

COVANCE INC
Form 11-K
June 21, 2013
Table of Contents

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

FORM 11-K

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

For the fiscal year ended December 31, 2012

OR

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

Commission File Number: 1-12213

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

COVANCE 401(k) SAVINGS PLAN

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

COVANCE INC.

210 CARNEGIE CENTER

PRINCETON, NEW JERSEY 08540

Table of Contents

Covance 401(k) Savings Plan

**Financial Statements
and Supplemental Schedule**

December 31, 2012 and 2011

Index

<u>Report of Independent Registered Public Accounting Firm</u>	1
Financial Statements	
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4
<u>Supplemental Schedule</u>	
<u>Schedule H, Line 4i--Schedule of Assets (Held at End of Year)</u>	13
<u>Signature Page</u>	14
<u>Exhibit Index</u>	15

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Participants and Administrative Committee of the
Covance 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Covance 401(k) Savings Plan as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2012 and 2011, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2012 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management. The information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

MetroPark, New Jersey
June 21, 2013

/s/ Ernst & Young LLP

Table of Contents

Covance 401(k) Savings Plan
Statements of Net Assets Available for Benefits
December 31, 2012 and 2011

(Dollars in thousands)	2012	2011
Assets:		
Investments at fair value:		
Registered investment companies	\$ 442,036	\$ 367,298
Covance stock fund	76,667	70,325
Common collective trust	51,780	52,929
Total investments at fair value	570,483	490,552
Notes receivable from participants	7,872	7,639
Participant contribution receivable	425	1,002
Employer contribution receivable	2	150
Total assets	578,782	499,343
Liabilities:		
Other liabilities	46	12
Net assets, reflecting investments at fair value	578,736	499,331
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(1,404)	(1,286)
Net assets available for benefits	\$ 577,332	\$ 498,045

See accompanying notes.

Table of Contents**Covance 401(k) Savings Plan****Statements of Changes in Net Assets Available for Benefits****For the Years Ended December 31, 2012 and 2011**

(Dollars in thousands)	2012	2011
Additions to (deductions from) net assets attributable to:		
Investment income (loss):		
Interest and dividends	\$ 15,698	\$ 9,992
Net appreciation (depreciation) in fair value of investments	55,869	(24,399)
Net investment income (loss)	71,567	(14,407)
Contributions:		
Participant	35,461	31,736
Rollovers	4,739	2,975
Employer	16,746	14,680
Total contributions	56,946	49,391
Benefits paid to participants	(49,124)	(44,680)
Administrative fees	(102)	(121)
Net increase (decrease) in net assets available for benefits	79,287	(9,817)
Net assets available for benefits at beginning of year	498,045	507,862
Net assets available for benefits at end of year	\$ 577,332	\$ 498,045

See accompanying notes.

Table of Contents

Covance 401(k) Savings Plan

Notes to Financial Statements

December 31, 2012 and 2011

1. Description of the Plan

The following description of the Covance 401(k) Savings Plan (the *Plan*) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (the *Code*) and includes assets transferred effective December 31, 1999 from the Covance Employee Stock Ownership Plan (the *ESOP*). The ESOP was designed to comply with Section 4975(e)(7) and the regulations thereunder the Code. The Plan is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974 (*ERISA*). Employees hired after December 31, 1998 are not eligible to participate in the ESOP and Covance Inc. (the *Company*) does not intend to make any future contributions to the ESOP.

Eligibility

Any U.S. employee who has completed one hour of service is eligible to participate in the Plan; however, an employee is only eligible to receive employer matching contributions on the first day of the month following the completion of six months of service.

Contributions

Each participant may contribute any whole percentage of their eligible compensation between 1% and 50%, subject to annual Internal Revenue Service (*IRS*) limitations. The Company makes a matching contribution to the Plan equal to

two times each participant's contribution for the first 1% of eligible compensation contributed to the Plan and ½ of each additional 1% of each participant's eligible compensation contributed to the Plan up to an additional 5%, resulting in a maximum matching contribution of 4.5% for a participant who contributes 6% or more of their eligible compensation. The Company funds its matching contribution in cash, which is invested as elected by the participant. At its own discretion, the Company may make a discretionary contribution to the Plan (Discretionary Contribution) in any year, which would be allocable equally to all eligible participants employed by the Company at the end of the Plan year, provided that any such Discretionary Contribution for any Plan year may only be made out of current or accumulated Company earnings and profits, and may not exceed the maximum allowable as a deduction to the Company under Section 404 of the Code. No such Discretionary Contribution has been made to the Plan through December 31, 2012.

