

ENCORIUM GROUP INC  
Form 10-Q  
May 17, 2010

---

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010.

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-21145

ENCORIUM GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

56-1668867  
(I.R.S. Employer  
Identification No.)

435 Devon Park Drive, Building 500,  
Wayne, Pennsylvania  
(Address of principal executive offices)

19087  
(Zip Code)

484-588-5400  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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  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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of May 17, 2010, there were 3,388,173 shares of Encorium Group, Inc. common stock issued, par value \$.001 per share, which excludes 38,765 shares in treasury.

---

---

---

ENCORIUM GROUP, INC.

INDEX

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<u>ITEM 1.</u>	
<u>Consolidated Condensed Financial Statements (unaudited)</u>	2
<u>Consolidated Condensed Balance Sheets – March 31, 2010 and December 31, 2009</u>	2
<u>Consolidated Condensed Statements of Operations – Three months ended March 31, 2010 and 2009</u>	3
<u>Consolidated Condensed Statements of Cash Flows – Three months ended March 31, 2010 and 2009</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
<u>ITEM 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>ITEM 4T.</u>	
<u>Controls and Procedures</u>	38
<b>PART II. OTHER INFORMATION</b>	
<u>ITEM 1A.</u>	
<u>Risk Factors</u>	39
<u>ITEM 6.</u>	
<u>Exhibits</u>	50
<u>SIGNATURES</u>	S-1

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ENCORIUM GROUP, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2010 (UNAUDITED)	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 165,594	\$ 196,583
Investigator advances	6,500	19,232
Accounts receivable, less allowance of \$336,774 at March 31, 2010 and \$412,973 at December 31, 2009	2,255,195	3,454,173
Prepaid expenses and other	1,209,198	872,722
Costs and estimated earnings in excess of related billings on uncompleted contracts	1,183,440	1,794,134
Debt issuance costs, current	75,400	75,400
Current assets of discontinued operations	-	28,832
Total Current Assets	4,895,327	6,441,076
Property and Equipment, Net	287,696	307,552
Goodwill	1,303,853	1,389,045
Other intangibles, Net	3,225,686	3,508,310
Debt issuance costs, long-term	131,950	150,800
Other assets	295,196	313,524
Total Assets	\$ 10,139,708	\$ 12,110,307
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 1,846,212	\$ 1,756,678
Notes payable	313,903	334,413
Credit Line	626,263	300,697
Accrued expenses	2,661,830	2,333,099
Deferred taxes	242,208	248,117
Obligations under capital leases	48,577	54,510
Billings in excess of related costs and estimated earnings on uncompleted contracts	1,083,897	1,179,779
Customer advances	985,342	1,361,496
Current liabilities of discontinued operations	531,253	607,552
Total Current Liabilities	8,339,485	8,176,341
Long Term Liabilities		
Notes Payable	627,806	668,826

Edgar Filing: ENCORIUM GROUP INC - Form 10-Q

Obligations under capital leases	33,762	52,541
Deferred taxes	768,524	837,424
Other liabilities	103,588	104,624
Liability for warrants to purchase common stock	218,000	-
Total Long Term Liabilities	1,751,680	1,663,415
Total Liabilities	10,091,165	9,839,756
<b>Stockholders' Equity</b>		
Common stock, \$.001 par value 4,375,000 shares authorized, 3,426,938 shares issued and 3,388,173 shares outstanding at March 31, 2010 and December 31, 2009, respectively	3,427	3,427
Additional paid-in capital	35,255,526	35,442,460
Accumulated deficit	(35,530,728 )	(33,607,123)
Accumulated other comprehensive income	1,047,007	1,158,476
Less:	775,232	2,997,240
Treasury stock, at cost, 38,765 shares	(726,689 )	(726,689 )
Total Stockholders' Equity	48,543	2,270,551
Total Liabilities and Stockholders' Equity	\$ 10,139,708	\$ 12,110,307

See accompanying notes to the consolidated condensed financial statements.

Table of Contents

ENCORIUM GROUP, INC  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
Revenue		
Net revenue	\$3,001,360	\$4,538,173
Reimbursement revenue	556,165	1,116,051
<b>Total Revenue</b>	<b>3,557,525</b>	<b>5,654,224</b>
Operating Expenses		
Direct	2,796,540	2,943,901
Reimbursement out-of-pocket expenses	556,165	1,116,051
Selling, general and administrative	2,010,716	2,082,307
Depreciation and amortization	94,582	90,498
<b>Total Operating Expenses</b>	<b>5,458,003</b>	<b>6,232,757</b>
<b>Loss from Operations</b>	<b>(1,900,478)</b>	<b>(578,533 )</b>
Interest Income	-	9,043
Interest Expense	(14,285 )	(12,504 )
<b>Net Interest Expense</b>	<b>(14,285 )</b>	<b>(3,461 )</b>
<b>Net Loss from continuing operations before Income Taxes</b>	<b>(1,914,763)</b>	<b>(581,994 )</b>
Income Tax Benefit	(6,589 )	(7,938 )
<b>Net Loss from continuing operations</b>	<b>(1,908,174)</b>	<b>(574,056 )</b>
<b>Net income (loss) from discontinued operations</b>	<b>(15,431 )</b>	<b>378,836</b>
Income Tax Expense (Benefit)	-	-
<b>Net Loss</b>	<b>\$(1,923,605)</b>	<b>\$(195,220 )</b>
Weighted Average Common and Common Equivalent Shares Outstanding		
Basic and diluted	3,388,173	2,565,485
Net Loss per Common Share		
Continuing Operations	\$(0.56 )	\$(0.23 )
Discontinued Operations	\$(0.01 )	\$0.15
<b>Net Loss per Common Share</b>	<b>\$(0.57 )</b>	<b>\$(0.08 )</b>

See accompanying notes to the consolidated condensed financial statements.



Table of Contents

ENCORIUM GROUP, INC  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
Net Cash Used By Operating Activities	(336,641 )	(2,972,163 )
<b>Investing Activities:</b>		
Purchases of property and equipment	(27,779 )	(11,867 )
Net Cash Used By Investing Activities	(27,779 )	(11,867 )
<b>Financing Activities:</b>		
Payments under capital leases	(18,690 )	(25,587 )
Net cash from short-term borrowings	354,311	-
Net Cash Provided (Used) By Financing Activities	335,621	(25,587 )
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,190 )	(373,935 )
Net Decrease In Cash and Cash Equivalents	(30,989 )	(3,383,552 )
Cash and Cash Equivalents, Beginning of Period	196,583	5,705,818
Cash and Cash Equivalents, End of Period	\$165,594	\$2,322,266

See accompanying notes to the consolidated financial statements.



Table of Contents

ENCORIUM GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)

1. DESCRIPTION OF BUSINESS:

In this discussion, the terms, “Company”, “we”, “us”, and “our”, refer to Encorium Group, Inc. and subsidiaries (formerly known as, “Covalent Group, Inc.”), except where it is made clear otherwise.

We are a clinical research organization that engages in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. Our mission is to provide our clients with high quality, full-service support for their clinical trials. We offer therapeutic expertise, experienced team management and advanced technologies.

Our clients consist of many of the largest companies in the pharmaceutical, biotechnology and medical device industries. From protocol design and clinical program development, to proven patient recruitment, to managing the regulatory approval process, we have the resources to directly implement or manage Phase I through Phase IV clinical trials and to deliver clinical programs on time and within budget. We have clinical trial experience across a wide variety of therapeutic areas such as cardiovascular, endocrinology/metabolism, diabetes, neurology, oncology, immunology, vaccines, infectious diseases, gastroenterology, dermatology, hepatology, women’s health and respiratory medicine. We have the capacity and expertise to conduct clinical trials on a global basis.

We were initially incorporated in August 1998 in Nevada. In June 2002, we changed our state of incorporation to Delaware. In November 2006, we changed our name from Covalent Group, Inc. to Encorium Group, Inc. Prior to November 2006, the Company conducted the majority of its operations in the U.S. while utilizing strategic partnerships with foreign CROs for the provision of services internationally. On November 1, 2006, the Company acquired its wholly-owned subsidiary, Encorium Oy, a CRO founded in 1996 in Finland with offices in Espoo, Turku, Tampere, Oulu and Seinäjoki (Finland), Copenhagen (Denmark), Tallinn (Estonia), Vilnius (Lithuania), Stockholm (Sweden), Bucharest (Romania), Warsaw (Poland), and Ankara (Turkey). Subsequent to the acquisition of Encorium Oy in 2006 the Company managed all of its North American and South American clinical trial studies from its headquarters in Wayne, Pennsylvania and its European and Asian clinical trial studies from Encorium Oy’s facilities in Espoo, Finland. As a result of declining revenues and increased expenses with respect to the Company’s U.S. line of business, on July 16, 2009 the Company sold substantially all of the assets relating to the Company’s US line of business to Pierrel Research USA, Inc., as a result of which the Company no longer has any employees or significant operations in the United States.

The accompanying consolidated condensed financial statements have been prepared on the basis of the company continuing as a going concern.

We anticipate that will meet our cash requirements through June of 2011, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2010 and we are able to maintain our current customer contracts. In the event we are unable to do so, in order for the Company to continue as a going concern, we will be required to obtain additional capital from external sources or significantly reduce our operating costs, which may include the cessation of operations in some countries.

Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us or at all. Given the current levels of the trading price of the Company's common stock, if the Company were to raise additional capital by issuing equity securities, existing stockholders' percentage ownership would be reduced and they would experience substantial dilution. If we were to raise additional funds by issuing debt securities, these debt securities would have rights, preferences, and privileges senior to those of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. These factors have raised substantial doubt about our ability to continue as a going concern for the foreseeable future. If we are unable to obtain additional capital, we will scale back our operations until such capital is obtained. Our consolidated condensed financial statements do not include any adjustment to reflect the possible future effects on the recoverability or classification of assets or the amounts and classification of liabilities that may result from the outcome of our ability to continue as a going concern.

## Table of Contents

The Company is currently listed on The NASDAQ Capital Market. On August 25, 2009, the Company received a letter from The NASDAQ Stock Market notifying the Company that, based on its Form 10-Q for the period ended June 30, 2009, NASDAQ determined that the Company's stockholders' equity did not comply with the minimum \$2.5 million stockholders' equity requirement for continued listing on The NASDAQ Capital Market. As provided in the NASDAQ Marketplace Rules, the Company submitted to NASDAQ a plan and timeline to achieve and sustain compliance. NASDAQ granted the Company an extension until December 8, 2009 to comply and notified Company that, if at the time of its periodic report for the year ending December 31, 2009, the Company did not evidence compliance, the Company's common stock may be subject to delisting. As of December 31, 2009 the stockholders' equity of the Company was \$2.3 million, which failed to meet the \$2.5 million minimum stockholders equity requirement. The Company received a delisting action on April 22, 2010 from the NASDAQ Stock Market notifying the Company of its failure to comply with the requirement. In accordance with the terms of the Market Place rules, the Company requested a hearing before the NASDAQ Listing Qualifications Panel. Such request stays any delisting determination by the NASDAQ Listing Qualifications Staff and the Company's common stock will remain listed on NASDAQ pending a formal determination by the Listing Qualification Panel. On April 29, 2010, The NASDAQ Capital Market notified the Company that the hearing of the Listing Qualifications Panel will take place on June 10, 2010.

