the corresponding 2011 period.

Other expense, net decreased $4.3 million to $11.1 million for the year ended December 31, 2012 from $15.3 million for the corresponding 2011 period. The largest driver of the reduction was lower impairment charges on an equity investment in a supplier of research products which totaled $7.4 million in 2012 versus $12.1 million in 2011. In addition, the 2012 period includes a gain on the sale of an investment of $1.5 million. Partially offsetting these reductions is an increase of $1.5 million in net interest expense to $3.5 million in the 2012 period from $2.0 million in the corresponding 2011 period due to higher average borrowing levels, an increase of $0.2 million in net foreign exchange transaction losses to $1.4 million in the 2012 period from $1.2 million in the corresponding 2011 period and the inclusion in the 2012 period of a loss on the sale of a business of $0.2 million.

Covance's effective tax rate for the year ended December 31, 2012 was 9.6% compared to 20.3% for the corresponding 2011 period. Covance's effective tax rate for the 2012 period includes a net tax benefit of $10.7 million primarily associated with the settlement of various income tax audits across multiple jurisdictions, $0.8 million associated with a reduction in the United Kingdom income tax rate, which resulted in a decrease in the Company's United Kingdom net deferred tax liabilities, and a $17.3 million benefit related to $55.1 million of 2012 restructuring cost actions and other charges. There was no tax benefit recorded for either the $18.0 million goodwill impairment or the $7.4 million equity investment impairment. Covance's effective tax rate for the 2011 period includes the tax impact of the 2011 cost reduction actions and costs associated with the termination of an inventory supply agreement and inventory write-down totaling $11.5 million. The Company also recorded a net income tax benefit of $2.5 million, primarily related to tax positions taken on returns filed in 2011, coupled with a decline in net deferred tax liabilities resulting from a reduction in the future United Kingdom income tax rate, partially offset by the accrual of additional reserves for uncertain tax positions. The remaining year-over-year decrease in Covance's effective tax rate is attributable primarily to a shift in the mix of our pre-tax earnings across various tax jurisdictions and to the impact of tax planning initiatives.

Covance has a 47% minority equity position in Noveprim Limited ("Noveprim"), a supplier of research products. During the years ended December 31, 2012 and 2011, Covance recognized income of $17 thousand and $0.5 million, respectively, representing its share of Noveprim's earnings, net of the elimination of profit on inventory purchased from Noveprim and still on hand at Covance. The Company suspended equity accounting for this investment effective June 30, 2012 as it had reduced the carrying value of its investment to zero.

Net income of $94.7 million for the year ended December 31, 2012 decreased $37.5 million or 28.3% as compared to $132.2 million for the corresponding 2011 period. Net income for the 2012 period includes $63.1 million, net of tax, for asset impairments, restructuring charges, an inventory write-down and costs associated with the expected settlement of an inventory supply agreement. These items were partially offset by a tax benefit of $11.5 million for favorable tax settlements and a $1.0 million gain, net of tax, on the sale of an investment. The 2011 period includes $35.3 million, net of tax, related to restructuring, contract termination and inventory write-down costs and the impairment of an equity investment.

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010. Net revenues increased 8.8%, or 5.5% excluding the favorable impact of foreign exchange rate variances between both periods, to $2.10 billion for 2011 from $1.93 billion for 2010. Net revenues from Covance's early development segment increased 10.7%, or 9.8% excluding the favorable impact of foreign exchange rate variances between both periods. Growth in the early development segment was driven by a number of factors, including the inclusion of a full year of results in the 2011 period from the sites acquired in October 2010 from Sanofi, revenue growth in our North American toxicology services, excluding Vienna, Virginia, and growth in our global analytical chemistry, discovery and translational and clinical pharmacology services. Partially offsetting the growth in these service offerings was a decline in revenue from lower volumes for our research products, legacy European toxicology services and our Vienna, Virginia toxicology facility, where services have been wound-down and largely transitioned to other locations. Net revenues from Covance's late-stage development segment grew 7.4%, or 2.1% excluding the favorable impact of foreign exchange rate variances between both periods. Growth in our Phase II-IV clinical development services, on increased study activity, was partially offset by a reduction in net revenue from lower testing volume in our central laboratory services.

Cost of revenue increased 8.8% to $1.47 billion or 70.0% of net revenues for the year ended December 31, 2011 as compared to $1.35 billion or 70.0% of net revenues for the corresponding 2010 period. Gross margins were 30.0% for both 2011 and 2010. Losses incurred in connection with the wind-down and transition of our Virginia toxicology services, the opening of our new specialty toxicology services in Indiana and the launch of our pre-clinical facility in China coupled with lower profitability in our central laboratory and legacy European toxicology services, from reduced volumes, were offset by higher earnings in our other early development and late-stage development services from the higher net revenue levels mentioned above.

Overall, selling, general and administrative expenses increased 11.6% to $343.0 million for 2011 from $307.4 million for 2010. As a percentage of net revenues, selling, general and administrative expenses increased 40 basis points to 16.4% in 2011 from 16.0% in 2010. Included in selling, general and administrative expense during the 2011 period is $22.6 million (or 1.1% of net revenues) in costs associated with restructuring initiatives, as well as $10.3 million (or 0.5% of net revenues) in costs associated with the termination of a long-standing inventory supply agreement and related inventory write-down, as compared to $25.1 million (or 1.3% of net revenues) in restructuring costs for the 2010 period. These restructuring initiatives and cost reduction actions were taken to rationalize capacity, reduce the cost of overhead and support functions and to streamline processes. The inventory supply agreement was terminated due to a decline in demand for a research product, which also resulted in the write-down of inventory. Selling, general and administrative expenses as a percentage of net revenues can and does vary depending on the timing and nature of various professional fees and other discretionary spending.

Depreciation and amortization increased 2.1% to $105.2 million for 2011 from $103.0 million for 2010 as a result of depreciation on assets placed in service over the last year. As a percentage of net revenues, depreciation and amortization decreased by 40 basis points to 5.0% for the 2011 period from 5.4% for the corresponding 2010 period. Depreciation and amortization during the 2011 period includes $1.8 million (or 0.1% of net revenues) in accelerated depreciation associated with the restructuring initiatives described above, as compared to $2.9 million (or 0.1% of net revenues) in the 2010 period.

Income from operations increased 280.3% to $180.6 million or 8.6% of net revenues for 2011 from $47.5 million or 2.5% of net revenues for the corresponding 2010 period. The 2010 period includes asset impairment charges of $119.2 million (or 6.2% of net revenues) associated with long lived assets in Chandler,

Arizona and Manassas, Virginia, which are included in our early development segment results, as well as costs associated with the restructuring initiatives totaling $28.0 million (or 1.5% of net revenues). Income from operations for 2011 includes restructuring costs of $24.4 million (or 1.2% of net revenues) and costs associated with the termination of an inventory supply agreement and related inventory write-down of $10.3 million (or 0.5% of net revenues).

Income from operations from Covance's early development segment for the year ended December 31, 2011 increased by $137.3 million to $105.3 million as compared to a loss of $32.0 million for the corresponding 2010 period. As a percentage of net revenues, early development income from operations increased from negative (3.8%) of early development net revenues in the 2010 period to 11.3% in the corresponding 2011 period. The increase in income from operations in Covance's early development segment for the 2011 period is primarily attributable to the 2010 asset impairment charges totaling $119.2 million (or 14.2% of segment net revenues). Also contributing to the increase in 2011 was the inclusion of a full year of results from the sites acquired in October 2010 from Sanofi and net incremental earnings from higher revenue in other service areas, as described above, partially offset by operating losses incurred in connection with the wind-down and transition of our Virginia toxicology services and start up losses related to the opening of our new specialty toxicology services in Indiana and the launch of our pre-clinical facility in China during 2011. Income from operations for 2011 includes restructuring costs of $11.4 million (or 1.2% of segment net revenues) and costs associated with the termination of an inventory supply agreement and related inventory write-down of $10.3 million (or 1.1% of segment net revenues), compared to costs associated with the restructuring initiatives in the 2010 period totaling $14.1 million (or 1.7% of segment net revenues).

Income from operations from Covance's late-stage development segment for the year ended December 31, 2011 increased 0.4% or $0.8 million to $226.3 million as compared to $225.5 million for the corresponding 2010 period. As a percentage of net revenues, late-stage development income from operations decreased 140 basis points from 20.8% of late-stage development net revenues in 2010 to 19.4% of net revenues in the corresponding 2011 period. The 140 basis point decline in operating margins is due to the impact of lower volumes in our central laboratory services. Income from operations from Covance's late-stage development segment for the 2011 period includes restructuring charges of $5.0 million (or 0.4% of segment net revenues) compared to $7.3 million (or 0.7% of net revenues) in the corresponding 2010 period.

Corporate expense increased $5.0 million to $151.0 million or 7.2% of net revenues for the year ended December 31, 2011, as compared to $146.0 million or 7.6% of net revenues for the corresponding 2010 period. Included in corporate expense is stock-based compensation expense of $40.1 million (or 1.9% of net revenues) for the year ended December 31, 2011, an increase of $7.8 million as compared to $32.3 million (or 1.7% of net revenues) for the corresponding 2010 period. Corporate expenses for the year ended December 31, 2011 also includes restructuring charges of $8.0 million (or 0.4% of net revenues) compared to $6.6 million (or 0.3% of net revenues) included in the corresponding 2010 period. Partially offsetting these increases were cost savings realized from the restructuring initiatives, as described above.

Other expense, net increased $11.6 million to $15.3 million for the year ended December 31, 2011 from $3.7 million for the corresponding 2010 period. The primary driver of the increase is the inclusion of an impairment charge of $12.1 million on an equity method investment in a supplier of research products in 2011. Net interest expense increased to $2.0 million during the 2011 period from $0.1 million for the corresponding 2010 period, as a result of higher borrowings under our credit facilities in 2011 originating from the stock buyback program executed in the fourth quarter of 2010. Partially offsetting these increases was a decrease in the net foreign exchange transaction loss of $2.4 million, to $1.2 million in the 2011 period from $3.6 million in the corresponding 2010 period.

Covance's effective tax rate for the year ended December 31, 2011 was an expense of 20.3% compared to a benefit of 54.0% for the corresponding 2010 period. Covance's effective tax rate for the 2010 period included the tax impact of the asset impairment and restructuring charges totaling $53.7 million. The Company also recorded net income tax benefits in 2010 totaling $17.3 million, primarily in connection with the favorable resolution of two income tax audits. Covance's effective tax rate for the 2011 period includes the tax impact of

the 2011 cost reduction actions and costs associated with the termination of an inventory supply agreement and inventory write-down totaling $11.5 million. The Company also recorded a net income tax benefit of $2.5 million, primarily related to tax positions taken on returns filed in 2011, coupled with a decline in net deferred tax liabilities resulting from a reduction in the future United Kingdom income tax rate, partially offset by the accrual of additional reserves for uncertain tax positions. The 2011 period also reflects a shift in the mix of our pre-tax earnings across various tax jurisdictions and the impact of tax planning initiatives.

Covance has a 47% minority equity position in Noveprim Limited ("Noveprim"), a supplier of research products. During the years ended December 31, 2011 and 2010, Covance recognized income of $0.5 million and $0.8 million, respectively, representing its share of Noveprim's earnings, net of the elimination of profit on inventory purchased from Noveprim and still on hand at Covance at December 31, 2011 and 2010.

Net income of $132.2 million for the year ended December 31, 2011 increased $63.9 million or 93.7% as compared to $68.3 million for the corresponding 2010 period, primarily due to the after tax impact of the asset impairments and restructuring charges totaling $93.6 million in the 2010 period, as compared to $35.3 million related to restructuring, contract termination and inventory write-down costs and the impairment of an equity investment in the corresponding 2011 period. The remaining increase in net income during the 2011 period is driven by the increased revenues and profitability of certain early development services, as discussed above, and the inclusion of a full year of results from the sites acquired in October 2010 from Sanofi, partially offset by lower income tax benefits of $14.8 million, reduced profitability in late-stage development services, as described above, as well as operating losses incurred in connection with the wind-down and transition of our Virginia toxicology services and start up losses related to the opening of our new specialty toxicology services in Indiana and the launch of our pre-clinical facility in China during 2011.

Quarterly Results

Covance's quarterly operating results are subject to variation, and are expected to continue to be subject to variation, as a result of factors such as (1) delays in initiating or completing significant drug development trials, (2) termination or reduction in size of drug development trials, (3) acquisitions and divestitures, (4) changes in the mix of our services, and (5) exchange rate fluctuations. Delays and terminations of trials are often the result of actions taken by Covance's customers or regulatory authorities and are not typically controllable by Covance. Since a large amount of Covance's operating costs are relatively fixed while revenue is subject to fluctuation, moderate variations in the commencement, progress or completion of drug development trials may cause significant variations in quarterly results.

The following table presents unaudited quarterly operating results of Covance for each of the eight most recent fiscal quarters during the period ended December 31, 2012. In the opinion of Covance, the information in the table below has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this Annual Report and reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of results of operations for those periods. This quarterly financial data should be read in conjunction with the audited consolidated financial statements included elsewhere in this Annual Report. Operating results for any quarter are not necessarily indicative of the results that may be reported in any future period.

	Quarter Ended							
	Dec. 31, 2012	Sep. 30, 2012	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	June 30, 2011	Mar. 31, 2011
	(Dollars in thousands, except per share data)							
Net revenues	$ 562,180	$ 544,818	$ 542,782	$ 530,841	$ 532,478	$ 543,254	$ 518,220	$ 501,986
Reimbursable out-of-pocket expenses	46,964	52,844	42,263	43,067	49,907	35,622	29,507	25,472
Total revenues	609,144	597,662	585,045	573,908	582,385	578,876	547,727	527,458
Costs and expenses:								
Cost of revenue	395,841	389,724	408,198	376,460	371,852	383,347	358,332	353,520
Reimbursable out-of-pocket expenses	46,964	52,844	42,263	43,067	49,907	35,622	29,507	25,472
Selling, general and administrative	92,823	94,401	90,601	81,029	95,752	81,292	85,297	80,703
Depreciation and amortization	30,423	30,102	29,953	27,230	25,923	27,592	25,836	25,863
Impairment charges			17,959					
Total	566,051[a]	567,071[b]	588,974[e]	527,786	543,434[g]	527,853[j]	498,972[l]	485,558[m]
Income (loss) from operations	43,093[a]	30,591[b]	(3,929)[e]	46,122	38,951[g]	51,023[j]	48,755[l]	41,900[m]
Other expense, net	1,326	(258)[c]	9,274[f]	721	12,814[h]	1,120	886	526
Income (loss) before taxes and equity investee earnings	41,767[a]	30,849[b],[c]	(13,203)[e],[f]	45,401	26,137[g],[h]	49,903[j]	47,869[l]	41,374[m]
Tax expense (benefit)[n]	7,870	(6,971)[d]	(607)	9,807	5,172[i]	9,781[k]	9,987	8,634
Equity investee earnings (loss)			(81)	98	175	547	(240)	(2)
Net income (loss)	$ 33,897[a]	$ 37,820[b],[c],[d]	$ (12,677)[e],[f]	$ 35,692	$ 21,140[g],[h],[i]	$ 40,669[j],[k]	$ 37,642[l]	$ 32,738[m]
Basic earnings (loss) per share	$ 0.63	$ 0.70	$ (0.23)	$ 0.62	$ 0.35	$ 0.68	$ 0.63	$ 0.55
Diluted earnings (loss) per share	$ 0.61[a]	$ 0.69[b],[c],[d]	$ (0.23)[e],[f]	$ 0.60	$ 0.35[g],[h],[i]	$ 0.67[j],[k]	$ 0.61[l]	$ 0.54[m]

(a) Includes restructuring costs of ($10,191) and favorable inventory adjustment of $3,613 totaling $6,578 ($4,466 net of tax or $0.08 per diluted share).

(b) Includes restructuring costs ($14,072) and costs associated with the expected settlement of an inventory supply agreement ($4,000) totaling $18,072 ($12,403 net of tax or $0.22 per diluted share).

(c) Includes $1,459 gain on sale of investment ($945 net of tax or $0.02 per diluted share).

(d) Includes favorable income tax items totaling $11,501 (or $0.21 per diluted share).

(e) Includes restructuring costs ($9,667), inventory write-down ($20,781) and goodwill impairment charges ($17,959) totaling $48,407 ($38,880 net of tax or $0.72 per diluted share).

