COVANCE INC
Form 10-K
February 27, 2014

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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, 2013
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 $4,233,367,249 on June 30, 2013, the last business day of Registrant's most recently completed second fiscal quarter.

As of February 14, 2014, the Registrant had 56,637,249 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 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 have employees in over 60 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. We sold this laboratory in January 2014. 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 lead optimization 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.

Lead Optimization and Translational Services. We provide lead optimization and translational 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 GLP and non-GLP biomarker services and offer bioimaging capabilities and cardiac related biomarkers for animals and humans. In 2009, Covance formed a Biomarker Center of Excellence dedicated to the development, validation and testing of biomarkers. In 2011, we commenced offering lead optimization 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 early patient 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. Covance expanded its Singapore central laboratory by fifty percent in 2013. 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. In 2013, we introduced an automated kit receipt line in our United States central laboratory. 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.

In 2013, Covance commenced offering companion diagnostic services, which support the parallel development of a new medicine and its companion diagnostic assay, and external laboratory management services, which help clients select, qualify, contract with and manage outside laboratories.

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.

We offer a range of periapproval services, which 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"). These services include: 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

Interactive Voice and Web Response Services. In 2009, we sold our interactive voice and web response services business to Phase Forward. 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.

Cardiac Safety Services. We offer centralized ECG services to our clients through a long-term marketing arrangement with eResearch Technology Inc.

Customers and Marketing

We provide product development services on a global basis to, among others, the pharmaceutical and biotechnology industries. In 2013, 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 10.6% and another that accounted for 10.0% of our aggregate net revenue in 2013, no other customer accounted for ten percent or more of our aggregate net revenues. 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 aggregate net revenues. In our late-stage development segment, two customers accounted for more than ten percent of net revenues and six 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 13 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 13 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 North America, 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, 2013 and 2012 was $6.92 billion and $6.64 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, 2013, we had 12,501 employees, approximately 46% of whom were employed outside of the United States and 11,863 of whom were full time employees. Our records indicate that more than 147 of our employees hold M.D. degrees, more than 851 hold Ph.D. degrees, and more than 2,468 hold masters or other postgraduate degrees. We believe that Covance's relations with its employees are good.

Executive Officers

Joseph L. Herring, 58, 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 is a director of Team Health Holdings Inc., a provider of outsourced physician staffing solutions. Mr. Herring has been a member of the Covance Board since 2004.

Alison Cornell, 51, 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.

William E. Klitgaard, 60, 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.

Richard Cimino, 54, 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, 49, has been Covance's Corporate Senior Vice President, General Counsel and Secretary since February 2003 and has headed Covance's Nutritional Chemistry and Food Safety Services since January 2008. Mr. Lovett also led Covance's Market Access Services from November 2010 through December 2013 and Interactive Voice Response Services from October 2004 to June 2005. 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, 51, has been Covance's Executive Vice President and Group President, Research and Development Laboratories since November 2010. Ms. Keller was Corporate Senior Vice President and President Global Central Laboratory Services from February 2006 through October 2010. Prior to that Ms. Keller 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 has been with Covance for 26 years in positions of increasing responsibility.

John E. Watson, 54, 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, 44, has been Covance's Principal Accounting Officer and Senior Director of External Reporting since January 2014 and had been 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 held positions of increasing responsibility at a number of companies including MedPointe Pharmaceuticals, Carter-Wallace and KPMG.

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.* Covance was incorporated in the State of Delaware in 1993.

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.

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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, certain of our services have from time-to-time experienced periods of increased price competition which had a material adverse effect on a segment's 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 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, 2013 and 2012, we derived approximately 52% and 49%, 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 10 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 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
First Quarter 2013	$ 74.60	$ 57.50
Second Quarter 2013	$ 79.50	$ 70.38
Third Quarter 2013	$ 86.97	$ 76.81
Fourth Quarter 2013	$ 91.77	$ 82.54

As of February 14, 2014, there were 3,180 holders of record of Covance's common stock.

Covance has not paid any dividends during 2013 or 2012. Covance does not currently intend to pay dividends, but rather, intends to reinvest earnings in its business.

Issuer Purchases of Equity Securities

Period	Total # of Shares Purchased	Average Price Paid Per Share	Total # of Shares Purchased as Part of Currently Authorized Programs[(a)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under Currently Authorized Programs
October 1, 2013 - October 31, 2013				$ 0.1 million
November 1, 2013 - November 30, 2013	1,438	$ 87.40	1,438	
December 1, 2013 - December 31, 2013				$ 100.0 million
Total	1,438	$ 87.40	1,438	

(a) These purchases were made in the open market.

In December 2013, the Covance Board of Directors authorized the repurchase of up to $100 million of the Company's outstanding common stock (the "2013 Repurchase Program"). 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").

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, 2008 through December 31, 2013 and assumes $100 was invested on December 31, 2008.

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, 2013, 2012, 2011, 2010 and 2009. 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				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Net revenues	$ 2,402,313	$ 2,180,621	$ 2,095,938	$ 1,925,630	$ 1,867,634
Reimbursable out-of-pocket expenses	192,817	185,138	140,508	112,843	94,992
Total revenues	2,595,130	2,365,759	2,236,446	2,038,473	1,962,626
Costs and expenses:					
Cost of revenue	1,692,173	1,570,223	1,467,051	1,348,498	1,277,142
Reimbursable out-of-pocket expenses	192,817	185,138	140,508	112,843	94,992
Selling, general and administrative	360,012	358,854	343,044	307,386	270,593
Depreciation and amortization	127,917	117,708	105,214	103,024	91,289
Impairment charges	4,877	17,959		119,229	
Total	2,377,796(a)	2,249,882(d)	2,055,817(g)	1,990,980(j)	1,734,016
Income from operations	217,334(a)	115,877(d)	180,629(g)	47,493(j)	228,610
Other (income) expense, net:					
Interest expense, net	4,084	3,506	1,979	52	201
Foreign exchange transaction loss, net	1,925	1,474	1,248	3,649	245
Gain on sale of investments	(16,400)	(1,459)			
Impairment of equity investment		7,373	12,119		
Loss (gain) on sale of businesses		169			(9,681)
Other (income) expense, net	(10,391)(b)	11,063(e)	15,346(h)	3,701	(9,235)(l)
Income before taxes and equity investee earnings	227,725(a),(b)	104,814(d),(e)	165,283(g),(h)	43,792(j)	237,845(l)
Tax expense (benefit)(n)	48,518(c)	10,099(f)	33,574(i)	(23,655)(k)	62,870(m)
Equity investee earnings		17	480	807	907
Net income	$ 179,207(a),(b),(c)	$ 94,732(d),(e),(f)	$ 132,189(g),(h),(i)	$ 68,254(j),(k)	$ 175,882(l),(m)
Basic earnings per share	$ 3.28	$ 1.73	$ 2.22	$ 1.08	$ 2.76
Diluted earnings per share	$ 3.15(a),(b),(c)	$ 1.68(d),(e),(f)	$ 2.16(g),(h),(i)	$ 1.06(j),(k)	$ 2.73(l),(m)
Balance Sheet Data:					
Working capital	$ 871,311	$ 352,131	$ 549,881	$ 446,637	$ 474,928
Total assets	$ 2,556,588	$ 2,288,342	$ 2,108,008	$ 1,965,542	$ 1,974,944
Long-term debt	$ 250,000	$	$	$ 97,500	$
Stockholders' equity	$ 1,565,246	$ 1,307,192	$ 1,457,795	$ 1,279,821	$ 1,411,004
Other Financial Data:					
Gross margin	29.6%	28.0%	30.0%	30.0%	31.6%
Operating margin	9.0%	5.3%	8.6%	2.5%	12.2%
Net income margin	7.5%	4.3%	6.3%	3.5%	9.4%

Current ratio	2.38	1.40	2.02	1.89	2.18
Debt to equity	0.16	0.00	0.00	0.08	0.00
Book value per share	27.78	23.77	23.96	21.24	22.01
Net days sales outstanding	34	36	38	31	40

(a) Includes restructuring and other cost reduction actions of $21,950 ($14,576 net of tax or $0.26 per diluted share) and asset impairment charges of $4,877 ($3,568 net of tax of $0.06 per diluted share).

(b) Includes gain on sale of investments of $16,400 ($10,654 net of tax or $0.19 per diluted share).

(c) Includes $3,035 or $0.05 per diluted share income tax benefit recorded in connection with favorable income tax matters.

(d) Includes restructuring costs ($33,930), an inventory write-down and costs associated with the 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).

(e) 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).

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

(g) 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).

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

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

(j) 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).

(k) 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.

(l) 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.

(m) 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.

(n) Includes the tax effect of the items listed in footnotes (a) through (m) 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 2013, the Company had one customer that accounted for 10.6% and another customer that accounted for 10.0% of consolidated net revenues. The Company had one customer that accounted for 10.1% of consolidated net revenues in 2012 while there were no customers accounting for 10% or more of consolidated net revenues in 2011. Covance serves in excess of 1,000 biopharmaceutical companies and has over 16,500 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, 2013, 2012 and 2011, 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 $6.1 million and $6.2 million at December 31, 2013 and 2012, 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, 2013 and 2012, the balance of the reserve for unrecognized tax benefits was $9.0 million and $9.4 million, respectively. Included in the balance of the reserve for unrecognized tax benefits at both December 31, 2013 and 2012 is accrued interest of $0.6 million. During the year ended December 31, 2013, the reserve for unrecognized tax benefits decreased by $0.4 million, as the release of reserves primarily associated with the settlement of income tax audits and the lapsing of the statute of limitations in various jurisdictions more than offset the accrual of additional reserves relating primarily to transfer pricing and the accrual of interest on existing reserves. 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, 2013, 2012 and 2011:

(dollars in millions)	
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
Additions related to tax positions in the current year	2.0
Reductions due to settlements and payments	(1.3)
Reductions due to statute expiration	(1.1)
Unrecognized tax benefits as of December 31, 2013	$ 8.4

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 $0.3 million, including accrued interest, of the reserve for unrecognized tax benefits related to 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, 2013, for the Company's major jurisdictions:

Tax Jurisdiction	**Years**
U.S. Federal and State	2007-2013
United Kingdom	2011-2013
Switzerland	2008-2013
Germany	2011-2013

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 both December 31, 2013 and 2012 was $1.1 million 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 $926 million at December 31, 2013.