On February 16, 2010, the Company affected a one-for-eight reverse split of its Common Stock effective at 5 PM Eastern Time on February 16, 2010. The Company implemented the reverse stock split under the authority granted to the Board of Directors by the Company's stockholders at the annual meeting of stockholders held on January 8, 2010, to affect a reverse stock split of the Company's Common Stock, par value \$0.001 per share, at a ratio within a range of from one-for-three to one-for-ten shares. As a result of the reverse stock split, each eight shares of issued and outstanding shares of the Company Common Stock were combined and reconstituted as one share of Common Stock, par value \$0.001 per share, of the Company. The reverse stock split reduced the number of outstanding shares of Common Stock from 27,105,383 shares to 3,388,173 shares. All fractional shares which would have otherwise resulted from the reverse stock split were rounded up to the nearest whole share in lieu of fractional shares. On the Company's balance sheet, the aggregate par value of the issued Common Stock was reduced by reclassifying the par value amount of the eliminated shares of Common Stock to additional paid-in capital. All per share amounts and outstanding shares, including all Common Stock equivalents, stock options, equity compensation plans, and warrants, have been retroactively restated in the Financial Statements and in the Notes to the Financial Statements for all period presented to reflect the reverse stock split.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Basis of Presentation

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such instructions, although Encorium believes that the included disclosures are adequate for a fair presentation. The information furnished reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations and cash flows for the interim periods presented. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Condensed Financial Statements and notes thereto filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2009.



## Table of Contents

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### Consolidation

The consolidated condensed financial statements for the three months ended March 31, 2010 and 2009 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

### Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

We maintain cash accounts at several institutions in Europe and one in the US. Deposits in Europe are generally insured by individual states up to € 50,000 for each account (approximately \$67,000 as of March 31, 2010). Accounts in the US are generally insured up to \$250,000 for each account. As of March 31, 2010 our cash and cash equivalents were based primarily in Europe with two institutions. To date, the Company has not experienced any loss or lack of access to its invested cash or cash equivalents, however, there can be no assurance that access to invested balances will not be impacted by adverse conditions in the financial and credit markets.

### Investigator Advances

We received advance payments from a small number of our clients as part of long-term contracts, which includes a separate cash account to be utilized for payment of investigator fees. As of March 31, 2010 and December 31, 2009, this cash amount was \$6 thousand and \$20 thousand, respectively. This amount is also included in customer advances within current liabilities in the accompanying balance sheets.

### Revenue Recognition

The majority of our net revenue is recognized from fixed price contracts on a proportional performance method based on assumptions regarding the estimated completion of the project. This method is used because management considers total costs incurred to be the best available measure of progress on these contracts. Work is also performed under time and material contracts whereby we recognize revenue as hours are worked based on the hourly billing rate for each contract.

Each month costs are accumulated on each project and compared to total estimated cost to complete to determine the degree of completion for that particular project. This determines the percentage of completion for the project. This percentage of completion is multiplied by the contract value to determine the amount of revenue to be recognized. As the work progresses, original estimates may be adjusted due to revisions in the scope of work or other factors and a contract modification may be negotiated with the customer to cover additional costs. Our accounting policy for recognizing revenue for changes in scope is to recognize revenue when the Company has reached agreement with the client, the services pursuant to the change in scope have been performed, the price has been set forth in the change of scope document and collectibility is reasonably assured based on our course of dealings with the client. We bear the

risk of cost overruns on work performed absent a signed contract modification. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the cost estimates used will change in the near term and may have a material adverse impact on our financial performance.

7

---

Table of Contents

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. We may experience similar situations in the future although our current contracts in process are of a shorter duration and subject to less cost volatility. Should our estimated costs on fixed price contracts prove to be low in comparison to actual costs, future margins could be reduced, absent our ability to negotiate a contract modification.

There are no standard billing and payment provisions which are present in each contract. Each contract has separate and distinct billing and payment terms which are the result of negotiation between us and the client. Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. The payment schedule in the contract reflects the value of services to be performed by us at the initiation of the contract. The payment schedule may include the value of certain interim service components as well as periodic payments which are reasonably assured at the start of the contract and which we expect to receive during the duration of the contract. Accordingly, cash receipts, including the receipt of upfront payments, periodic payments and payments related to the achievement of certain billing mechanisms, do not necessarily correspond to cost incurred and revenue recognized on contracts. A contract's payment structure typically requires an upfront payment of 10% to 20% of the contract value at or shortly after the initiation of the contract, a series of periodic payments over the life of the contract and payments based upon the achievement of certain billing mechanisms. The upfront payments are deferred and recognized as revenues and services are performed under the proportional performance method. Periodic payments, including payments related to the achievement of certain billing mechanisms in the contract, are invoiced pursuant to the terms of the contract once the agreed upon services criteria have been achieved. Payments based upon interim billing mechanisms are included in the value of the contract because we expect to receive them during the term of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain service components separately but as an integrated, full service arrangement in connection with the development of the drug.

Clients generally may terminate a contract on short notice which might cause unplanned periods of excess capacity and reduced revenues and earnings. Client initiated delays or cancellations for ongoing clinical trials can come suddenly and may not be foreseeable. To offset the effects of early termination of significant contracts, we attempt to negotiate the payment of an early termination fee as part of the original contract. Generally, we have not been successful in negotiating such fees. Our contracts typically require payment to us of expenses incurred to wind down a study and fees earned to date. Therefore, revenue recognized prior to cancellation does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a fixed price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

Our accounting policy for recognizing revenue for terminated projects requires us to perform a reconciliation of study activities versus the activities set forth in the contract. We negotiate with the client, pursuant to the terms of the existing contract, regarding the wind up of existing study activities in order to clarify which services the client wants us to perform. Once we and the client agree on the reconciliation of study activities and the agreed upon services have been performed by us, we would record the additional revenue provided collectibility is reasonably assured.

Our operations have experienced, and may continue to experience, period-to-period fluctuations in net revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenues in any period are directly related to the number of employees and the number of hours worked by those employees during that period. Our results of operations in any one quarter can fluctuate depending upon, among other things, the number of weeks in the quarter, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the quarter, the mix of revenue, the extent of cost overruns, employee hiring, vacation patterns, exchange rate fluctuations and other factors.





Table of Contents

## Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Out-of-pocket costs are included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Condensed Statements of Operations.

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Condensed Statements of Operations fees paid to investigators and the associated reimbursement since we acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were \$402 thousand and \$492 thousand for the three months ended March 31, 2010 and 2009, respectively.

## Accounts Receivable

Accounts receivable and costs and estimated earnings in excess of related billings on completed contracts represent amounts due from our clients who are concentrated primarily in the pharmaceutical and biotechnology industries.

## Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical and biotechnology industries. The significant majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of March 31, 2010 and December 31, 2009, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was \$3.4 million and \$5.2 million respectively. The following table sets forth the exposure to our top clients:

	March 31, 2010		December 31, 2009	
	Total of Accounts Receivable and cost and estimated earnings in excess of billings	Percentage	Total of Accounts Receivable and cost and estimated earnings in excess of billings	Percentage
Client A	\$1,047,998	30%	\$1,716,077	33%
Client B	691,154	20%	611,497	12%
Client C	214,932	6%	571,896	11%
Top Clients	\$1,954,084	56%	\$2,899,470	56%

## Table of Contents

Several client contracts contain provisions that allow us to bill and receive advance payments to be utilized for investigator fees and reimbursable expenses. In some instances, the client requires that we maintain separate cash accounts to be utilized for investigator fees, which are included as Investigator Advances. Funds received as customer advances, excluding investigator advances for which separate cash accounts are required as part of our contract with the client, are included as part of Cash and Cash Equivalents. The balance of customer advances, including investigator advances of \$6 thousand, was \$985 thousand as of March 31, 2010. The balance of customer advances, including investigator advances of \$19 thousand was \$1.4 million as of December 31, 2009. As of March 31, 2010 and December 31, 2009, there were no customer advances billed, but not received.

## Financial Instruments

The fair value of cash and cash equivalents, restricted cash, accounts receivable, costs and estimated earnings in excess of related billings on uncompleted contracts, accounts payable, accrued expenses and billings in excess of related costs and estimated earnings on uncompleted contracts, notes payable, credit lines, and obligations under capital leases were not materially different than their carrying amounts as reported at March 31, 2010 and December 31, 2009.

As of March 31, 2010, the Company was not a counter party to any forward foreign exchange contracts.

## Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 8 years for equipment and furniture and fixtures and the remaining lease term for leasehold improvements and assets under capital lease. Depreciation and amortization, excluding the amortization of intangible assets, for the three months ended March 31, 2010 and 2009 was \$25 thousand. Expenditures for maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or fully depreciated the cost and accumulated depreciation are removed from the accounts, and any gain or loss on the sale of property and equipment is included in operations.

## Stock-Based Compensation

The Company accounts for stock based compensation in accordance with ASC 718 using the Modified Prospective Approach. ASC 718 requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date, or the date of later modification, over the requisite service period. In addition, ASC 718 requires unrecognized cost (based on the amounts previously disclosed in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period. Accordingly, prior period amounts have not been restated.

## Goodwill and Intangible Assets

Goodwill is carried at cost and is not amortized. We test goodwill for impairment on an annual basis as November 1st of each fiscal year, relying on a number of factors including operating results, business plans and anticipated future cash flows. Company management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, then the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair

value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Definite-lived intangibles are amortized on a straight-line basis over their useful lives. We review our other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

## Table of Contents

### Foreign Currency Translation

Assets and liabilities of the Company's international operations are translated into U.S. dollars at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income.

### Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC 740, "Accounting for Income Taxes", ("ASC 740"). ASC 740 requires recognition of deferred tax liabilities and assets for the future expected tax consequences of events that have been included in the financial statements or tax returns.

Under this method deferred tax liabilities and assets are determined based on the difference between the financial statement tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At March 31, 2010, the Company recorded a full valuation allowance against its net deferred tax assets and net operating loss carry-forwards given that it is more likely than not that the deferred tax asset will not be realized.

The Company files its tax returns as prescribed by the tax laws of the jurisdiction in which it operates. None of the Company's tax filings in these jurisdictions are currently under audit. The Company's policy is to recognize interest and penalties in Other Expense.

### Earnings (Loss) Per Share

Earnings (loss) per share is calculated in accordance with ASC 260, "Earnings Per Share", ("ASC 260"). Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of warrants and outstanding stock options under the Company's equity incentive plans. For 2010 and 2009 diluted net loss per common share is the same as basic net loss per common share, since the effects of potentially dilutive securities are antidilutive.