(f)

Includes impairment of equity investment totaling $7,373 ($7,373 net of tax or $0.14 per diluted share).

(g) Includes restructuring costs ($8,667) and costs associated with the termination of an inventory supply agreement and related inventory write-down ($10,287) totaling $18,954 ($13,091 net of tax or $0.21 per diluted share).

(h) Includes impairment of equity investment totaling $12,119 ($12,119 net of tax or $0.20 per diluted share).

(i) Includes favorable income tax items totaling $1,769 (or $0.03 per diluted share).

(j) Includes restructuring costs of $5,270 ($3,392 net of tax or $0.06 per diluted share).

(k) Includes favorable income tax items totaling $700 (or $0.01 per diluted share).

(l) Includes restructuring costs of $4,564 ($2,937 net of tax or $0.05 per diluted share).

(m) Includes restructuring costs of $5,868 ($3,777 net of tax or $0.06 per diluted share).

(n) Includes the tax effect of the items listed in footnotes (a) through (m), as applicable.

Liquidity and Capital Resources

Covance has a centralized cash management function. In the United States, cash received from operations is swept daily to a centrally managed concentration account, while cash disbursements for operations are funded as needed from the concentration account. Outside of the United States, cash balances are generally pooled by currency in order to facilitate cash management and improve investment returns. As in the United States, cash balances are generally maintained in the functional currency of the operating unit.

Cash and cash equivalents at December 31, 2012 and 2011 were $492.8 million and $389.1 million, respectively. Amounts held by foreign subsidiaries were approximately $447 million and $367 million at December 31, 2012 and 2011, respectively, primarily in Swiss Francs, British Pounds and Euros. Foreign cash balances generally result from unremitted foreign earnings, which the Company intends to leave invested indefinitely outside of the United States. If the Company were to remit such earnings to the United States, it would be subject to additional United States income taxes. Amounts are principally invested in short-term money market funds and bank deposits with major financial institutions which carry a Moody's rating of A1 P1 or better. Covance's expected primary cash needs on both a short and long-term basis are for capital expenditures, expansion of services, possible future acquisitions, geographic expansion, working capital and other general corporate purposes, including possible share repurchases. On March 7, 2012, Covance amended its credit facility, which was not due to expire until October 2015, in order to, in part, provide sufficient liquidity to finance purchases under its 2012 authorized share buyback program ("2012 Repurchase Program"), as well as to secure more favorable financing rates. The amended credit agreement (the "Credit Agreement") provides for a revolving credit facility of up to $500 million. At December 31, 2012, there were $320.0 million of outstanding borrowings and $2.9 million of outstanding letters of credit under the Credit Agreement. At December 31, 2011, there were $30.0 million of outstanding borrowings and $2.6 million of outstanding letters of credit under the previous credit agreement. Interest on all outstanding borrowings under the Credit Agreement varies in accordance with the terms of the Credit Agreement and is presently based upon the London Interbank Offered Rate plus a margin of 125 basis points. Interest on all outstanding borrowings under the previous credit agreement was based upon the London Interbank Offered Rate plus a margin of 200 basis points. Interest on outstanding borrowings approximated 1.56% per annum during 2012 and 2.35% per annum during 2011. Costs associated with the Credit Agreement, which expires in March 2017, consisted primarily of bank and legal fees totaling $1.9 million and are being amortized over the five year term. The Credit Agreement contains various financial and other covenants and is collateralized by guarantees of certain of Covance's domestic subsidiaries and a pledge of 65 percent of the capital stock of certain of Covance's foreign subsidiaries. The Company pays a commitment fee of 17.5 basis points on the undrawn balance of the revolving credit facility under the Credit Agreement, and had paid a commitment fee of 30 basis points on the undrawn balance of the revolving credit facility under the previous credit agreement. Commitment fees totaled approximately $0.4 million and $0.6 million during the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, Covance was in compliance with the terms of the Credit Agreement. Covance believes cash on hand plus cash from operations and available borrowings under the Credit Agreement will provide sufficient liquidity for the foreseeable future.

During the year ended December 31, 2012, Covance's operations provided net cash of $260.2 million, an increase of $16.7 million from the corresponding 2011 period. The change in net operating assets, net of the business sold, used $26.2 million in cash during 2012, primarily due to an increase in other assets and liabilities, net, coupled with a decrease in income taxes, partially offset by a decrease in inventory and an increase in accrued liabilities. The change in net operating assets, net of the business acquired, used $41.1 million in cash during 2011, primarily due to a net increase in the components of days sales outstanding (accounts receivable, unbilled services and unearned revenue) from the record low position at the end of 2010, coupled with a decrease in income taxes payable and other assets and liabilities, net, partially offset by an increase in accrued liabilities. Covance's ratio of current assets to current liabilities was 1.40 at December 31, 2012 and 2.02 at December 31, 2011.

Investing activities for the year ended December 31, 2012 used $146.0 million, compared to $134.9 million for the corresponding 2011 period. Capital spending for 2012 totaled $151.7 million and was primarily for ongoing information technology projects, upgrade of existing equipment, and the purchase of new equipment, hardware and software. Approximately $73.8 million of capital spending in 2012 represents expenditures associated with assets that have not yet been placed in service at December 31, 2012. Partially offsetting this spend was the receipt of proceeds of approximately $4.7 million upon the sale of its investment in Caprion in the 2012 period. Capital spending for the corresponding 2011 period totaled $134.6 million, and was primarily for ongoing information technology projects, upgrade of existing equipment, and the purchase of new equipment, hardware and software.

Investing activities for 2010 included the acquisition in October 2010 of research and development facilities located in Porcheville, France and Alnwick, UK from Sanofi for a cash payment of $27.9 million ($21.0 million net of cash acquired). Transaction related costs of approximately $2.6 million were included in selling, general and administrative expense in the period incurred. Pursuant to the asset purchase agreement, Covance will provide services to Sanofi at these facilities over a period of 5 years for $350 million. The tangible and intangible assets acquired were included in Covance's consolidated financial statements as of October 2010 based on their estimated fair values of $26.1 million and $1.8 million, respectively, partially offset by certain employee related liabilities of $6.9 million assumed in the transaction. Results of operations for the sites acquired from Sanofi are reported in Covance's early development segment beginning in November 2010. See Note 6 to the audited consolidated financial statements included elsewhere in this Annual Report.

Financing activities for the year ended December 31, 2012 used $20.0 million, compared to using $102.0 million in the corresponding 2011 period. Cash received from financing activities during the 2012 period included $290 million of net borrowings under the Credit Agreement, $12.7 million in proceeds from the exercise of stock options and $1.1 million in excess tax benefits realized on the exercise of stock options. Partially offsetting these items was $314.8 million used to purchase 6,653,971 shares of common stock into treasury in connection with share buyback programs authorized by Covance's Board of Directors and $9.0 million for the purchase into treasury of 207,515 shares in connection with employee benefit plans, for an aggregate cost of $323.8 million. Financing activities for the year ended December 31, 2011 used $102.0 million and included the repayment and retirement of $97.5 million of outstanding debt on the term loan portion of the previous credit agreement and the repayment of $5.0 million, net, on the revolver portion of the previous credit agreement. In addition, $8.8 million was used to purchase into treasury 158,409 shares of common stock in connection with employee benefit plans. Partially offsetting these items were $6.8 million in proceeds from the exercise of stock options, $1.6 million from employee contributions to the Company's employee stock purchase plan and $0.9 million in excess tax benefits realized on the exercise of stock options.

The effect of exchange rate changes on cash for the years ended December 31, 2012 and 2011 was an increase of $9.5 million and $5.2 million, respectively. Covance's cash balances increased by $103.7 million during 2012.

The table below sets forth Covance's contractual obligations. A full description of the Company's debt obligations is contained in Note 8 to the audited consolidated financial statements included elsewhere in this Annual Report. Covance is obligated under non-cancelable operating leases, primarily for offices and laboratory facilities. Covance is also obligated under outsourcing agreements primarily related to certain aspects of its information technology, human resources and accounting functions and purchase commitments across various facilities, both of which are reflected under the caption purchase obligations in the table below. Actual amounts paid under these outsourcing agreements could be higher or lower than the amounts shown below as a result of changes in volume and other variables. In addition, early termination of these outsourcing agreements by Covance could result in the payment of termination fees which are not reflected in the table below. See Note 11 to the audited consolidated financial statements included elsewhere in this Annual Report.

		Payments due by period			
Contractual Obligations[a]	**Total**	**<1 Year**	**1-3 Years**	**3-5 Years**	**> 5 Years**
		(Dollars in thousands)			
Operating Leases	$ 161,669	$ 30,242	$ 39,859	$ 24,192	$ 67,376
Purchase Obligations	56,741	29,932	25,277	1,532	
Total	$ 218,410	$ 60,174	$ 65,136	$ 25,724	$ 67,376

(a) Excludes $9.4 million, including $0.6 million in interest, related to a reserve for unrecognized tax benefits, as the cash settlement date cannot be reasonably estimated.

Off-Balance Sheet Arrangements

At December 31, 2012 and 2011, Covance was not a party to any off-balance sheet arrangements as defined by Regulation S-K Item 303(a)(4)(i), promulgated under the Exchange Act.

Inflation

While most of Covance's net revenues are earned under contracts, the long-term contracts (those in excess of one year) generally include an inflation or cost of living adjustment for the portion of the services to be performed beyond one year from the contract date. As a result, Covance believes that the effects of inflation generally do not have a material effect on its operations or financial condition.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 requires an entity to present the effect of certain significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The amendments in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2013-02 is effective prospectively for fiscal years beginning after December 15, 2012. Covance will be required to adopt ASU 2013-02 no later than the quarter beginning January 1, 2013. As the ASU requires additional presentation only, there will be no impact to Covance's consolidated results of operations or financial position.

Forward Looking Statements. *Statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in certain other parts of this Annual Report on Form 10-K that look forward in time, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, expectations, predictions, and assumptions and other statements which are other than statements of historical facts. All such forward-looking statements are based on the current expectations of management and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, without limitation, competitive factors, outsourcing trends in the pharmaceutical industry, levels of industry research and development spending, the Company's ability to continue to attract and retain qualified personnel, the fixed price nature of contracts or the loss or delay of large studies, risks associated with acquisitions and investments, the Company's ability to increase order volume, the pace of translation of orders into revenue in late-stage development services, testing mix and geographic mix of kit receipts in central laboratories, fluctuations in currency exchange rates, the realization of savings from the Company's announced restructuring actions, the cost and pace of completion of our information technology projects and the realization of benefits therefrom, and other factors described in Covance's filings with the Securities and Exchange Commission, including, without limitation, this Annual Report on Form 10-K.*

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For the year ended December 31, 2012, approximately 49% of our net revenues were derived from our operations outside the United States. We do not engage in material or long-term derivative or hedging activities related to our potential foreign exchange exposures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Foreign Currency Risks" for a more detailed discussion of our foreign currency risks and exposures.

Covance's short-term investments are with major financial institutions which carry a Moody's rating of A1 P1 or better. These short-term investments are in bank deposits and money market funds which can be readily purchased and sold using established markets. Covance's cash investment policy is to maximize utilization of excess cash according to the following specific criteria (in order of priority): (1) preserve capital (minimize financial market risk); (2) maintain liquidity; (3) manage foreign exchange rate exposure (internal hedging); (4) maximize rate of return; and (5) enhance strategic relationships with select financial institutions. Covance also has strong operating cash flow and ready access to credit available under its Credit Agreement.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Report on Consolidated Financial Statements and Internal Control

The management of Covance Inc. ("Covance") has prepared, and is responsible for, Covance's consolidated financial statements and related footnotes. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles.

Covance's management is responsible for establishing and maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting. The purpose of this system of internal accounting controls over financial reporting is to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records may be relied upon for the preparation of accurate and complete consolidated financial statements. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. Covance also maintains an internal audit function that evaluates and reports on the adequacy and effectiveness of internal controls, policies and procedures.

Covance's management concluded that its internal control over financial reporting as of December 31, 2012 was effective and adequate to accomplish the objectives described above. Management's assessment was based upon the criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Covance's consolidated financial statements and the effectiveness of control over financial reporting have been audited by an independent registered public accounting firm, Ernst & Young LLP, as stated in their reports which are included elsewhere herein.

/s/ Joseph L. Herring	/s/ Alison A. Cornell
Joseph L. Herring Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	Alison A. Cornell Corporate Vice President and Chief Financial Officer (Principal Financial Officer)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Covance Inc.

We have audited Covance Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Covance Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying report on consolidated financial statements and internal control. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Covance Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Covance Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
February 27, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Covance Inc.

We have audited the accompanying consolidated balance sheets of Covance Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covance Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Covance Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
February 27, 2013

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

(Dollars in thousands)	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 492,824	$ 389,103
Accounts receivable	339,558	312,127
Unbilled services	136,878	114,095
Inventory	49,270	74,698
Deferred income taxes	44,903	52,078
Income taxes receivable	3,642	
Prepaid expenses and other current assets	167,629	144,809
Total Current Assets	1,234,704	1,086,910
Property and equipment, net	891,319	849,551
Goodwill	109,820	127,779
Other assets	52,499	43,768
Total Assets	$ 2,288,342	$ 2,108,008
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 34,430	$ 36,393
Accrued payroll and benefits	144,681	142,229
Accrued expenses and other current liabilities	127,686	119,308
Unearned revenue	255,776	202,210
Short-term debt	320,000	30,000
Income taxes payable		6,889
Total Current Liabilities	882,573	537,029
Deferred income taxes	27,912	42,295
Other liabilities	70,665	70,889
Total Liabilities	981,150	650,213
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock Par value $1.00 per share; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2012 and 2011		
Common stock Par value $0.01 per share; 140,000,000 shares authorized; 79,131,299 and 78,127,480 shares issued and outstanding, including those held in treasury, at December 31, 2012 and 2011, respectively	791	781
Paid-in capital	744,114	689,584
Retained earnings	1,600,626	1,505,894
Accumulated other comprehensive income	28,520	4,622
Treasury stock at cost (24,145,773 and 17,284,287 shares at December 31, 2012 and 2011, respectively)	(1,066,859)	(743,086)
Total Stockholders' Equity	1,307,192	1,457,795
Total Liabilities and Stockholders' Equity	$ 2,288,342	$ 2,108,008

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

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands, except per share data)	2012	2011	2010
Net revenues	$ 2,180,621	$ 2,095,938	$ 1,925,630
Reimbursable out-of-pocket expenses	185,138	140,508	112,843
Total revenues	2,365,759	2,236,446	2,038,473
Costs and expenses:			
Cost of revenue (excluding depreciation and amortization)	1,570,223	1,467,051	1,348,498
Reimbursable out-of-pocket expenses	185,138	140,508	112,843
Selling, general and administrative (excluding depreciation and amortization)	358,854	343,044	307,386
Depreciation and amortization	117,708	105,214	103,024
Impairment charges	17,959		119,229
Total costs and expenses	2,249,882	2,055,817	1,990,980
Income from operations	115,877	180,629	47,493
Other expense, net:			
Interest income	(2,011)	(1,874)	(1,479)
Interest expense	5,517	3,853	1,531
Foreign exchange transaction loss, net	1,474	1,248	3,649
Impairment of equity investment	7,373	12,119	
Gain on sale of investment	(1,459)		
Loss on sale of business	169		
Other expense, net	11,063	15,346	3,701
Income before taxes and equity investee earnings	104,814	165,283	43,792
Taxes on income	10,099	33,574	(23,655)
Equity investee earnings	17	480	807
Net income	$ 94,732	$ 132,189	$ 68,254
Basic earnings per share	$ 1.73	$ 2.22	$ 1.08
Weighted average shares outstanding basic	54,844,641	59,629,788	63,043,561
Diluted earnings per share	$ 1.68	$ 2.16	$ 1.06
Weighted average shares outstanding diluted	56,290,010	61,091,354	64,472,326

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

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands)	2012	2011	2010
Net income	$ 94,732	$ 132,189	$ 68,254
Other comprehensive income, net of tax:			
Currency translation gain	20,577	2,776	9,328
Unrealized gain (loss) on securities	2,251	(322)	325
Defined benefit pension plan:			
Actuarial gain (loss)	690	1,966	(4,068)
Prior service cost	(77)	(75)	(27)
Curtailment gain	457		
Total other comprehensive income, net of tax	23,898	4,345	5,558
Comprehensive income	$ 118,630	$ 136,534	$ 73,812