Table of Contents

Covance 401(k) Savings Plan

Notes to Financial Statements (continued)

December 31, 2012 and 2011

1. Description of the Plan (continued)

Automatic Enrollment

Employees are automatically enrolled in the Plan approximately one month after their hire date at an initial contribution rate of 3% of their eligible compensation. Employees have the option to cancel their automatic enrollment at any time during the one month period.

Investment Elections

Participants may elect to have their contributions and Company matching contributions invested in any one or a combination of select funds offered by Fidelity Investments (Fidelity) in accordance with the Plan document. In addition, participants can elect to have contributions invested in the Covance Stock Fund.

Participant Accounts

Each participant's account is credited with the participant's contribution, the Company's matching contribution, an allocation of any Discretionary Contributions and an allocation of the Plan's earnings. Any Discretionary Contributions, if made, would be allocated pro rata based on participant account balances. Earnings are allocated by fund based on the ratio of a participant's account invested in a particular fund to all investments in that fund.

Vesting

Participants are immediately vested in their contributions and the allocated earnings thereon. Participants become 25%, 50% and 100% vested in Company contributions after two, three and four years of service, respectively. Participants become 100% vested in Company contributions regardless of years of service upon reaching age 65 or in the event of total and permanent disability or death.

Payment of Benefits

Each participant is entitled to receive the balance of their account upon retirement on or after age 65, or in the event of total and permanent disability or death. In addition, upon termination of employment with the Company, a participant may elect to be paid a lump sum amount equal to the value of the vested portion of their account balance. Participants entitled to a distribution of benefits with a vested account balance of \$1,000 or less will automatically receive a lump sum payment. If the balance of a participant's account exceeds \$1,000 they can elect to receive either an immediate distribution or defer taking a distribution (but not beyond age 70 1/2). Payments shall be distributed in cash, except to the extent that a participant had previously elected otherwise under the terms of the Plan as in effect at the time of such election. Benefit distributions are recorded when paid.

Table of Contents

Covance 401(k) Savings Plan
Notes to Financial Statements (continued)
December 31, 2012 and 2011

1. Description of the Plan (continued)

Loans to Participants

A participant may borrow from the Plan a minimum of \$1,000 up to the lesser of (i) 50% of the value of the vested portion of their account balance on the date the loan is made or (ii) \$50,000 less the highest outstanding loan balance in the last twelve months. A participant may only have one loan outstanding at any time. Loans bear interest at a rate of one percent above the Federal prime rate.

Forfeited Accounts

Employees who leave the Company prior to completing four years of service forfeit the unvested portion of the Company's matching contributions. Forfeited amounts are invested in the Fidelity Managed Income Portfolio II Fund and are used to reduce future Company matching contributions and/or to pay Plan administration expenses. At December 31, 2012 and 2011, the balance of unused forfeited amounts available to offset future Company matching contributions and/or Plan administration expenses totaled \$0.3 million and \$0.1 million, respectively. During 2012 and 2011, the Company utilized forfeited amounts totaling \$1.1 million and \$1.8 million, respectively, to offset matching contributions.

Plan Termination

Although it has not expressed any intent to do so, the Company reserves the right to terminate the Plan at any time, subject to provisions of ERISA and the Plan. In the event of Plan termination, each participant's account balance would become fully vested.

Plan Administration

The Plan is administered by the Benefits Administration Committee, which is appointed by the Compensation and Organization Committee of the Board of Directors of the Company. Fidelity Management Trust Company is the trustee of the Plan. Plan administration expenses can either be paid directly by the Company or paid through the liquidation of amounts forfeited under the Plan. When paid by the Company, these expenses are not reflected in the accompanying financial statements. When paid by the Plan, through the liquidation of amounts forfeited under the Plan, these expenses are reflected in the accompanying financial statements.

Table of Contents

Covance 401(k) Savings Plan
Notes to Financial Statements (continued)
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Investments

The Plan's investments are stated at fair value. Investments in the Covance Stock Fund and registered investment company funds are valued at quoted active market prices, except for the Fidelity Managed Income Portfolio II Fund, which is a stable value investment in a common collective trust valued at contract value (see note 4). Purchases and sales of securities are recorded on a trade date basis using the average cost method.

Notes Receivable from Participants

Notes receivable from participants are recorded at their unpaid principal balance plus any accrued but unpaid interest, with no allowance for credit losses, as repayments of principal and interest are received through payroll deductions and the notes are collateralized by the participants' account balances.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Table of Contents**Covance 401(k) Savings Plan****Notes to Financial Statements (continued)****December 31, 2012 and 2011****3. Investments**

During 2012 and 2011, the Plan's investments, including investments purchased and sold as well as held during the year, appreciated (depreciated) in fair value as determined by quoted active market prices as follows:

(Dollars in thousands)	Net Realized and Unrealized Appreciation (Depreciation) in Fair Value of Investments	
	2012	2011
Covance Stock Fund	\$ 16,384	\$ (7,735)
Shares of registered investment companies	39,485	(16,664)
	\$ 55,869	\$ (24,399)