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, 2013, 2012 and 2011:

	2013	**2012**	**2011**
Expected stock price volatility	36%	38%	37%
Range of risk free interest rates	0.09% - 2.03%	0.03% - 2.01%	0.10% - 3.62%
Expected life of options (years)	5.4	5.2	4.8

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, 2013, the total unrecognized compensation cost related to non-vested stock options granted was $17.2 million and is expected to be recognized over a weighted average period of 2.5 years, and the total unrecognized compensation cost related to non-vested performance-based shares and restricted stock awards was $51.6 million and is expected to be recognized over a weighted average period of 2.2 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 or the sale of the asset. Actual future cash flows may be greater or less than estimated. During the fourth quarter of 2013, Covance determined that the carrying value of its Manassas, Virginia and Basel, Switzerland properties was no longer fully recoverable from the cash flows expected from their sale, based upon changes in the respective real estate markets, coupled with changes in the respective marketing plans. As such, Covance recorded an asset impairment charge of $2.6 million and $2.3 million, respectively, to reduce the carrying value of these assets to their estimated fair values as of December 31, 2013. 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.

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 2013, 2012 and 2011 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.

Assets Held for Sale. Covance records long-lived assets as held for sale when a plan to sell the asset has been initiated and all other held for sale criteria have been satisfied. Assets classified as held for sale are recorded in other current assets on the consolidated balance sheet at the lower of their carrying value or fair value less cost to sell. During the fourth quarter of 2013, Covance entered into negotiations to sell certain assets of its Genomics Laboratory located in Seattle, Washington. As a result, $6.7 million of associated net assets were reclassified to assets held for sale as of December 31, 2013. During the first quarter of 2013, Covance completed the closure of its clinical pharmacology site in Basel, Switzerland and initiated actions to sell that property. As a result, the $8.3 million carrying value of the property was reclassified from property and equipment to assets held for sale as of March 31, 2013. During the fourth quarter of 2013, Covance recorded an impairment charge of $2.3 million to reduce the carrying value of the Basel property to its estimated fair market value less cost to sell as of December 31, 2013. 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 assets held for sale as of December 31, 2011.

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, 2013, 2012 and 2011 and on the financial position of the plans as of December 31, 2013 and 2012 for our United Kingdom defined benefit pension plans (the largest of our defined benefit-type pension plans).

	United Kingdom Plans			
(dollars in millions)	**2013**	**2012**	**2011**	**2010**
Net periodic pension cost	$ 0.3	$ 0.9	$ 1.6	$ 1.6
Assumptions used to determine net periodic pension cost:				
Discount rate	4.60%	4.60%	5.20%	5.75%
Expected rate of return on assets	5.30%	5.90%	6.50%	6.75%
Salary increases	3.60%	4.00%	4.50%	4.50%

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

	United Kingdom Plans		
(dollars in millions)	**2012 to 2013**	**2011 to 2012**	**2010 to 2011**
Change in discount rate	$	$ 2.3	$ 2.1
Change in rate of salary increases	0.2	0.1	
Other, including differences between actual experience and assumptions used	(0.8)	(3.1)	(2.1)
Net change in periodic benefit cost	$ (0.6)	$ (0.7)	$

	United Kingdom Plans		
	2013	**2012**	**2011**
Assumptions used to determine benefit obligation:			
Discount rate	4.60%	4.60%	4.60%
Salary increases	4.00%	3.60%	4.00%

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

	United Kingdom Plans	
(dollars in millions)	**2012 to 2013**	**2011 to 2012**
Projected benefit obligation, beginning of year	$ 181.0	$ 167.7
Service/interest cost components of net periodic benefit cost in year	11.5	11.9
Benefits paid	(2.5)	(2.5)
Actuarial loss:		
Price inflation	7.2	4.0
Other, including differences between actual experience and assumptions used	3.1	(6.4)
Foreign currency exchange rate changes	2.3	6.3
Projected benefit obligation, end of year	$ 202.6	$ 181.0

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, 2013, accumulated other comprehensive income on the consolidated balance sheet includes the cumulative translation account balance of $67.5 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, 2013 Compared with Year Ended December 31, 2012. Net revenues increased 10.2%, or 9.7% excluding the favorable impact of foreign exchange rate variances between both periods, to $2.40 billion for 2013 from $2.18 billion for 2012. Net revenues from Covance's early development segment increased 0.1% between both periods. Growth in the early development segment from clinical pharmacology and nutritional chemistry was largely offset by lower revenue in discovery support services and pharmaceutical chemistry services as well as the inclusion in the 2012 period of $10.9 million in revenue from two clinical

pharmacology sites that were closed at the end of 2012 and the sale of the environmental service line during 2012. Net revenues from Covance's late-stage development segment increased 16.8%, or 16.0% excluding the favorable impact of foreign exchange rate variances between both periods. Growth in the late-stage development segment was led by higher kit volumes in our central laboratory services and the strong performance of our Phase II-IV clinical development services from increased study activity, which was partially offset by decreased volume in market access services.

Cost of revenue increased 7.8% to $1.69 billion or 70.4% of net revenues for the year ended December 31, 2013 as compared to $1.57 billion or 72.0% of net revenues for the corresponding 2012 period. Gross margins increased by 160 basis points to 29.6% for 2013 from 28.0% for the corresponding 2012 period due to the inclusion in the 2012 period of an inventory charge to write down certain preclinical inventory and costs associated with the settlement of an inventory supply agreement totaling $21.2 million (or 1.0% of net revenues), combined with the favorable impact of the shift of UK R&D tax credit to above margin treatment effective April 1, 2013 (approximately 0.5% of net revenues), as well as savings realized from our ongoing restructuring and cost reduction initiatives.

Overall, selling, general and administrative expenses increased 0.3% to $360.0 million for 2013 from $358.9 million for 2012. As a percentage of net revenues, selling, general and administrative expenses decreased 150 basis points to 15.0% in 2013 from 16.5% in 2012. Included in selling, general and administrative expenses during 2013 and 2012 is $19.0 million (or 0.8% of net revenues), and $30.5 million (or 1.4% of net revenues), respectively, in charges associated with restructuring and cost reduction actions taken to better align capacity to preclinical market demand and reduce overhead in the Company's early development segment, as well as to improve future profitability by streamlining the Company's overall cost structure, including its corporate and functional support infrastructure and consolidating facilities in connection with the rationalization of its data centers. The 150 basis point decrease also reflects the savings realized from ongoing restructuring and cost reduction initiatives. 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 8.7% to $127.9 million for 2013 from $117.7 million for 2012. As a percentage of net revenues, depreciation and amortization decreased by 10 basis points to 5.3% for the 2013 period from 5.4% for the corresponding 2012 period. Depreciation and amortization during the 2013 period includes $2.9 million (or 0.1% of net revenues) in accelerated depreciation associated with the restructuring initiatives described above, as compared to $3.5 million (or 0.2% of net revenues) in accelerated depreciation in the 2012 period.

Income from operations increased 87.6% to $217.3 million or 9.0% of net revenues for 2013 from $115.9 million or 5.3% of net revenues for the corresponding 2012 period. The 2013 period includes $22.0 million (or 0.9% of net revenues) in charges associated with the restructuring and cost reduction initiatives described above and $4.9 million (or 0.2% of net revenues) of asset impairment charges related to the Basel, Switzerland and the Manassas, Virginia properties, both of which are included in our early development segment. These charges are partially offset by the favorable impact from the shift of UK R&D tax credits to above margin treatment described above. The 2012 period included restructuring charges of $33.9 million (or 1.6% of net revenues) discussed above, an inventory write-down and costs associated with the settlement of an inventory supply agreement totaling $21.2 million (or 1.0% of net revenues), as well as a goodwill impairment charge of $18.0 million (or 0.8% of net revenues) related to the Basel clinic, which was included in our early development segment results. The remainder of the increase in income from operations in the 2013 period is primarily driven by revenue growth, as described above, as well as benefits realized from our ongoing restructuring and cost reduction initiatives.

Income from operations from Covance's early development segment for the year ended December 31, 2013 increased $83.5 million to $87.5 million as compared to $4.0 million for the corresponding 2012 period. As a percentage of net revenues, early development income from operations increased 960 basis points from 0.5% of early development net revenues in the 2012 period to 10.1% in the corresponding 2013 period. The increase in income from operations in Covance's early development segment for the 2013 period is due to the inclusion

in the 2012 period of costs associated with restructuring charges of $30.3 million (or 3.5% of segment net revenues), an inventory write down and costs associated with the settlement of an inventory supply agreement totaling $21.2 million (or 2.4% of segment net revenues) and a goodwill impairment charge of $18.0 million (or 2.1% of segment net revenues), combined with the favorable impact in the 2013 period from the shift of UK R&D tax credits to above margin treatment (approximately 0.8% of segment net revenues), as well as the benefits realized in the 2013 period from our restructuring and cost reduction actions described above. These increases are partially offset by the inclusion in the 2013 period of $8.3 million in costs (1.0% of segment net revenues) associated with the ongoing restructuring and cost reduction actions and $4.9 million (or 0.6% of net revenues) of asset impairment charges related to the Basel, Switzerland and the Manassas, Virginia properties.

Income from operations from Covance's late-stage development segment for the year ended December 31, 2013 increased 22.0% or $60.9 million to $338.5 million as compared to $277.6 million for the corresponding 2012 period. As a percentage of net revenues, late-stage development income from operations increased 90 basis points from 21.2% of late-stage development net revenues in 2012 to 22.1% of net revenues in the corresponding 2013 period. Income from operations from Covance's late-stage development segment for the 2013 and 2012 periods includes $4.0 million (or 0.3% of segment net revenues) and $1.3 million (or 0.1% of segment net revenues), respectively, in costs associated with the restructuring and cost reduction initiatives described above. In addition, the 2013 period includes the favorable impact of the shift of UK R&D tax credits to above margin treatment (approximately 0.4% of segment net revenues) combined with operating leverage on revenue growth, only partially offset by increased spending on IT projects.

Corporate expense increased $43.0 million to $208.7 million or 8.7% of net revenues for the year ended December 31, 2013, as compared to $165.7 million or 7.6% of net revenues for the corresponding 2012 period, driven primarily by higher information technology spending associated with the corporate components of the Company's strategic IT initiatives and higher incentive compensation costs based upon the Company's strong performance. Corporate expense for the 2013 and 2012 periods includes charges of $9.6 million (or 0.4% of net revenues) and $2.3 million (or 0.1% of net revenues), respectively, associated with the restructuring and cost reduction initiatives described above. Also included in corporate expense is stock-based compensation expense which totaled $41.5 million (or 1.7% of net revenues) for the year ended December 31, 2013, as compared to $40.8 million (or 1.9% of net revenues) for the corresponding 2012 period.

Other income, net increased $21.5 million to $10.4 million for the year ended December 31, 2013 from a net expense of $11.1 million for the corresponding 2012 period, driven primarily by the gain on sale of BioClinica, Inc. ("BIOC") of $15.7 million in the 2013 period, and the inclusion in the 2012 period of an impairment charge of $7.4 million associated with an equity method investment in a supplier of research products. Partially offsetting these increases in other income, net was an increase in interest expense of $0.6 million and an increase in foreign exchange transaction losses of $0.5 million.

