



Second Quarter 2006 Earnings

July 25, 2006

Helping to bring miracles to market sooner:

COVANCE
THE DEVELOPMENT SERVICES COMPANY

Safe Harbor

Statements contained in this press release, which are not historical facts, such as statements about prospective earnings, savings, revenue, operations, revenue and earnings growth and other financial results are forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements including the statements contained herein regarding anticipated trends in the Company's business are based largely on management's expectations and are subject to and qualified by risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such 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 of large contracts, 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, difficulties or delays in integrating the business of Radiant and achieving anticipated efficiencies and synergies, and other factors described in the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. The Company undertakes no duty to update any forward looking statement to conform the statement to actual results or changes in the Company's expectations.

Statement Regarding Adoption of SFAS 123(R)

Prior to 2006, Covance followed the disclosure-only provisions of SFAS 123 as it related to expensing of stock options. Accordingly, the Company had accounted for stock awards granted under its equity plans under the recognition and measurement principles of APB25, which provide that no expense is recorded for stock options issued with an exercise price equal to the fair market value of the underlying stock on the date of grant. Covance reflected the expense associated with the fair value of stock option grants in its required pro forma footnote disclosure under SFAS 123 in its SEC filings.

Beginning January 1, 2006, Covance adopted SFAS 123(R). Under SFAS 123(R), all share-based payments to employees, including grants of employee stock options, are recognized in the financial statements based upon their fair values. Management believes that it may be useful for investors in evaluating current period financial performance to compare to 2005 results that include stock option expense computed in accordance with SFAS 123. Management does not assert that such pro forma numbers are superior to the 2005 “as reported” results; however, the pro forma numbers may help investors compare results including stock option expense across both periods. Comparisons made using the pro forma 2005 amounts included in this slide deck have been denoted with an asterisk ().*

Although the Company has begun to use the Lattice-Binomial valuation method for valuing stock options granted beginning in 2006 (whereas previously the Company had used the Black-Scholes Merton valuation method), management believes that the Lattice-Binomial and the Black-Scholes Merton valuation methods, with the assumptions used by the Company, result in fair values which are substantially similar in all material respects. As a result, the Company believes that the 2006 “as reported” amounts under SFAS 123(R) are comparable to the 2005 “pro forma” amounts as previously disclosed under SFAS 123.

See slide 15 for reconciliation between the as reported and pro forma 2005 amounts.

Covance Overview of Services

Early Development

- Preclinical Laboratories (non-human testing)
 - Toxicology
 - Chemistry
- Clinical pharmacology (early human trials)
- Research Products