### Recently Issued Accounting Standards

In January 2010, the FASB issued ASU No. 2010-6, "Improving Disclosures About Fair Value Measurements", which provides amendments to ASC 820 "Fair Value Measurements and Disclosures", including requiring reporting entities to make more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements including information on purchases, sales, issuances, and settlements on a gross basis and (4) the transfers between Levels 1, 2, and 3. The standard is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for annual periods beginning after December 15, 2010. The Company adopted the standard for Levels 1 and 2 on January 1, 2010, and does not expect the adoption of the standard for Level 3, on January 1, 2011, to have a material impact on its consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities", which amends ASC 810, "Consolidation" to address the elimination of the

concept of a qualifying special purpose entity. The standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE whereas previous accounting guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The standard provides more timely and useful information about an enterprise's involvement with a variable interest entity and became effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company adopted the standard on January 1, 2010.

Table of Contents

The FASB updated ASC Topic 810, “Consolidations” (“ASC Topic 810”), and ASC Topic 860, “Transfers and Servicing” (ASC Topic 860”), which significantly changed the accounting for transfers of financial assets and the criteria for determining whether to consolidate a variable interest entity (VIE). The update to ASC Topic 860 eliminates the qualifying special purpose entity (QSPE) concept, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the financial asset de-recognition criteria, revises how interests retained by the transferor in a sale of financial assets initially are measured, and removes the guaranteed mortgage securitization re-characterization provisions. The update to ASC Topic 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE's primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. The Company adopted the provisions of these staff positions effective January 1, 2010. The adoption of these staff positions could impact future transactions entered into by the Company.

New Accounting Pronouncements not yet effective

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition) (ASU 2009-13) and ASU 2009-14, “ Certain Arrangements that Include Software Elements”, (amendments to ASC Topic 985, Software) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of the adoption of these ASUs on its consolidated results of operations or financial condition. The Company will implement the standard effective January 1, 2011.

In April 2010, the FASB issued ASU 2010-13, Topic 718, “Compensation—Stock Compensation”, which addressed the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASU 2010-13 specifies that a share-based payment awarded that contains a condition that is not a market, performance, or service condition is required to be classified as a liability unless it otherwise qualifies as equity. The amendment is effective for fiscal years, and interim period beginning on or after December 15, 2010. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated results of operations or financial condition. The Company will implement the standard effective January 1, 2011.

Table of Contents

## 3. DISCONTINUED OPERATIONS

On July 16, 2009 the Company sold substantially all of the assets relating to the Company's U.S. line of business to Pierrel Research USA, Inc., as a result of which the Company no longer has any employees or significant operations in the United States. The purchase price was \$2.6 million comprised of \$80 thousand in cash and the assumption of liabilities in the amount of \$2.5 million.

In accordance with ASC 360, the operational results and cash flows of the U.S. line of business are presented as discontinued operations. Net Revenues from discontinued operations for the three months ended March 31, 2010 and 2009 were \$0 and \$2.5 million, respectively. Loss from discontinued operations before taxes for the three months ended March 31, 2010 was \$15 thousand and income from discontinued operations before taxes was \$378 thousand for the three months ended March 31, 2009. The operating results related to the US line of business are included in discontinued operations.

The assets and liabilities of discontinued operations at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010	December 31, 2009
Accounts receivable, net	\$ -	\$ 28,832
Current assets of discontinued operations	\$ -	\$ 28,832
Accounts payable	\$ 412,509	\$ 485,203
Accrued expenses	54,909	58,514
Billings in excess of related costs and estimated earnings on uncompleted contracts	53,368	53,368
Customer advances	10,467	10,467
Current liabilities of discontinued operations	\$ 531,253	\$ 607,552

## 4. LINE OF CREDIT

The Company has four lines of credit for its European operations totaling \$1.2 million with interest and outstanding amounts as per the following table:

Lender	Credit Line	Interest Rate	Effective rate at March 31, 2010	Amount outstanding at March 31, 2010	Amount outstanding at December 31, 2009
Svenska Handelsbanken AB	\$672,650	Handelsbanken Avista plus 2.35%	2.50 %	\$ 359,708	\$ 459
Sampo Pankki Oyj	403,590	Sampo viitepaivaluottokorko plus 3.5%	6.00 %	193,065	300,238
Svenska Handelsbanken AB	69,249	Handelsbanken's base rate	6.35 %	-	-
Svenska Handelsbanken AB	90,353	Handelsbanken's base rate	6.15 %	73,490	-
Total	\$1,235,842			\$ 626,263	\$ 300,697

Commitments by the lenders are valid indefinitely, subject to other terms and conditions of the underlying agreements. (Amounts were converted based on an exchange rate of 1.00 EUR ~ 1.3453 USD and 1.00 EUR ~ 1.4332 USD for March 31, 2010 and December 31, 2009 respectively)



Table of Contents

The Lines of credit are collateralized by substantially all assets of the Company and a personal guarantee of our Chief Executive Officer in the amount of \$135 thousand.

## 5. NOTE PAYABLE

Note payable consists of the following:

	March 31, 2010	December 31, 2009
Promissory Note collateralized by substantially all assests of Encorium Oy and certain assets of related parties payable in equal semi-annual installments of \$156,952 plus interest beginning June 2010. The Promissory Note bears interest at the six month euribor plus 2.35% (3.29% at March 31, 2010).	\$941,709	\$ 1,003,239
Less current portion	(313,903 )	(334,413 )
Total notes payable net of current portion	\$627,806	\$ 668,826

(Amounts were converted based on an exchange rate at March 31, 2010 and December 31, 2009 of 1.00 EUR ~ 1.3453 USD and ~ 1.00 EUR ~ 1.4332 USD, respectively)

## 6. EARNINGS PER SHARE

Earnings (loss) per share is calculated in accordance with ASC 260. Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of outstanding stock options under the Company's equity incentive plans. For the three months ended March 2010 and 2009, diluted net loss per common share is the same as basic net loss per share, since the effects of potentially dilutive securities are antidilutive. Stock options outstanding that are not included in the table below because of their anti-dilutive effect for the three months ended March 31, 2010 were 155,000 and for the three months ended March 31, 2009 were 129,177. Warrants outstanding that are not included in the table below because of their anti-dilutive effect for the three months ended March 31, 2010 and 2009 were 109,266.

The net loss and weighted average common and common equivalent shares outstanding for purposes of calculating net loss per common share were computed as follows:

Table of Contents

	Three months ended March 31,	
	2010	2009
Net Loss	\$ (1,923,605 )	\$ (195,220 )
Weighted average number of common shares outstanding used in computing basic and diluted earnings per share	3,388,173	2,565,485
Basic and diluted loss per share	\$ (0.57 )	\$ (0.08 )

## 7. COMPREHENSIVE INCOME

A reconciliation of comprehensive loss is as follows:

	Three Months Ended March 31,	
	2010	2009
Net loss	\$ (1,923,605)	\$ (195,220 )
Foreign currency translation adjustment	111,469	(402,004 )
Comprehensive income (loss)	\$ (1,812,136)	\$ (597,224 )

## 8. SEGMENT INFORMATION

The Company follows the provisions of ASC 280, "Disclosures About Segments of an Enterprise and Related Information" which establishes standards for reporting business segment information. The Company operates in one segment predominantly in the clinical research industry providing a broad range of clinical research services on a global basis to the pharmaceutical and biotechnology industries.

The following table summarizes the distribution of net revenue and contracts with significant clients:

Table of Contents

	Three Months Ended March 31,			
	2010		2009	
	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts
Client A	20%	13	36%	13
Client B	15%	7	3%	8
Client C	9%	10	9%	12
Top Clients	44%	30	48%	33

## 9. STOCKHOLDERS EQUITY

## Treasury Stock

In October 2008 the Company approved a stock repurchase program in an amount of up to \$250,000. There were no purchases of Common Stock during 2010. There were 38,765 common shares in treasury as of March 31, 2010. The shares are valued using the cost method of accounting for treasury stock.

## 10. STOCK-BASED COMPENSATION

## Employee Equity Incentive Plans

## 2006 Equity Incentive Plan

In November 2006, the Board of Directors approved the 2006 Equity Incentive Plan, which was approved by the stockholders in November 2006. Upon adoption, a total of 125,000 shares (as adjusted for the 8:1 reverse split which became effective February 16, 2010) were available for grant under this plan. The plan provides for the granting of incentive and non-qualified stock options for the purchase of shares of common stock to directors, officers, employees, advisors and consultants, as defined under the provisions of the plan. Options issued under the plan have typically been subject to a 3 year vesting period with a contractual term of 10 years.

## 2002 Equity Incentive Plan

In March 2002, the Board of Directors approved the 2002 Equity Incentive Plan, which was approved by the shareholders in June 2002. Upon adoption, a total of 125,000 shares (as adjusted for the 8:1 reverse split which became effective February 16, 2010) were available for grant under this plan. The plan provides for the granting of incentive and non-qualified stock options for the purchase of shares of common stock to directors, officers, employees, advisors and consultants, as defined under the provisions of the plan. Options issued under the plan have typically been subject to a 3 year vesting period with a contractual term of 5 years.



Table of Contents

## General Option Information

The Company has issued stock options to employees under share-based compensation plans. Stock options are issued at the current market price on the date of the grant, subject to a vesting period and contractual term associated with the plan the options were issued under. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of our common stock. We use historical data on exercises of stock options and other factors to estimate the expected life of the share-based payments granted. For options granted under the 2002 Equity Incentive Plan, we determined the expected life to be 5 years for options granted prior to January 1, 2006 and 4 years for any options granted subsequent to January 1, 2006. We determined the expected life for options granted under the 2006 Equity Incentive Plan to be 7 years. The risk free rate is based on the U.S. Treasury bond rate commensurate with the expected life of the option.

	Three Months Ended March 31,	
	2010	2009
Risk-free interest rate	3.15%	2.20% - 2.55%
Expected dividend yield	—	—
Expected life	7 years	7 years
Expected volatility	117.46%	72.50%
Forfeiture rate	—	15.00%

A summary of award activity under the stock option plans as of March 31, 2010 and changes during the three month period is presented below:

	Number of Shares	Range of Exercise Prices per Share	Weighted Average Exercise Price per Share	Intrinsic Value
Options outstanding at December 31, 2009	75,417	\$1.92 - \$48.64	\$5.93	-
Granted	81,250	\$1.45	1.45	\$96,688
Exercised	-	-	-	-
Canceled	(1,667 )	\$48.64	48.64	-
Options outstanding at March 31, 2010	155,000	\$1.45 - \$48.64	\$3.12	-
Vested options outstanding at:				
March 31, 2010	20,000	\$1.92 - \$48.64	\$9.76	-
Non-vested options outstanding at:				
March 31, 2010	135,000	\$1.45 - \$48.64	\$1.27	\$184,950

Approximately 101,437 options, net of forfeitures, of the 135,000 non-vested options as of March 31, 2010 will vest within the next year.

Table of Contents

As of March 31, 2010, there was approximately \$153 thousand of total unrecognized compensation cost related to unvested share-based compensation awards granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of approximately 2.5 years.