Covance's effective tax rate for the year ended December 31, 2013 was 21.3% compared to 9.6% for the corresponding 2012 period. Covance's effective tax rate for the 2013 period includes a tax benefit of $8.7 million on the asset impairments, restructuring and cost reduction charges of $26.8 million and a benefit of $3.0 million relating to UK R&D tax credits during the first three months of 2013, which were partially offset by a $5.7 million tax provision on the $16.4 million gain on the sale of investments. The Company also recorded a net tax benefit of $3.0 million, primarily related to tax positions taken on returns filed in 2013. Covance's effective tax rate for the year ended December 31, 2012 included 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, a $17.3 million benefit related to $55.1 million of 2012 restructuring cost actions and other charges and a benefit of $10.0 million relating to UK R&D tax credits taken during the year. There was no tax benefit recorded for either the $18.0 million goodwill impairment or the $7.4 million equity investment impairment in the 2012 period. The remaining year-over-year movement 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 the impact of tax planning initiatives.

Net income of $179.2 million for the year ended December 31, 2013 increased $84.5 million or 89.2% as compared to $94.7 million for the corresponding 2012 period. Net income for the 2013 period includes charges associated with restructuring and cost reduction actions totaling $14.5 million, net of tax, and asset impairment charges of $3.6 million, net of tax, partially offset by a gain on the sale of investments of $10.7 million, net of tax and a net tax benefit of $3.0 million, primarily related to tax positions taken on returns filed in 2013. Net income for the 2012 period included $63.1 million, net of tax, for asset impairments, restructuring charges, an inventory write-down and costs associated with the 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 remainder of the increase in net income in the 2013 period resulted from the incremental earnings on revenue growth, as described above, as well as benefits realized from our ongoing restructuring and cost reduction initiatives.

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 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 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 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 had 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. The Company suspended equity accounting for this investment effective June 30, 2012 as it had reduced the carrying value of its investment to zero. On January 31, 2013, Covance terminated its long-standing inventory supply agreement with Noveprim and surrendered its 47% minority equity position in Noveprim.

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 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.

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, 2013 and 2012 were $617.7 million and $492.8 million, respectively. Amounts held by foreign subsidiaries for cash and equivalents were approximately $506 million and $447 million at December 31, 2013 and 2012, respectively, primarily in Swiss Francs, British Pounds and Euros. Short-term investments at December 31, 2013 were $111.4 million, comprised entirely of Swiss Francs. Foreign cash balances generally result from unremitted foreign earnings, which the Company intends to remain 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 term 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 November 15, 2013, Covance entered into a private placement of senior notes ("Senior Notes") in an aggregate principal amount of $250 million pursuant to a Note Purchase Agreement (the "Note Purchase Agreement") dated October 2, 2013. The Senior Notes were issued in four series: (i) $15 million of 3.25% Senior Notes, Series 2013A, due November 15, 2018; (ii) $50 million of 3.90% Senior Notes, Series 2013B, due November 15, 2020; (iii) $90 million of 4.50% Senior Notes, Series 2013C, due November 15, 2023; and (iv) $95 million of 4.65%

Senior Notes, Series 2013D, due on November 15, 2025. Interest on the Senior Notes is payable semiannually on May 15th and November 15th of each year. The Senior Notes rank equally with all outstanding indebtedness. Costs associated with the Note Purchase Agreement, which consisted primarily of bank and legal fees totaling $0.9 million, are being amortized ratably over the terms of the Senior Notes. The proceeds were used to pay down existing indebtedness. The Note Purchase Agreement contains various financial and other covenants and is guaranteed by certain of Covance's domestic subsidiaries and secured by a pledge of 65 percent of the capital stock of certain of Covance's foreign subsidiaries. At December 31, 2013, Covance was in compliance with the terms of the Note Purchase Agreement. On March 7, 2012, Covance amended its credit facility, in order to, in part, provide sufficient liquidity to finance purchases under its 2012 authorized share buyback program. The amended credit agreement (the "Credit Agreement") provides for a revolving credit facility of up to $500 million. At December 31, 2013, there were no outstanding borrowings and $2.9 million of outstanding letters of credit under the Credit Agreement. The proceeds from the issuance of the Senior Notes were used to pay down all outstanding indebtedness under the Credit Agreement. 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. 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 1.46% per annum during 2013 and 1.56% per annum during 2012. 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 $0.3 million and $0.4 million during the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, 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, 2013, Covance's operations provided net cash of $405.7 million, an increase of $145.5 million from the corresponding 2012 period. The change in net operating assets provided $62.3 million in cash during 2013, primarily due to an increase in accrued liabilities, accounts payable and income taxes, partially offset by a decrease in unearned revenue and a net increase in other assets and liabilities. 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. Changes in days sales outstanding did not have a meaningful impact on operating cash flows during either period. Covance's ratio of current assets to current liabilities was 2.38 at December 31, 2013 and 1.40 at December 31, 2012.

Days sales outstanding ("DSO") is determined based on the net end-of-period balance of accounts receivable, unbilled services and unearned revenue. Covance's DSO has varied between reporting periods as a result of normal fluctuations in the timing of cash receipts and contractual billing milestones across thousands of ongoing studies at any point in time. Over the past several years DSO has fluctuated in a range from approximately 30 days to approximately 50 days. Covance's DSO was 34 days at December 31, 2013 and 36 days at December 31, 2012. This two-day decrease in DSO is not expected to have a material impact on Covance's results of operations or financial position. As of December 31, 2013, each one-day movement in DSO represents approximately $6.8 million of cash provided by (or used in) operating activities.

Investing activities for the year ended December 31, 2013 used $253.5 million, compared to $146.0 million for the corresponding 2012 period. Capital spending for 2013 totaled $162.2 million, and was primarily for ongoing information technology projects, upgrade of existing equipment, and the purchase of new equipment, hardware and software. Approximately $75.6 million of capital spending in 2013 represents expenditures associated with assets that have not yet been placed in service at December 31, 2013. Investing activities for the 2013 period also includes the purchase of short-term investments consisting of bank term deposits totaling $109.8 million. Partially offsetting this spend was the receipt of proceeds of approximately $17.8 million in connection with the sale of investments, including $17.1 million upon the sale of the Company's investment in BioClinica, Inc. in the 2013 period. Capital spending for the corresponding 2012 period 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. Partially offsetting this spend was the receipt of proceeds of approximately $4.7 million upon the sale of the Company's investment in Caprion in the 2012 period.

Financing activities for the year ended December 31, 2013 used $32.6 million, compared to using $20.0 million in the corresponding 2012 period. Cash used in financing activities during the 2013 period included $320 million of net repayments under the Credit Agreement, $20.1 million used to purchase 263,718 shares of common stock into treasury in connection with share buyback programs authorized by Covance's Board of Directors and $13.7 million for the purchase into treasury of 186,265 shares in connection with employee benefit plans, for an aggregate cost of $33.8 million. Partially offsetting these items was $250 million in proceeds from the issuance of Senior Notes, $65.1 million in proceeds from the exercise of stock options and $6.1 million in excess tax benefits realized on the exercise of stock options. Financing activities for the year ended December 31, 2012 used $20.0 million and included $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. Partially offsetting these items was $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.

The effect of exchange rate changes on cash for the years ended December 31, 2013 and 2012 was an increase of $5.4 million and $9.5 million, respectively. Covance's cash balances increased by $124.9 million during 2013.

The table below sets forth Covance's contractual obligations. A full description of the Company's debt obligations is contained in Note 7 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 10 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)			
Long-Term Debt	$ 250,000	$	$	$ 15,000	$ 235,000
Operating Leases	228,690	37,558	58,641	39,787	92,704
Purchase Obligations	88,576	32,717	31,287	22,678	1,894
Total	$ 567,266	$ 70,275	$ 89,928	$ 77,465	$ 329,598

(a) Excludes $9.0 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, 2013 and 2012, 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 March 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"). ASU 2013-05 clarifies the applicable guidance under current U.S. generally accepted accounting principles for the release of the cumulative translation adjustment upon a reporting entity's derecognition of a subsidiary or group of assets within a foreign entity or part or all of its investment in a foreign entity. The ASU requires a reporting entity, which either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, to release any related cumulative translation adjustment into net income. ASU 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013. Covance will be required to adopt ASU 2013-05 no later than the quarter beginning January 1, 2014. Although Covance does not expect the adoption of the ASU to have a material impact on its consolidated results of operations or financial position, the actual impact will be dependent upon the nature and significance of future events that would be subject to the ASU.

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, 2013, approximately 52% 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 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, 2013 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 (1992 framework). 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, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (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, 2013, 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, 2013 and 2012, 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, 2013 and our report dated February 27, 2014 expressed an unqualified opinion thereon.

MetroPark, New Jersey
February 27, 2014

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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated February 27, 2014 expressed an unqualified opinion thereon.

MetroPark, New Jersey
February 27, 2014

COVANCE INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

(Dollars in thousands)	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 617,686	$ 492,824
Short-term investments	111,359	
Accounts receivable	331,815	339,558
Unbilled services	141,707	136,878
Inventory	48,257	49,270
Deferred income taxes	51,543	44,903
Income taxes receivable		3,642
Prepaid expenses and other current assets	201,621	167,629
Total Current Assets	1,503,988	1,234,704
Property and equipment, net	913,612	891,319
Goodwill	109,820	109,820
Other assets	29,168	52,499
Total Assets	$ 2,556,588	$ 2,288,342
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 59,713	$ 34,430
Accrued payroll and benefits	170,806	144,681
Accrued expenses and other current liabilities	153,808	127,686
Unearned revenue	240,398	255,776
Short-term debt		320,000
Income taxes payable	7,952	
Total Current Liabilities	632,677	882,573
Long-term debt	250,000	
Deferred income taxes	32,035	27,912
Other liabilities	76,630	70,665
Total Liabilities	991,342	981,150
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, 2013 and 2012		
Common stock Par value $0.01 per share; 140,000,000 shares authorized; 80,935,089 and 79,131,299 shares issued and outstanding, including those held in treasury, at December 31, 2013 and 2012, respectively	809	791
Paid-in capital	859,535	744,114
Retained earnings	1,779,833	1,600,626
Accumulated other comprehensive income	25,746	28,520

Treasury stock at cost (24,595,756 and 24,145,773 shares at December 31, 2013 and 2012, respectively)	(1,100,677)	(1,066,859)
Total Stockholders' Equity	1,565,246	1,307,192
Total Liabilities and Stockholders' Equity	$ 2,556,588	$ 2,288,342