Late-Stage Development

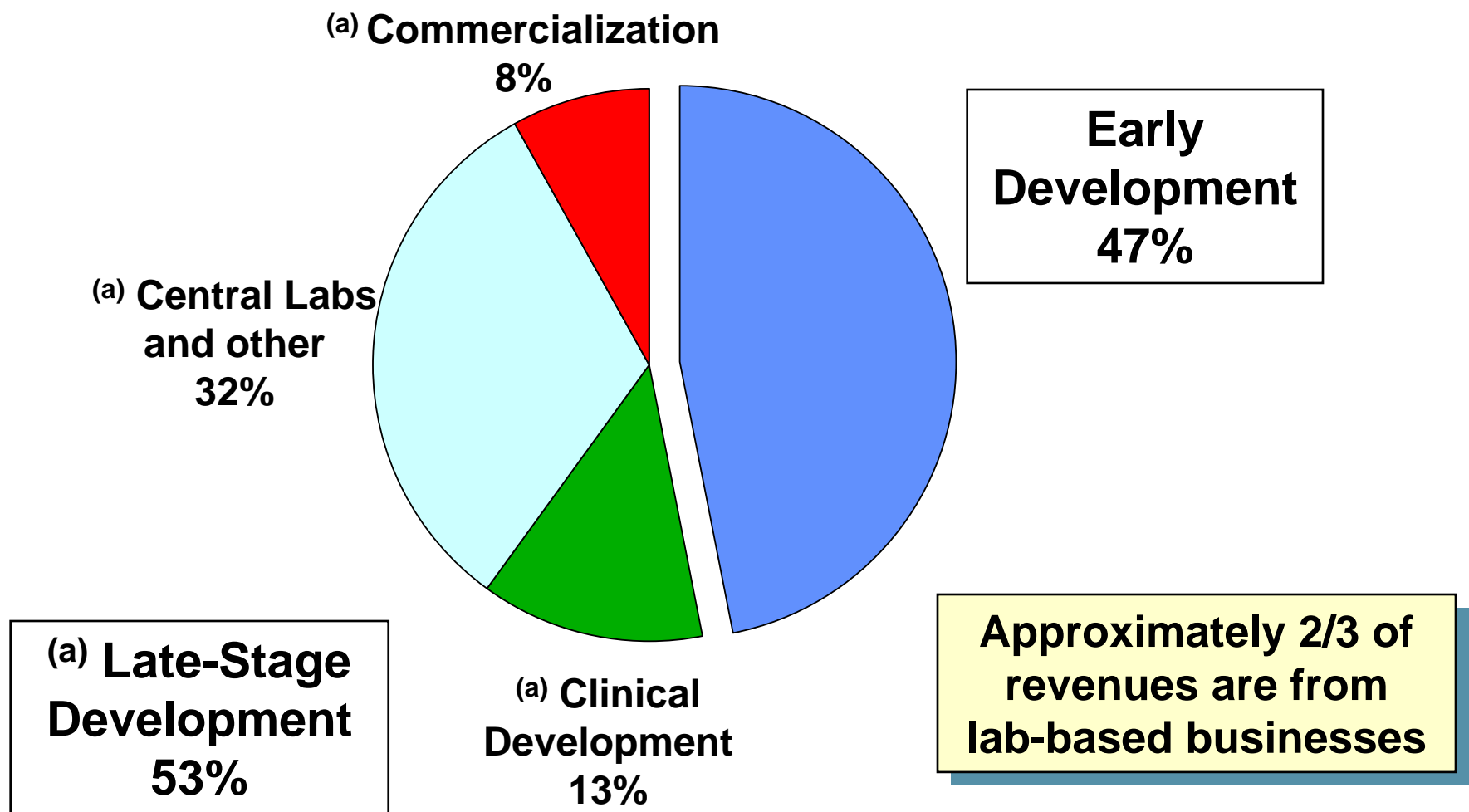
- Central Laboratories and other clinical support services
- Clinical Development (Phase IIb/III human testing)
- Commercialization
 - Market Access Services
 - Periapproval Services (Phase IV)

2Q06 Financial Highlights

- Net Revenues of \$335.2M up 14.0% YOY
- Operating Income of \$47.0M vs. \$37.4M* (up 25.7%* Y/Y) in 2Q05 on a pro forma basis including stock-based compensation
- Operating margins of 14.0% vs. 12.7%* in 2Q05 on a pro forma basis including stock-based compensation
- Net Income of \$35.0M vs. \$26.5M* (up 32.2%* Y/Y) in 2Q05 on a pro forma basis including stock-based compensation
- Diluted EPS of \$0.54 vs. \$0.42* (up 29.8%* Y/Y) in 2Q05 on a pro forma basis including stock-based compensation

* See slide 3 for a discussion of the impact of adopting SFAS 123(R) and slide 15 for a reconciliation between the “as reported” and “pro forma” amounts.