Based upon the above assumptions, the weighted average fair value of the stock options granted for the three months ended March 30, 2010 and 2009 was \$1.29 and \$1.60, respectively.

The Company has a policy of issuing new shares to satisfy share option exercises.

Table of Contents

The following table summarizes information regarding stock options outstanding at March 31, 2010:

Range of Exercise Prices	Options Outstanding		
	Number Outstanding at March 31, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price per Share
\$1.00 - \$1.50	81,250	9.96	\$ 1.45
1.51 - 2.00	28,750	8.68	1.94
2.01 - 2.50	9,375	8.84	2.32
2.51 - 3.00	5,625	8.60	2.88
3.01 - 3.50	21,875	9.63	3.28
12.51 - 13.00	2,500	8.16	12.80
15.01 - 15.50	3,125	7.95	15.20
48.51 - 49.00	2,500	6.82	48.64
	155,000	9.44	\$ 3.12

The following table summarizes information regarding exercisable stock options at March 31, 2010:

Range of Exercise Prices	Options Exercisable		
	Number of Exercisable Options at March 31, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price Per Share
1.51 - 2.00	9,584	8.68	\$ 1.94
2.01 - 2.50	3,125	8.84	2.32
2.51 - 3.00	1,875	8.60	2.88
12.51 - 13.00	833	8.16	12.80
15.01 - 15.50	2,083	7.95	15.20
48.51 - 49.00	2,500	6.82	48.64
	20,000	8.37	\$ 9.76



Table of Contents

A summary of stock options expected to vest in the next twelve months is as follows:

Range of Exercise Prices	Options Expected To Vest		
	Options Expected to Vest Net of Forfeitures	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price Per Share
\$1.00 - \$1.50	81,250	9.96	\$ 1.45
1.51 - 2.00	8,146	8.68	1.94
2.01 - 2.50	2,656	8.84	2.32
2.51 - 3.00	1,594	8.60	2.88
3.01 - 3.50	6,198	9.63	3.28
12.51 - 13.00	708	8.16	12.80
15.01 - 15.50	885	7.95	15.20
	101,437	9.48	\$ 2.38

The estimated annual share-based compensation expense relating to ASC 718 for the twelve months ended December 31, 2010 is expected to be \$120 thousand. The Company recognized stock-based compensation expense of \$31 thousand and \$56 thousand for the three months ended March 31, 2010 and 2009, respectively.

#### 11. SUPPLEMENTAL CASH FLOW INFORMATION

No income tax payments were required for the three months ended March 31, 2010 and 2009. Cash paid for interest for the three months ended March 31, 2010 and 2009 was approximately \$15 thousand and \$14 thousand, respectively. We did not enter into any capital lease obligations during the three months ended March 31, 2010 and 2009. We did not acquire any property and equipment through leasing arrangements during the three months ended March 31, 2010 or 2009, respectively.

#### 12. GOODWILL AND OTHER INTANGIBLES

The Company followed the provisions of ASC 805. The amount of goodwill that resulted from the Encorium Oy acquisition, including deferred taxes of \$1,697,724, was \$15,388,299. In accordance with ASC 805, the amount of goodwill resulting from the Encorium Oy acquisition was determined as the excess of cost over the fair values of acquired net assets. Goodwill is carried at cost and is not amortized. We test goodwill for impairment on an annual basis as November 1st of each fiscal year, relying on a number of factors including operating results, business plans and anticipated future cash flows. Company management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, then the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Definite-lived intangibles are amortized on a straight-line basis over their useful lives. We review our other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.



Table of Contents

The Company also acquired \$6.5 million of unidentifiable intangible assets in connection with the Encorium Oy acquisition. Of the \$6.5 million of acquired intangible assets, \$3.9 million was attributed to customer relationships, \$2.6 million was attributable to backlog and \$53 thousand was attributable to a non-compete agreement. All of these intangibles are subject to amortization on a straight-line basis. The estimated useful lives for customer relationships, backlog and non-compete agreement are 16 years, 18 months and 4 years, respectively. Amortization expense for the three months ended March 31, 2010 and 2009 was \$69 thousand and \$66 thousand, respectively. As of March 31, 2010, estimated amortization of intangibles for the five fiscal years subsequent to March 31, 2010 is as follows:

2010	\$200,008
2011	255,691
2012	255,691
2013	255,691
2014	255,691

## 13. INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of FASB ASC 740, “Accounting for Income Taxes” (“ASC 740”). ASC 740 requires recognition of deferred tax liabilities and assets for the future expected tax consequences of events that have been included in the financial statements or tax returns. Under this method deferred tax liabilities and assets are determined based on the difference between the financial statement tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At March 31, 2010, the Company recorded a full valuation allowance against its net deferred tax assets and net operating loss carry-forwards given that it is more likely than not that the deferred tax asset will not be realized.

The Company files its tax returns as prescribed by the tax laws of the jurisdiction in which it operates. The Company’s policy is to recognize interest and penalties in Other Expense.

## 14. FAIR VALUE MEASUREMENTS

The Company has adopted a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. In this valuation, the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and fair value is a market-based measurement and not an entity-specific measurement.

The Company utilizes the following hierarchy in fair value measurements:

- Level 1 – Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 – Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 – Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Table of Contents

The Company has warrants classified as liabilities, which are measured at fair value on a recurring basis. The warrants are measured at fair value using the Black-Scholes valuation model with pricing inputs that are observable in the market or that can be derived principally from or corroborated by observable market data. In selecting the appropriate fair value technique the Company considers the nature of the instrument, the market risks that it embodies, and the expected means of settlement.

Recurring Fair Value Measurements: There were no recurring fair value measurements of liabilities at December 31, 2009. Liabilities measured at fair value on a recurring basis at March 31, 2010 are as follows:

	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2010
Liability for warrants to purchase common stock	—	\$218,000	—	\$218,000

## 15. COMMON STOCK AND WARRANTS

In May 2007, the Company sold 218,532 shares of its common stock, \$0.001 par value in a private placement (the "Offering") at a price of \$22.88 per share and warrants to purchase an aggregate of 109,266 shares of the Company's common stock, \$0.001 par value, at an exercise price of \$4.12 per share for a period of five years commencing six months from the date of issuance to certain investors ("the Investors"). The Offering resulted in aggregate gross proceeds to the Company of \$5 million before deducting commissions, fees and expenses. The net proceeds of the transaction are expected to be used to fund organic expansion and, as opportunities arise, for complementary acquisitions, as well as for general corporate purposes and working capital.

In October 2009 the Company entered into Warrant Exchange Agreements (the "Exchange Agreements") with the Investors pursuant to which the Company issued to the Investors (i) an aggregate of 233,000 shares of Common Stock (collectively, the "Exchange Shares"); and (ii) warrants to purchase an aggregate of 109,266 shares of Common Stock, exercisable for a period of five years from the issue date of October 16, 2009, at an exercise price of \$3.20 per share (collectively, the "Exchange Warrants"). The Exchange Shares and Exchange Warrants were issued in exchange for warrants issued to the Investors in the Offering. Except as described above, the terms of the Exchange Warrants, including anti-dilution adjustments, are substantially similar to those of the Original Warrants. The Company obtained stockholder approval for the issuance of stock upon exercise of the Exchange Warrants at its Annual Meeting of stockholders on January 8, 2010.

The Company evaluates the classification of warrants in accordance with ASC 815, "Derivatives and Hedging" ("ASC 815"). As of December 31, 2009, the warrants were not readily convertible to cash due to the number of shares to be exchanged as compared to the daily trading volume. As a result the warrants were classified as stockholders' equity since the net settlement provision was not met as defined by ASC 815.

Table of Contents

In accordance with ASC 815, an ongoing evaluation is performed to determine whether the warrants are readily convertible to cash. As of March 31, 2010, due to the increase in daily trading volume, the warrants were readily convertible to cash. As a result, the warrants now meet the definition of a derivative and are recorded at fair value and classified as a liability on the balance sheet. The liability for warrants to purchase common stock are revalued at each balance sheet date and marked to fair value with the corresponding adjustment recognized as "gain or loss on warrants" in the statements of operations.

As of March 31, 2010, the fair value of the liability for warrants to purchase common stock was \$218 thousand. For the three months ended March 31, 2010 there was no gain or loss on warrants. The assumptions used to value the liability at March 31, 2010 were: weighted average exercise price of \$3.20, weighted average life of 4.58 years, volatility 106%, and risk free interest rate of 2.55%.

At both March 31, 2010 and December 31, 2009, the Company had 109,266 warrants outstanding to purchase its common stock at an exercise price of \$3.20 and an expiration date of October 16, 2014.

In October 2009, the Company sold 492,188 shares of its common stock, \$0.001 par value in a private placement (the 2009 Offering) at a price of \$3.20 per share to an individual investor. The 2009 Offering resulted in aggregate proceeds of \$1,575,000 to be used for general corporate purposes and working capital.

In December 2009, the Company issued a Note to Finnvera plc in the amount of \$1,003,239 (see Note 5). In connection with this Note, the investor in the 2009 Offering and the Company's Chief Executive Officer (the "Guarantors") issued personal guarantees as collateral with an aggregate value of \$646 thousand. In consideration for the personal guarantees, the Company issued 97,500 shares of its common stock, par value \$0.001 on a pro-rata basis to the Guarantors. The value of the shares has been recorded as debt issuance costs and will be amortized over the life of the Note. As of March 31, 2010 the total deferred debt issuance costs and accumulated amortization were \$207 thousand and \$19 thousand, respectively.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this discussion, the terms "Company," "we," "us" and "our" refer to Encorium Group, Inc. and our consolidated subsidiaries, except where it is made clear otherwise.

Forward Looking Statements

When used in this Report on Form 10-Q and in other public statements, both oral and written, by the Company and Company officers, the words "estimate," "project," "expect," "intend," "believe," "anticipate" and similar expressions are intended to identify forward-looking statements regarding events and trends that may affect our future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially. Such factors include, among others: (i) the risk that we may not have sufficient funds to operate our business; (ii) our success in attracting new business and retaining existing clients and projects; (iii) the size, duration and timing of clinical trials we are currently managing may change unexpectedly; (iv) the termination, delay or cancellation of clinical trials we are currently managing could cause revenues and cash-on-hand to decline unexpectedly; (v) the timing difference between our receipt of contract milestone or scheduled payments and our incurring costs to manage these trials; (vi) outsourcing trends in the pharmaceutical, biotechnology and medical device industries; (vii) the ability to maintain profit margins in a competitive marketplace; (viii) our ability to attract and retain qualified personnel; (ix) the sensitivity of our business to general economic conditions; (x) other economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices; (xi) announced awards received from existing and potential customers are not definitive until fully negotiated contracts are executed by the parties; (xii) our backlog may not be indicative of future results and may not generate the revenues expected; and (xiii) uncertainties regarding the availability of additional capital and continued listing of our common stock on Nasdaq. You should not place undue reliance on any forward-looking statement. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events. Please refer to the section entitled "Risk Factors" beginning on page 39 in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 for a more complete discussion of factors which could cause our actual results and financial position to change.