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, 2013, 2012 AND 2011

(Dollars in thousands, except per share data)	2013	2012	2011
Net revenues	$ 2,402,313	$ 2,180,621	$ 2,095,938
Reimbursable out-of-pocket expenses	192,817	185,138	140,508
Total revenues	2,595,130	2,365,759	2,236,446
Costs and expenses:			
Cost of revenue (excluding depreciation and amortization)	1,692,173	1,570,223	1,467,051
Reimbursable out-of-pocket expenses	192,817	185,138	140,508
Selling, general and administrative (excluding depreciation and amortization)	360,012	358,854	343,044
Depreciation and amortization	127,917	117,708	105,214
Impairment charges	4,877	17,959	
Total costs and expenses	2,377,796	2,249,882	2,055,817
Income from operations	217,334	115,877	180,629
Other (income) expense, net:			
Interest income	(2,614)	(2,011)	(1,874)
Interest expense	6,698	5,517	3,853
Foreign exchange transaction loss, net	1,925	1,474	1,248
Gain on sale of investments	(16,400)	(1,459)	
Impairment of equity investment		7,373	12,119
Loss on sale of business		169	
Other (income) expense, net	(10,391)	11,063	15,346
Income before taxes and equity investee earnings	227,725	104,814	165,283
Taxes on income	48,518	10,099	33,574
Equity investee earnings		17	480
Net income	$ 179,207	$ 94,732	$ 132,189
Basic earnings per share	$ 3.28	$ 1.73	$ 2.22
Weighted average shares outstanding basic	54,648,533	54,844,641	59,629,788
Diluted earnings per share	$ 3.15	$ 1.68	$ 2.16
Weighted average shares outstanding diluted	56,899,013	56,290,010	61,091,354

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, 2013, 2012 AND 2011

(Dollars in thousands)	2013	2012	2011
Net income	$ 179,207	$ 94,732	$ 132,189
Other comprehensive (loss) income, net of tax:			
Currency translation gain	15,386	20,577	2,776
Unrealized gain (loss) on securities	2,776	2,251	(322)
Amount reclassified to net income	(9,297)		
Defined benefit pension plan:			
Actuarial gain (loss)	(11,639)	690	1,966
Prior service cost		(77)	(75)
Curtailment gain		457	
Total other comprehensive (loss) income, net of tax	(2,774)	23,898	4,345
Comprehensive income	$ 176,433	$ 118,630	$ 136,534

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, 2013, 2012 AND 2011

(Dollars in thousands)	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 179,207	$ 94,732	$ 132,189
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	127,917	117,708	105,214
Non-cash impairment charges	4,877	41,736	12,119
Non-cash compensation expense associated with employee benefit and stock compensation plans	41,538	40,759	40,057
Deferred income tax expense (benefit)	5,023	(8,404)	(6,128)
Gain on sale of investments	(16,400)	(1,459)	
Loss on sale of business		169	
Loss on disposal of property and equipment	1,236	1,181	1,618
Equity investee earnings		(17)	(480)
Changes in operating assets and liabilities, net of business sold and acquired:			
Accounts receivable	7,743	(28,541)	(50,754)
Unbilled services	(4,829)	(23,419)	(23,366)
Inventory	(1,300)	10,918	8,226
Accounts payable	25,283	(1,963)	2,297
Accrued liabilities	50,885	8,205	56,409
Unearned revenue	(15,378)	54,998	15,909
Income taxes	14,315	(10,522)	(21,070)
Other assets and liabilities, net	(14,467)	(35,920)	(28,762)
Net cash provided by operating activities	405,650	260,161	243,478
Cash flows from investing activities:			
Capital expenditures	(162,170)	(151,679)	(134,633)
Purchase of short-term investments	(109,794)		
Proceeds from sale of investments	17,781	4,682	
Acquisition of business, net of cash acquired			(411)
Other, net	648	1,017	192
Net cash used in investing activities	(253,535)	(145,980)	(134,852)
Cash flows from financing activities:			
Net (repayments) borrowings under revolving credit facility	(320,000)	290,000	(5,000)
Borrowings under long-term debt	250,000		
Repayments under long-term debt			(97,500)
Stock issued under employee stock purchase and option plans	71,180	13,772	9,325
Purchase of treasury stock	(33,818)	(323,773)	(8,810)
Net cash used in financing activities	(32,638)	(20,001)	(101,985)
Effect of exchange rate changes on cash	5,385	9,541	5,239
Net change in cash and cash equivalents	124,862	103,721	11,880

Cash and cash equivalents, beginning of year	492,824	389,103	377,223
Cash and cash equivalents, end of year	$ 617,686	$ 492,824	$ 389,103

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, 2013, 2012 AND 2011

(Dollars in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
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
Net income			179,207			179,207
Other comprehensive loss				(2,774)		(2,774)
Shares issued under various employee benefit and stock compensation plans	5	41,533				41,538
Stock option exercises	13	65,121				65,134
Tax benefit from stock issued		8,767				8,767
Treasury stock, at cost					(33,818)	(33,818)
Balance, December 31, 2013	$ 809	$ 859,535	$ 1,779,833	$ 25,746	$ (1,100,677)	$ 1,565,246

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

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011
(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. 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.

Short-Term Investments

Short-term investments consist of bank term deposits, denominated in Swiss Francs, which mature in August 2014.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

Financial Instruments

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate their carrying amounts as reported at December 31, 2013 and 2012.

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 $6.1 million and $6.2 million at December 31, 2013 and 2012, 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 $30.3 million and $32.7 million and supplies accounted for $18.0 million and $16.6 million of total inventory at December 31, 2013 and 2012, 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 $88.9 million and $82.0 million at December 31, 2013 and 2012, respectively. See Note 2 "Reimbursable Out-of-Pocket Expenses".

Also included in prepaid expenses and other current assets are assets held for sale. Covance records long-lived assets as held for sale when a plan to sell the asset has been initiated and all other held for sale criteria have been satisfied. Assets classified as held for sale are recorded in other current assets on the consolidated balance sheet at the lower of their carrying value or fair value less cost to sell. During the fourth quarter of 2013, Covance entered into negotiations to sell certain assets of its Genomics Laboratory located in Seattle, Washington. As a result, $6.7 million of associated net assets were reclassified to assets held for sale as of December 31, 2013. During the first quarter of 2013, Covance completed the closure of its clinical pharmacology facility in Basel, Switzerland and initiated actions to sell that property. As a result, the $8.3 million carrying value of the property was reclassified from property and equipment to assets held for sale as of March 31, 2013. During the fourth quarter of 2013, Covance recorded an impairment charge of $2.3 million to reduce the carrying value of the Basel property to its estimated fair market value less cost to sell as of December 31, 2013. 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 assets held for sale as of December 31, 2011. See Note 12.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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.

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 or the sale of the asset. Actual future cash flows may be greater or less than estimated. During the fourth quarter of 2013, Covance determined that the carrying value of its Manassas, Virginia and Basel, Switzerland properties, both included in the early development segment, was no longer fully recoverable from the cash flows expected from their sale, based upon changes in the respective real estate markets, coupled with changes in the respective marketing plans. As such, Covance recorded an asset impairment charge of $2.6 million and $2.3 million, respectively, to reduce the carrying value of these assets to their estimated fair values as of December 31, 2013. See Note 3 and Note 12, respectively. 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. See Note 5.

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,

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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 2013, 2012 and 2011 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.

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.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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. 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.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

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 6.

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 at both December 31, 2013 and 2012, 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, 2013. See Note 6.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2013, 2012 AND 2011
(Dollars in thousands, unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

Accumulated Other Comprehensive Income

Covance's accumulated other comprehensive income is comprised of foreign currency translation adjustments, actuarial gains (losses) and prior service costs in connection with its defined benefit pension and other post-retirement plans and the unrealized gain on available-for-sale securities, each recorded and presented net of tax. The components of and changes in accumulated other comprehensive income are as follows:

	Foreign Currency Translation Adjustments	Unrealized Gain on Available for Sale Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2010	$ 28,717	$ 5,489	$ (33,929)	$ 277
Other comprehensive income, net of tax, before reclassifications	2,776	(322)	601	3,055
Amounts reclassified from accumulated other comprehensive income, net of tax			1,290	1,290
Net current-period other comprehensive income (loss), net of tax	2,776	(322)	1,891	4,345
Balance at December 31, 2011	31,493	5,167	(32,038)	4,622
Other comprehensive income, net of tax, before reclassifications	20,577	2,251	113	22,941
Amounts reclassified from accumulated other comprehensive income, net of tax			957	957
Net current-period other comprehensive income, net of tax	20,577	2,251	1,070	23,898
Balance at December 31, 2012	52,070	7,418	(30,968)	28,520
Other comprehensive income, net of tax, before reclassifications	15,386	2,776	(11,639)	6,523
Amounts reclassified from accumulated other comprehensive income, net of tax		(10,194)	897	(9,297)
Net current-period other comprehensive income (loss), net of tax	15,386	(7,418)	(10,742)	(2,774)
Balance at December 31, 2013	$ 67,456	$	$ (41,710)	$ 25,746

During the year ended December 31, 2013, amounts reclassified from accumulated other comprehensive income, net of tax, represent the realized gain on the sale of Covance's investment in BioClinica, Inc. of $15.7 million, net of tax of $5.5 million (see Note 5). Changes in plan assets and benefit obligations recognized in comprehensive income in 2013, net of the amortization of actuarial losses and prior service credits to net periodic pension cost in the year totaled $13.6 million, net of tax of $2.9 million (see Note 8).

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2. Summary of Significant Accounting Policies (Continued)

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 9. 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 8. 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.

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 in the 2012 period as a component of accumulated other comprehensive income, net of tax of $1.9 million and $0.2 million, respectively. See Note 8.

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, 2013, 2012 and 2011, the denominator was increased by 2,250,480 shares, 1,445,369 shares and 1,461,566 shares, respectively, representing the dilutive effect of all unvested restricted shares as well as those stock options outstanding at December 31, 2013, 2012 and 2011, 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, 2013 were options to purchase 205,001 shares of common stock at prices ranging from $77.90 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 2013. 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

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2. Summary of Significant Accounting Policies (Continued)

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.

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, 2013, 2012 and 2011 totaled $4.6 million, $4.6 million and $3.8 million, respectively. Cash paid for income taxes for the years ended December 31, 2013, 2012 and 2011 totaled $19.3 million, $29.8 million and $58.2 million, respectively. The change in income taxes payable in the consolidated statement of cash flows for the years ended December 31, 2013, 2012 and 2011 includes as an operating cash outflow the excess tax benefit received from the exercise of non-qualified stock options of $6.1 million, $1.1 million and $0.9 million, respectively (a corresponding cash inflow of $6.1 million, $1.1 million and $0.9 million, respectively, has been included in financing cash flows).

Recently Issued Accounting Standards

In March 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"). ASU 2013-05 clarifies the applicable guidance under current U.S. generally accepted accounting principles for the release of the cumulative translation adjustment upon a reporting entity's derecognition of a subsidiary or group of assets within a foreign entity or part or all of its investment in a foreign entity. The ASU requires a reporting entity, which either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, to release any related cumulative translation adjustment into net income. ASU 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013. Covance will be required to adopt ASU 2013-05 no later than the quarter beginning January 1, 2014. Although Covance does not expect the adoption of the ASU to have a material impact on its consolidated results of operations or financial position, the actual impact will be dependent upon the nature and significance of future events that would be subject to the ASU.