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

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands)	**2012**	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 94,732	$ 132,189	$ 68,254
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	117,708	105,214	103,024
Non-cash impairment charges	41,736	12,119	119,229
Non-cash compensation expense associated with employee benefit and stock compensation plans	40,759	40,057	32,289
Deferred income tax benefit	(8,404)	(6,128)	(71,661)
Gain on sale of investment	(1,459)		
Loss on sale of business	169		
Loss on disposal of property and equipment	1,181	1,618	1,487
Equity investee earnings	(17)	(480)	(807)
Changes in operating assets and liabilities, net of businesses sold and acquired:			
Accounts receivable	(28,541)	(50,754)	23,959
Unbilled services	(23,419)	(23,366)	6,550
Inventory	10,918	8,226	(1,998)
Accounts payable	(1,963)	2,297	(2,755)
Accrued liabilities	8,205	56,409	20,097
Unearned revenue	54,998	15,909	19,411
Income taxes	(10,522)	(21,070)	14,797
Other assets and liabilities, net	(35,920)	(28,762)	2,547
Net cash provided by operating activities	260,161	243,478	334,423
Cash flows from investing activities:			
Capital expenditures	(151,679)	(134,633)	(126,278)
Acquisition of businesses, net of cash acquired		(411)	(20,994)
Proceeds from sale of investment	4,682		
Other, net	1,017	192	47
Net cash used in investing activities	(145,980)	(134,852)	(147,225)
Cash flows from financing activities:			
Net borrowings (repayments) under revolving credit facility	290,000	(5,000)	35,000
Borrowings under long-term debt			100,000
Repayments under long-term debt		(97,500)	(2,500)
Stock issued under employee stock purchase and option plans	13,772	9,325	18,825
Purchase of treasury stock	(323,773)	(8,810)	(256,351)
Net cash used in financing activities	(20,001)	(101,985)	(105,026)
Effect of exchange rate changes on cash	9,541	5,239	5,582
Net change in cash and cash equivalents	103,721	11,880	87,754
Cash and cash equivalents, beginning of year	389,103	377,223	289,469
Cash and cash equivalents, end of year	$ 492,824	$ 389,103	$ 377,223

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

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2009	$ 764	$ 587,995	$ 1,305,451	$ (5,281)	$ (477,925)	$ 1,411,004
Net income			68,254			68,254
Other comprehensive income				5,558		5,558
Shares issued under various employee benefit and stock compensation plans	7	39,461				39,468
Stock option exercises	3	10,026				10,029
Tax benefit from stock issued		1,859				1,859
Treasury stock, at cost					(256,351)	(256,351)
Balance, December 31, 2010	774	639,341	1,373,705	277	(734,276)	1,279,821
Net income			132,189			132,189
Other comprehensive income				4,345		4,345
Shares issued under various employee benefit and stock compensation plans	5	41,641				41,646
Stock option exercises	2	6,847				6,849
Tax benefit from stock issued		1,755				1,755
Treasury stock, at cost					(8,810)	(8,810)
Balance, December 31, 2011	781	689,584	1,505,894	4,622	(743,086)	1,457,795
Net income			94,732			94,732
Other comprehensive income				23,898		23,898
Shares issued under various employee benefit and stock compensation plans	6	40,753				40,759
Stock option exercises	4	12,679				12,683
Tax benefit from stock issued		1,098				1,098
Treasury stock, at cost					(323,773)	(323,773)
Balance, December 31, 2012	$ 791	$ 744,114	$ 1,600,626	$ 28,520	$ (1,066,859)	$ 1,307,192

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

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

1. Organization

Covance Inc. and its subsidiaries ("Covance" or the "Company") is a leading drug development services company providing a wide range of early-stage and late-stage product development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. Covance also provides services such as laboratory testing to the chemical, agrochemical and food industries. Covance's operations constitute two segments for financial reporting purposes. The first segment, early development services, includes discovery support services, preclinical and clinical pharmacology service offerings. The second segment, late-stage development services, includes central laboratory, Phase II-IV clinical development and market access services. Operations are principally focused in the United States and Europe.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all entities controlled by Covance. All significant intercompany accounts and transactions are eliminated. The equity method of accounting is used for investments in affiliates in which Covance owns between 20 and 50 percent and does not have the ability to exercise control. For investments in which Covance owns less than 20 percent and does not have the ability to exercise significant influence over operating or financial decisions of the investee, the cost method of accounting is applied. Where the fair value of the shares of the cost method investee is based on quoted prices in active markets, Covance accounts for such investment as available-for-sale securities. See Note 5.

Use of Estimates

These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"), which requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates.

Foreign Currencies

For subsidiaries outside of the United States that operate in a local currency environment, income and expense items are translated to United States dollars at the monthly average rates of exchange prevailing during the year, assets and liabilities are translated at year-end exchange rates and equity accounts are translated at historical exchange rates. Translation adjustments are accumulated in a separate component of stockholders' equity in the consolidated balance sheets and are included in the determination of comprehensive income in the consolidated statements of comprehensive income and consolidated statements of stockholders' equity. The cumulative translation account balance is $52.1 million and $31.5 million at December 31, 2012 and 2011, respectively. Transaction gains and losses are included in the determination of net income in the consolidated statements of income.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at date of purchase and consist principally of amounts invested in money market funds and bank deposits.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

Financial Instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their carrying amounts as reported at December 31, 2012 and 2011.

Accounts receivable and unbilled services represent amounts due from Covance customers who are concentrated primarily in the pharmaceutical and biotechnology industries. Covance endeavors to monitor the creditworthiness of its customers to which it grants credit terms in the ordinary course of business. Although Covance customers are concentrated primarily within these two industries, management considers the likelihood of material credit risk as remote. In addition, in some cases Covance requires advance payment for a portion of the contract price from its customers upon the signing of a contract for services. These amounts are deferred and recognized as revenue as services are performed. Historically, bad debts have been immaterial. The allowance for doubtful accounts is $6.2 million and $5.5 million at December 31, 2012 and 2011, respectively.

Inventory

Inventories, which consist principally of finished goods and supplies, are valued at the lower of cost (first-in, first-out method) or market. Finished goods accounted for $32.7 million and $58.6 million and supplies accounted for $16.6 million and $16.1 million of total inventory at December 31, 2012 and 2011, respectively.

Prepaid Expenses and Other Current Assets

In connection with the management of multi-site clinical trials, Covance pays on behalf of its customers fees to investigators, volunteers and other out-of-pocket costs (such as travel, printing, meetings, couriers, etc.), for which the Company is reimbursed at cost, without mark-up or profit. Amounts receivable from customers in connection with billed and unbilled investigator fees, volunteer payments and other out-of-pocket pass-through costs are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets and totaled $82.0 million and $61.3 million at December 31, 2012 and 2011, respectively. See Note 2 "Reimbursable Out-of-Pocket Expenses".

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided on the straight-line method at rates adequate to allocate the cost of the applicable assets over their estimated useful lives, which generally range from ten to forty years for buildings and improvements, three to ten years for equipment, furniture and fixtures and three to five years for computer hardware and software, except for certain large enterprise-wide software applications which are depreciated over periods of up to ten years. Leasehold improvements are capitalized and amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the associated remaining lease term. The cost of computer software developed or obtained for internal use is capitalized and amortized on the straight-line method over the estimated useful life. Costs incurred during the development phase are capitalized, while all other costs are expensed as incurred. Repairs and maintenance are expensed as incurred.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

Covance reviews its long-lived assets, other than goodwill and other indefinite lived intangible assets, for impairment when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based upon Covance's judgment of its ability to recover the value of the asset from the expected future undiscounted cash flows of the related operations. Actual future cash flows may be greater or less than estimated. During the fourth quarter of 2011, Covance determined that the carrying value of its equity method investment in a supplier of research products was no longer fully recoverable based upon changes in the research product market. The impairment was determined to be other-than-temporary and Covance recorded a charge of $12.1 million to reduce the carrying value of the equity investment to its estimated fair value as of December 31, 2011. Further, during the second quarter of 2012, the equity investment was determined to have experienced an additional impairment in value due to a further decline in demand for the research products from this supplier. As a result, Covance recorded a $7.4 million impairment charge to write off the remaining carrying value of the equity investment as of June 30, 2012, net of the elimination of profit on inventory purchased from this supplier. See Note 5. During the third quarter of 2010, Covance determined that long-lived assets used in its North American toxicology operations, located in Chandler, Arizona and Manassas, Virginia with carrying values of $182.7 million and $23.4 million, respectively, were no longer fully recoverable from the cash flows expected from those assets. Accordingly, as of September 30, 2010, Covance recorded an asset impairment charge totaling $119.2 million ($103.0 million of which relates to the Chandler, Arizona assets and $16.2 million relates to the Manassas, Virginia assets), representing the excess of the carrying value of those assets over their respective fair market values. See Note 13.

Goodwill and Other Intangible Assets and Impairment

Goodwill represents costs in excess of the fair value of net tangible and identifiable net intangible assets acquired in business combinations. Covance performs an annual test for impairment of goodwill and other indefinite lived intangible assets during the fourth quarter. Covance tests goodwill for impairment at the reporting unit level only when, after completing a qualitative analysis, it is determined that it is more likely than not that the fair value of a reporting unit is below its carrying value. This test is performed by comparing the carrying value of the reporting unit to its fair value. Covance assesses fair value based upon its estimate of the present value of the future cash flows that it expects to be generated by the reporting unit. In the second quarter of 2012, Covance commenced actions to close its clinical pharmacology operations located in Basel, Switzerland and as a result determined the goodwill associated with the acquisition of the Basel clinic was impaired and recorded a charge of $18.0 million to write off the carrying value of the goodwill as of June 30, 2012. The Basel clinic is part of Covance's early development segment and clinical pharmacology reporting unit, however, because the clinic was operated on a standalone basis and was not integrated into the reporting unit after its acquisition, the related goodwill was evaluated for impairment at the site level and not the reporting unit level. The annual test for impairment performed for 2012, 2011 and 2010 indicated that no reporting units were at significant risk for impairment. See Note 4.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, which range in term from one to ten years. Land use rights are amortized on a straight-line basis over their contractual life of fifty years. The Company periodically evaluates the reasonableness of the estimated useful lives of these intangible assets. See Note 4.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Covance recognizes revenue either as services are performed or products are delivered, depending on the nature of the work contracted. Historically, a majority of Covance's net revenues have been earned under contracts which range in duration from a few months to two years, but can extend in duration up to five years or longer. Covance also has committed minimum volume arrangements with certain clients with initial terms that generally range in duration from three to ten years. Underlying these arrangements are individual project contracts for the specific services to be provided. These arrangements enable our clients to secure our services in exchange for which they commit to purchase an annual minimum dollar value ("volume") of services. Under these types of arrangements, if the annual minimum volume commitment is not reached, the client is required to pay Covance for the shortfall. Progress towards the achievement of annual minimum volume commitments is monitored throughout the year. Annual minimum commitment shortfalls are not included in net revenues until the amount has been determined and agreed to by the client.

Service contracts generally take the form of fee-for-service or fixed-price arrangements. In cases where performance spans multiple accounting periods, revenue is recognized as services are performed, measured on a proportional-performance basis, generally using output measures that are specific to the service provided. Examples of output measures in our early development segment include the number of slides read, dosings performed, or specimens prepared for preclinical laboratory services, or number of dosings or number of volunteers enrolled for clinical pharmacology. Examples of output measures in our late-stage development segment's Phase II-IV clinical development service offering include among others, number of investigators enrolled, number of sites initiated, number of patients enrolled and number of monitoring visits completed. Revenue is determined by dividing the actual units of work completed by the total units of work required under the contract and multiplying that percentage by the total contract value. The total contract value, or total contractual payments, represents the aggregate contracted price for each of the agreed upon services to be provided. Covance does not have any contractual arrangements spanning multiple accounting periods where revenue is recognized on a proportional-performance basis under which the Company has earned more than an immaterial amount of performance-based revenue (i.e., potential additional revenue tied to specific deliverables or performance). Changes in the scope of work are common, especially under long-term contracts, and generally result in a change in contract value. Once the client has agreed to the changes in scope and renegotiated pricing terms, the contract value is amended and revenue is recognized, as described above. Estimates of costs to complete are made to provide, where appropriate, for losses expected on contracts. Costs are not deferred in anticipation of contracts being awarded, but instead are expensed as incurred.

Billing schedules and payment terms are generally negotiated on a contract-by-contract basis. In some cases, Covance bills the client for the total contract value in progress-based installments as certain non-contingent billing milestones are reached over the contract duration, such as, but not limited to, contract signing, initial dosing, investigator site initiation, patient enrollment or database lock. The term "billing milestone" relates only to a billing trigger in a contract whereby amounts become billable and payable in accordance with a negotiated predetermined billing schedule throughout the term of a project. These billing milestones are not performance-based (i.e., potential additional arrangement consideration tied to specific deliverables or performance). In other cases, billing and payment terms are tied to the passage of time (e.g., monthly billings). In either case, the total contract value and aggregate amounts billed to the client would be the same at the end of the project. While Covance attempts to negotiate terms that provide for billing and payment of services prior or within close proximity to the provision of services, this is not always the case, as evidenced by fluctuations in the levels of unbilled services and unearned revenue from period to period. While

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

a project is ongoing, cash payments are not necessarily representative of aggregate revenue earned at any particular point in time, as revenues are recognized when services are provided, while amounts billed and paid are in accordance with the negotiated billing and payment terms.

In some cases, payments received are in excess of revenue recognized. For example, a contract invoicing schedule may provide for an upfront payment of 10% of the full contract value upon contract signing, but at the time of signing, performance of services has not yet begun, and therefore, no revenue has yet been recognized. Payments received in advance of services being provided, such as in this example, are deferred as unearned revenue on the balance sheet. As the contracted services are subsequently performed and the associated revenue is recognized, the unearned revenue balance is reduced by the amount of revenue recognized during the period.

In other cases, services may be provided and revenue is recognized before the client is invoiced. In these cases, revenue recognized will exceed amounts billed, and the difference, representing an unbilled receivable, is recorded for this amount which is currently unbillable to the customer pursuant to contractual terms. Once the client is invoiced, the unbilled services are reduced for the amount billed, and a corresponding account receivable is recorded. All unbilled services are billable to customers within one year from the respective balance sheet date.

Most contracts are terminable by the client, either immediately or upon notice. These contracts often require payment to Covance of expenses to wind down the study or project, fees earned to date and, in some cases, a termination fee or a payment to Covance of some portion of the fees or profits that could have been earned by Covance under the contract if it had not been terminated early. Termination fees are included in net revenues when realization is assured. In connection with the management of multi-site clinical trials, Covance pays on behalf of its customers fees to investigators, volunteers and other out-of-pocket costs (such as for travel, printing, meetings, couriers, etc.), for which it is reimbursed at cost, without mark-up or profit. Investigator fees are not reflected in total revenues or expenses where Covance acts in the capacity of an agent on behalf of the pharmaceutical company sponsor, passing through these costs without risk or reward to Covance. All other out-of-pocket costs are included in total revenues and expenses.

Costs and Expenses

Cost of revenue includes direct labor and related benefit charges, other direct costs, shipping and handling fees, and an allocation of facility charges and information technology costs and excludes depreciation and amortization. Selling, general and administrative expenses consist primarily of administrative payroll and related benefit charges, advertising and promotional expenses, administrative travel and an allocation of facility charges and information technology costs and excludes depreciation and amortization. Cost of advertising is expensed as incurred.

Taxes

Covance uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. The effect on deferred taxes of a change in enacted tax rates is recognized in income in the period when the change is effective. See Note 7.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

The Company recognizes a tax benefit from an uncertain tax position only if the Company believes it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that the Company believes is more likely than not to be realized upon ultimate settlement of the position. Components of the reserve are classified as either a current or long-term liability in the consolidated balance sheet based on when the Company expects each of the items to be settled. Covance accrues interest and penalties in relation to unrecognized tax benefits as a component of income tax expense.

The Company also maintains a tax reserve related to exposures for non-income tax matters, including value-added tax, state sales and use and other taxes. The balance of this reserve was $1.1 million and $1.0 million at December 31, 2012 and 2011, respectively, and is recorded as a current liability in accrued expenses and other current liabilities on the consolidated balance sheet.

While Covance believes it has identified all reasonably identifiable exposures and the reserve it has established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause Covance to either materially increase or reduce the carrying amount of its tax reserve.