2Q06 Net Revenues by Service Area

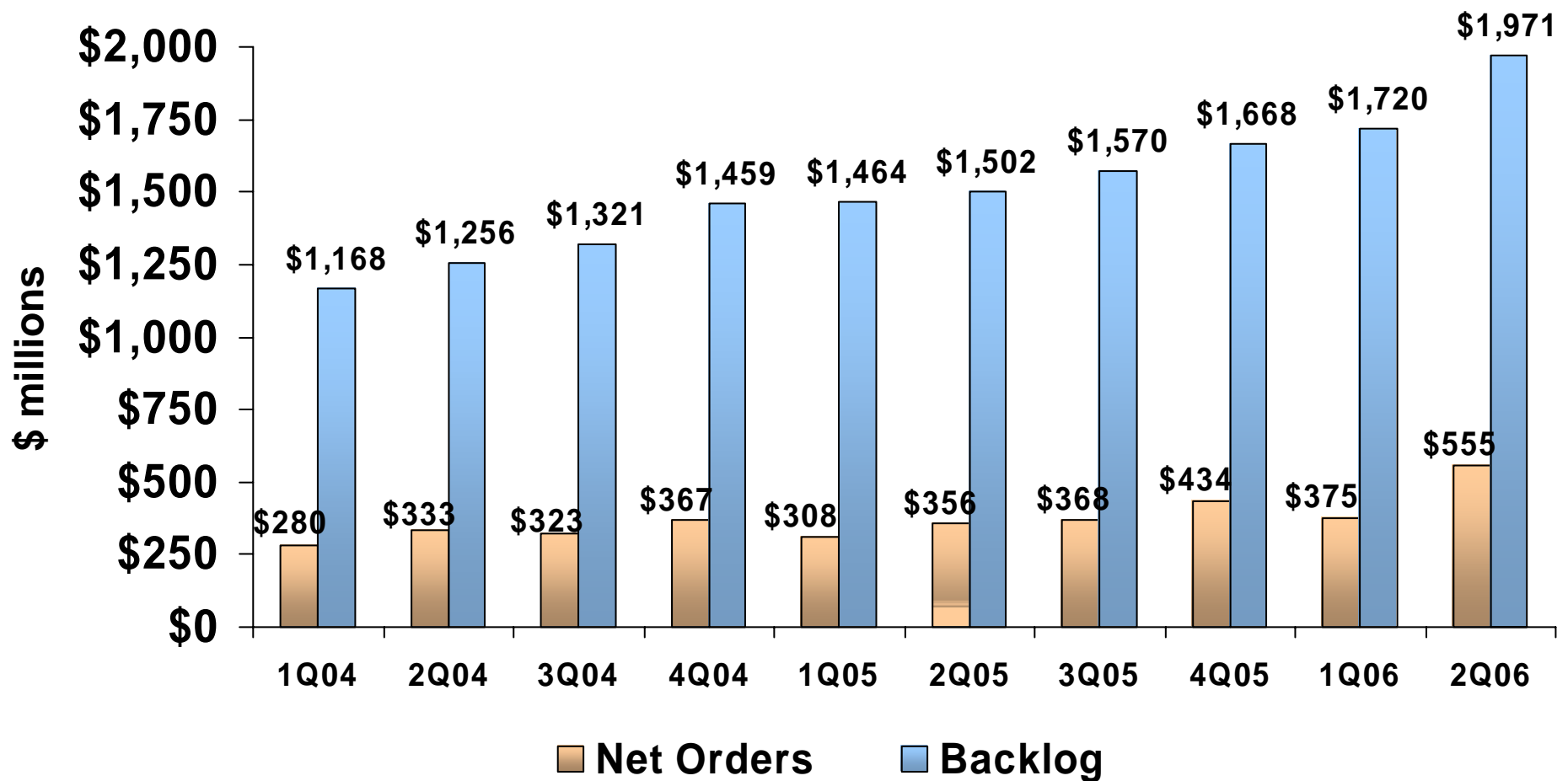


Operating Results by Segment

\$ in millions	Early Development			Late-Stage Development		
	2Q06	2Q05	change	2Q06	2Q05	change
Net Revenues	\$155.7	\$139.8	11.4%	\$179.5	\$154.2	16.4%
Operating Income	\$39.1	\$33.7	16.1%	\$28.5	\$26.9	6.1%
Margin %	25.1%	24.1%		15.9%	17.4%	

SFAS 123(R) stock-based compensation expenses are included in corporate expenses and are not a part of segment results.