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2. Summary of Significant Accounting Policies (Continued)

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, 2013 and 2012 consist of the following:

	2013	2012
Property and equipment at cost:		
Land	$ 55,463	$ 60,544
Buildings and improvements	642,416	633,248
Equipment	359,077	343,832
Computer hardware and software	555,127	460,931
Furniture, fixtures & leasehold improvements	115,412	110,106
Construction-in-progress	93,380	87,227
	1,820,875	1,695,888
Less: Accumulated depreciation and amortization	(907,263)	(804,569)
Property and equipment, net	$ 913,612	$ 891,319

Depreciation and amortization expense aggregated $127.0 million, $115.6 million and $103.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

During the fourth quarter of 2013, Covance determined that the carrying value of its Manassas, Virginia land, which is included in the early development segment, was no longer fully recoverable from the sale of the property based upon changes in the local real estate market and the related marketing plan for the property. Covance recorded an asset impairment charge of $2.6 million to reduce the carrying value of the asset to its estimated fair value less cost to sell as of December 31, 2013.

During the fourth quarter of 2013, Covance entered into negotiations to sell certain assets of its Genomics Laboratory located in Seattle, Washington. As a result, $4.4 million was reclassified from property and equipment to assets held for sale in other current assets on the consolidated balance sheet as of December 31, 2013. See Note 12.

During the first quarter of 2013, Covance completed the closure of its clinical pharmacology site in Basel, Switzerland and initiated actions to sell that property. As a result, the $8.3 million carrying value of the property was reclassified from property and equipment to assets held for sale in other current assets on the consolidated balance sheet as of March 31, 2013. See Note 12.

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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, 2013 and 2012, respectively:

	Early Development	Late-Stage Development	Total
Balance, December 31, 2011	$ 91,863	$ 35,916	$ 127,779
Goodwill impairment charge	(17,959)		(17,959)
Balance, December 31, 2012 and 2013	$ 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.

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, 2013 and 2012:

	2013	2012
Intangible assets at cost:		
Customer Lists (5 to 10 year estimated useful lives)	$ 6,909	$ 8,152
Land Use Right (50 year estimated useful life)	6,174	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)	820	1,419
	16,243	18,085
Less: Accumulated amortization	(8,453)	(9,289)
Net carrying value	$ 7,790	$ 8,796

In the first quarter of 2013, in association with the closure of the Basel, Switzerland site, $1.8 million of fully amortized intangibles and the related amortization were written off, including $1.2 million of customer lists, $0.4 million of non-compete agreements and $0.2 million of backlog.

Amortization expense for the years ended December 31, 2013, 2012 and 2011 was $0.9 million, $2.1 million and $1.8 million, respectively. Amortization expense expected to be recorded for each of the next five years is as follows:

Year Ending December 31,	
2014	$ 856
2015	$ 856
2016	$ 530

2017	$ 123
2018	$ 123

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5. Equity Investments

In March 2013, Covance sold its entire investment in BioClinica, Inc. ("BIOC") for cash proceeds of $17.1 million. The cost basis in the investment was $1.4 million, resulting in a realized gain on the sale of approximately $15.7 million. The carrying value of Covance's investment in BIOC as of December 31, 2012 was $13.5 million, as determined based on quoted prices in an active market. The investment was reflected in other assets on the consolidated balance sheet. The $3.6 million increase in the carrying value prior to the date of sale resulted in a $2.8 million increase in the unrealized gain on investment, net of tax. The unrealized gain on the investment at December 31, 2012 was $12.1 million, or $7.4 million, net of tax, and was included within accumulated other comprehensive income on the consolidated balance sheet.

On January 31, 2013, Covance terminated its long-standing inventory supply agreement with Noveprim Limited ("Noveprim") and surrendered its entire 47% minority equity position in Noveprim. 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, and suspended equity accounting for this investment as the carrying value was 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. 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.

In July 2012, Covance sold 100% of its investment in Caprion Proteomics ("Caprion"), a privately held company headquartered in Montreal, Canada, for cash proceeds of approximately $4.7 million and recognized a gain on the sale of approximately $1.5 million. In June 2013, Covance received an additional $0.7 million in contingent consideration in connection with the Caprion sale, upon the release of funds held in escrow, which was recorded as an additional gain on the sale.

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6. Taxes on Income

The components of income before taxes and the related provision for taxes on income for 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Income before taxes and equity investee earnings:			
Domestic	$ 26,251	$ 29,445	$ 52,091
International	201,474	75,369	113,192
Total	$ 227,725	$ 104,814	$ 165,283
Federal income taxes (benefits):			
Current provision	$ 10,781	$ (7,298)	$ 13,265
Deferred provision	1,969	11,456	9,793
International income taxes (benefits):			
Current provision	31,241	23,835	24,420
Deferred provision	1,615	(20,436)	(16,921)
State and other income taxes:			
Current provision	2,727	2,397	2,626
Deferred provision	185	145	391
Income tax provision	$ 48,518	$ 10,099	$ 33,574

The differences between the provision for income taxes and income taxes computed using the Federal statutory income tax rate for 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Taxes at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of Federal benefit	0.8	1.6	1.2
Impact of international operations	(15.6)	(20.5)	(17.0)
Previously unrecognized tax benefits	(1.1)	(10.1)	(0.3)
Other, net	2.2	3.6	1.4
Total	21.3%	9.6%	20.3%

The effective tax rate for the year ended December 31, 2013, includes a benefit of $3.0 million relating to UK R&D tax credits during the first three months of 2013, whereas the effective tax rate for the year ended December 31, 2012 includes a benefit of $10.0 million. The decrease in the benefit results from the shift of UK R&D tax credits to above margin treatment, as reflected primarily within the impact of international operations line above.

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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6. 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, 2013 and 2012 are as follows:

	2013	2012
Current deferred taxes:		
Current deferred tax assets:		
Liabilities/expenses not currently deductible	$ 37,924	$ 39,450
Deferred equity compensation	7,045	7,175
Net operating losses and other tax credit carryforwards	7,036	
Total current deferred tax assets	52,005	46,625
Current deferred tax liabilities:		
Earnings not currently taxable	(462)	(1,722)
Net current deferred tax assets	$ 51,543	$ 44,903
Non-current deferred taxes:		
Deferred tax assets:		
Net operating losses	$ 20,395	$ 26,279
Deferred equity compensation	16,136	17,868
Liabilities/expenses not currently deductible	2,730	564
Total non-current deferred tax assets	39,261	44,711
Deferred tax liabilities:		
Property and equipment	(64,131)	(61,950)
Earnings not currently taxable	(7,165)	(10,673)
Total non-current deferred tax liabilities	(71,296)	(72,623)
Net non-current deferred tax liabilities	$ (32,035)	$ (27,912)

As of December 31, 2013, Covance has United States and foreign net operating loss carryforwards of $105.4 million. The foreign net operating loss carryforwards of $104.5 million have no expiration, while the United States net operating loss carryforwards of $0.9 million will

expire in the year 2032. As of December 31, 2013, the Company also has United States foreign tax credit carryforwards of $2.1 million, of which approximately $0.8 million will expire in 2022 with the remaining $1.3 million expiring in 2023. It is expected that all net operating loss and foreign tax credit 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 $926 million at December 31, 2013.

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6. Taxes on Income (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.

As of December 31, 2013 and 2012, the balance of the reserve for unrecognized tax benefits was $9.0 million and $9.4 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 both December 31, 2013 and 2012 is accrued interest of $0.6 million. This reserve relates to exposures for income tax matters such as transfer pricing, nexus and deemed income. During the year ended December 31, 2013, the reserve for unrecognized tax benefits decreased by $0.4 million, as the release of reserves primarily associated with the settlement of income tax audits and the lapsing of the statute of limitations in various jurisdictions more than offset the accrual of additional reserves relating primarily 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, 2013, 2012 and 2011:

(dollars in millions)	
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
Additions related to tax positions in the current year	2.0
Reductions due to settlements and payments	(1.3)
Reductions due to statute expiration	(1.1)
Unrecognized tax benefits as of December 31, 2013	$ 8.4

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 $0.3 million, including accrued interest, of the reserve for unrecognized tax benefits related to 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.

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6. Taxes on Income (Continued)

The following tax years remain open to investigation as of December 31, 2013, for the Company's major jurisdictions:

Tax Jurisdiction	Years
U.S. Federal and State	2007-2013
United Kingdom	2011-2013
Switzerland	2008-2013
Germany	2011-2013

7. Long-Term Debt and Credit Facilities

Long-Term Debt

On November 15, 2013, Covance entered into a private placement of senior notes ("Senior Notes") in an aggregate principal amount of $250 million pursuant to a Note Purchase Agreement (the "Note Purchase Agreement") dated October 2, 2013. The Senior Notes were issued in four series and are reflected in long-term debt on the consolidated balance sheet as of December 31, 2013:

(dollars in millions)	
3.25% Senior Notes, Series 2013A due November 15, 2018	$ 15
3.90% Senior Notes, Series 2013B due November 15, 2020	50
4.50% Senior Notes, Series 2013C due November 15, 2023	90
4.65% Senior Notes, Series 2013D due November 15, 2025	95
Total long-term debt outstanding	$ 250

Interest on the Senior Notes is payable semiannually on May 15th and November 15th of each year. The Senior Notes rank equally with all outstanding indebtedness. Costs associated with the Note Purchase Agreement, which consisted primarily of bank and legal fees totaling $0.9 million, are being amortized ratably over the terms of the Senior Notes. The proceeds were used to pay down existing indebtedness.

The Note Purchase Agreement contains various financial and other covenants and is guaranteed by certain of Covance's domestic subsidiaries and secured by a pledge of 65 percent of the capital stock of certain of Covance's foreign subsidiaries. At December 31, 2013, Covance was in compliance with the terms of the Note Purchase Agreement.

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"). The amended credit agreement (the "Credit Agreement") provides for a revolving credit facility of up to $500 million. At December 31, 2013, there were no outstanding borrowings and $2.9 million of outstanding letters of credit under the Credit Agreement. The proceeds from the issuance of the Senior Notes were used to pay down outstanding indebtedness under the Credit Agreement. 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. Interest on all outstanding borrowings under the Credit

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7. Long-Term Debt and Credit Facilities (Continued)

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 1.46% per annum during 2013 and 1.56% per annum during 2012. 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 $0.3 million and $0.4 million during the years ended December 31, 2013 and 2012, 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, 2013, Covance was in compliance with the terms of the Credit Agreement.

8. 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.