Overview

We are a clinical research organization that engages in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. We were initially incorporated in August 1998 in Nevada. In June 2002, we changed our state of incorporation to Delaware. In November 2006, we expanded our international operations with the acquisition of our wholly-owned subsidiary, Encorium Oy, a CRO founded in 1996 in Finland, which offers clinical trial services to the pharmaceutical and medical device industries. Since 2006 we have conducted substantially all of our European operations through Encorium Oy and its wholly-owned subsidiaries located in Denmark, Estonia, Sweden, Lithuania, Romania, Germany and Poland. On July 16, 2009 the Company sold substantially all of the assets relating to the Company's US line of business to Pierrel Research USA, Inc., the result of which the Company no longer has any employees or significant operations in the United States. Due to this sale, for the three months ended March 31, 2010 and 2009, the results of the U.S. business have been presented as discontinued operations in the consolidated condensed financial statements.

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto.





Table of Contents

The Company is currently listed on The NASDAQ Capital Market. On August 25, 2009, the Company received a letter from The NASDAQ Stock Market notifying the Company that, based on its Form 10-Q for the period ended June 30, 2009, NASDAQ determined that the Company's stockholders' equity did not comply with the minimum \$2.5 million stockholders' equity requirement for continued listing on The NASDAQ Capital Market. As provided in the NASDAQ Marketplace Rules, the Company submitted to NASDAQ a plan and timeline to achieve and sustain compliance. NASDAQ granted the Company an extension until December 8, 2009 to comply and notified Company that, if at the time of its periodic report for the year ending December 31, 2009, the Company did not evidence compliance, the Company's common stock may be subject to delisting. As of December 31, 2009 the stockholders' equity of the Company was \$2.3 million, which failed to meet the \$2.5 million minimum stockholders equity requirement. The Company received a delisting action on April 22, 2010 from the NASDAQ Stock Market notifying the Company of its failure to comply with the requirement. In accordance with the terms of the Market Place rules, the Company requested a hearing before the NASDAQ Listing Qualifications Panel. Such request stays any delisting determination by the NASDAQ Listing Qualifications Staff and the Company's common stock will remain listed on NASDAQ pending a formal determination by the Listing Qualification Panel. On April 29, 2010, The NASDAQ Capital Market notified the Company that the hearing of the Listing Qualifications Panel will take place on June 10, 2010.

On February 16, 2010, the Company effected a one-for-eight reverse split of its Common Stock effective at 5 PM Eastern Time on February 16, 2010. The Company implemented the reverse stock split under the authority granted to the Board of Directors by the Company's stockholders at the annual meeting of stockholders held on January 8, 2010, to affect a reverse stock split of the Company's Common Stock, par value \$0.001 per share, at a ratio within a range of from one-for-three to one-for-ten shares. As a result of the reverse stock split, each eight shares of issued and outstanding shares of the Company Common Stock were combined and reconstituted as one share of Common Stock, par value \$0.001 per share, of the Company. The reverse stock split reduced the number of outstanding shares of Common Stock from 27,105,383 shares to 3,388,173 shares. All fractional shares which would have otherwise resulted from the reverse stock split were rounded up to the nearest whole share in lieu of fractional shares. On the Company's balance sheet, the aggregate par value of the issued Common Stock was reduced by reclassifying the par value amount of the eliminated shares of Common Stock to additional paid-in capital. All per share amounts and outstanding shares, including all Common Stock equivalents, stock options, equity compensation plans, and warrants, have been retroactively restated in the Financial Statements and in the Notes to the Financial Statements for all period presented to reflect the reverse stock split.

Historically our net cash used in operations has been substantial. Our net cash used in operations for the three months ended March 31, 2010 was \$337 thousand. Our cash and cash equivalents as of March 31, 2010 was \$165 thousand. We anticipate that will meet our cash requirements at least into the second quarter of 2011, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2010 and we are able to maintain our current customer contracts. We will continue to seek strategic alternatives, including, but not limited to attempting to secure additional financing. Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us or at all. If we are unable to secure additional financing on terms acceptable to us and on a timely basis, we may significantly reduce our operating costs, which may include the cessation of operations in some countries. Our consolidated condensed financial statements do not include any adjustment to reflect the possible future effects on the recoverability or classification of assets or the amounts and classification of liabilities that may result from the outcome of our ability to continue as a going concern.

The accompanying consolidated condensed financial statements have been prepared on the basis of the Company continuing as a going concern. However, the factors summarized above have raised substantial doubt about our ability to continue as a going concern for the foreseeable future.

Net revenue is derived principally from the design, management and monitoring of clinical research studies. Clinical research service contracts generally have terms ranging from several months to several years. A portion of the contract fee is generally payable upon execution of the contract, with the balance payable in installments over the life of the contract. Several of our older contracts contain payment schedules that are weighted towards the later stages of the contract. A significant portion of our net revenue is recognized from fixed price contracts on a proportional performance basis. To measure the performance, we compare actual direct costs incurred to estimated total contract direct costs, which we believe is the best indicator of the performance of the contract obligations as the costs relate to the labor hours incurred to perform the service.

## Table of Contents

Contracts generally may be terminated by clients immediately or with short notice. Clinical trials may be terminated or delayed for several reasons including, among others, unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug, budget constraints of clients or decisions by the client to de-emphasize or terminate a particular trial, development efforts on a particular drug or our failure to properly perform our obligations. Depending on the size of the trial in question, a client's decision to terminate or delay a trial in which we participate could have a material and adverse effect on our backlog, future revenue and results from operations.

### General

The information set forth and discussed below for the three months ended March 31, 2010 and 2009 is derived from the Consolidated Condensed Financial Statements included elsewhere herein. The financial information set forth and discussed below is unaudited but, in the opinion of management, reflects all adjustments (primarily consisting of normal recurring adjustments) necessary for a fair presentation of such information. The results of our operations for a particular quarter may not be indicative of results expected during the other quarters or for the entire year.

Our quarterly results can fluctuate as a result of a number of factors, including our success in attracting new business, the size and duration of clinical trials, the timing of client decisions to conduct new clinical trials or to cancel or delay ongoing trials, changes in cost estimates to complete ongoing trials, and other factors, many of which are beyond our control.

Net revenue is derived principally from the design, management and monitoring of clinical research studies. Clinical research service contracts generally have terms ranging from several months to several years. A portion of the contract fee is generally payable upon execution of the contract, with the balance payable in installments over the life of the contract. A significant portion of our net revenue is recognized from fixed-price contracts on a proportional performance basis. To measure the performance, we compare actual direct costs incurred to estimated total contract direct costs, which we believe is the best indicator of the performance of the contract obligations as the costs relate to the labor hours incurred to perform the service. Total direct costs are incurred for each contract and compared to estimated total direct costs for each contract to determine the percentage of the contract that is completed. This percentage is multiplied by the estimated total contract value to determine the amount of net revenue recognized.

Contracts generally may be terminated by clients immediately or with short notice. Clinical trials may be terminated or delayed for several reasons, including, among others, unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug or decisions by the client to de-emphasize or terminate a particular trial or development efforts on a particular drug. Depending on the size of the trial in question, a client's decision to terminate or delay a trial in which we participate could have a material and adverse effect on our backlog, future revenue and results from operations.

Our backlog relative to continuing operations was approximately \$14.7 million as of March 31, 2010 as compared to \$21.8 million as of March 31, 2009. Our backlog consists of anticipated net revenue from signed contracts and letters of intent that either have not started but are anticipated to begin in the near future or are in process and have not yet been completed. Many of our studies and projects are performed over an extended period of time, which may be several years. Amounts included in backlog have not yet been recognized as net revenue in our Consolidated Statements of Operations. Once contracted work begins, net revenue is recognized over the life of the contract on a proportional performance basis. The recognition of net revenue and contract terminations, if any, reduces our backlog while the awarding of new business increases our backlog. For the three months ended March 31, 2010 we obtained approximately \$1.1 million of new business awards as compared to approximately \$1.4 million for the three months ended March 31, 2009.



Table of Contents

We believe that our backlog as of any date may not necessarily be a meaningful predictor of future results because backlog can be affected by a number of factors including the size and duration of contracts, many of which are performed over several years. Additionally, contracts relating to our clinical trial business may be subject to early termination by the client or delay for many reasons, as described above. Also, the scope of a contract can change during the course of a study. For these reasons, we might not be able to fully realize our entire backlog as net revenue.

The following table sets forth amounts for certain items in our consolidated statements of operations expressed as a percentage of net revenue. The following table excludes revenue and costs related to reimbursable out-of-pocket expenses because they are not generated by the services we provide, do not yield any gross profit to us, and do not have any impact on our net income. We believe this information is useful to our investors because it presents the net revenue and expenses that are directly attributable to the services we provide to our clients and provides a more accurate picture of our operating results and margins.

Table of Contents

Percentage of net revenue, excluding reimbursable out-of-pocket expenses:

	% of Net Revenue Three Months Ended March 31,	
	2010	2009
Net revenue	100%	100%
Total Revenue	100%	100%
Operating Expenses		
Direct	93.2%	64.9%
Selling, general and administrative	66.0%	45.9%
Depreciation and amortization	3.2%	2.0%
Loss from Operations	(63.3% )	(12.7% )
Net Loss from continuing operations	(63.6% )	(12.6% )
Net Loss	(64.1% )	(4.3% )

## Contractual Obligations and Commitments

We did not enter into any capital lease obligations during the three months ended March 31, 2010 and 2009. We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment.

Below is a summary of our future payment commitments by year under contractual obligations. Actual amounts paid under these agreements could be higher or lower than the amounts shown below as a result of changes in volume and other variables:

	Total	2010	2011	2012	2013
Operating leases	\$3,587,280	\$1,266,056	\$1,102,327	\$724,780	\$494,117

In 2010, we anticipate capital expenditures of approximately \$100,000—\$200,000 for leasehold improvements, software applications, workstations, personal computer equipment and related assets.

## Critical Accounting Policies and Estimates

The following discussion should be read in conjunction with the consolidated condensed financial statements and notes thereto.



## Table of Contents

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such instructions, although Encorium believes that the included disclosures are adequate for a fair presentation. The information furnished reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of management, necessary for a fair summary of the financial position, results of operations and cash flows for the interim periods presented. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Condensed Financial Statements and notes thereto filed with Form 10-K for the year ended December 31, 2009.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### Consolidation

The consolidated condensed financial statements for the three months ended March 31, 2010 and 2009 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

### Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

We maintain cash accounts at several institutions in Europe and one in the US. Deposits in Europe are generally insured by individual states up to € 50,000 for each account (approximately \$67,000 as of March 31, 2010). Accounts in the US are generally insured up to \$250,000 for each account. As of March 31, 2010 our cash and cash equivalents were based primarily in Europe with two institutions. To date, the Company has not experienced any loss or lack of access to its invested cash or cash equivalents, however, there can be no assurance that access to invested balances will not be impacted by adverse conditions in the financial and credit markets.