Backlog and Net Orders



Note: Covance believes aggregate backlog is not always a predictor of future results.

Cash Flow Review

- Acquisition spending totaled \$74M in 2Q06
- DSOs were 57 days at 6/30/06 vs. 56 days at 3/31/06 and 60 days at 6/30/05
- Cash balance at 6/30/06 was \$137.6M
- 2Q06 CAPEX was \$30.2M
- 2Q06 free cash flow was \$16.1M
- 2006 guidance is unchanged:
 - CAPEX target of ~\$125M
 - Free cash flow target of ~\$90M

Second Quarter Financial Highlights

- 30% EPS growth to \$0.54*
- Solid revenue growth of 14.0%
- Operating margins of 14.0%
 - 130 basis point YOY increase*
- Record net orders: \$555M
 - 55.8% YOY growth
 - Book-to-bill of 1.65
- Backlog growth accelerates to 31.2% YOY

* See slide 3 for a discussion of the impact of adopting SFAS 123(R) and slide 15 for a reconciliation between the “as reported” and “pro forma” amounts.

Operational Highlights: Early Development

- Strong OM (25.1%) on revenue growth of 11.4%
- Dedicated space update:
 - \$187M contract for toxicology services through 2013; largest contract in Covance (and possibly CRO) history
 - Negotiations/discussions with other clients continue
- Toxicology expansion update:
 - Madison and Harrogate filling on or ahead of internal goals
 - Western US in early stages
- Completed acquisition of 8 early clinical sites from Radiant
 - Very positive client reaction
 - Larger than expected RFP volume
- Strengthened antibody line with acquisition of Signet Labs

Operational Highlights: Late-Stage Development

- Revenue growth of 16.4% and operating margin of 15.9%
- Central Laboratory:
 - Very strong revenue growth and operating margin
 - Continued strong orders
- Clinical:
 - Two of three previously announced delayed studies initiated
 - Very strong second quarter orders
- Commercialization:
 - Strong 2Q results
 - Reimbursement hotline IT investments made in 2005 are improving quality and increasing our competitiveness

2006 Outlook

- 2006 earnings target raised to least \$2.19 per share
 - Includes estimated incremental expense associated with stock-based compensation under SFAS 123(R) of \$0.17/share
- Continued mid-teens revenue growth expected
 - *Expected growth drivers:* Increased toxicology and Phase I/IIa capacity, increased central laboratory volume, stronger demand for commercialization services
 - *Potential growth limiter:* Slower than expected conversion of large clinical development backlog
- Year-over-year operating margin expansion expected



Appendix



Helping to bring miracles to market sooner.

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2005: Impact of Expensing Options - SFAS 123

2005 as reported					
	1Q05	2Q05	3Q05	4Q05	FY05
Net Revenue	\$281.3	\$293.9	\$295.4	\$322.4	\$1,193.0
Operating Income	\$40.9	\$41.9	\$44.1	\$48.2	\$175.1
Operating Margin	14.5%	14.3%	14.9%	15.0%	14.7%
Net Income	\$28.9	\$29.6	\$31.2	\$34.3	\$124.0
EPS	\$0.45	\$0.46	\$0.49	\$0.54	\$1.94
2005 SFAS 123 Option Expense					
	1Q05	2Q05	3Q05	4Q05	FY05
Operating Income	(\$4.9)	(\$4.5)	(\$4.2)	(\$3.8)	(\$17.4)
Operating Margin	(1.7%)	(1.5%)	(1.4%)	(1.2%)	(1.5%)
Net Income	(\$3.4)	(\$3.1)	(\$2.8)	(\$2.6)	(\$11.9)
EPS	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.04)	(\$0.19)
2005 Pro Forma (as disclosed in footnotes to 2005 financial statements)					
	1Q05	2Q05	3Q05	4Q05	FY05
Operating Income	\$36.0	\$37.4	\$39.9	\$44.4	\$157.7
Operating Margin	12.8%	12.7%	13.5%	13.8%	13.2%
Net Income	\$25.5	\$26.5	\$28.4	\$31.7	\$112.1
EPS	\$0.40	\$0.42	\$0.45	\$0.50	\$1.76