Covance's historical policy has been to leave its unremitted foreign earnings invested indefinitely outside the United States. Covance intends to continue to leave its unremitted foreign earnings invested indefinitely outside the United States. As a result, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings as of December 31, 2012. See Note 7.

Stock-Based Compensation

The Company sponsors several stock-based compensation plans pursuant to which non-qualified stock options and restricted stock awards are granted to eligible employees. These plans are described more fully in Note 10. The grant-date fair value of awards expected to vest is expensed on a straight-line basis over the vesting period of the related awards.

Defined Benefit Pension Plans

Covance sponsors various pension and other post-retirement benefit plans which are more fully described in Note 9. The measurement of the related benefit obligations and the net periodic benefit costs recorded each year are based upon actuarial computations, which require management's judgment as to certain assumptions. These assumptions include the discount rates to use in computing the present value of the benefit obligations and the net periodic benefit costs, the expected future rate of salary increases (for pay-related plans) and the expected long-term rate of return on plan assets (for funded plans). The discount rates are derived based on a hypothetical yield curve represented by a series of annualized individual discount rates. The expected long-term rate of return on plan assets is based on the target asset allocation and the average expected rate of growth for the asset classes invested. The average expected rate of growth is derived from a combination of historic returns, current market indicators, the expected risk premium for each asset class and the opinion of professional advisors. Liabilities related to all of Covance's pension and other post-retirement benefit plans are measured as of December 31.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

In the third quarter of 2012, the Company remeasured its German defined benefit pension plan liability due to a reduction in plan participants resulting from cost reduction actions taken at its Muenster, Germany toxicology facility. The measurement resulted in a $5.4 million net increase to the liability, which reflects a $6.1 million actuarial loss, partially offset by a curtailment gain of $0.7 million. These adjustments were recognized as a component of accumulated other comprehensive income, net of tax of $1.9 million and $0.2 million, respectively. See Note 9.

Earnings Per Share ("EPS")

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued; computed under the treasury stock method.

In computing diluted EPS for the years ended December 31, 2012, 2011 and 2010, the denominator was increased by 1,445,369 shares, 1,461,566 shares and 1,428,765 shares, respectively, representing the dilutive effect of all unvested restricted shares as well as those stock options outstanding at December 31, 2012, 2011 and 2010, with exercise prices less than the average market price of Covance's common stock during each respective period. Excluded from the computation of diluted EPS for the year ended December 31, 2012 were options to purchase 2,337,264 shares of common stock at prices ranging from $49.20 to $94.34 per share because the exercise prices of such options were greater than the average market price of Covance's common stock during 2012. Excluded from the computation of diluted EPS for the year ended December 31, 2011 were options to purchase 2,335,194 shares of common stock at prices ranging from $54.15 to $94.34 per share because the exercise prices of such options were greater than the average market price of Covance's common stock during 2011. Excluded from the computation of diluted EPS for the year ended December 31, 2010 were options to purchase 1,639,806 shares of common stock at prices ranging from $51.93 to $94.34 per share because the exercise prices of such options were greater than the average market price of Covance's common stock during 2010.

Reimbursable Out-of-Pocket Expenses

As discussed in Note 2 "Prepaid Expenses and Other Current Assets", Covance pays on behalf of its customers fees to investigators, volunteers and other out-of-pocket costs for which the Company is reimbursed at cost, without mark-up or profit. Amounts paid to volunteers and other out-of-pocket costs are reflected in operating expenses, while the reimbursements received are reflected in revenues in the consolidated statements of income. Covance excludes from revenue and expense in the consolidated statements of income fees paid to investigators and the associated reimbursement since Covance acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments.

Supplemental Cash Flow Information

Cash paid for interest for the years ended December 31, 2012, 2011 and 2010 totaled $4.6 million, $3.8 million and $0.6 million, respectively. Cash paid for income taxes for the years ended December 31, 2012, 2011 and 2010 totaled $29.8 million, $58.2 million and $33.6 million, respectively. The change in income taxes payable in the consolidated statement of cash flows for the years ended December 31, 2012, 2011 and 2010 includes as an operating cash outflow the excess tax benefit received from the exercise of non-qualified stock options of $1.1 million, $0.9 million and $1.6 million, respectively (a corresponding cash inflow of $1.1 million, $0.9 million and $1.6 million, respectively, has been included in financing cash flows).

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2. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 requires an entity to present the effect of certain significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The amendments in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2013-02 is effective prospectively for fiscal years beginning after December 15, 2012. Covance will be required to adopt ASU 2013-02 no later than the quarter beginning January 1, 2013. As the ASU requires additional presentation only, there will be no impact to Covance's consolidated results of operations or financial position.

Subsequent Events

Subsequent events are defined as those events or transactions that occur after the balance sheet date, but before the financial statements are filed with the Securities and Exchange Commission. See Note 15.

3. Property and Equipment

Property and equipment at December 31, 2012 and 2011 consist of the following:

	2012	2011
Property and equipment at cost:		
Land	$ 60,544	$ 53,492
Buildings and improvements	633,248	606,130
Equipment	343,832	325,569
Computer hardware and software	460,931	360,389
Furniture, fixtures & leasehold improvements	110,106	102,768
Construction-in-progress	87,227	128,575
	1,695,888	1,576,923
Less: Accumulated depreciation and amortization	(804,569)	(727,372)
Property and equipment, net	$ 891,319	$ 849,551

Depreciation and amortization expense aggregated $115.6 million, $103.4 million and $101.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Covance reclassified land in Manassas, Virginia, which was identified as held for sale in 2010, from other current assets to property and equipment on the consolidated balance sheet as of December 31, 2012. Although Covance intends to sell the Manassas property, it continues to hold the property due to current real estate market conditions. See Note 13.

In the fourth quarter of 2011, Covance completed the wind-down and transition of services at its toxicology facility in Vienna, Virginia and initiated actions to sell that property. As a result, the related carrying value of $27.0 million was reclassified from property and equipment to other current assets on the consolidated balance sheet as of December 31, 2011.

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4. Goodwill and Amortizable Intangible Assets

The following table sets forth changes in the carrying amount of goodwill by operating segment for each of the years ended December 31, 2012 and 2011, respectively:

	Early Development	Late-Stage Development	Total
Balance, December 31, 2010	$ 91,737	$ 35,916	$ 127,653
Goodwill recognized from acquisition of business	126		126
Balance, December 31, 2011	91,863	35,916	127,779
Goodwill impairment charge	(17,959)		(17,959)
Balance, December 31, 2012	$ 73,904	$ 35,916	$ 109,820

In the second quarter of 2012, Covance commenced actions to close its clinical pharmacology operations located in Basel, Switzerland and as a result determined the goodwill associated with the acquisition of the Basel clinic was impaired and recorded a charge of $18.0 million to write off the carrying value of the goodwill as of June 30, 2012. See Note 2.

The following table summarizes the Company's acquired amortizable intangible assets which are reflected in other assets on the consolidated balance sheet, as of December 31, 2012 and 2011:

	2012	2011
Intangible assets at cost:		
Customer Lists (5 to 10 year estimated useful lives)	$ 8,152	$ 8,152
Land Use Right (50 year estimated useful life)	6,174	
Technology (5 year estimated useful life)	2,340	2,340
Other Patient List, Backlog and Non-Compete Agreements (1 to 4 year estimated useful lives)	1,419	1,419
	18,085	11,911
Less: Accumulated amortization	(9,289)	(7,043)
Net carrying value	$ 8,796	$ 4,868

During the year ended December 31, 2012, the Company acquired a land use right in the People's Republic of China (the "PRC") for $6.2 million. All land in the PRC is owned by the government, which grants the user a land use right for specified periods of time. The Company has the right to use the land for fifty years and amortizes it on a straight-line basis over the period of fifty years.

Amortization expense for the years ended December 31, 2012, 2011 and 2010 was $2.1 million, $1.8 million and $1.2 million, respectively. Amortization expense expected to be recorded for each of the next five years is as follows:

Year Ending December 31,	
2013	$ 856
2014	$ 856
2015	$ 856
2016	$ 530
2017	$ 123

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5. Equity Investments

In July 2012, Covance sold 100% of its investment in Caprion Proteomics, a privately held company headquartered in Montreal, Canada, for cash proceeds of approximately $4.7 million, resulting in a gain on sale of approximately $1.5 million. The investment was acquired in 2008 and had been previously included in other assets on the consolidated balance sheet.

Covance has a 47% minority equity position in Noveprim Limited ("Noveprim"), a supplier of research products, which was acquired in March 2004 at a total cost of $20.7 million. The excess of the purchase price over the underlying equity in Noveprim's net assets at the date of acquisition of $13.8 million represented goodwill and was included in the carrying value of Covance's investment. During the fourth quarter of 2011, the investment was determined to have experienced an other-than-temporary impairment in value due to a decline in demand for the research products supplied by Noveprim. As a result, Covance recorded a $12.1 million impairment charge against the goodwill recognized upon the initial investment in Noveprim, to reduce the carrying value of the investment to its estimated fair value. Further, during the second quarter of 2012, the investment was determined to have experienced an additional impairment in value due to a further decline in demand for the research products supplied by Noveprim. As a result, Covance recorded a $7.4 million impairment charge to write off the remaining carrying value of the investment as of June 30, 2012, net of the elimination of profit on inventory purchased from Noveprim. The Company suspended equity accounting for this investment as the carrying value of its investment is zero. The fair value in both of the above instances was measured with an income approach using internally developed estimates of future cash flows, which are Level 3 inputs under the fair value hierarchy. Previously, this investment was reflected in other assets on the consolidated balance sheet. During the years ended December 31, 2012, 2011 and 2010, Covance recognized income of $17 thousand, $0.5 million and $0.8 million, respectively, representing its share of Noveprim's earnings, net of the elimination of profit on inventory purchased from Noveprim and still on hand at Covance. The carrying value of Covance's investment in Noveprim as of December 31, 2011 was $10.4 million.

Covance has a minority equity position (less than 20%) in Bio-Clinica, Inc. ("BIOC") (Nasdaq GM:BIOC). BIOC uses proprietary medical imaging technologies to process and analyze medical images, and also provides other services, including the data-basing and regulatory submission of medical images, quantitative data and text. As Covance owns less than a 20% interest in BIOC and does not exercise significant influence over the operating or financial decisions of BIOC, the investment is accounted for as an available-for-sale security. The cost basis of Covance's investment in BIOC is $1.4 million. The carrying value of Covance's investment in BIOC as of December 31, 2012 and 2011 was $13.5 million and $10.0 million, respectively, as determined based on quoted prices in an active market. This investment is reflected in other assets on the consolidated balance sheet. The $3.5 million increase in the carrying value of the investment results in a $2.2 million increase in the unrealized gain on investment, net of tax, which is included within accumulated other comprehensive income on the consolidated balance sheet. Accordingly, the balance in the unrealized gain on investment at December 31, 2012 and 2011 was $7.4 million and $5.2 million, net of tax, respectively.

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6. Acquisitions

In October 2010, Covance acquired research and development facilities located in Porcheville, France and Alnwick, UK from Sanofi for a cash payment of $27.9 million ($21.0 million net of cash acquired). Transaction related costs of approximately $2.6 million were included in selling, general and administrative expense in the period incurred. Pursuant to the asset purchase agreement, Covance will provide services to Sanofi at these facilities over a period of 5 years for $350 million. The tangible and intangible assets acquired are included in Covance's consolidated financial statements as of October 2010 based on their estimated fair values of $26.1 million and $1.8 million, respectively, partially offset by certain employee related liabilities of $6.9 million assumed in the transaction. Intangible assets are being amortized over a six-year life. Results of operations for the sites acquired from Sanofi are reported in Covance's early development segment beginning in November 2010.

7. Taxes on Income

The components of income before taxes and the related provision (benefit) for taxes on income for 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Income (loss) before taxes and equity investee earnings:			
Domestic	$ 29,445	$ 52,091	$ (71,012)
International	75,369	113,192	114,804
Total	$ 104,814	$ 165,283	$ 43,792
Federal income taxes (benefits):			
Current provision	$ (7,298)	$ 13,265	$ 36,221
Deferred provision	11,456	9,793	(57,016)
International income taxes (benefits):			
Current provision	23,835	24,420	10,139
Deferred provision	(20,436)	(16,921)	(8,110)
State and other income taxes (benefits):			
Current provision	2,397	2,626	940
Deferred provision	145	391	(5,829)
Income tax provision (benefit)	$ 10,099	$ 33,574	$ (23,655)

The differences between the provision for income taxes and income taxes computed using the Federal statutory income tax rate for 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Taxes at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of Federal benefit	1.6	1.2	1.1
Impact of international operations	(20.5)	(17.0)	(62.8)
Previously unrecognized tax benefits	(10.1)	(0.3)	(31.0)
Other, net	3.6	1.4	3.7
Total	9.6%	20.3%	(54.0)%

Previously unrecognized tax benefits consist primarily of tax benefits recorded in connection with the favorable resolution of income tax audits and tax benefits resulting from tax positions taken in returns filed in each respective year.

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7. Taxes on Income (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	2012	2011
Current deferred taxes:		
Liabilities/expenses not currently deductible	$ 39,450	$ 43,902
Deferred equity compensation	7,175	8,149
Net operating losses		943
Total current deferred tax assets	46,625	52,994
Current deferred tax liabilities:		
Earnings not currently taxable	(1,722)	(916)
Net current deferred tax assets	$ 44,903	$ 52,078
Non-current deferred taxes:		
Deferred tax assets:		
Net operating losses	$ 26,279	$ 10,668
Deferred equity compensation	17,868	13,738
Liabilities/expenses not currently deductible	564	2,252
Total non-current deferred tax assets	44,711	26,658
Deferred tax liabilities:		
Property and equipment	(61,950)	(59,795)
Earnings not currently taxable	(10,673)	(9,158)
Total non-current deferred tax liabilities	(72,623)	(68,953)
Net non-current deferred tax liabilities	$ (27,912)	$ (42,295)

As of December 31, 2012, Covance has foreign net operating loss carryforwards of $106.8 million. The net operating loss carryforwards have no expiration and it is expected that all loss carryforwards will be realized. Accordingly, no valuation allowance has been provided.

Covance currently provides income taxes on the earnings of foreign subsidiaries to the extent those earnings are taxable or are expected to be remitted. Covance's historical policy has been to leave its unremitted foreign earnings invested indefinitely outside the United States. Covance intends to continue to leave its unremitted foreign earnings invested indefinitely outside the United States. It is not practical to estimate the amount of additional tax that might be payable if such accumulated earnings were remitted. Additionally, if such accumulated earnings were remitted, certain countries impose withholding taxes that, subject to certain limitations, are available for use as a tax credit against any Federal income tax liability arising from such remittance. As a result, taxes have not been provided on accumulated foreign unremitted earnings totaling approximately $765 million at December 31, 2012.

The Company recognizes a tax benefit from an uncertain tax position only if the Company believes it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that the Company believes is more likely than not to be realized upon ultimate settlement of the position. Components of the reserve are classified as either a current or long-term liability in the consolidated balance sheet based on when the Company expects each of the items to be settled. Covance accrues interest and penalties in relation to unrecognized tax benefits as a component of income tax expense.

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COVANCE INC. AND SUBSIDIARIES
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7. Taxes on Income (Continued)

As of December 31, 2012 and 2011, the balance of the reserve for unrecognized tax benefits was $9.4 million and $16.4 million, respectively, which is recorded as a long-term liability in other liabilities on the consolidated balance sheet. Included in the balance of the reserve for unrecognized tax benefits at December 31, 2012 and 2011 is accrued interest of $0.6 million and $1.6 million, respectively. This reserve relates to exposures for income tax matters such as transfer pricing, nexus and deemed income. During the year ended December 31, 2012, the reserve for unrecognized tax benefits decreased by $7.0 million, primarily associated with the settlement of various income tax audits, partially offset by the accrual of additional reserves of $2.4 million, primarily relating to transfer pricing and the accrual of interest on existing reserves.