Investments that represent 5% or more of the fair value of the Plan's net assets are as follows:

(Dollars in thousands)	December 31	
	2012	2011
Covance Stock Fund	\$ 76,667	\$ 70,325
Fidelity Contrafund K	64,939	58,871
Fidelity Managed Income Portfolio II Fund	51,780	52,929
Fidelity Freedom K 2040 Fund	32,257	25,448
Fidelity Freedom K 2030 Fund	30,078	*

* Fair value did not exceed 5% of the Plan's net assets available for benefits at year-end

Table of Contents

Covance 401(k) Savings Plan

Notes to Financial Statements (continued)

December 31, 2012 and 2011

4. Common Collective Trust

The Plan holds investments in guaranteed investment contracts at December 31, 2012 and 2011, respectively, through the Fidelity Managed Income Portfolio II Fund (the FMIP Fund), which is a stable value investment in a common collective trust reflected at contract value. The investment in the FMIP Fund is included in the statements of net assets available for benefits under Investments at fair value: Common collective trust at a fair value of \$51.8 million and \$52.9 million at December 31, 2012 and 2011, respectively. Fair value is calculated as the total fair value of the underlying assets plus the total wrapper rebid value (as applicable), which is calculated by discounting the annual rebid fee over the duration of the contract assets. In determining the net assets available for benefits, the FMIP Fund investments are recorded at their contract values, of \$50.4 million and \$51.6 million at December 31, 2012 and 2011, respectively, which are equal to the principal balance plus accrued interest. The adjustment to reflect the FMIP Fund at fair value at December 31, 2012 and 2011 totaled (\$1.4) million and (\$1.3) million, respectively.

5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible to the Plan at the measurement date for identical assets and liabilities.

Level 2 Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

Table of Contents**Covance 401(k) Savings Plan****Notes to Financial Statements (continued)****December 31, 2012 and 2011****5. Fair Value Measurements (continued)**

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2012 and 2011:

(Dollars in thousands)	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Registered investment companies: (1)				
Equity/Bond mutual funds	\$ 272,058	\$ -	\$ -	\$ 272,058
Lifecycle funds (2)	151,206	-	-	151,206
Balanced mutual funds	18,772	-	-	18,772
Covance stock fund	76,667	-	-	76,667
Common collective trust (3)	-	51,780	-	51,780
Total	\$ 518,703	\$ 51,780	\$ -	\$ 570,483

(Dollars in thousands)	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Registered investment companies: (1)				
Equity/Bond mutual funds	\$ 233,302	\$ -	\$ -	\$ 233,302
Lifecycle funds (2)	117,500	-	-	117,500
Balanced mutual funds	16,496	-	-	16,496
Covance stock fund	70,325	-	-	70,325
Common collective trust (3)	-	52,929	-	52,929
Total	\$ 437,623	\$ 52,929	\$ -	\$ 490,552

(1) The fair values of the investments in these categories are based on quoted prices in an active market.

(2) Includes investments in highly diversified funds designed to remain appropriate for investors in terms of risk throughout a variety of life circumstances. The funds share the common goal of first growing and then later preserving principal.

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- (3) The common collective trust is a stable value investment designed to deliver safety and stability by preserving principal and accumulating earnings. The fund is primarily invested in guaranteed investment contracts and there are no redemption restrictions. The fair value of the fund is estimated based on the fair value of the underlying investment contracts in the fund, as reported by the issuer of the fund. The fair value differs from the contract value. The contract value of the fund was \$50,375 and \$51,643 as of December 31, 2012 and 2011, respectively (see Note 4).

Table of Contents

Covance 401(k) Savings Plan
Notes to Financial Statements (continued)
December 31, 2012 and 2011

6. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that increases or decreases in the values of investment securities will occur in the near term, and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

7. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated February 22, 2012, which superseded the letter dated November 2, 2001, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States require plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for

years prior to 2009.

Table of Contents

Covance 401(k) Savings Plan
Notes to Financial Statements (continued)
December 31, 2012 and 2011

8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31, 2012 and 2011:

(Dollars in thousands)	December 31	
	2012	2011
Net assets available for benefits per the financial statements	\$ 577,332	\$ 498,045
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	1,404	1,286
Net assets available for benefits per the Form 5500	\$ 578,736	\$ 499,331

9. Related Party Transactions

The Plan holds investments in a common collective trust fund managed by Fidelity, the trustee of the Plan. Additionally, a portion of the Plan's assets are invested in the Company's common stock. These transactions qualify as party-in-interest transactions; however, they are exempt from the prohibited transactions rules under ERISA.