Days Sales Outstanding (\$ in thousands)

Period Ended	Accounts Receivable	Unbilled Receivables	Total A/R + Unbilled	Client Advances	Net	Trailing 3 Mos Revenue
30-Jun-06	\$205,315	\$100,723	\$306,038	\$(95,189)	\$210,849	\$335,240
Days	56	27	83	(26)	57	
31-Mar-06	\$193,736	\$96,207	\$289,943	\$(90,655)	\$199,288	\$320,509
Days	55	27	82	(26)	56	
31-Dec-05	\$206,098	\$88,297	\$294,395	\$(96,987)	\$197,408	\$322,354
Days	58	25	83	(27)	56	
30-Sep-05	\$205,571	\$80,430	\$286,001	\$(81,369)	\$204,632	\$295,368
Days	63	25	88	(25)	63	
30-Jun-05	\$193,460	\$74,079	\$267,539	\$(73,847)	\$193,692	\$293,963
Days	60	23	83	(23)	60	
31-Mar-05	\$182,969	\$73,612	\$256,581	\$(85,317)	\$171,264	\$281,265
Days	59	24	83	(28)	55	
31-Dec-04	\$178,518	\$63,220	\$241,738	\$(87,325)	\$154,413	\$268,857
Days	60	21	81	(30)	51	
30-Sep-04	\$161,537	\$64,120	\$225,657	\$(68,759)	\$156,898	\$256,334
Days	57	23	80	(24)	56	
30-Jun-04	\$160,210	\$54,109	\$214,319	\$(71,282)	\$143,037	\$250,995
Days	58	20	78	(26)	52	
31-Mar-04	\$153,505	\$49,999	\$203,504	\$(74,043)	\$129,461	\$244,243
Days	57	19	76	(28)	48	

Other Information

(\$ millions)