### Investigator Advances

We received advance payments from a small number of our clients as part of long-term contracts, which includes a separate cash account to be utilized for payment of investigator fees. As of March 31, 2010 and December 31, 2009, this cash amount was \$6 thousand and \$20 thousand, respectively. This amount is also included in customer advances within current liabilities in the accompanying balance sheets.

### Revenue Recognition

The majority of our net revenue is recognized from fixed price contracts on a proportional performance method based on assumptions regarding the estimated completion of the project. This method is used because management considers total costs incurred to be the best available measure of progress on these contracts. Work is also performed under time and material contracts whereby we recognize revenue as hours are worked based on the hourly billing rate for each



contract.

29

---

## Table of Contents

Each month costs are accumulated on each project and compared to total estimated cost to complete to determine the degree of completion for that particular project. This determines the percentage of completion for the project. This percentage of completion is multiplied by the contract value to determine the amount of revenue to be recognized. As the work progresses, original estimates may be adjusted due to revisions in the scope of work or other factors and a contract modification may be negotiated with the customer to cover additional costs. Our accounting policy for recognizing revenue for changes in scope is to recognize revenue when the Company has reached agreement with the client, the services pursuant to the change in scope have been performed, the price has been set forth in the change of scope document and collectibility is reasonably assured based on our course of dealings with the client. We bear the risk of cost overruns on work performed absent a signed contract modification. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the cost estimates used will change in the near term and may have a material adverse impact on our financial performance.

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. We may experience similar situations in the future although our current contracts in process are of a shorter duration and subject to less cost volatility. Should our estimated costs on fixed price contracts prove to be low in comparison to actual costs, future margins could be reduced, absent our ability to negotiate a contract modification.

There are no standard billing and payment provisions which are present in each contract. Each contract has separate and distinct billing and payment terms which are the result of negotiation between us and the client. Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. The payment schedule in the contract reflects the value of services to be performed by us at the initiation of the contract. The payment schedule may include the value of certain interim service components as well as periodic payments which are reasonably assured at the start of the contract and which we expect to receive during the duration of the contract. Accordingly, cash receipts, including the receipt of upfront payments, periodic payments and payments related to the achievement of certain billing mechanisms, do not necessarily correspond to cost incurred and revenue recognized on contracts. A contract's payment structure typically requires an upfront payment of 10% to 20% of the contract value at or shortly after the initiation of the contract, a series of periodic payments over the life of the contract and payments based upon the achievement of certain billing mechanisms. The upfront payments are deferred and recognized as revenues and services are performed under the proportional performance method. Periodic payments, including payments related to the achievement of certain billing mechanisms in the contract, are invoiced pursuant to the terms of the contract once the agreed upon services criteria have been achieved. Payments based upon interim billing mechanisms are included in the value of the contract because we expect to receive them during the term of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain service components separately but as an integrated, full service arrangement in connection with the development of the drug.

Clients generally may terminate a contract on short notice which might cause unplanned periods of excess capacity and reduced revenues and earnings. Client initiated delays or cancellations for ongoing clinical trials can come suddenly and may not be foreseeable. To offset the effects of early termination of significant contracts, we attempt to negotiate the payment of an early termination fee as part of the original contract. Generally, we have not been successful in negotiating such fees. Our contracts typically require payment to us of expenses incurred to wind down a study and fees earned to date. Therefore, revenue recognized prior to cancellation does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a fixed price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

Our accounting policy for recognizing revenue for terminated projects requires us to perform a reconciliation of study activities versus the activities set forth in the contract. We negotiate with the client, pursuant to the terms of the existing contract, regarding the wind up of existing study activities in order to clarify which services the client wants

us to perform. Once we and the client agree on the reconciliation of study activities and the agreed upon services have been performed by us, we would record the additional revenue provided collectibility is reasonably assured.

Table of Contents

Our operations have experienced, and may continue to experience, period-to-period fluctuations in net revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenues in any period are directly related to the number of employees and the number of hours worked by those employees during that period. Our results of operations in any one quarter can fluctuate depending upon, among other things, the number of weeks in the quarter, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the quarter, the mix of revenue, the extent of cost overruns, employee hiring, vacation patterns, exchange rate fluctuations and other factors.

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Out-of-pocket costs are included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Condensed Statements of Operations.

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Condensed Statements of Operations fees paid to investigators and the associated reimbursement since we acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were \$402 thousand and \$492 thousand for the three months ended March 31, 2010 and 2009, respectively.

Accounts Receivable

Accounts receivable and costs and estimated earnings in excess of related billings on completed contracts represent amounts due from our clients who are concentrated primarily in the pharmaceutical and biotechnology industries.

## Table of Contents

Several client contracts contain provisions that allow us to bill and receive advance payments to be utilized for investigator fees and reimbursable expenses. In some instances, the client requires that we maintain separate cash accounts to be utilized for investigator fees, which are included as Investigator Advances. Funds received as customer advances, excluding investigator advances for which separate cash accounts are required as part of our contract with the client, are included as part of Cash and Cash Equivalents. The balance of customer advances, including investigator advances of \$6 thousand, was \$985 thousand as of March 31, 2010. The balance of customer advances, including investigator advances of \$19 thousand was \$1.4 million as of December 31, 2009. As of March 31, 2010 and December 31, 2009, there were no customer advances billed, but not received.

## Financial Instruments

The fair value of cash and cash equivalents, restricted cash, accounts receivable, costs and estimated earnings in excess of related billings on uncompleted contracts, accounts payable, accrued expenses and billings in excess of related costs and estimated earnings on uncompleted contracts, notes payable, credit lines, and obligations under capital leases were not materially different than their carrying amounts as reported at March 31, 2010 and December 31, 2009.

As of March 31, 2010, the Company was not a counter party to any forward foreign exchange contracts.

## Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 8 years for equipment and furniture and fixtures and the remaining lease term for leasehold improvements and assets under capital lease. Depreciation and amortization, excluding the amortization of intangible assets, for the three months ended March 31, 2010 and 2009 was \$25 thousand. Expenditures for maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or fully depreciated the cost and accumulated depreciation are removed from the accounts, and any gain or loss on the sale of property and equipment is included in operations.

## Stock-Based Compensation

The Company accounts for stock based compensation in accordance with ASC 718 using the Modified Prospective Approach. ASC 718 requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date, or the date of later modification, over the requisite service period. In addition, ASC 718 requires unrecognized cost (based on the amounts previously disclosed in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period. Accordingly, prior period amounts have not been restated.

## Goodwill and Intangible Assets

Goodwill is carried at cost and is not amortized. We test goodwill for impairment on an annual basis as November 1st of each fiscal year, relying on a number of factors including operating results, business plans and anticipated future cash flows. Company management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, then the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair

value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Definite-lived intangibles are amortized on a straight-line basis over their useful lives. We review our other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

## Table of Contents

### Foreign Currency Translation

Assets and liabilities of the Company's international operations are translated into U.S. dollars at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income.

### Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC 740, "Accounting for Income Taxes", ("ASC 740"). ASC 740 requires recognition of deferred tax liabilities and assets for the future expected tax consequences of events that have been included in the financial statements or tax returns.

Under this method deferred tax liabilities and assets are determined based on the difference between the financial statement tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At March 31, 2010, the Company recorded a full valuation allowance against its net deferred tax assets and net operating loss carry-forwards given that it is more likely than not that the deferred tax asset will not be realized.

The Company files its tax returns as prescribed by the tax laws of the jurisdiction in which it operates. None of the Company's tax filings in these jurisdictions are currently under audit. The Company's policy is to recognize interest and penalties in Other Expense.

### Earnings (Loss) Per Share

Earnings (loss) per share is calculated in accordance with ASC 260, "Earnings Per Share", ("ASC 260"). Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of warrants and outstanding stock options under the Company's equity incentive plans. For 2010 and 2009 diluted net loss per common share is the same as basic net loss per common share, since the effects of potentially dilutive securities are antidilutive.

### Results of Operations

#### Three Months Ended March 31, 2010 Compared With Three Months Ended March 31, 2009

#### Continuing Operations:

Net revenue for the three months ended March 31, 2010 decreased by \$1.5 million to \$3.0 million as compared to \$4.5 million for the three months ended March 31, 2009. The decrease in net revenues was primarily attributable to reduced new business awards, contract cancelations along with the performance of unexpected out of scope work for which revenue can not be recognized until corresponding change orders are executed with the client. This was partially off set by favorable foreign currency fluctuations of \$165 thousand. For the three months ended March 31, 2010, net revenue from our largest clients amounted to 44% of our net revenue, with the largest clients representing 20%, 15%, and 9% of net revenue, respectively. For the three months ended March 31, 2009, net revenue from these same clients also amounted to 48% of our net revenue, representing 36%, 3%, and 9% of net revenue, respectively.

Reimbursement revenue consisted of reimbursable out-of-pocket expenses incurred on behalf of our clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.



## Table of Contents

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by approximately \$100 thousand to \$2.8 million for the three months ended March 31, 2010 from \$2.9 million for the three months ended March 31, 2009. The decrease in direct expenses was due to reductions in staff and subcontractors utilized on active clinical studies being conducted partially off set by unfavorable foreign currency fluctuations of approximately \$163 thousand for the three months ended March 31, 2010 compared to same prior year period. Direct expenses as a percentage of net revenue were approximately 93% and 65% for the three months ended March 31, 2010 and March 31, 2009, respectively.

Selling, general, and administrative expenses (“SG&A”) includes the salaries, wages and benefits of all administrative, financial and business development personnel and all other support expenses not directly related to specific contracts. These costs decreased approximately \$72 thousand to \$2.0 million for the three months ended March 31, 2010. The decrease in SG&A is primarily due to reductions in staff and other costs offset by unfavorable foreign currency fluctuations of approximately \$86 thousand. As a percentage of revenues, SG&A expenses increased to 66% for the three months ended March 31, 2010 compared with 46% the prior year period as a result of lower net revenues.

Depreciation and amortization expense was approximately \$94 thousand and \$90 thousand for the three months ended March 31, 2010 and 2009, respectively.

Loss from operations increased by \$1.3 million to \$1.9 million for the three months ended March 31, 2010 compared to a loss from operations of \$579 thousand from operations for the three months ended March 31, 2009, primarily for the reasons noted in the preceding paragraphs.

Net interest expense for the three months ended March 31, 2010 was approximately \$14 thousand compared to net interest expense of \$3 thousand for the three months ended March 31, 2009 primarily as a result of an increase level of borrowing under our credit facilities during the three months ended March 31, 2010 compared to the same prior year period.

Net loss from continuing operations for the three months ended March 31, 2010 was \$1.9 million, or \$(0.56) per diluted share, as compared to a net loss from continuing operations of \$574 thousand, or \$(0.23) per diluted share for the three months ended March 31, 2009.

### Discontinued Operations, Net of Tax

The net after tax loss from discontinued operations for the three months ended March 31, 2010 amounted to \$15 thousand as compared to the net after tax income of \$378 thousand from discontinued continued operations during the three months ended March 31, 2009.