Following is a reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding accrued interest, for the years ended December 31, 2012, 2011 and 2010:

(dollars in millions)	
Unrecognized tax benefits as of December 31, 2009	$ 16.0
Additions related to tax positions in the prior year	3.8
Additions related to tax positions in the current year	1.9
Reductions due to settlements and payments	(7.2)
Reductions due to statute expiration	(0.5)
Unrecognized tax benefits as of December 31, 2010	14.0
Additions related to tax positions in the current year	3.0
Reductions due to settlements and payments	(1.9)
Reductions due to statute expiration	(0.3)
Unrecognized tax benefits as of December 31, 2011	14.8
Additions related to tax positions in the current year	2.2
Reductions due to settlements and payments	(7.9)
Reductions due to statute expiration	(0.3)
Unrecognized tax benefits as of December 31, 2012	$ 8.8

Any future changes in the liability for unrecognized tax benefits, resulting from the recognition of tax benefits, would impact the effective tax rate. Over the next twelve months, it is reasonably possible that the uncertainty surrounding up to $1.0 million, including accrued interest of $0.1 million, of the reserve for unrecognized tax benefits related to certain income taxes, deemed income and transfer pricing will be resolved as a result of the expiration of the statute of limitations or the conclusion of various federal, state and foreign tax audits.

The following tax years remain open to investigation as of December 31, 2012, for the Company's major jurisdictions:

Tax Jurisdiction	**Years**
U.S. Federal and State	2007-2012
United Kingdom	2011-2012
Switzerland	2007-2012
Germany	2009-2012

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8. Credit Facilities

On March 7, 2012, Covance amended its credit facility, which was not due to expire until October 2015, in order to, in part, provide sufficient liquidity to finance purchases under its 2012 authorized share repurchase program ("2012 Repurchase Program"), as well as to secure more favorable financing rates. The amended credit agreement (the "Credit Agreement") provides for a revolving credit facility of up to $500 million. At December 31, 2012, there were $320.0 million of outstanding borrowings and $2.9 million of outstanding letters of credit under the Credit Agreement. At December 31, 2011, there were $30.0 million of outstanding borrowings and $2.6 million of outstanding letters of credit under the previous credit agreement. Interest on all outstanding borrowings under the Credit Agreement varies in accordance with the terms of the Credit Agreement and is presently based upon the London Interbank Offered Rate plus a margin of 125 basis points. Interest on all outstanding borrowings under the previous credit agreement was based upon the London Interbank Offered Rate plus a margin of 200 basis points. Interest on outstanding borrowings approximated 1.56% per annum during 2012 and 2.35% per annum during 2011. Costs associated with the Credit Agreement, which expires in March 2017, consisted primarily of bank and legal fees totaling $1.9 million and are being amortized over the five-year term.

The Company pays a commitment fee of 17.5 basis points on the undrawn balance of the revolving credit facility under the Credit Agreement, and had paid a commitment fee of 30 basis points on the undrawn balance of the revolving credit facility under the previous credit agreement. Commitment fees totaled approximately $0.4 million and $0.6 million during the years ended December 31, 2012 and 2011, respectively. The Credit Agreement contains various financial and other covenants and is collateralized by guarantees of certain of Covance's domestic subsidiaries and a pledge of 65 percent of the capital stock of certain of Covance's foreign subsidiaries. At December 31, 2012, Covance was in compliance with the terms of the Credit Agreement.

9. Employee Benefit Plans

Covance sponsors various pension and other post-retirement benefit plans. All plans have a measurement date of December 31.

Defined Benefit Pension Plans

Covance sponsors two defined benefit pension plans for the benefit of its employees at two United Kingdom subsidiaries and one defined benefit pension plan for the benefit of its employees at a German subsidiary, all of which are legacy plans of previously acquired companies. Benefit amounts for all three plans are based upon years of service and compensation. The German plan is unfunded while the United Kingdom pension plans are funded. Covance's funding policy has been to contribute annually a fixed percentage of the eligible employee's salary at least equal to the local statutory funding requirements.

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9. Employee Benefit Plans (Continued)

The components of net periodic pension cost for these plans for 2012, 2011 and 2010 are as follows:

	United Kingdom Plans			German Plan		
	2012	2011	2010	2012	2011	2010
Components of Net Periodic Pension Cost:						
Service cost	$ 4,172	$ 4,296	$ 3,682	$ 670	$ 869	$ 754
Interest cost	7,734	8,388	7,718	642	610	584
Expected return on plan assets	(10,319)	(10,569)	(8,996)			
Amortization of net actuarial loss	1,172	1,344	1,249		116	74
Expected participant contributions	(1,838)	(1,871)	(2,074)			
Net periodic pension cost	$ 921	$ 1,588	$ 1,579	$ 1,312	$ 1,595	$ 1,412
Assumptions Used to Determine Net Periodic Pension Cost:						
Discount rate	4.60%	5.20%	5.75%	5.40%	4.60%	5.50%
Expected rate of return on assets	5.90%	6.50%	6.75%	n/a	n/a	n/a
Salary increases	4.00%	4.50%	4.50%	2.50%	2.50%	3.00%

The weighted average expected long-term rate of return on the assets of the United Kingdom pension plans is based on the target asset allocation and the average rate of growth expected for the asset classes invested. The rate of expected growth is derived from a combination of historic returns, current market indicators, the expected risk premium for each asset class over the risk-free rate and the opinion of professional advisors.

The change in the projected benefit obligation and plan assets, the funded status of the plan and a reconciliation of such funded status to the amounts reported in the consolidated balance sheets as of December 31, 2012 and 2011 is as follows:

	United Kingdom Plans		German Plan	
	2012	2011	2012	2011
Change in Projected Benefit Obligation:				
Benefit obligation, beginning of year	$ 167,711	$ 156,604	$ 12,810	$ 12,562
Service cost	4,172	4,296	670	869
Interest cost	7,734	8,388	642	610
Actuarial (gain) loss	(2,389)	(1,138)	3,991	(1,025)
Curtailment gain			(657)	
Benefits paid	(2,525)	(2,348)	(132)	(141)
Foreign currency exchange rate changes	6,291	1,909	304	(65)
Benefit obligation, end of year	$ 180,994	$ 167,711	$ 17,628	$ 12,810

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9. Employee Benefit Plans (Continued)

	United Kingdom Plans		German Plan	
	2012	2011	2012	2011
Change in Fair Value of Assets:				
Fair value of plan assets, beginning of year	$ 170,413	$ 153,684	$	$
Covance contributions	6,369	6,556		
Employee contributions	1,838	1,871		
Actual return on plan assets	13,125	8,911		
Benefits paid	(2,525)	(2,348)		
Foreign currency exchange rate changes	6,697	1,739		
Fair value of plan assets, end of year	$ 195,917	$ 170,413	$	$
Funded status at end of year over (under) funded	$ 14,923	$ 2,702	$ (17,628)	$ (12,810)

	United Kingdom Plans		German Plan	
	2012	2011	2012	2011
Amounts recognized in the consolidated balance sheets:				
Non-current assets	$ 14,923	$ 2,702	$	$
Current liabilities			(204)	(184)
Non-current liabilities			(17,424)	(12,626)
Total	$ 14,923	$ 2,702	$ (17,628)	$ (12,810)

Covance contributed $6.4 million in 2012 and $6.6 million in 2011 to its United Kingdom plans and expects to contribute $6.4 million in 2013. No contributions were made during 2012 or 2011 to the German plan, nor are any contributions expected to be made to the German plan in 2013, since that plan is unfunded.

The change in projected benefit obligation of the German pension plan for the year ended December 31, 2012 includes a curtailment gain of $0.7 million due to a reduction in plan participants resulting from cost reduction actions taken at the Company's Muenster, Germany toxicology facility.

The accumulated benefit obligation for the United Kingdom pension plans was $156.4 million and $138.5 million at December 31, 2012 and 2011, respectively. The accumulated benefit obligation for the German plan was $15.2 million and $10.4 million at December 31, 2012 and 2011, respectively.

The amounts recognized in accumulated other comprehensive income as of December 31, 2012 and 2011 are as follows:

	United Kingdom Plans		German Plan	
	2012	2011	2012	2011
Net actuarial loss	$ 33,039	$ 40,054	$ 5,146	$ 1,839
Less: Tax benefit (deferred tax asset)	(8,780)	(10,722)	(1,583)	(558)
Accumulated other comprehensive income impact	$ 24,259	$ 29,332	$ 3,563	$ 1,281
Assumptions Used to Determine Benefit Obligations:				
Discount rate	4.60%	4.60%	3.50%	5.40%
Salary increases	3.60%	4.00%	2.00%	2.50%

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9. Employee Benefit Plans (Continued)

The net actuarial loss for the United Kingdom and German pension plans required to be amortized from accumulated other comprehensive income into net periodic pension cost in 2013 is expected to be $0.6 million and $0.2 million, respectively.

The investment policies for the United Kingdom pension plans are set by the plan trustees, based upon the guidance of professional advisors and after consultation with the Company, taking into consideration the plans' liabilities and future funding levels. The trustees have set the long-term investment policy largely in accordance with the asset allocation of a broadly diversified investment portfolio. Assets are generally invested within the target ranges as follows:

Equity securities	40%	50%
Debt securities	40%	50%
Real estate	5%	10%
Other	0%	5%

The weighted average asset allocation of the United Kingdom pension plans as of December 31, 2012 and 2011 by asset category is as follows:

	2012	2011
Equity securities	46%	48%
Debt securities	46%	42%
Real estate	5%	5%
Other	3%	5%
Total	100%	100%

Investments are made in pooled investment funds. Pooled investment fund managers are regulated by the Financial Services Authority in the United Kingdom and operate under terms which contain restrictions on the way in which the portfolios are managed and require the managers to ensure that suitable internal operating procedures are in place. The trustees have set performance objectives for each fund manager and routinely monitor and assess the managers' performance against such objectives.

The fair value of the Company's United Kingdom pension plans' assets as of December 31, 2012, by asset category, are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 53	$ 53	$	$
Mutual funds[(a)]	195,864		195,864	
Total	$ 195,917	$ 53	$ 195,864	$

(a) Mutual funds represent pooled investment vehicles offered by investment managers, which are generally comprised of investments in equities, bonds, property and cash. The plans' trustees hold units in these funds, the value of which is determined by the number of units held multiplied by the unit price calculated by the investment managers. That unit price is derived based on the market value of the securities that comprise the fund, which are determined by quoted prices in active markets. No element of the valuation is based on inputs made by the plans' trustees.

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9. Employee Benefit Plans (Continued)

Expected future benefit payments are as follows:

Year Ending December 31,	United Kingdom Plans	German Plan
2013	$ 3,067	$ 204
2014	$ 3,421	$ 224
2015	$ 3,955	$ 239
2016	$ 3,606	$ 261
2017	$ 4,196	$ 274
2018-2022	$ 29,715	$ 1,492

Supplemental Executive Retirement Plan

In addition to these foreign defined benefit pension plans, Covance also has a non-qualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is not funded, is intended to provide retirement benefits for certain executive officers of Covance. Benefit amounts are based upon years of service and compensation of the participating employees.

The components of net periodic pension cost for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Components of Net Periodic Pension Cost:			
Service cost	$ 1,478	$ 1,282	$ 1,391
Interest cost	776	695	693
Amortization of prior service credit	(119)	(119)	(119)
Amortization of net actuarial loss	270	296	226
Net periodic pension cost	$ 2,405	$ 2,154	$ 2,191
Assumptions Used to Determine Net Periodic Pension Cost:			
Discount rate	4.30%	4.40%	5.25%
Salary increases	3.75%	4.00%	4.00%

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9. Employee Benefit Plans (Continued)

The change in the projected benefit obligation, the funded status of the plan and a reconciliation of such funded status to the amounts reported in the consolidated balance sheets as of December 31, 2012 and 2011 is as follows:

	2012	2011
Change in Projected Benefit Obligation:		
Benefit obligation, beginning of year	$ 16,572	$ 14,525
Service cost	1,478	1,282
Interest cost	776	695
Actuarial loss	2,289	70
Benefit obligation, end of year	$ 21,115	$ 16,572
Funded status at end of year under funded	$ (21,115)	$ (16,572)

	2012	2011
Amounts recognized in the consolidated balance sheets:		
Current liabilities	$ (2,486)	$
Non-current liabilities	(18,629)	(16,572)
Total	$ (21,115)	$ (16,572)

The accumulated benefit obligation as of December 31, 2012 and 2011 is $18.8 million and $14.1 million, respectively.

The amounts recognized in accumulated other comprehensive income and not yet recognized as a component of net periodic pension cost as of December 31, 2012 and 2011 are as follows:

	2012	2011
Net actuarial loss	$ 6,011	$ 3,992
Prior service credit	(689)	(808)
Less: Tax benefit (deferred tax asset)	(1,879)	(1,124)
Accumulated other comprehensive income impact	$ 3,443	$ 2,060

The net actuarial loss and prior service credit required to be amortized from accumulated other comprehensive income into net periodic pension cost in 2013 are estimated to be $0.6 million and ($0.1) million, respectively.

	2012	2011
Assumptions Used to Determine Benefit Obligation:		
Discount rate	3.20%	4.30%
Salary increases	3.25%	3.75%

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9. Employee Benefit Plans (Continued)

Expected future benefit payments are as follows:

Year Ending December 31,	
2013	$ 2,486
2014	$ 1,172
2015	$ 130
2016	$ 10,253
2017	$ 1,278
2018-2022	$ 7,000

Post-Employment Retiree Health and Welfare Plan

Covance also sponsors a post-employment retiree health and welfare plan for the benefit of eligible employees at certain U.S. subsidiaries who retire after satisfying service and age requirements. This plan is funded on a pay-as-you-go basis and the cost of providing these benefits is shared with the retirees.

The components of net periodic post-retirement benefit cost for 2012, 2011 and 2010 are as follows:

	2012	**2011**	**2010**
Components of Net Periodic Post-retirement Benefit Cost:			
Service cost	$ 69	$ 96	$ 108
Interest cost	290	306	314
Amortization of net actuarial loss	40	133	33
Net periodic post-retirement benefit cost	$ 399	$ 535	$ 455
Assumptions Used to Determine Net Periodic Post-retirement Benefit Cost:			
Discount rate	4.60%	4.70%	5.25%
Health care cost trend rate	8.00%(a)	8.50%	7.50%

(a) decreasing to ultimate trend of 5.00% in 2018

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9. Employee Benefit Plans (Continued)

The change in the projected post-retirement benefit obligation, the funded status of the plan and the reconciliation of such funded status to the amounts reported in the consolidated balance sheets as of December 31, 2012 and 2011 is as follows:

	2012	2011
Change in Projected Benefit Obligation:		
Benefit obligation, beginning of year	$ 6,540	$ 6,224
Service cost	69	96
Interest cost	290	306
Participant contributions	774	667
Actuarial (gain) loss	(114)	179
Benefits paid	(912)	(1,004)
Federal subsidy on benefits paid	170	72
Benefit obligation, end of year	$ 6,817	$ 6,540
Funded status at end of year under funded	$ (6,817)	$ (6,540)

	2012	2011
Amounts recognized in the consolidated balance sheets:		
Current liabilities	$ (607)	$ (614)
Non-current liabilities	(6,210)	(5,926)
Total	$ (6,817)	$ (6,540)

The amounts recognized in accumulated other comprehensive income as of December 31, 2012 and 2011 are as follows:

	2012	2011
Net actuarial loss	$ 678	$ 832
Less: Tax benefit (deferred tax asset)	(239)	(294)
Accumulated other comprehensive income impact	$ 439	$ 538

There is no net actuarial loss required to be amortized from accumulated other comprehensive income into net periodic post-retirement benefit cost in 2013.

	2012	2011
Assumptions Used to Determine Benefit Obligation:		
Discount rate	3.60%	4.60%
Health care cost trend rate	7.50%[(a)]	8.00%

(a) decreasing to ultimate trend of 5.00% in 2017.

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9. Employee Benefit Plans (Continued)

A one-percentage-point increase or decrease in the assumed health care cost trend rate would not impact the net service and interest cost components of the net periodic post-retirement benefit cost or the post-retirement benefit obligation since future increases in plan costs are paid by participant contributions. Covance expects to contribute $0.6 million to the post-employment retiree health and welfare plan in 2013.

Expected future gross benefit payments, Federal subsidies and net benefit payments are as follows:

Year Ending December 31,	Gross Benefit Payments	Federal Subsidies	Net Benefit Payments
2013	$ 1,461	$ (127)	$ 1,334
2014	$ 1,513	$ (135)	$ 1,378
2015	$ 1,687	$	$ 1,687
2016	$ 1,713	$	$ 1,713
2017	$ 1,742	$	$ 1,742
2018-2022	$ 8,077	$	$ 8,077

Defined Contribution Plans

U.S. employees are eligible to participate in Covance's 401(k) plan, while employees in international locations are eligible to participate in either defined benefit or defined contribution plans, depending on the plan offered at their location. Aggregate Covance contributions to its various defined contribution plans totaled $33.7 million, $30.2 million and $33.1 million for 2012, 2011 and 2010, respectively.