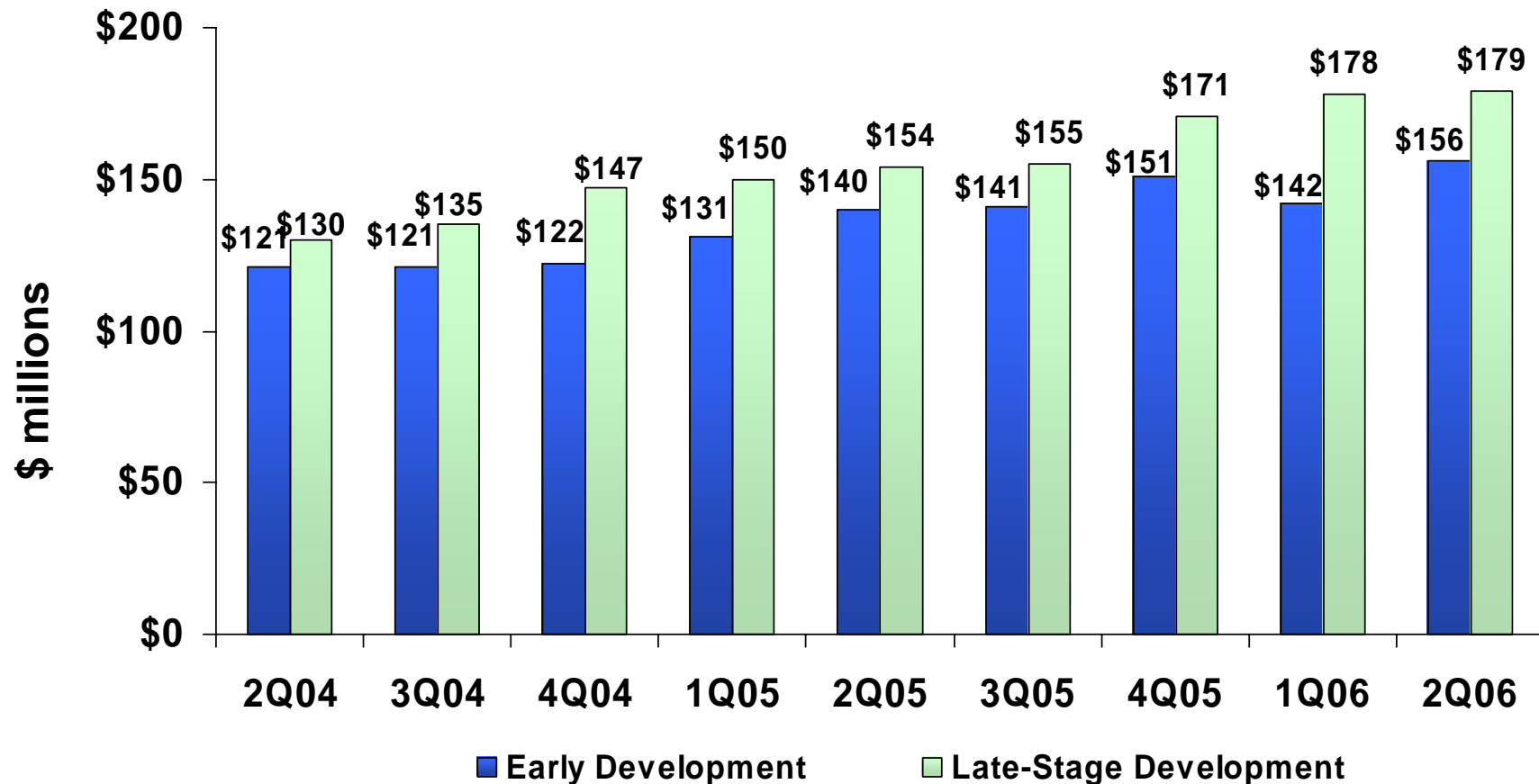
	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06
CAPEX	\$14.3	\$35.3	\$23.7	\$31.2	\$39.4	\$58.8	\$19.2	\$30.2
D&A	\$11.2	\$11.9	\$11.5	\$11.8	\$11.8	\$12.7	\$12.7	\$14.2
Employees	6,607	6,725	6,808	7,003	7,255	7,318	7,418	7,946

Revenue and Operating Income

	\$ in thousands	Q1	Q2	Q3	Q4	YTD
Net Revenues	2006					
	Early Dev	\$142,439	\$155,749			\$298,188
	Late-Stage Dev	\$178,070	\$179,491			\$357,561
	2005					
	Early Dev	\$130,951	\$139,766	\$140,508	\$150,942	\$562,167
	Late-Stage Dev	\$150,314	\$154,197	\$154,860	\$171,412	\$630,783
Operating Income	2006					
	Early Dev	\$35,499	\$39,135			\$74,634
	Late-Stage Dev	\$31,983	\$28,530			\$60,513
	Corp Admin	(\$21,638)	(\$20,625)			(\$42,263)
	2005 (pro forma)*					
	Early Dev	\$31,976	\$33,718	\$36,639	\$37,754	\$140,087
	Late-Stage Dev	\$25,644	\$26,895	\$24,300	\$27,828	\$104,667
	Corp Admin*	(\$21,684)	(\$23,186)	(\$20,984)	(\$21,214)	(\$87,068)

*See slide 3 for a discussion of the impact of adopting SFAS123R and slide 15 for a reconciliation between the “as reported” and “pro forma” amounts.

Quarterly Net Revenues by Segment



Quarterly Net Revenues US vs. Non-US