The components of net periodic pension cost for these plans for 2013, 2012 and 2011 are as follows:

	United Kingdom Plans			German Plan		
	2013	2012	2011	2013	2012	2011
Components of Net Periodic Pension Cost:						
Service cost	$ 3,511	$ 4,172	$ 4,296	$ 782	$ 670	$ 869
Interest cost	7,947	7,734	8,388	616	642	610
Expected return on plan assets	(10,119)	(10,319)	(10,569)			
Amortization of net actuarial loss	622	1,172	1,344	230		116
Expected participant contributions	(1,650)	(1,838)	(1,871)			
Net periodic pension cost	$ 311	$ 921	$ 1,588	$ 1,628	$ 1,312	$ 1,595
Assumptions Used to Determine Net Periodic Pension Cost:						
Discount rate	4.60%	4.60%	5.20%	3.50%	5.40%	4.60%
Expected rate of return on assets	5.30%	5.90%	6.50%	n/a	n/a	n/a
Salary increases	3.60%	4.00%	4.50%	2.00%	2.50%	2.50%

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8. Employee Benefit Plans (Continued)

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, 2013 and 2012 is as follows:

	United Kingdom Plans		German Plan	
	2013	2012	2013	2012
Change in Projected Benefit Obligation:				
Benefit obligation, beginning of year	$ 180,994	$ 167,711	$ 17,628	$ 12,810
Service cost	3,511	4,172	782	670
Interest cost	7,947	7,734	616	642
Actuarial loss (gain)	10,422	(2,389)	396	3,991
Curtailment gain				(657)
Benefits paid	(2,539)	(2,525)	(165)	(132)
Foreign currency exchange rate changes	2,297	6,291	628	304
Benefit obligation, end of year	$ 202,632	$ 180,994	$ 19,885	$ 17,628
Change in Fair Value of Assets:				
Fair value of plan assets, beginning of year	$ 195,917	$ 170,413	$	$
Covance contributions	6,194	6,369		
Employee contributions	1,650	1,838		
Actual return on plan assets	7,188	13,125		
Benefits paid	(2,539)	(2,525)		
Foreign currency exchange rate changes	2,092	6,697		
Fair value of plan assets, end of year	$ 210,502	$ 195,917	$	$
Funded status at end of year over (under) funded	$ 7,870	$ 14,923	$ (19,885)	$ (17,628)

	United Kingdom Plans		German Plan	
	2013	2012	2013	2012

Amounts recognized in the consolidated balance sheets:				
Non-current assets	$ 7,870	$ 14,923	$	$
Current liabilities			(234)	(204)
Non-current liabilities			(19,651)	(17,424)
Total	$ 7,870	$ 14,923	$ (19,885)	$ (17,628)

Covance contributed $6.2 million in 2013 and $6.4 million in 2012 to its United Kingdom plans and expects to contribute $9.1 million in 2014. No contributions were made during 2013 or 2012 to the German plan, nor are any contributions expected to be made to the German plan in 2014, since that plan is unfunded.

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8. Employee Benefit Plans (Continued)

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 $172.9 million and $156.4 million at December 31, 2013 and 2012, respectively. The accumulated benefit obligation for the German plan was $17.3 million and $15.2 million at December 31, 2013 and 2012, respectively.

The amounts recognized in accumulated other comprehensive income as of December 31, 2013 and 2012 are as follows:

	United Kingdom Plans		German Plan	
	2013	2012	2013	2012
Net actuarial loss	$ 47,039	$ 33,039	$ 5,311	$ 5,146
Less: Tax benefit (deferred tax asset)	(11,810)	(8,780)	(1,634)	(1,583)
Accumulated other comprehensive income impact	$ 35,229	$ 24,259	$ 3,677	$ 3,563

Assumptions Used to Determine Benefit Obligations:				
Discount rate	4.60%	4.60%	3.50%	3.50%
Salary increases	4.00%	3.60%	2.00%	2.00%

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 2014 is expected to be $1.4 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	45%	55%
Debt securities	15%	25%
Annuities	15%	25%
Real estate	5%	10%
Other	0%	10%

The weighted average asset allocation of the United Kingdom pension plans as of December 31, 2013 and 2012 by asset category is as follows:

	2013	2012
Equity securities	51%	46%
Debt securities	22%	46%
Annuities	16%	
Real estate	6%	5%
Other	5%	3%
Total	100%	100%

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8. Employee Benefit Plans (Continued)

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. Annuities represent annuity buy-in insurance policies purchased by the plan trustees from large, financially sound insurers. The cash flows from the annuities are intended to match the plan's obligations to specific groups of participants, typically those participants currently receiving benefits.

The fair value of the Company's United Kingdom pension plans' assets as of December 31, 2013, 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	$ 177	$ 177	$	$
Mutual funds[(a)]	176,175		176,175	
Annuities[(b)]	34,150			34,150
Total	$ 210,502	$ 177	$ 176,175	$ 34,150

(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.

(b) Annuities represent annuity buy-in insurance policies, whereby the insurer pays the pension payments for the lifetime of the members covered. The annuities are assets of the plan and payments from the insurer are made to the plans' trustees, who than use those proceeds to pay the pensioners. The cash flows from the annuities are intended to effectively match the payments to the pensioners covered by the policy. As such, these assets are valued actuarially based upon the value of the liabilities with which they are associated. As the valuation of these assets is judgmental, and there are no observable inputs associated with the valuation, these assets are classified as Level 3 in the fair value hierarchy.

Expected future benefit payments are as follows:

Year Ending December 31,	United Kingdom Plans	German Plan
2014	$ 3,485	$ 234
2015	$ 4,028	$ 253
2016	$ 3,685	$ 276
2017	$ 4,300	$ 296
2018	$ 4,973	$ 329
2019-2023	$ 34,152	$ 2,253

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.

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8. Employee Benefit Plans (Continued)

The components of net periodic pension cost for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Components of Net Periodic Pension Cost:			
Service cost	$ 1,507	$ 1,478	$ 1,282
Interest cost	724	776	695
Amortization of prior service credit	(119)	(119)	(119)
Amortization of net actuarial loss	567	270	296
Net periodic pension cost	$ 2,679	$ 2,405	$ 2,154
Assumptions Used to Determine Net Periodic Pension Cost:			
Discount rate	3.20%	4.30%	4.40%
Salary increases	3.25%	3.75%	4.00%

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, 2013 and 2012 is as follows:

	2013	2012
Change in Projected Benefit Obligation:		
Benefit obligation, beginning of year	$ 21,115	$ 16,572
Service cost	1,507	1,478
Interest cost	724	776
Actuarial loss	456	2,289
Benefit obligation, end of year	$ 23,802	$ 21,115
Funded status at end of year under funded	$ (23,802)	$ (21,115)

	2013	2012
Amounts recognized in the consolidated balance sheets:		
Current liabilities	$ (3,852)	$ (2,486)
Non-current liabilities	(19,950)	(18,629)
Total	$ (23,802)	$ (21,115)

The accumulated benefit obligation as of December 31, 2013 and 2012 is $21.5 million and $18.8 million, respectively.

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8. Employee Benefit Plans (Continued)

The amounts recognized in accumulated other comprehensive income and not yet recognized as a component of net periodic pension cost as of December 31, 2013 and 2012 are as follows:

	2013	2012
Net actuarial loss	$ 6,032	$ 6,011
Prior service credit	(570)	(689)
Less: Tax benefit (deferred tax asset)	(1,912)	(1,879)
Accumulated other comprehensive income impact	$ 3,550	$ 3,443

The net actuarial loss and prior service credit required to be amortized from accumulated other comprehensive income into net periodic pension cost in 2014 are estimated to be $0.6 million and ($0.1) million, respectively.

	2013	2012
Assumptions Used to Determine Benefit Obligation:		
Discount rate	3.90%	3.20%
Salary increases	3.25%	3.25%

Expected future benefit payments are as follows:

Year Ending December 31,	
2014	$ 3,852
2015	$ 131
2016	$ 10,497
2017	$ 1,261
2018	$ 845
2019-2023	$ 11,022

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.

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8. Employee Benefit Plans (Continued)

The components of net periodic post-retirement benefit cost for 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Components of Net Periodic Post-retirement Benefit Cost:			
Service cost	$ 53	$ 69	$ 96
Interest cost	231	290	306
Amortization of net actuarial loss		40	133
Net periodic post-retirement benefit cost	$ 284	$ 399	$ 535
Assumptions Used to Determine Net Periodic Post-retirement Benefit Cost:			
Discount rate	3.60%	4.60%	4.70%
Health care cost trend rate	7.50%(a)	8.00%	8.50%

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

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, 2013 and 2012 is as follows:

	2013	2012
Change in Projected Benefit Obligation:		
Benefit obligation, beginning of year	$ 6,817	$ 6,540
Service cost	53	69
Interest cost	231	290
Participant contributions	815	774
Actuarial gain	(825)	(114)
Benefits paid	(1,162)	(912)
Federal subsidy on benefits paid	57	170
Benefit obligation, end of year	$ 5,986	$ 6,817
Funded status at end of year under funded	$ (5,986)	$ (6,817)

	2013	2012
Amounts recognized in the consolidated balance sheets:		
Current liabilities	$ (579)	$ (607)
Non-current liabilities	(5,407)	(6,210)
Total	$ (5,986)	$ (6,817)

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8. Employee Benefit Plans (Continued)

The amounts recognized in accumulated other comprehensive income as of December 31, 2013 and 2012 are as follows:

	2013	2012
Net actuarial (gain) loss	$ (147)	$ 678
Less: Deferred tax expense (benefit)	52	(239)
Accumulated other comprehensive income impact	$ (95)	$ 439

There is no net actuarial loss required to be amortized from accumulated other comprehensive income into net periodic post-retirement benefit cost in 2014.

	2013	2012
Assumptions Used to Determine Benefit Obligation:		
Discount rate	4.40%	3.60%
Health care cost trend rate	7.00%(a)	7.50%

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

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 2014.

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
2014	$ 1,462	$ (115)	$ 1,347
2015	$ 1,623	$	$ 1,623
2016	$ 1,638	$	$ 1,638
2017	$ 1,666	$	$ 1,666
2018	$ 1,629	$	$ 1,629
2019-2023	$ 7,406	$	$ 7,406

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 $38.7 million, $33.7 million and $30.2 million for 2013, 2012 and 2011, respectively.

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9. 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, 2013, 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.