Table of Contents

Supplemental Schedule

Table of ContentsEIN: 22-3265977
Plan # 001**Covance 401(k) Savings Plan****Schedule H, Line 4i--Schedule of Assets (Held at End of Year)****December 31, 2012****(Dollars in thousands)**

Identity of Issuer, Borrower, Lessor or Similar Party	Description of Investment Including Maturity Date, Rate of Interest, Par or Maturity Value	Cost	Current Value
	Value of interests in registered investment companies:		
Fidelity Investments*	Fidelity Contrafund K**; 837,820 shares	***	\$ 64,939
Fidelity Investments*	Fidelity Freedom K 2040 Fund**; 2,318,964 shares	***	32,257
Fidelity Investments*	Fidelity Freedom K 2030 Fund**; 2,192,277 shares	***	30,078
Fidelity Investments*	Fidelity Freedom K 2020 Fund**; 2,028,476 shares	***	27,161
Fidelity Investments*	Spartan US Bond Index Fund; 2,164,534 shares	***	25,736
Fidelity Investments*	Fidelity International Discovery K Fund**; 777,796 shares	***	25,652
Fidelity Investments*	Fidelity Equity Income K Fund**; 543,115 shares	***	25,548
Fidelity Investments*	Fidelity Balanced K Fund**; 930,676 shares	***	18,772
Fidelity Investments*	Neuberger Berman Genesis Trust; 372,337 shares	***	18,140
Fidelity Investments*	Western Asset Core Plus Bond Fund; 1,441,028 shares	***	16,817
Fidelity Investments*	Baron Growth Institutional Fund; 308,820 shares	***	16,695
Fidelity Investments*	Fidelity Freedom K 2050 Fund**; 977,432 shares	***	13,801
Fidelity Investments*	Fidelity Export & Multinational K Fund**; 587,514 shares	***	12,843
Fidelity Investments*	Spartan 500 Index Fund Institutional; 250,371 shares	***	12,641
Fidelity Investments*	Fidelity Freedom K 2035 Fund**; 906,388 shares	***	12,572
Fidelity Investments*	Fidelity Mid Cap Stock K Fund**; 418,282 shares	***	12,277
Fidelity Investments*	Fidelity Freedom K 2045 Fund**; 805,326 shares	***	11,347
Fidelity Investments*	Fidelity Capital Appreciation K Fund**; 383,829 shares	***	11,288
Fidelity Investments*	Fidelity Freedom K 2025 Fund**; 779,834 shares	***	10,590
Fidelity Investments*	Goldman-Sachs Mid-Cap Value Fund; 203,395 shares	***	7,991
Fidelity Investments*	Oakmark Select I; 252,267 shares	***	7,813
Fidelity Investments*	Fidelity Freedom K 2010 Fund**; 526,202 shares	***	6,778
Fidelity Investments*	Spartan International Index Fund Inv; 193,646 shares	***	6,638
Fidelity Investments*	Fidelity Freedom K 2015 Fund**; 415,104 shares	***	5,380
Fidelity Investments*	Fidelity Freedom K Income Fund**; 381,028 shares	***	4,450
Fidelity Investments*	Spartan Extended Market Index Advantage ; 36,296 shares	***	1,449
Fidelity Investments*	T. Rowe Price Small-Cap Value Fund; 18,460 shares	***	723
Fidelity Investments*	Fidelity Freedom K 2055 Fund**; 54,242 shares	***	540
Fidelity Investments*	Fidelity Freedom K 2000 Fund**; 42,741 shares	***	505
Fidelity Investments*	Janus Overseas I ; 12,190 shares	***	418
Fidelity Investments*	Fidelity Freedom K 2005 Fund**; 15,603 shares	***	197
	Total value of interest in registered investment companies		442,036
Covance Inc. **	Covance stock fund:		
	Common stock; 1,290,692 shares	***	74,563
	Interest bearing cash	***	2,104
	Total value of Covance stock fund		76,667
Fidelity Investments*		***	51,780

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Common collective trust: Fidelity Managed Income Portfolio Fund II**; 50,375,324 shares
Total Investments

*** \$ 570,483

Participant loans** Interest rates ranging from 4.25% to 10.50% and maturing at various dates through 2024 \$ 7,872

* Fidelity Investments Institutional Operations Company, Inc.

** Party-in-interest

*** Not required as the investment is participant-directed

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the plan sponsor of the Covance 401(k) Savings Plan has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

COVANCE 401(K) SAVINGS PLAN

Dated: June 21, 2013

/s/ Linda Pojedinec
Linda Pojedinec
V.P. Global Rewards
Covance Inc.

Table of Contents

Exhibit Index

<u>Exhibit Number</u>	<u>Document</u>
23.1	Consent of Independent Registered Public Accounting Firm