### Liquidity and Capital Resources

On July 16, 2009, the Company sold substantially all of the assets relating to the Company’s US line of business to Pierrel Research USA, Inc., the result of which the Company no longer has any employees or significant operations in the United States. Due to this sale, for the three months ended March 31, 2010 and 2009, the results of the U.S. business have been presented as discontinued operations in the consolidated financial statements.

On October 19, 2009, we announced that we had completed a private placement of 467,188 shares of its common stock with a private investor for an aggregate purchase price of \$1,575,000 or \$3.20 per share.

Historically our net cash used in operations has been substantial. Our net cash used in operations for the three months ended March 31, 2010 was \$337 thousand. Our cash and cash equivalents as of March 31, 2010 was \$165 thousand.

We anticipate that we will meet our cash requirements at least into the second quarter of 2011, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2010 and we are able to maintain our current customer contracts. We will continue to seek strategic alternatives, including, but not limited to attempting to secure additional financing. Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us or at all. If we are unable to secure additional financing on terms acceptable to us and on a timely basis, we may significantly reduce our operating costs, which may include the cessation of operations in some countries. Our consolidated financial statements do not include any adjustment to reflect the possible future effects on the recoverability or classification of assets or the amounts and classification of liabilities that may result from the outcome of our ability to continue as a going concern.

Table of Contents

The accompanying consolidated condensed financial statements have been prepared on the basis of the Company continuing as a going concern. However, the factors summarized above have raised substantial doubt about our ability to continue as a going concern for the foreseeable future

Our contracts usually require a portion of the contract amount to be paid at the time the contract is initiated. Additional payments are generally made upon completion of negotiated performance milestones, or on a regularly scheduled basis, throughout the life of the contract. Accordingly, cash receipts do not necessarily correspond to costs incurred and revenue recognized. For terminated studies, our contracts frequently entitle us to receive the costs of winding down the terminated project, as well as all fees earned by us up to the time of termination.

Net revenue is recognized on a proportional performance basis. We typically receive a low volume of large-dollar receipts. As a result, the number of days net revenue outstanding in accounts receivable, costs and estimated earnings in excess of related billings, customer advances, and billings in excess of related costs will fluctuate due to the timing and size of billings and cash receipts. At March 31, 2010, the net days revenue outstanding increased by 5 days to 36 days compared to 31 days at December 31, 2009. Compared to December 31, 2009, accounts receivable decreased \$1.2 million to \$2.2 million at March 31, 2010, primarily due the reduction in overall projects and the related billing schedules.

Table of Contents

Costs and estimated earnings in excess of related billings on uncompleted contracts decreased by approximately \$600 thousand to \$1.1 million as of March 31, 2010 compared to \$1.7 million as of December 31, 2009. The balance at March 31, 2010 primarily consisted of 3 clinical trials. The top two balances constituted 46% and 10% of the balance. This balance is mostly attributable to a delay in the timing of billings compared to when the work was performed.

Our net cash used by operating activities was approximately \$337 thousand for the three months ended March 31, 2010, compared to net cash used by operating activities of \$2.9 million for the three months ended March 31, 2009. The \$2.5 million decrease is primarily related to decreases in billings in excess of related costs and estimated earnings on for the three months ended March 31, 2010 as compared to same prior year period. Net cash used by investing activities was \$28 thousand for the three months ended March 31, 2010 and represented purchases of computer equipment and software applications. This compares to net cash used by investing activities of \$12 thousand for the three months ended March 31, 2009, which was also used to purchase computer equipment and software applications. Net cash provided by financing activities was \$335 thousand for the three months ended March 31, 2010, compared with net cash used by financing activities of \$26 thousand for the three months ended March 31, 2009. The primary difference related to \$354 thousand of short-term borrowings used to fund operations during the first three months of 2010.

As a result of these cash flows, our cash and cash equivalents balance at March 31, 2010, was \$165 thousand as compared to \$197 thousand at December 31, 2009.

We purchased approximately \$28 thousand of computer equipment and software applications for three months ended March 31, 2010. We anticipate capital expenditures of approximately \$100,000—\$200,000 during the remainder of 2010, primarily for leasehold improvements, software applications, workstations, personal computer equipment and related assets.

**RECENTLY ISSUED ACCOUNTING STANDARDS:**

In January 2010, the FASB issued ASU No. 2010-6, “Improving Disclosures About Fair Value Measurements”, which provides amendments to ASC 820 Fair Value Measurements and Disclosures, including requiring reporting entities to make more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements including information on purchases, sales, issuances, and settlements on a gross basis and (4) the transfers between Levels 1, 2, and 3. The standard is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for annual periods beginning after December 15, 2010. The Company adopted the standard for Levels 1 and 2 on January 1, 2010, and does not expect the adoption of the standard for Level 3, on January 1, 2011, to have a material impact on its consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities”, which amends ASC 810, Consolidation to address the elimination of the concept of a qualifying special purpose entity. The standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE whereas previous accounting guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The standard provides more timely and useful information about an enterprise's involvement with a variable interest entity and became effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company adopted the standard on January 1, 2010.



Table of Contents

The FASB updated ASC Topic 810, Consolidations, and ASC Topic 860, “Transfers and Servicing”, which significantly changed the accounting for transfers of financial assets and the criteria for determining whether to consolidate a variable interest entity (VIE). The update to ASC Topic 860 eliminates the qualifying special purpose entity (QSPE) concept, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the financial asset de-recognition criteria, revises how interests retained by the transferor in a sale of financial assets initially are measured, and removes the guaranteed mortgage securitization re-characterization provisions. The update to ASC Topic 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE's primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. The Company adopted the provisions of these staff positions effective January 1, 2010. The adoption of these staff positions could impact future transactions entered into by the Company.

New Accounting Pronouncements not yet effective

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition) (ASU 2009-13) and ASU 2009-14, “ Certain Arrangements that Include Software Elements”, (amendments to ASC Topic 985, Software) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of the adoption of these ASUs on its consolidated results of operations or financial condition. The Company will implement the standard effective January 1, 2011.

In April 2010, the FASB issued ASU 2010-13, Topic 718, Compensation—Stock Compensation, which addressed the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASU 2010-13 specifies that a share-based payment awarded that contains a condition that is not a market, performance, or service condition is required to be classified as a liability unless it otherwise qualifies as equity. The amendment is effective for fiscal years, and interim period beginning on or after December 15, 2010. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated results of operations or financial condition. The Company will implement the standard effective January 1, 2011.

Table of Contents

ITEM 4T. CONTROLS AND PROCEDURES

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The Company's principal executive officer and principal financial officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report (the "Evaluation Date") and, based on that evaluation, concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure that information that is required to be disclosed in its reports under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our principal executive and principal financial officers, has evaluated any changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2010, and has concluded that there was no change that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

We may not be able to meet our cash requirements without implementing cost cutting initiatives, increasing revenues, and maintaining current customer contracts; failure to do so will result in the need to raise additional capital or significantly reduce our operating costs, which may include the cessation of operations in certain countries.

Historically, our net cash used in operations has been substantial. Our net cash used in operations for the three months ended March 31, 2010 was \$337 thousand. Our cash and cash equivalents as of March 31, 2010 was \$165 thousand as compared to \$197 thousand as of December 31, 2009. We anticipate that will meet our cash requirements at least into June of 2011, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts and we are able to maintain our current customer contracts. In the event we are unable to do so, in order for the Company to continue as a going concern we will be required to obtain additional capital from external sources or significantly reduce our operating costs, which may include the cessation of operations in some countries.

Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us or at all. Given the current levels of the trading price of the Company's common stock, if the Company were to raise additional capital by issuing equity securities, existing stockholders' percentage ownership would be reduced and they would experience substantial dilution. If we were to raise additional funds by issuing debt securities, these debt securities would have rights, preferences, and privileges senior to those of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. If we are unable to obtain additional capital, we will scale back our operations until such capital is obtained or seek stockholder approval to wind down operations and liquidate the company.

The perception that we may not be able to continue as a going concern may adversely affect our business.

Any perception that we may not be able to continue as a going concern may cause others to choose not to deal with us due to concerns about our ability to meet our contractual obligations and may adversely affect our ability to win new contracts and/or raise additional capital.

We currently fail to meet NASDAQ's \$2.5 million minimum stockholders' equity requirement for continued listing and may not be able to meet the other listing requirements in the future, with the result being that our Common Stock may be delisted from NASDAQ.

Our common stock began trading on NASDAQ in December 1997. There are several requirements for continued listing on NASDAQ including, but not limited to, a minimum stock price of \$1.00 per share and either (a) \$2.5 million or more in stockholders' equity, (b) market capitalization of \$35.0 million or more, or (c) net income in the last fiscal year, or two of the last three fiscal years, of \$500,000 or more.

On August 25, 2009, the Company received a letter from The NASDAQ Stock Market notifying the Company that, based on its Form 10-Q for the period ended June 30, 2009, NASDAQ determined that the Company's stockholders' equity did not comply with the minimum \$2.5 million stockholders' equity requirement for continued listing on The NASDAQ Capital Market. As provided in the NASDAQ Marketplace Rules, the Company submitted to NASDAQ a plan and timeline to achieve and sustain compliance. NASDAQ granted the Company an extension until December 8, 2009 to comply and notified Company that, if at the time of its periodic report for the year ending December 31, 2009, the Company did not evidence compliance, the Company's common stock may be subject to delisting. As of December 31, 2009 the stockholders' equity of the Company was \$2.3 million, which failed to meet the \$2.5 million



minimum stockholders equity requirement. The Company received a delisting action on April 29, 2010 from the NASDAQ Stock Market notifying the Company of its failure to comply with the requirement. In accordance with the terms of the Market Place rules, the Company requested a hearing before the NASDAQ Listing Qualifications Panel. Such request will stay any delisting determination by the NASDAQ Listing Qualifications Staff and the Company's common stock will remain listed on NASDAQ pending a formal determination by the Panel. On April 29, 2010, The NASDAQ Capital Market notified the Company that the hearing of the Listing Qualifications Panel will take place on June 10, 2010. There can be no assurances as to the outcome of the hearing and our continued listing on The NASDAQ Stock Market.

Table of Contents

In addition, on September 15, 2009 the Company received notice from NASDAQ that the minimum bid price of the Company's common stock was below \$1.00 per share for thirty consecutive business days and that it was therefore not in compliance with Marketplace Rule 5550(a)(1). The notification letter gave the Company until March 15, 2010 to regain compliance with the minimum closing bid price requirement. In an effort to satisfy the minimum bid price requirement of \$1.00, on February 16, 2010 the Company effected a one-for-eight reverse stock split of the Company's common stock. Although as of the date of the filing of this Annual Report on Form 10-K for the period ended December 31, 2009 the Company is in compliance with minimum bid requirement, there can be no assurances that the Company will continue to meet this requirement in the future or the other listing requirements required for continued listing, with the result being that our common stock might be delisted.