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 December 2013, the Covance Board of Directors authorized the repurchase of up to $100 million of the Company's outstanding common stock (the "2013 Repurchase Program"). As of December 31, 2013, no shares have been repurchased under the 2013 Repurchase Program. 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"). The 2012 and the 2007 repurchase programs were completed as of December 31, 2013. 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 2013, 2012 and 2011:

	2013		2012		2011	
(amounts in thousands)	**$**	**# shares**	**$**	**# shares**	**$**	**# shares**
Shares repurchased in connection with:						
Board approved buyback programs	$ 20,125	263.7	$ 314,787	6,654.0	$	
Employee benefit plans	13,693	186.3	8,986	207.5	8,810	158.4
Total	$ 33,818	450.0	$ 323,773	6,861.5	$ 8,810	158.4

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9. Stockholders' Equity (Continued)

Stock-Based Compensation Plans

In May 2013, Covance's shareholders approved the 2013 Employee Equity Participation Plan (the "2013 EEPP") in replacement of the 2010 Employee Equity Participation Plan (the "2010 EEPP"). Effective upon approval of the 2013 EEPP, no further grants or awards were permitted under the 2010 EEPP. Shares remaining available for grant under the 2010 EEPP are available for grant under the 2013 EEPP. The 2013 EEPP became effective on May 7, 2013 and will expire on May 6, 2023. The 2013 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 2013 EEPP and to grant awards to employees of Covance. The 2013 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 2.09 for every one share granted. The exercise period for stock options granted under the 2013 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 2013 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 restricted stock awards generally vest over a three year period. The number of shares of Covance common stock initially available for grant under the 2013 EEPP totaled 2.8 million plus approximately 0.8 million shares remaining available under the 2010 EEPP at the time the 2013 EEPP was approved. All grants and awards under the 2010 EEPP remaining outstanding are administered in accordance with the provisions of the 2010 EEPP out of shares issuable under the 2013 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 2010 EEPP or the 2013 EEPP. At December 31, 2013 there were approximately 3.6 million shares remaining available for grants under the 2013 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, 2013 include $41.5 million ($28.5 million net of tax benefit of $13.0 million) of total stock-based compensation expense, $18.2 million of which has been included in cost of revenue and $23.3 million of which has been included in selling, general and administrative expenses. 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.

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

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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, 2013, 2012 and 2011:

	2013	2012	2011
Expected stock price volatility	36%	38%	37%
Range of risk free interest rates	0.09% - 2.03%	0.03% - 2.01%	0.10% - 3.62%
Expected life of options (years)	5.4	5.2	4.8

The following table sets forth Covance's stock option activity as of and for the year ended December 31, 2013:

	Number of Shares (in thousands)	Weighted Average Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in millions)
Options outstanding, December 31, 2012	4,338.9	$ 51.77		
Granted	514.2	$ 69.14		
Exercised	(1,353.3)	$ 48.13		
Forfeited	(135.8)	$ 52.63		
Options outstanding, December 31, 2013	3,364.0	$ 55.86	6.5 years	$ 108.4
Vested & unvested expected to vest, December 31, 2013	3,246.8	$ 55.68	6.4 years	$ 105.2
Exercisable at December 31, 2013	1,899.3	$ 54.93	5.1 years	$ 63.0

The weighted average grant-date fair value per share of options granted during 2013, 2012 and 2011 was $23.19, $16.47 and $19.87, respectively. As of December 31, 2013, the total unrecognized compensation cost related to non-vested stock options granted was $17.2 million and is expected to be recognized over a weighted average period of 2.5 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 2013, 2012 and 2011:

	2013	2012	2011
(in millions)			
Aggregate intrinsic value of options exercised	$ 39.3	$ 7.6	$ 5.0
Aggregate grant-date fair value of shares vested	$ 14.1	$ 14.3	$ 9.9

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9. Stockholders' Equity (Continued)

Cash proceeds from stock options exercised during the years ended December 31, 2013, 2012 and 2011 totaled $65.1 million, $12.7 million and $6.8 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, 2013, 2012 and 2011 was $6.1 million, $1.1 million and $0.9 million, respectively. The actual tax benefit realized on stock options exercised during the years ended December 31, 2013, 2012 and 2011 was $6.1 million, $1.7 million and $1.7 million, respectively. The difference between the actual tax benefit received and the excess tax benefit for the years ended December 31, 2012 and 2011, of $0.6 million and $0.8 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.

The following table sets forth Covance's performance-based shares and restricted stock activity as of and for the year ended December 31, 2013:

	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, 2012	264.0	$ 54.45	889.9	$ 51.61
Granted	199.6	$ 61.30	520.5	$ 69.38
Vested	(77.9)	$ 57.42	(386.4)	$ 53.51
Forfeited	(10.0)	$ 51.60	(80.9)	$ 56.72
Non-vested at December 31, 2013	375.7	$ 57.55	943.1	$ 60.20

The blended weighted average grant-date fair value of performance-based shares and restricted stock awards granted during the year ended December 31, 2013, 2012 and 2011 was $67.14, $48.50 and $57.96, respectively. As of December 31, 2013, the total unrecognized compensation cost related to non-vested performance-based shares and restricted stock awards was $51.6 million. This cost is expected to be recognized over a weighted average period of 2.2 years. The total fair value of performance-based shares and restricted stock which vested during 2013, 2012 and 2011 was $25.2 million, $25.8 million and $22.2 million, respectively.

10. Commitments and Contingencies

Minimum annual rental commitments under non-cancelable operating leases, primarily for offices and laboratory facilities, in effect at December 31, 2013 are as follows:

Year Ending December 31,	
2014	$ 37,558
2015	$ 32,875
2016	$ 25,766
2017	$ 20,551
2018	$ 19,236
2019 and beyond	$ 92,704

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10. Commitments and Contingencies (Continued)

Operating lease rental expense aggregated $36.7 million, $38.6 million and $35.1 million for 2013, 2012 and 2011, 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.

11. Facility Consolidation and Other Cost Reduction Actions

2012 and 2013 Actions

During 2012, Covance commenced a series of actions to better align capacity to preclinical market demand and reduce overhead in its early development segment, as well as to improve future profitability by streamlining its overall cost structure, including its corporate and functional support infrastructure and consolidating facilities in connection with the rationalization of its data centers. 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. These restructuring actions are expected to be completed in 2014.

The following table sets forth the costs associated with the restructuring component of costs incurred in connection with these actions during the years ended December 31, 2013 and 2012:

Description	2013	2012
Employee separation costs	$ 5,105	$ 22,845
Lease and facility exit costs	713	3,922
Accelerated depreciation and amortization	1,497	3,470
Other costs	5,931	3,693
Total	$ 13,246	$ 33,930

During the years ended December 31, 2013 and 2012, restructuring costs of $11.7 million and $30.4 million, respectively, have been included in selling, general and administrative expenses and $1.5 million and $3.5 million, respectively, have been included in depreciation and amortization.

The following table sets forth the restructuring costs by segment incurred in connection with these actions during the years ended December 31, 2013 and 2012:

	2013	2012
Early Development	$ 5,431	$ 30,341
Late-Stage Development	4,049	1,272
Corporate expenses	3,766	2,317
Total	$ 13,246	$ 33,930

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

Total costs for the 2012 and 2013 actions are expected to approximate $50 million, including $29 million in employee separation costs, $5 million in lease and facility exit costs, $5 million in accelerated depreciation and amortization and $11 million in other costs. Costs by segment are expected to total $37 million in our early development segment, $6 million in our late-stage development segment and $7 million in corporate expenses.

Cumulative costs for the 2012 and 2013 actions through December 31, 2013 totaled $47.2 million, of which $42.2 million was included in selling, general and administrative expenses and $5.0 million was included in depreciation and amortization. Cumulative costs incurred by category for these actions through December 31, 2013 totaled $28.0 million in employee separation costs, $4.6 million in lease and facility exit costs, $5.0 million in accelerated depreciation and $9.6 million in other costs. Cumulative costs incurred by segment through December 31, 2013 totaled $35.8 million in our early development segment, $5.3 million in our late-stage development segment and $6.1 million in corporate expenses.

The following table sets forth the rollforward of the 2012 and 2013 actions restructuring activity for the year ended December 31, 2013:

Description	Balance, Dec 31, 2012	Total Charges	Cash Payments	Other	Balance, Dec 31, 2013
Employee separation costs	$ 11,236	$ 5,105	$ (14,066)	$ 29	$ 2,304
Lease and facility exit costs	3,733	713	(1,649)	(23)	2,774
Accelerated depreciation and amortization		1,497		(1,497)	
Other costs	171	5,931	(5,953)	(7)	142
Total	$ 15,140	$ 13,246	$ (21,668)	$ (1,498)	$ 5,220

Other costs include charges incurred in connection with transitioning services from sites being closed and legal and professional fees. Other activity in the reserve rollforward primarily reflects accelerated depreciation and amortization and foreign exchange impacts as a result of the change in exchange rates between periods.

In addition to the above restructuring costs, during 2013, Covance incurred $8.7 million in costs associated with other cost reduction actions, primarily to consolidate certain corporate support functions, as well as property tax and depreciation expense on facilities that have been closed but not yet disposed of ($7.3 million of which has been included in selling, general and administrative expenses and $1.4 million of which has been included in depreciation and amortization). Costs incurred by segment during the year ended December 31, 2013 totaled $2.9 million in our early development segment, and $5.8 million in corporate expenses.

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 settlement of an inventory supply agreement. These costs have been included in cost of sales in the early development segment.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. Facility Consolidation and Other Cost Reduction Actions (Continued)

2010 and 2011 Actions

During 2011, the Company completed actions to rationalize capacity, reduce the cost of overhead and support functions and streamline processes.

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

Description	2011
Employee separation costs	$ 12,157
Lease and facility exit costs	2,010
Accelerated depreciation	1,777
Other costs	8,425
Total	$ 24,369

During the year ended December 31, 2011, restructuring costs of $22.6 million have been included in selling, general and administrative expenses and $1.8 million have been included in depreciation and amortization. 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.

Cumulative costs for the 2010 and 2011 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 2010 and 2011 actions restructuring activity for the year ended December 31, 2013:

Description	Balance, Dec 31, 2012	Total Charges	Cash Payments	Other	Balance, Dec 31, 2013
Employee separation costs	$ 404	$	$ (196)	$ (208)	$
Lease and facility exit costs	907		(867)	(40)	
Other costs					
Total	$ 1,311	$	$ (1,063)	$ (248)	$

Other activity in the reserve rollforward primarily reflects foreign exchange impacts as a result of the change in exchange rates between periods as well as final adjustments.

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.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Assets Held for Sale

Covance records long-lived assets as held for sale when a plan to sell the asset has been initiated and all other held for sale criteria have been satisfied. Assets classified as held for sale are recorded in other current assets on the consolidated balance sheet at the lower of their carrying value or fair value less cost to sell. It is the intention of Covance to complete the sale of each of these assets within the upcoming year.

During the fourth quarter of 2013, Covance entered into negotiations to sell certain assets of its Genomics Laboratory located in Seattle, Washington, which is part of the early development segment. As a result, $4.4 million of property and equipment and $2.3 million of inventory were reclassified to assets held for sale as of December 31, 2013.