10. Stockholders' Equity

Preferred Stock

Covance is authorized to issue up to 10.0 million shares of Series Preferred Stock, par value $1.00 per share (the "Covance Series Preferred Stock"). The Covance Board of Directors has the authority to issue such shares from time to time, without stockholder approval, and to determine the designations, preferences, rights, including voting rights, and restrictions of such shares, subject to the Delaware General Corporate Laws. Pursuant to this authority, the Covance Board of Directors has designated 1.0 million shares of the Covance Series Preferred Stock as Covance Series A Preferred Stock. No other class of Covance Series Preferred Stock has been designated by the Board. As of December 31, 2012, no Covance Series Preferred Stock has been issued or is outstanding.

Dividends Common Stock

Covance's Board of Directors may declare dividends on the shares of Covance common stock out of legally available funds (subject to any preferential rights of any outstanding Covance Series Preferred Stock). However, Covance has no present intention to declare dividends, but instead intends to retain earnings to provide funds for the operation and expansion of its business.

COVANCE INC. AND SUBSIDIARIES
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10. Stockholders' Equity (Continued)

Treasury Stock

The Board of Directors has, from time to time, approved stock repurchase programs enabling Covance to repurchase shares of its common stock. In January 2012, the Covance Board of Directors authorized the repurchase of up to $300 million of the Company's outstanding common stock (the "2012 Repurchase Program"). This was in addition to 0.8 million shares remaining under a 3.0 million share buyback authorization approved by the Covance Board of Directors in 2007 (the "2007 Repurchase Program"). In September 2010, the Covance Board of Directors authorized the repurchase of up to $250 million of the Company's outstanding common stock (the "2010 Repurchase Program"). The Company repurchased 4.75 million shares of its common stock at a cost of $250 million under the 2010 Repurchase Program through an accelerated share repurchase which was initiated in November 2010. At December 31, 2012, there was $20.1 million remaining for purchase of the Company's outstanding common stock under the 2012 Repurchase Program. In addition to the Board approved share repurchase programs, Covance also reacquires shares of its common stock when employees tender shares to satisfy income tax withholdings associated with the vesting of stock awards.

The following table sets forth the treasury stock activity during 2012, 2011 and 2010:

	2012		2011		2010	
(amounts in thousands)	**$**	**# shares**	**$**	**# shares**	**$**	**# shares**
Shares repurchased in connection with:						
Board approved buyback programs	$ 314,787	6,654.0	$		$ 250,000	4,753.6
Employee benefit plans	8,986	207.5	8,810	158.4	6,351	115.2
Total	$ 323,773	6,861.5	$ 8,810	158.4	$ 256,351	4,868.8

Stock-Based Compensation Plans

In May 2010, Covance's shareholders approved the 2010 Employee Equity Participation Plan (the "2010 EEPP") in replacement of the 2007 Employee Equity Participation Plan (the "2007 EEPP"). Effective upon approval of the 2010 EEPP, no further grants or awards were permitted under the 2007 EEPP. Shares remaining available for grant under the 2007 EEPP are available for grant under the 2010 EEPP. The 2010 EEPP became effective on May 6, 2010 and will expire on May 5, 2020. The 2010 EEPP authorizes the Compensation and Organization Committee of the Board of Directors (the "Compensation Committee"), or such committee as is appointed by the Covance Board of Directors, to administer the 2010 EEPP and to grant awards to employees of Covance. The 2010 EEPP authorizes the Compensation Committee to grant the following awards: options to purchase common stock; stock appreciation rights; and other stock awards either singly or in combination. Shares granted, other than options or SARs, shall be counted against the shares available for grant based upon the ratio of 1.74 for every 1 share granted. The exercise period for stock options granted under the 2010 EEPP is determined by the Compensation Committee at the time of grant, and is generally ten years from the date of grant. The vesting period for stock options and stock awards granted under the 2010 EEPP is determined by the Compensation Committee at the time of grant. Beginning in 2012, options and restricted stock awards are generally granted with a pro rata four year vesting period, whereas previously, they were generally granted with a pro rata three year vesting period. Performance-based stock awards generally vest over a three year period. The number of shares of Covance common stock initially available for grant under the 2010 EEPP totaled approximately 4.3 million plus approximately 1.3 million shares remaining

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10. Stockholders' Equity (Continued)

available under the 2007 EEPP at the time the 2010 EEPP was approved. All grants and awards under the 2007 EEPP remaining outstanding are now administered in accordance with the provisions of the 2007 EEPP out of shares issuable under the 2010 EEPP. The Company may issue authorized but previously unissued shares or treasury shares when options are exercised or for stock awards. There have been no grants of stock appreciation rights under the 2007 EEPP or the 2010 EEPP. At December 31, 2012 there were approximately 2.3 million shares remaining available for grants under the 2010 EEPP.

The Company recognizes stock-based compensation expense on a straight-line basis over the vesting period of the related awards based upon the grant-date fair value of awards expected to vest. Results of operations for the year ended December 31, 2012 include $40.8 million ($27.9 million net of tax benefit of $12.9 million) of total stock-based compensation expense, $20.8 million of which has been included in cost of revenue and $20.0 million of which has been included in selling, general and administrative expenses. Results of operations for the year ended December 31, 2011 include $40.1 million ($27.4 million net of tax benefit of $12.7 million) of total stock-based compensation expense, $20.0 million of which has been included in cost of revenue and $20.1 million of which has been included in selling, general and administrative expenses. Results of operations for the year ended December 31, 2010 include $32.3 million ($22.0 million net of tax benefit of $10.3 million) of total stock-based compensation expense, $17.2 million of which has been included in cost of revenue and $15.1 million of which has been included in selling, general and administrative expenses.

Options The grant-date fair value of stock option awards is estimated using an option pricing model. The Company uses the Lattice-Binomial option pricing formula to estimate the grant-date fair value of stock option awards. In order to estimate the grant-date fair value, option pricing models require the use of estimates and assumptions as to (a) the expected term of the option, (b) the expected volatility of the price of the underlying stock, (c) the risk-free interest rate for the expected term of the option and (d) pre-vesting forfeiture rates. The expected term of the option is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behavior. The expected volatility of the price of the underlying stock is based upon the volatility of the Company's stock computed over a period of time equal to the expected term of the option. The risk free interest rate is based upon the implied yields currently available from the U.S. Treasury zero-coupon yield curve for issues with a remaining duration equal to the expected term of the option. Pre-vesting forfeiture rates are estimated based upon past voluntary termination behavior and past option forfeitures.

The following table sets forth the weighted average assumptions used to calculate the fair value of options granted for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Expected stock price volatility	38%	37%	35%
Range of risk free interest rates	0.03% - 2.01%	0.10% - 3.62%	0.06% - 3.78%
Expected life of options (years)	5.2	4.8	4.7

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10. Stockholders' Equity (Continued)

The following table sets forth Covance's stock option activity as of and for the year ended December 31, 2012:

	Number of Shares (in thousands)	Weighted Average Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in millions)
Options outstanding, December 31, 2011	3,883.2	$ 51.11		
Granted	1,061.3	$ 48.13		
Exercised	(396.3)	$ 32.01		
Forfeited	(209.3)	$ 58.41		
Options outstanding, December 31, 2012	4,338.9	$ 51.77	6.6 years	$ 32.7
Vested & unvested expected to vest, December 31, 2012	4,220.3	$ 51.87	6.5 years	$ 31.5
Exercisable at December 31, 2012	2,520.0	$ 51.55	5.2 years	$ 22.0

The weighted average grant-date fair value per share of options granted during 2012, 2011 and 2010 was $16.47, $19.87 and $18.55, respectively. As of December 31, 2012, the total unrecognized compensation cost related to non-vested stock options granted was $19.0 million and is expected to be recognized over a weighted average period of 2.4 years.

The following table sets forth the aggregate intrinsic value of options exercised and the aggregate grant-date fair value of shares which vested during 2012, 2011 and 2010:

(in millions)	**2012**	**2011**	**2010**
Aggregate intrinsic value of options exercised	$ 7.6	$ 5.0	$ 9.7
Aggregate grant-date fair value of shares vested	$ 14.3	$ 9.9	$ 8.3

Cash proceeds from stock options exercised during the years ended December 31, 2012, 2011 and 2010 totaled $12.7 million, $6.8 million and $10.0 million, respectively. The cash flows resulting from tax benefits realized on tax deductions in excess of the compensation expense recognized for stock options exercised in the period are classified as a financing cash flow. The excess tax benefit classified as a financing cash inflow during the years ended December 31, 2012, 2011 and 2010 was $1.1 million, $0.9 million and $1.6 million, respectively. The actual tax benefit realized on stock options exercised during the years ended December 31, 2012, 2011 and 2010 was $1.7 million, $1.7 million and $2.9 million, respectively. The difference between the actual tax benefit received and the excess tax benefit for the years ended December 31, 2012, 2011 and 2010, of $0.6 million, $0.8 million and $1.3 million, respectively, is classified as an operating cash inflow.

Restricted Stock Awards Restricted stock awards are granted subject to either service conditions (restricted stock) or service and performance conditions (performance-based shares). The grant-date fair value of restricted stock and performance-based share awards, which has been determined based upon the market value of Covance's shares on the grant date, is expensed on a straight line basis over the vesting period of the related awards.

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10. Stockholders' Equity (Continued)

The following table sets forth Covance's performance-based shares and restricted stock activity as of and for the year ended December 31, 2012:

	Performance-based Shares		Restricted Stock	
	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2011	229.1	$ 58.58	820.3	$ 54.23
Granted	139.1	$ 50.06	562.7	$ 48.11
Vested	(82.9)	$ 58.34	(404.2)	$ 51.77
Forfeited	(21.3)	$ 55.05	(88.9)	$ 52.87
Non-vested at December 31, 2012	264.0	$ 54.45	889.9	$ 51.61

The blended weighted average grant-date fair value of performance-based shares and restricted stock awards granted during the year ended December 31, 2012, 2011 and 2010 was $48.50, $57.96 and $56.10, respectively. As of December 31, 2012, the total unrecognized compensation cost related to non-vested performance-based shares and restricted stock awards was $38.0 million. This cost is expected to be recognized over a weighted average period of 2.1 years. The total fair value of performance-based shares and restricted stock which vested during 2012, 2011 and 2010 was $25.8 million, $22.2 million and $16.8 million, respectively.

Employee Stock Purchase Plan Covance had an employee stock purchase plan (the "ESPP"), pursuant to which Covance made available for sale to employees shares of its common stock at a price equal to 85% of the lower of the market value on the first or last day of each calendar quarter. The ESPP was intended to give Covance employees the opportunity to purchase shares of Covance common stock through payroll deductions. During 2011 and 2010, a total of 40,187 shares and 163,232 shares of common stock, respectively, were issued under the ESPP. Effective January 1, 2011, the ESPP was terminated.

11. Commitments and Contingencies

Minimum annual rental commitments under non-cancelable operating leases, primarily for offices and laboratory facilities, in effect at December 31, 2012 are as follows:

Year Ending December 31,	
2013	$ 30,242
2014	$ 21,520
2015	$ 18,339
2016	$ 13,454
2017	$ 10,738
2018 and beyond	$ 67,376

Operating lease rental expense aggregated $38.6 million, $35.1 million and $35.6 million for 2012, 2011 and 2010, respectively.

Covance is party to lawsuits and administrative proceedings incidental to the normal course of its business. Covance does not believe that any liabilities related to such lawsuits or proceedings will have a material effect on its financial condition, results of operations or cash flows.

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12. Facility Consolidation and Other Cost Reduction Actions

2012 Actions

During 2012, Covance commenced additional restructuring actions in early development to better align capacity to preclinical market demand, as well as in its corporate and functional support infrastructure, to further improve profitability. These actions included the closure of the Company's toxicology facility in Chandler, Arizona, its clinical pharmacology facilities in Honolulu, Hawaii and Basel, Switzerland, as well as a capacity and workforce reduction in Muenster, Germany and in its corporate and functional support infrastructure. During the year ended December 31, 2012, Covance incurred costs totaling $33.9 million ($30.4 million of which has been included in selling, general and administrative expenses and $3.5 million of which has been included in depreciation and amortization). Costs incurred by segment during the year ended December 31, 2012 totaled $30.3 million in our early development segment, $1.3 million in our late-stage development segment and $2.3 million in corporate expenses. These restructuring actions are expected to be completed in 2014.

Total costs for the 2012 actions are expected to approximate $50 million, including $29 million in employee separation costs, $7 million in lease and facility exit costs, $4 million in accelerated depreciation and amortization and $10 million in other costs. Costs by segment are expected to total $37 million in our early development segment, $3 million in our late-stage development segment and $10 million in corporate expenses.

The following table sets forth the rollforward of the 2012 actions restructuring activity for the year ended December 31, 2012:

Description	Balance, Dec 31, 2011	Total Charges	Cash Payments	Other	Balance, Dec 31, 2012
Employee separation costs	$	$ 22,845	$ (11,835)	$ 226	$ 11,236
Lease and facility exit costs		3,922	(307)	118	3,733
Accelerated depreciation and amortization		3,470		(3,470)	
Other costs		3,693	(2,995)	(527)	171
Total	$	$ 33,930	$ (15,137)	$ (3,653)	$ 15,140

Other costs include charges incurred in connection with transitioning services from sites being closed, legal and professional fees, primarily associated with employee related matters, as well as loss on disposal of assets. Other activity in the reserve rollforward primarily reflects accelerated depreciation and amortization, the loss on disposal of assets and foreign exchange impacts as a result of the change in exchange rates between periods.

In addition to the above costs, during 2012, Covance recorded $21.2 million in charges to reflect the write-down of certain research product inventory, based on current and expected future demand, and for costs associated with the expected settlement of an inventory supply agreement. These costs have been included in cost of sales in the early development segment.

2010 and 2011 Actions

During the second quarter of 2010, Covance announced plans to reduce costs, primarily by closing and transitioning work conducted at its Austin, Texas clinical pharmacology site and Kalamazoo, Michigan research products facility into other more efficient locations. These actions were completed during 2010. During the

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12. Facility Consolidation and Other Cost Reduction Actions (Continued)

fourth quarter of 2010, the Company announced plans to further rationalize capacity, reduce the cost of overhead and support functions and to streamline processes. These actions were completed during 2011. During the year ended December 31, 2011, Covance incurred costs totaling $24.4 million ($22.6 million of which has been included in selling, general and administrative expenses and $1.8 million of which has been included in depreciation and amortization). During the year ended December 31, 2010, Covance incurred costs totaling $28.0 million ($25.1 million of which has been included in selling, general and administrative expenses and $2.9 million of which has been included in depreciation and amortization). During the year ended December 31, 2012, no restructuring costs were incurred and no further costs are expected to be incurred relating to the 2010 and 2011 actions.

The following table sets forth the costs incurred in connection with these restructuring activities during the years ended December 31, 2011 and 2010:

Description	2011	2010
Employee separation costs	$ 12,157	$ 18,051
Lease and facility exit costs	2,010	4,753
Accelerated depreciation	1,777	2,873
Other costs	8,425	2,353
Total	$ 24,369	$ 28,030

Costs incurred during the year ended December 31, 2011 totaled $11.4 million in our early development segment, $5.0 million in our late-stage development segment and $8.0 million in corporate expenses. Costs incurred during the year ended December 31, 2010 totaled $14.1 million in our early development segment, $7.3 million in our late-stage development segment and $6.6 million in corporate expenses.

Cumulative costs for the 2010 and 2011 cost actions through December 31, 2011 totaled $52.4 million, of which $47.7 million was included in selling, general and administrative expenses and $4.7 million was included in depreciation and amortization. Cumulative costs incurred by category for these actions through December 31, 2011 totaled $30.2 million in employee separation costs, $6.8 million in lease and facility exit costs, $4.6 million in accelerated depreciation and $10.8 million in other costs. Cumulative costs incurred by segment through December 31, 2011 totaled $25.5 million in our early development segment, $12.3 million in our late-stage development segment and $14.6 million in corporate expenses.

The following table sets forth the rollforward of the restructuring activity for the year ended December 31, 2012:

Description	Balance, Dec 31, 2011	Total Charges	Cash Payments	Other	Balance, Dec 31, 2012
Employee separation costs	$ 5,908	$	$ (5,054)	$ (450)	$ 404
Lease and facility exit costs	2,620		(1,665)	(48)	907
Other costs	1,834		(1,810)	(24)	
Total	$ 10,362	$	$ (8,529)	$ (522)	$ 1,311

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12. Facility Consolidation and Other Cost Reduction Actions (Continued)

In addition to the above noted costs, in the fourth quarter of 2011, due to a decline in demand for one of its research products, Covance terminated a long-standing inventory supply agreement and wrote-down inventory resulting in a charge of $10.3 million. These costs have been included in selling, general and administrative expenses in the early development segment.

13. Asset Impairment

Covance reviews its long-lived assets, other than goodwill and other indefinite lived intangible assets, for impairment when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based upon Covance's judgment of its ability to recover the value of the asset from the expected future undiscounted cash flows of the related operations.

The significant weakening of the market for outsourced toxicology services during the three-month period ended September 30, 2010, which represented a reversal in trend from the recovering demand for these services during the first half of 2010, caused Covance to reassess its North American toxicology services. This assessment included an evaluation of the ongoing value of the long-lived assets associated with those services. Based on that evaluation, Covance determined that long-lived assets located in Chandler, Arizona and Manassas, Virginia with carrying values of $182.7 million and $23.4 million, respectively, were no longer fully recoverable from the cash flows expected from those assets. Accordingly, as of September 30, 2010, Covance recorded an asset impairment charge totaling $119.2 million ($103.0 million of which relates to the Chandler, Arizona assets and $16.2 million relates to the Manassas, Virginia assets), representing the excess of the carrying value of those assets over their respective fair market values.

The fair value of these assets was determined with the assistance of an independent third party appraiser. Covance's Chandler, Arizona facility, which will continue to be held and used, was valued at $79.7 million based upon both the future cash flows expected to be generated from the facility, discounted at the risk-free rate of interest, and an estimated market value of the facility. These assets are included in property and equipment on the consolidated balance sheet as of December 31, 2010. The property in Manassas, Virginia consists primarily of land that was intended to be utilized for future expansion projects in the early development segment. As Covance had classified this property as held for sale, it was reclassified from property and equipment to other current assets on the consolidated balance sheet as of December 31, 2010. However, due to real estate market conditions, Covance continues to hold the Manassas property. As a result, the Manassas property, with a carrying value of $7.2 million, has been reclassified back to property and equipment on the consolidated balance sheet as of December 31, 2012.

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13. Asset Impairment (Continued)

The following table presents the above non-financial assets measured at estimated fair value as of September 30, 2010 and the resulting impairment losses included in earnings for the year ended December 31, 2010:

		Assets at Fair Value as of September 30, 2010				
Description	**Previous carrying value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Impairment loss**	**Adjusted carrying value**
Long-lived assets *(Chandler, AZ)*	$ 182,694			$ 79,674	$ (103,020)	$ 79,674
Long-lived assets *(Manassas, VA)*	23,371		$ 7,162		(16,209)	7,162
Total	$ 206,065	$	$ 7,162	$ 79,674	$ (119,229)	$ 86,836

14. Segment Information

Covance has two reportable segments: early development and late-stage development. Early development services, which includes Covance's discovery support services, preclinical and clinical pharmacology service capabilities, involve evaluating a new compound for safety and early effectiveness as well as evaluating the absorption, distribution, metabolism and excretion of the compound in the human body. It is at this stage that a pharmaceutical company, based on available data, will generally decide whether to continue further development of a drug. Late-stage development services, which includes Covance's central laboratory, Phase II-IV clinical development and market access services, are geared toward demonstrating the clinical effectiveness of a compound in treating certain diseases or conditions, obtaining regulatory approval and

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

14. Segment Information (Continued)

maximizing the drug's commercial potential. The accounting policies of the reportable segments are the same as those described in Note 2.

	Early Development	Late-Stage Development	Other Reconciling Items	Total
Total revenues from external customers:				
2012	$ 869,512	$ 1,311,109	$ 185,138[a]	$ 2,365,759
2011	$ 930,564	$ 1,165,374	$ 140,508[a]	$ 2,236,446
2010	$ 840,309	$ 1,085,321	$ 112,843[a]	$ 2,038,473
Depreciation and amortization:				
2012	$ 68,937	$ 25,676	$ 23,095[b]	$ 117,708
2011	$ 67,596	$ 20,079	$ 17,539[b]	$ 105,214
2010	$ 68,216	$ 18,887	$ 15,921[b]	$ 103,024
Operating income:				
2012	$ 4,002[g]	$ 277,567[h]	$ (165,692)[c]	$ 115,877
2011	$ 105,325[g]	$ 226,300[h]	$ (150,996)[c]	$ 180,629
2010	$ (31,989)[g]	$ 225,482[h]	$ (146,000)[c]	$ 47,493
Segment assets:				
2012	$ 1,127,265[i]	$ 923,259	$ 237,818[d]	$ 2,288,342
2011	$ 1,169,758[i]	$ 707,024	$ 231,226[d]	$ 2,108,008
2010	$ 1,110,862[i]	$ 706,395	$ 148,285[d]	$ 1,965,542
Investment in equity method investees:				
2012	$ [e]	$	$	$
2011	$ 10,356[e]	$	$	$ 10,356
2010	$ 22,032[e]	$	$	$ 22,032
Capital expenditures:				
2012	$ 45,442	$ 51,573	$ 54,664[f]	$ 151,679
2011	$ 65,165	$ 38,803	$ 30,665[f]	$ 134,633
2010	$ 69,392	$ 48,385	$ 8,501[f]	$ 126,278

(a) Represents revenues associated with reimbursable out-of-pocket expenses.

(b) Represents depreciation and amortization on corporate fixed assets.

(c) Represents corporate expenses (primarily information technology, marketing, communications, human resources, finance, legal and stock-based compensation expense). Corporate expenses include restructuring costs of $2,317, $7,968 and $6,632 in 2012, 2011 and 2010, respectively.

(d) Represents corporate assets.

(e) Represents equity investment in Noveprim Limited and reflects impact of impairment charge of $7,373 and $12,119 in 2012 and 2011, respectively.

(f) Represents corporate capital expenditures.

(g) Early development operating income includes restructuring costs of $30,341, an inventory write-down and costs associated with the expected settlement of an inventory supply agreement totaling $21,168 and a goodwill impairment charge of $17,959 in 2012, restructuring

costs of $11,411 and costs associated with the termination of an inventory supply agreement and related inventory write-down totaling $10,287 in 2011 and asset impairment charges of $119,229 and restructuring costs of $14,069 in 2010.

(h)

Late-stage development operating income includes restructuring costs of $1,272, $4,990 and $7,329 in 2012, 2011 and 2010, respectively.

(i)

Early development assets were impacted by an inventory write-down of $16,404, a goodwill impairment charge of $17,959, an impairment of an equity investment of $7,373 and the sale of an investment of $3,223 in 2012, an inventory write-down of $8,349 and an impairment of an equity investment of $12,119 in 2011 and asset impairment charges of $119,229 in 2010.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2012, 2011 AND 2010
(Dollars in thousands, unless otherwise indicated)

14. Segment Information (Continued)

Enterprise-Wide Disclosures

Net revenues from external customers for each significant service area for the years ended December 31, 2012, 2011 and 2010 are as follows:

	Preclinical Laboratory Services	Central (Clinical) Laboratory Services	Phase I-IV Clinical Development Services	All Other Services	Total
2012	$ 573,235	$ 640,903	$ 744,987	$ 221,496	$ 2,180,621
2011	$ 628,679	$ 601,208	$ 617,144	$ 248,907	$ 2,095,938
2010[1]	$ 562,207	$ 609,656	$ 509,377	$ 244,390	$ 1,925,630

(1) Net revenues by service area in 2010 have been reclassified to conform to the 2012 and 2011 presentation.

Net revenues from external customers and long-lived assets for each significant geographic location for the years ended December 31, 2012, 2011 and 2010 are as follows:

	United States	United Kingdom	Switzerland	Other	Total
Net revenues from external customers[1]					
2012	$ 1,116,763	$ 246,701	$ 317,717	$ 499,440	$ 2,180,621
2011	$ 1,099,430	$ 248,961	$ 304,673	$ 442,874	$ 2,095,938
2010	$ 1,080,682	$ 220,057	$ 278,625	$ 346,266	$ 1,925,630
Long-lived assets[2]					
2012	$ 615,328	$ 113,378	$ 79,010	$ 83,603	$ 891,319
2011	$ 591,179	$ 108,145	$ 76,270	$ 73,957	$ 849,551
2010	$ 609,237	$ 114,656	$ 46,847	$ 73,243	$ 843,983

(1) Net revenues are attributable to geographic locations based on the physical location where the services are performed.

(2) Long-lived assets represents the net book value of property and equipment.

Covance had one customer that accounted for 10.1% of consolidated net revenues in 2012. There were no customers accounting for 10% or more of net revenues in 2011 or 2010.

15. Subsequent Events

On January 31, 2013, Covance terminated its long-standing inventory supply agreement with Noveprim, a supplier of research products. In conjunction with the termination of the agreement, Covance surrendered its 47% minority equity investment in Noveprim. See Note 5.

Covance completed an evaluation of the impact of any subsequent events through the date these financial statements were issued, and determined there were no other subsequent events requiring disclosure in or adjustment to these financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company's Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered in this report. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that the Company's current disclosure controls and procedures are effective.

(b) Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012. See Management's Report on Consolidated Financial Statements and Internal Control, which is included herein.

For additional information, please see "Management's Report on Consolidated Financial Statements and Internal Control" included in this Annual Report.

(c) Attestation Report of Independent Registered Public Accounting Firm. The attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting is included in Item 8 of this Annual Report under the caption "Report of Independent Registered Accounting Firm" which is included herein.

(d) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item for executive officers is set forth under the heading "Executive Officers" in Part I, Item 1 of this report.

Directors

Robert Barchi, M.D., Ph.D., 66, has been President of Rutgers University since September 2012. Prior to that, Dr. Barchi was President of Thomas Jefferson University commencing in September 2004. Prior to that, Dr. Barchi was Provost of the University of Pennsylvania since 1999. Previously, he served as Chair of the University of Pennsylvania's Department of Neurology and as founding Chair of the University's Department of Neuroscience. Dr. Barchi was also Director of the Mahoney Institute of Neurological Sciences for more than 12 years and was the Director of the Dana Fellowship Program in Neuroscience and Director of the Clinical Neuroscience Track. He was the founder and President of Penn Neurocare, a regional specialty network. Dr. Barchi has been a member of the Covance Board since October 2003.

Gary E. Costley, Ph.D., 69, is a co-founder and managing director of C&G Capital and Management, LLC, which provides capital and management to health, medical and nutritional products and services companies. He was Chairman and Chief Executive Officer of International Multifoods Corporation, a manufacturer and marketer of branded consumer food and food service products from November 2001 until June 2004, and Chairman, President and Chief Executive Officer from 1997 through 2001. Dr. Costley is also a Director of The Principal Financial Group, a global financial institution, Tiffany & Co., a jewelry company, and Prestige Brand Holdings, Inc., a consumer products company. Dr. Costley has been a member of the Covance Board since September 2007.

Sandra L. Helton, 63, was Executive Vice President and Chief Financial Officer of Telephone & Data Systems, Inc., a telecommunications service company, ("TDS") from October 2000 through December 2006. She joined TDS as Executive Vice President Finance and Chief Financial Officer in August 1998. Prior to joining TDS, Ms. Helton was the Vice President and Corporate Controller of Compaq Computer Corporation between 1997 and 1998. Prior to that time, Ms. Helton was employed by Corning Incorporated. At Corning, Ms. Helton was Senior Vice President and Treasurer between 1994 and 1997 and was Vice President and Treasurer between 1991 and 1994. Ms. Helton is also a Director of The Principal Financial Group, a global financial institution, and was elected a Director of Lexmark International, Inc., a printing and imaging solutions company, in February 2011. Ms. Helton was a Director of TDS and US Cellular Corporation through December 31, 2006. Ms. Helton has been a member of the Covance Board since September 2003.

Joseph L. Herring, 57, has been Covance's Chief Executive Officer since January 2005, and Chairman since January 2006. Mr. Herring was President and Chief Operating Officer from November 2001 to December 2004, and was Covance's Corporate Senior Vice President and President Early Development Services from October 1999 to November 2001. From September 1996 to September 1999, Mr. Herring was Corporate Vice President and General Manager of Covance Laboratories North America. Prior to joining Covance, Mr. Herring spent 18 years at the American Hospital Supply/Baxter International/Caremark International family of healthcare service companies where he held a variety of senior leadership positions, culminating in the position of Vice President and General Manager of its oncology business. Mr. Herring has been a member of the Covance Board since 2004.

John McCartney, 60, has been Chairman of Huron Consulting Group Inc., a healthcare and educational consulting company since May 2010 and a director since October 2004. Mr. McCartney served as Chairman of A.M. Castle & Co., a specialty metals and plastics distributor from May 2007 to May 2010 and remains on its Board of Directors. Mr. McCartney serves as the Chairman of Westcon Group, Inc., a specialty distributor of networking and communications equipment since March 2011 and has served on its Board of Directors since 1998. Mr. McCartney was the Vice-Chairman of Datatec Limited, a technology holding

company, from 1998 to 2004, and currently serves on its Board of Directors. Mr. McCartney was formerly President and Chief Operating Officer of U.S. Robotics. Mr. McCartney also served on the Board of Federal Signal Corporation, an environmental, safety and transportation solutions company, until April 2010. Mr. McCartney has been a member of the Covance Board since May 2009.

Joseph C. Scodari, 60, was Worldwide Chairman, Pharmaceuticals Group, of Johnson & Johnson, a diversified healthcare company, ("J&J") and a member of J&J's Executive Committee from March 2005 until March 2008. From 2003 to March 2005, Mr. Scodari was Company Group Chairman of J&J's Biopharmaceutical Business. Mr. Scodari joined J&J in 1999 as President and Chief Operating Officer of Centocor, Inc., when J&J acquired the company. Mr. Scodari was a Director of Actelion Pharmaceuticals, Ltd., a pharmaceuticals company, until May 2011. Mr. Scodari is a Director of EndoHealth Solutions, Inc., a diversified healthcare company. Mr. Scodari has been a member of the Covance Board since May 2008.

Bradley T. Sheares, 56, served as Chief Executive Officer of Reliant Pharmaceuticals, Inc., a pharmaceutical company with integrated sales, marketing and development expertise that marketed a portfolio of branded cardiovascular pharmaceutical products, from January 2007 through its acquisition by GlaxoSmithKline plc in December 2007. Prior to joining Reliant, Dr. Sheares served as President of U.S. Human Health, Merck & Co., Inc. from March 2001 until July 2006. Prior to that time, he served as Vice President, Hospital Marketing and Sales for Merck's U.S. Human Health business. Dr. Sheares joined Merck in 1987 as a research fellow in the Merck Research Laboratories and held a wide range of positions within Merck, in business development, sales, and marketing, before becoming Vice President in 1996. Dr. Sheares is also a Director of The Progressive Corporation, an insurance and related services company, Honeywell International, Inc., a diversified technology and manufacturing company, and Henry Schein, Inc., a healthcare products and services company. Dr. Sheares was a Director of IMS Health, a healthcare services company, until February 2010. Dr. Sheares has been a member of the Covance Board since February 2009.

Information under the headings "Proposal 1 Election of Directors," "The Board of Directors and its Committees," "Committees of the Board," "Board Nomination Process" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement in connection with the 2013 Annual Meeting of Shareholders to be held May 7, 2013, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2012, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, is incorporated herein by reference.

The Company has adopted a Code of Ethics for Finance Professionals in compliance with applicable rules of the Securities and Exchange Commission ("SEC") that applies to its principal executive officer, its principal financial officer, and its principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics for Finance Professionals is available on the Company's web site at www.covance.com, free of charge, under the caption, "Investor Relations Corporate Governance." The Company intends to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics for Finance Professionals by posting such information on the Company's web site at the address and location specified above.