During the first quarter of 2013, Covance completed the closure of its clinical pharmacology site in Basel, Switzerland, which is part of the early development segment, and initiated actions to sell that property. As a result, the $8.3 million carrying value of the property was reclassified from property and equipment to assets held for sale as of March 31, 2013. During the fourth quarter of 2013, Covance recorded an impairment charge of $2.3 million to reduce the carrying value of the Basel property to its estimated fair market value less cost to sell as of December 31, 2013.

In the fourth quarter of 2011, Covance completed the wind-down and transition of services at its toxicology facility in Vienna, Virginia, which is part of the early development segment, 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 assets held for sale.

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

COVANCE INC. AND SUBSIDIARIES
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13. Segment Information (Continued)

	Early Development	Late-Stage Development	Other Reconciling Items	Total
Total revenues from external customers:				
2013	$ 870,478	$ 1,531,835	$ 192,817[a]	$ 2,595,130
2012	$ 869,512	$ 1,311,109	$ 185,138[a]	$ 2,365,759
2011	$ 930,564	$ 1,165,374	$ 140,508[a]	$ 2,236,446
Depreciation and amortization:				
2013	$ 65,344	$ 30,222	$ 32,351[b]	$ 127,917
2012	$ 68,937	$ 25,676	$ 23,095[b]	$ 117,708
2011	$ 67,596	$ 20,079	$ 17,539[b]	$ 105,214
Operating income:				
2013	$ 87,547[g]	$ 338,532[h]	$ (208,745)[c]	$ 217,334
2012	$ 4,002[g]	$ 277,567[h]	$ (165,692)[c]	$ 115,877
2011	$ 105,325[g]	$ 226,300[h]	$ (150,996)[c]	$ 180,629
Segment assets:				
2013	$ 1,150,494[i]	$ 1,109,411	$ 296,683[d]	$ 2,556,588
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
Investment in equity method investees:				
2013	$	$	$	$
2012	$	$	$	$
2011	$ 10,356[e]	$	$	$ 10,356
Capital expenditures:				
2013	$ 27,944	$ 74,837	$ 59,389[f]	$ 162,170
2012	$ 45,442	$ 51,573	$ 54,664[f]	$ 151,679
2011	$ 65,165	$ 38,803	$ 30,665[f]	$ 134,633

(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 charges associated with restructuring and cost reduction actions of $9,601, $2,317 and $7,968 in 2013, 2012 and 2011, 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 and cost reduction actions of $8,300 and asset impairment charges of $4,877 in 2013, restructuring costs of $30,341, an inventory write-down and costs associated with the settlement of an inventory supply agreement totaling $21,168 and a goodwill impairment charge of $17,959 in 2012 and 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.

(h)

Late-Stage development operating income includes restructuring costs of $4,049, $1,272 and $4,990 in 2013, 2012 and 2011, respectively.

(i) Early development assets were impacted by asset impairment charges of $4,877 in 2013, 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.

COVANCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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13. Segment Information (Continued)

Enterprise-Wide Disclosures

Net revenues from external customers for each significant service area for the years ended December 31, 2013, 2012 and 2011 are as follows:

	Preclinical Laboratory Services	Central (Clinical) Laboratory Services	Phase I-IV Clinical Development Services	All Other Services	Total
2013	$ 568,284	$ 775,405	$ 852,791	$ 205,833	$ 2,402,313
2012	$ 573,235	$ 640,903	$ 744,987	$ 221,496	$ 2,180,621
2011	$ 628,679	$ 601,208	$ 617,144	$ 248,907	$ 2,095,938

Net revenues from external customers and long-lived assets for each significant geographic location for the years ended December 31, 2013, 2012 and 2011 are as follows:

	United States	United Kingdom	Switzerland	Other	Total
Net revenues from external customers[1]					
2013	$ 1,164,717	$ 249,306	$ 391,673	$ 596,617	$ 2,402,313
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
Long-lived assets[2]					
2013	$ 630,749	$ 110,411	$ 84,921	$ 87,531	$ 913,612
2012	$ 615,328	$ 113,378	$ 79,010	$ 83,603	$ 891,319
2011	$ 591,179	$ 108,145	$ 76,270	$ 73,957	$ 849,551

(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.

In 2013, Covance had one customer that accounted for 10.6% and another customer that accounted for 10.0% of consolidated net revenues. Covance had one customer that accounted for 10.1% of consolidated net revenues in 2012 while there were no customers accounting for 10% or more of consolidated net revenues in 2011.

14. Quarterly Results (Unaudited)

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.

COVANCE INC. AND SUBSIDIARIES
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14. Quarterly Results (Unaudited) (Continued)

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, 2013. In the opinion of Covance, the information in the table below has been prepared on the same basis as the audited consolidated financial statements and reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of results of operations for those periods. Operating results for any quarter are not necessarily indicative of the results that may be reported in any future period.

	Quarter Ended							
	Dec. 31, 2013	Sep. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	June 30, 2012	Mar. 31, 2012
	(Dollars in thousands, except per share data)							
Net revenues	$ 623,094	$ 606,722	$ 592,298	$ 580,199	$ 562,180	$ 544,818	$ 542,782	$ 530,841
Reimbursable out-of-pocket expenses	46,675	40,328	51,678	54,136	46,964	52,844	42,263	43,067
Total revenues	669,769	647,050	643,976	634,335	609,144	597,662	585,045	573,908
Costs and expenses:								
Cost of revenue	436,857	424,857	419,115	411,344	395,841	389,724	408,198	376,460
Reimbursable out-of-pocket expenses	46,675	40,328	51,678	54,136	46,964	52,844	42,263	43,067
Selling, general and administrative	93,564	87,052	90,177	89,219	92,823	94,401	90,601	81,029
Depreciation and amortization	32,845	32,191	31,496	31,385	30,423	30,102	29,953	27,230
Impairment charges	4,877						17,959	
Total	614,818[(a)]	584,428[(b)]	592,466[(c)]	586,084[(e)]	566,051[(g)]	567,071[(h)]	588,974[(k)]	527,786
Income (loss) from operations	54,951[(a)]	62,622[(b)]	51,510[(c)]	48,251[(e)]	43,093[(g)]	30,591[(h)]	(3,929)[(k)]	46,122
Other expense (income), net	1,464	1,641	991[(d)]	(14,487)[(f)]	1,326	(258)[(i)]	9,274[(l)]	721
Income (loss) before taxes and equity investee earnings	53,487[(a)]	60,981[(b)]	50,519[(c),(d)]	62,738[(e),(f)]	41,767[(g)]	30,849[(h),(i)]	(13,203)[(k),(l)]	45,401
Tax expense (benefit)[(m)]	7,641	16,780	9,525	14,572	7,870	(6,971)[(j)]	(607)	9,807
Equity investee earnings (loss)							(81)	98
Net income (loss)	$ 45,846[(a)]	$ 44,201[(b)]	$ 40,994[(c),(d)]	$ 48,166[(e),(f)]	$ 33,897[(g)]	$ 37,820[(h),(i),(j)]	$ (12,677)[(k),(l)]	$ 35,692
Basic earnings (loss) per share	$ 0.83	$ 0.81	$ 0.75	$ 0.89	$ 0.63	$ 0.70	$ (0.23)	$ 0.62
	$ 0.80[(a)]	$ 0.78[(b)]	$ 0.72[(c),(d)]	$ 0.86[(e),(f)]	$ 0.61[(g)]	$ 0.69[(h),(i),(j)]	$ (0.23)[(k),(l)]	$ 0.60

Diluted earnings (loss) per share

(a) Includes restructuring and other cost reduction actions of $4,874 ($3,224 net of tax or $0.06 per diluted share), asset impairment charges of $4,877 ($3,568 net of tax or $0.06 per diluted share) and favorable income tax items totaling $3,035 (or $0.05 per diluted share).

(b) Includes restructuring and other cost reduction actions of $4,893 ($3,063 net of tax or $0.05 per diluted share).

(c) Includes restructuring and other cost reduction actions of $6,013 ($3,942 net of tax or $0.07 per diluted share).

(d) Includes $707 gain on sale of investment ($460 net of tax or $0.01 per diluted share).

(e) Includes restructuring costs of $6,170 ($4,347 net of tax or $0.08 per diluted share).

(f) Includes $15,693 gain on sale of investment ($10,194 net of tax or $0.18 per diluted share).

(g) 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).

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

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

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

(k) 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).

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

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

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15. Subsequent Events

On January 31, 2014, Covance completed the sale of certain assets of its Genomics Laboratory located in Seattle, Washington. The net assets sold were classified as held for sale with a net carrying value of approximately $6.7 million at December 31, 2013. Covance expects to record a small gain on this sale, net of allocated goodwill and deal related costs.

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 (1992 framework). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013. 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 2013 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., 67, 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., 70, 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, 64, 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 of Lexmark International, Inc., a provider of printing and imaging products, software and solutions. 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, 58, 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 is a director of Team Health Holdings Inc., a provider of outsourced physician staffing solutions. Mr. Herring has been a member of the Covance Board since 2004.

John McCartney, 61, 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 is a director of Westcon Group, Inc., a specialty distributor of networking and communications equipment since 1998 and was Chairman from March 2011 to September

2013. 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, 61, 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 was a Director of EndoHealth Solutions, Inc., a diversified healthcare company through December 2013. Mr. Scodari has been a member of the Covance Board since May 2008.

Bradley T. Sheares, 57, 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 2014 Annual Meeting of Shareholders to be held May 6, 2014, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2013, 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 2014 Annual Meeting of Shareholders to be held on May 6, 2014, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2013, 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 2014 Annual Meeting of Shareholders to be held on May 6, 2014, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2013 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Covance maintains the Covance Inc. 2013 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.

The following table gives information about equity awards under Covance's above mentioned plans at December 31, 2013. 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 9 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	3,058,484	$ 56.75	3,647,121
Equity compensation plans not approved by security holders	305,529	$ 46.93	-0-
TOTAL	3,364,013	$ 55.86	3,647,121

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 2014 Annual Meeting of Shareholders to be held on May 6, 2014, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2013, 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 2014 Annual Meeting of Shareholders to be held on May 6, 2014, which Proxy Statement is intended to be filed not later than 120 days after December 31, 2013, 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 35.
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 February 24, 2014.*
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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.*
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(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, 2014 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, 2014
/s/ Alison A. Cornell Alison A. Cornell	Corporate Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2014
/s/ Brian H. Nutt Brian H. Nutt	Principal Accounting Officer (Principal Accounting Officer)	February 27, 2014
/s/ Robert Barchi Robert Barchi	Director	February 27, 2014
/s/ Gary E. Costley Gary E. Costley	Director	February 27, 2014
/s/ Sandra L. Helton Sandra L. Helton	Director	February 27, 2014
/s/ John McCartney John McCartney	Director	February 27, 2014
/s/ Joseph C. Scodari Joseph C. Scodari	Director	February 27, 2014
/s/ Bradley T. Sheares Bradley T. Sheares	Director	February 27, 2014

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QuickLinks