Item 11. Executive Compensation

Information on Director and executive compensation is incorporated by reference to the headings "Director Compensation" and "Executive Compensation" in the Company's definitive Proxy Statement in connection with its 2013 Annual Meeting of Shareholders to be held on May 7, 2013, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2012, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 12. Security Ownership by Certain Beneficial Owners and Management of Covance

Information on security ownership by certain beneficial owners and management of Covance is incorporated by reference to the headings "Stock Ownership of Directors, Executive Officers and Certain Shareholders" in the Company's definitive Proxy Statement in connection with its 2013 Annual Meeting of Shareholders to be held on May 7, 2013, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2012 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Covance maintains the Covance Inc. 2010 Employee Equity Participation Plan, the Covance Inc. 2002 Employee Stock Option Plan, the 2008 Stock Option Plan for Non-Employee Directors, the 1998 Stock Option Plan for Non-Employee Directors, the Non-Employee Directors Deferred Stock Plan, the Deferred Stock Unit Plan for Non-Employee Directors and the Restricted Unit Plan for Non-Employee Members of the Board of Directors, pursuant to which it has granted or may grant equity awards to eligible persons. Covance also maintained an Employee Stock Purchase Plan which was terminated effective January 1, 2011.

The following table gives information about equity awards under Covance's above mentioned plans at December 31, 2012. The only plan mentioned above pursuant to which equity securities are authorized to be issued which has not received shareholder approval is the Covance Inc. 2002 Employee Stock Option Plan. For a description of the material features of these plans, please see Note 10 to the audited consolidated financial statements included elsewhere in this Annual Report.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,708,704	$ 53.21	2,340,041
Equity compensation plans not approved by security holders	630,211	$ 43.31	-0-
TOTAL	4,338,915	$ 51.77	2,340,041

Item 13. Certain Relationships and Related Transactions

Incorporated by reference to the heading "The Board of Directors and its Committees" in the Company's definitive Proxy Statement in connection with its 2013 Annual Meeting of Shareholders to be held on May 7, 2013, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2012, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the heading "Principal Accountant Fees and Services" in the Company's definitive Proxy Statement in connection with its 2013 Annual Meeting of Shareholders to be held on May 7, 2013, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2012, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report.

1. *Financial Statements.* The financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements on page 36.
2. *Financial Statement Schedules.* Schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.
3. *Exhibits.* The exhibits required by Item 601 of Regulation S-K filed as part of, or incorporated by reference in, this report are listed in (b) below and in the accompanying Exhibit Index.

(b) Item 601 Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation. *Incorporated by reference to Covance's filing on Amendment No. 2 on Form 10, filed with the SEC on November 19, 1996.*
3.2	By-Laws. *Incorporated by reference to Covance's filing on Form 8-K, filed with the SEC on December 16, 2008.*
4.1	Form of Common Stock Certificate. *Incorporated by reference to Covance's filing on Amendment No. 3 on Form 10, filed with the SEC on December 16, 2008.*
10.1	Employee Stock Ownership Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.*
10.2	Stock Purchase Savings Plan, as amended. *Incorporated by reference to Covance's Registration Statement on Form S-8 filed with the SEC on July 31, 2012.*
10.3	Restricted Share Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.*
10.4	Non-Employee Directors' Amended and Restated Restricted Stock Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.5	Directors' Deferred Compensation Plan, as amended. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*
10.6	Conversion Equity Plan. *Incorporated by reference to Covance's filing on a Registration Statement on Form S-8, Registration No. 333-29467, filed with the SEC on June 18, 1997.*
10.7	Non-Employee Directors' Stock Option Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.8	Deferred Stock Unit Plan for Non-Employee Members of the Board of Directors. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.9	2002 Employee Equity Participation Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.*
10.10	2002 Employee Stock Option Plan. *Incorporated by reference to Covance's Registration Statement on Form S-8 filed with the SEC on July 31, 2002.*
10.11	Employee Stock Purchase Plan, as amended. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.*
10.12	Restricted Unit Plan for Non-Employee Members of the Board of Directors. *Incorporated by reference to Covance's Quarterly Report on Form 10-Q for the period ended June 30, 2003.*
10.13	Form of Non-Employee Director Stock Option Agreement. *Incorporated by reference to Covance's Quarterly Report on Form 10-Q for the period ended September 30, 2004.*
10.14	Restricted Share Agreement between Covance Inc. and Richard Cimino dated as of December 17, 2004. *Incorporated by reference to Covance's Form 8-K dated December 17, 2004.*

Exhibit Number	Description
10.15	Trust Deed Governing the Covance Laboratories Pension Scheme. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.*
10.16	Agreement and Plan of Merger dated April 20, 2006 between Covance Clinical Research Unit Inc., TYD Inc., Radiant Research Inc., and James Stevenson and Christopher Grant, Jr. *Incorporated by reference to Covance's Form 8-K dated April 26, 2006.*
10.17	Amendment No.1 to the Restricted Unit Plan for Non-Employee Members of the Board of Directors of Covance Inc. *Incorporated by reference to Covance's Form 8-K dated May 16, 2006.*
10.18	Amendment No.1 to the 1998 Non-Employee Director Stock Option Plan. *Incorporated by reference to Covance's Form 8-K dated December 12, 2006.*
10.19	Covance Inc. 2007 Employee Equity Participation Plan. *Incorporated by reference to Covance's Form 10-Q dated May 8, 2007.*
10.20	Covance Inc. Management Deferral Plan. *Incorporated by reference to Covance's Form 8-K dated October 1, 2007.*
10.21	Amended and Restated Supplemental Executive Retirement Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.*
10.22	Covance Inc. 2008 Non-Employee Director Stock Option Plan. *Incorporated by reference to Covance's Form 8-K dated May 12, 2008.*
10.23	Amended and Restated Restricted Unit Plan for Non-Employee Members of the Board of Directors of Covance Inc. *Incorporated by reference to Covance's Form 8-K dated May 12, 2008.*
10.24	Form of Executive Officer Stock Option Agreement. *Incorporated by reference to Covance's Form 8-K dated February 25, 2009.*
10.25	Form of Indemnification Agreement between Covance Inc. and each member of the Board of Directors dated as of February 19, 2009. *Incorporated by reference to Covance's Form 8-K dated February 25, 2009.*
10.26	Form of Executive Officer Indemnification Agreement. *Incorporated by reference to Covance's Form 8-K dated April 24, 2009.*
10.27	Covance Inc. 2010 Employee Equity Participation Plan. *Incorporated by reference to Covance's Form 8-K dated May 11, 2010.*
10.28	Credit Agreement dated October 26, 2010 with PNC Bank National Association, as agent and the banks named therein. *Incorporated by reference to Covance's Form 8-K dated October 26, 2010.*
10.29	Accelerated Share Repurchase Agreement with JPMorgan Chase Bank, National Association, London Branch dated November 8, 2010. *Incorporated by reference to Covance's Form 8-K dated November 8, 2010.*
10.30	Letter Agreement Amendment between Covance Inc. and Joseph Herring dated as of December 31, 2010. *Incorporated by reference to Covance's Form 8-K dated January 5, 2011.*
10.31	Restricted Share Agreement between Covance Inc. and James W. Lovett dated February 17, 2011. *Incorporated by reference to Covance's Form 8-K dated February 23, 2011.*
10.32	Form of Performance-related Executive Officer Restricted Share Agreement. *Incorporated by reference to Covance's Form 8-K dated February 23, 2011.*
10.33	Amendment to Supplemental Executive Retirement Plan dated February 24, 2011. *Incorporated by reference to Covance's Form 10-K dated February 28, 2011.*
10.34	Form of Executive Officer Stock Option Agreement. *Incorporated by reference to Covance's Form 8-K dated February 24, 2012.*
10.35	Form of Amended and Restated Letter Agreement between Covance Inc. and each of its executive officers other than its Chief Executive Officer and Chief Accounting Officer (Richard Cimino, Alison Cornell, William Klitgaard, James Lovett, Deborah Keller Tanner and John Watson). *Incorporated by reference to Covance's Form 8-K dated February 24, 2012.*

Exhibit Number	Description
10.36	Form of Restricted Share Agreement between Covance Inc. and each of Richard Cimino, John Watson and Deborah Keller Tanner dated February 17, 2011. *Incorporated by reference to Covance's Form 10-K dated February 28, 2012.*
10.37	Second Amended and Restated Credit Agreement dated March 7, 2012 with PNC Bank, National Association, as agent, and the banks named therein. *Incorporated by reference to Covance's Form 8-K dated March 13, 2012.*
10.38	Non-Employee Directors Deferred Stock Plan. *Incorporated by reference to Covance's Form 8-K dated May 14, 2012.*
10.39	Form of Award Agreement under the Directors Deferred Stock Plan. *Incorporated by reference to Covance's Form 8-K dated May 14, 2012.*
10.40	Annual Bonus Plan. *Incorporated by reference to Covance's Form 8-K dated June 22, 2012.*
21	Subsidiaries. ***Filed herewith***.
23.1	Consent of Ernst & Young LLP. ***Filed herewith***.
31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13(a)-14(a). ***Filed herewith***.
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13(a)-14(a). ***Filed herewith***.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. ***Filed herewith***.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. ***Filed herewith***.
101	The following financial information from Covance's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language) includes (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements. ***Filed electronically herewith.***

(c) Financial Statement Schedules.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Covance has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COVANCE INC.

Dated: February 27, 2013 By: /s/ Joseph L. Herring

Joseph L. Herring
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Covance and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joseph L. Herring Joseph L. Herring	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2013
/s/ Alison A. Cornell Alison A. Cornell	Corporate Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2013
/s/ Brian H. Nutt Brian H. Nutt	Principal Accounting Officer (Principal Accounting Officer)	February 27, 2013
/s/ Robert Barchi Robert Barchi	Director	February 27, 2013
/s/ Gary E. Costley Gary E. Costley	Director	February 27, 2013
/s/ Sandra L. Helton Sandra L. Helton	Director	February 27, 2013
/s/ John McCartney John McCartney	Director	February 27, 2013
/s/ Joseph C. Scodari Joseph C. Scodari	Director	February 27, 2013
/s/ Bradley T. Sheares Bradley T. Sheares	Director	February 27, 2013

EXHIBIT INDEX

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10.2	Stock Purchase Savings Plan, as amended. *Incorporated by reference to Covance's Registration Statement on Form S-8 filed with the SEC on July 31, 2012.*
10.3	Restricted Share Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.*
10.4	Non-Employee Directors' Amended and Restated Restricted Stock Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.5	Directors' Deferred Compensation Plan, as amended. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*
10.6	Conversion Equity Plan. *Incorporated by reference to Covance's filing on a Registration Statement on Form S-8, Registration No. 333-29467, filed with the SEC on June 18, 1997.*
10.7	Non-Employee Directors' Stock Option Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.8	Deferred Stock Unit Plan for Non-Employee Members of the Board of Directors. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.*
10.9	2002 Employee Equity Participation Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.*
10.10	2002 Employee Stock Option Plan. *Incorporated by reference to Covance's Registration Statement on Form S-8 filed with the SEC on July 31, 2002.*
10.11	Employee Stock Purchase Plan, as amended. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.*
10.12	Restricted Unit Plan for Non-Employee Members of the Board of Directors. *Incorporated by reference to Covance's Quarterly Report on Form 10-Q for the period ended June 30, 2003.*
10.13	Form of Non-Employee Director Stock Option Agreement. *Incorporated by reference to Covance's Quarterly Report on Form 10-Q for the period ended September 30, 2004.*
10.14	Restricted Share Agreement between Covance Inc. and Richard Cimino dated as of December 17, 2004. *Incorporated by reference to Covance's Form 8-K dated December 17, 2004.*
10.15	Trust Deed Governing the Covance Laboratories Pension Scheme. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.*
10.16	Agreement and Plan of Merger dated April 20, 2006 between Covance Clinical Research Unit Inc., TYD Inc., Radiant Research Inc., and James Stevenson and Christopher Grant, Jr. *Incorporated by reference to Covance's Form 8-K dated April 26, 2006.*
10.17	Amendment No. 1 to the Restricted Unit Plan for Non-Employee Members of the Board of Directors of Covance Inc. *Incorporated by reference to Covance's Form 8-K dated May 16, 2006.*
10.18	Amendment No. 1 to the 1998 Non-Employee Director Stock Option Plan. *Incorporated by reference to Covance's Form 8-K dated December 12, 2006.*
10.19	Covance Inc. 2007 Employee Equity Participation Plan. *Incorporated by reference to Covance's Form 10-Q dated May 8, 2007.*
10.20	Covance Inc. Management Deferral Plan. *Incorporated by reference to Covance's Form 8-K dated October 1, 2007.*
10.21	Amended and Restated Supplemental Executive Retirement Plan. *Incorporated by reference to Covance's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.*
10.22	Covance Inc. 2008 Non-Employee Director Stock Option Plan. *Incorporated by reference to Covance's Form 8-K dated May 12, 2008.*

Exhibit Number	Description
10.23	Amended and Restated Restricted Unit Plan for Non-Employee Members of the Board of Directors of Covance Inc. *Incorporated by reference to Covance's Form 8-K dated May 12, 2008.*
10.24	Form of Executive Officer Stock Option Agreement. *Incorporated by reference to Covance's Form 8-K dated February 25, 2009.*
10.25	Form of Indemnification Agreement between Covance Inc. and each member of the Board of Directors dated as of February 19, 2009. *Incorporated by reference to Covance's Form 8-K dated February 25, 2009.*
10.26	Form of Executive Officer Indemnification Agreement. *Incorporated by reference to Covance's Form 8-K dated April 24, 2009.*
10.27	Covance Inc. 2010 Employee Equity Participation Plan. *Incorporated by reference to Covance's Form 8-K dated May 11, 2010.*
10.28	Credit Agreement dated October 26, 2010 with PNC Bank National Association, as agent and the banks named therein. *Incorporated by reference to Covance's Form 8-K dated October 26, 2010.*
10.29	Accelerated Share Repurchase Agreement with JPMorgan Chase Bank, National Association, London Branch dated November 8, 2010. *Incorporated by reference to Covance's Form 8-K dated November 8, 2010.*
10.30	Letter Agreement Amendment between Covance Inc. and Joseph Herring dated as of December 31, 2010. *Incorporated by reference to Covance's Form 8-K dated January 5, 2011.*
10.31	Restricted Share Agreement between Covance Inc. and James W. Lovett dated February 17, 2011. *Incorporated by reference to Covance's Form 8-K dated February 23, 2011.*
10.32	Form of Performance-related Executive Officer Restricted Share Agreement. *Incorporated by reference to Covance's Form 8-K dated February 23, 2011.*
10.33	Amendment to Supplemental Executive Retirement Plan dated February 24, 2011. *Incorporated by reference to Covance's Form 10-K dated February 28, 2011.*
10.34	Form of Executive Officer Stock Option Agreement. *Incorporated by reference to Covance's Form 8-K dated February 24, 2012.*
10.35	Form of Amended and Restated Letter Agreement between Covance Inc. and each of its executive officers other than its Chief Executive Officer and Chief Accounting Officer (Richard Cimino, Alison Cornell, William Klitgaard, James Lovett, Deborah Keller Tanner and John Watson). *Incorporated by reference to Covance's Form 8-K dated February 24, 2012.*
10.36	Form of Restricted Share Agreement between Covance Inc. and each of Richard Cimino, John Watson and Deborah Keller Tanner dated February 17, 2011. *Incorporated by reference to Covance's Form 10-K dated February 28, 2012.*
10.37	Second Amended and Restated Credit Agreement dated March 7, 2012 with PNC Bank, National Association, as agent, and the banks named therein. *Incorporated by reference to Covance's Form 8-K dated March 13, 2012.*
10.38	Non-Employee Directors Deferred Stock Plan. *Incorporated by reference to Covance's Form 8-K dated May 14, 2012.*
10.39	Form of Award Agreement under the Directors Deferred Stock Plan. *Incorporated by reference to Covance's Form 8-K dated May 14, 2012.*
10.40	Annual Bonus Plan. *Incorporated by reference to Covance's Form 8-K dated June 22, 2012.*
21	Subsidiaries. ***Filed herewith.***
23.1	Consent of Ernst & Young LLP. ***Filed herewith.***
31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13(a)-14(a). ***Filed herewith.***
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13(a)-14(a). ***Filed herewith.***
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. ***Filed herewith.***
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. ***Filed herewith.***
101	The following financial information from Covance's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language) includes (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements. ***Filed electronically herewith.***

QuickLinks

Item 15. Exhibits and Financial Statement Schedules

EXHIBIT INDEX