If delisted, our common stock will likely be quoted in the over-the-counter market in the so-called "pink sheets" or quoted in the OTC Bulletin Board. In addition, our common stock would be subject to the rules promulgated under the Securities Exchange Act of 1934 relating to "penny stocks." These rules require brokers who sell securities that are subject to the rules, and who sell to persons other than established customers and institutional accredited investors, to complete required documentation, make suitability inquiries of investors and provide investors with information concerning the risks of trading in the security. These requirements would make it more difficult to buy or sell our common stock in the open market. In addition, the delisting of our common stock could materially adversely affect our ability to raise capital on terms acceptable to us or at all. Delisting from NASDAQ could also have other negative results, including the potential loss of confidence by clients and employees, the loss of institutional investor interest and fewer business development opportunities.

Our backlog may not be indicative of future results.

Backlog is the amount of revenue that remains to be earned and recognized on written awards, signed contracts and letters of intent. We cannot be certain that the backlog we have reported will be indicative of our future results. A number of factors may affect our backlog, including: the ability of clients to reduce or expand the size and duration of the projects (some are performed over several years); the termination or delay of projects; and a change in the scope of work during the course of a project. In addition since our backlog is reported in U.S. Dollars, but substantially all of our contracts are denominated in currencies other than the U.S. Dollar, changes in the foreign currency exchange rates could reduce the amount of backlog reported.

Also, if clients delay projects, the projects will remain in backlog, but will not generate revenue at the rate originally expected. Accordingly, historical indications of the relationship of backlog to revenues may not be indicative of future results and should not be relied upon.

Table of Contents

Our inability to forecast our revenue pipeline or convert revenue pipeline into contracts could increase fluctuations in our revenue and financial results.

We use a “pipeline” system, a common industry practice, to forecast contract awards and trends in our business. Our management team monitors the status of all potential contract awards, including the potential dollar amount of each contract transaction. We aggregate these estimates periodically to generate a pipeline and then evaluate the pipeline to identify trends in our business. This pipeline analysis and related estimates of revenue may differ significantly from actual revenues in a particular reporting period. When customers delay contracts, reduce the amount of their contract or cancel contracts altogether, it will reduce the rate of conversion of the pipeline into contracts and our revenues will be harmed. Our inability to respond to a variation in the pipeline or in the conversion of the pipeline into contracts in a timely manner, or at all, could cause us to plan or budget inaccurately and thereby could adversely affect our results of operations and financial condition.

Our operating results can be expected to fluctuate from period to period.

Fluctuating operating results are usually due to the level of new business awards in a particular period and the timing of the initiation, progress or cancellation of significant projects. Even a short acceleration or delay in such projects could have a material effect on our results in a given reporting period. Varying periodic results could adversely affect the price of our common stock if investors react to our reporting operating results which are less favorable than in a prior period or lower than those anticipated by investors or the financial community generally.

Our stock price may continue to experience fluctuations.

The market prices of securities of thinly-traded companies such as ours generally are highly volatile. In this market environment, the sale of a substantial number of shares of our common stock in the public market or the perception that such a sale might occur would likely have a materially adverse effect on the market price of our common stock.

Any litigation brought against us as a result of this volatility could result in substantial costs and a diversion of our management’s attention and resources, which could negatively impact our financial condition, revenues, results of operations, and the price of our common stock.

If we raise additional capital by issuing equity securities in a fluctuating market, many or all of our existing stockholders may experience substantial dilution, and if we need to raise capital by issuing equity securities at a time when our stock price is down, we may have difficulty raising sufficient capital to meet our requirements.

We may incur additional impairment charges which may adversely affect our results of operations.

The Company follows the provisions ASC 805, “Business Combinations” and ASC 350, “Goodwill and Other Intangible Assets,” applicable to business combinations. In accordance with these standards, goodwill acquired in connection with the acquisition of Encorium Oy was not amortized. Under ASC 350, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The Company performed its annual impairment testing as of November 1, 2009 and determined that both goodwill and related intangible assets acquired in connection with the acquisition of Encorium Oy were not impaired and that no adjustment to the carrying value was necessary as of that date. Impairment testing involves various estimates and assumptions, which could vary, and an analysis of relevant market data and market capitalization. If our stock price continues to decline or if economic conditions continue to deteriorate, we may incur additional impairment charges which may adversely impact our results of operations and financial condition.

Failure to develop new business in our intensely competitive industry will cause our revenues to decline.

The market for clinical research services is highly competitive. We primarily compete against in-house departments of pharmaceutical, and biotechnology companies and other clinical research organizations. Competitors in our industry range from small, limited-service providers to full service, global clinical research organizations. Many of our competitors have an established global presence, including Quintiles Transnational Corp., Covance, Inc., Parexel International Corporation, Icon Clinical Research, and Kendle International, Inc. In addition, many of our competitors have substantially greater financial and other resources than we do. Significant factors in determining whether we will be able to compete successfully include: our consultative and clinical trials design capabilities; our reputation for on-time quality performance; our expertise and experience in specific therapeutic areas; the scope of our service offerings; our ability to recruit investigators and study subjects in a timely manner; our strength in various geographic markets; the price of our services; our ability to acquire, process, analyze and report data in a time-saving and accurate manner; our global data services capabilities; our ability to manage large-scale clinical trials both domestically and internationally; and our size.

## Table of Contents

If our services are not competitive based on these or other factors and we are unable to develop an adequate level of new business, our business, backlog position, financial condition and results of operations will be materially and adversely affected. In addition, we may compete for fewer clients arising out of consolidation within the pharmaceutical industry and the growing tendency of drug companies to outsource to a smaller number of preferred clinical research organizations that have far greater resources and capabilities.

Our services may from time to time experience periods of increased price competition that could have a material adverse effect on our profitability and revenues. Additionally, the CRO industry is not highly capital-intensive, and the financial costs of entry into the industry are relatively low. Therefore, as a general matter, the industry has few barriers to entry. Newer, smaller entities with specialty focuses, such as those aligned to a specific disease or therapeutic area, may compete aggressively against us for clients.

We depend on a small number of industries and clients for our business, and the loss of one of our significant clients could cause revenues to drop quickly and unexpectedly.

Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of our European project work, although the mix of projects is subject to change from year to year. Our net revenues from our top largest clients amounted to 51% of our net revenues representing 20%, 15%, 9% and 7% of our net revenues, respectively, for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009 in which net revenues from these clients amounted to 51% of our revenues representing 36%, 3%, 9% and 3%. The Company expects that a relatively small number of clients will continue to represent a significant percentage of its net revenue. Contracts with these clients generally can be terminated on short notice. The loss of business from any one of these significant clients would have a material and adverse effect on its business and revenues.

Loss of key personnel, or failure to attract and retain additional personnel, may cause the success and growth of our business to suffer.

Our future success depends on the personal efforts and abilities of the principal members of our senior management and scientific team to provide strategic direction, develop business, provide service to our clients, manage our operations and finances, and maintain a cohesive and stable environment. The loss of their services might significantly delay or prevent the achievement of business development and strategic objectives. As a provider of complex clinical trial support services, our success depends on our ability to retain key employees and to attract additional qualified employees. Competition for qualified personnel is intense and we cannot assure you that we will be able to retain existing personnel or attract and retain additional highly qualified employees in the future. The loss of services of any of our key executives may have a material and adverse affect on our business operations, results of operations and financial position.

Competition for our key executives and skilled personnel, particularly those with a medical degree, a Ph.D. or equivalent degrees, is intense. We compete with clinical research organizations, pharmaceutical and biotechnology companies, and academic and research institutions that have far greater financial resources to recruit skilled personnel. Our inability to attract and retain qualified executives and scientific staff could have a material and adverse affect on our business plan, results of operations and financial condition. There can be no assurance that we will be able to continue to attract and retain qualified executives and scientific staff in the future.

## Table of Contents

We may bear financial losses because our contracts may be delayed or terminated or reduced in scope for reasons beyond our control.

Our contracts generally may be terminated or reduced in scope either immediately or upon notice. Clients may terminate or delay their contracts for a variety of reasons, including, but not limited to, the failure of products to satisfy safety requirements, unexpected or undesired clinical results, merger or potential merger-related activities, the client's budget constraints, the client's decision to terminate the development of a particular product or to end a particular study, insufficient patient enrollment in a study, insufficient investigator recruitment, manufacturing problems resulting in shortages of the product, or our failure to perform our obligations under the contract. This risk of loss or delay of contracts potentially has greater effect as we pursue larger outsourcing arrangements with global pharmaceutical companies.

Also, over the past several years we have observed that clients may be more willing to delay, cancel or reduce contracts more rapidly than in the past. In addition, companies may proceed with fewer clinical trials or conduct them without assistance of contract research organizations as a result of changing priorities or other internal considerations. These factors may cause such companies to cancel contracts with CROs, such as Encorium. The loss, reduction in scope or delay of a significant contract or the loss or delay of multiple contracts could materially and adversely affect our business, results of operations and financial condition.

The fixed price nature of our contracts could have a negative impact on our operating results.

A significant portion of our contracts are at fixed prices. As a result, we bear the risk of cost overruns. If we fail to adequately price our contracts, fail to effectively estimate the cost to complete fixed price contracts, or if we experience significant cost overruns, our business, results of operations and financial condition could be materially and adversely affected. In addition, contracts with our clients are subject to change orders, which occur when the scope of work performed by us needs to be modified from what was originally contemplated by our contract with the client. This can occur, for example, when there is a change in a key study assumption or parameter or a significant change in timing. Under U.S. generally accepted accounting principles, we cannot recognize additional revenue anticipated from change orders until appropriate documentation is received by us from the client authorizing the change made. However, if we incur additional expense in anticipation of receipt of that documentation, we must recognize the expense as incurred. Further, we may not be successful convincing our clients to approve change orders which change the scope of current contracts. Such under-pricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Changes in outsourcing trends in the pharmaceutical and biotechnology industries could materially and adversely affect our operating results and growth rate.

Industry trends and economic factors that affect our clients in the pharmaceutical and biotechnology industries also affect our business. Our revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries in research and development. The practice of many companies in these industries has been to hire outside organizations like us to conduct clinical research projects. This practice has grown significantly in the last decade, and we have benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, our business could be materially and adversely affected. For example, over the past several years, mergers and other factors in the pharmaceutical industry appear to have slowed decision-making by pharmaceutical companies and delayed drug development projects. The continuation of or increase of these trends could have a negative affect on our business.



Table of Contents

Additionally, numerous governments and managed care organizations have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and pharmaceutical companies. If future regulatory cost containment efforts limit the profits that can be derived on new drugs, our clients might reduce their research and development spending, which could reduce our business.

Failure to comply with existing regulations could harm our reputation and our operating results.

Any failure on our part to comply with applicable regulations could result in the termination of on-going clinical research or the disqualification of data for submission to regulatory authorities. For example, if we were to fail to verify that patient participants were fully informed and had fully consented to a particular clinical trial, 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 client, but at a substantial cost to us. The issuance of a notice from the FDA based upon a finding of a material violation by us of GCP requirements could result in contractual liability to our clients and/or the termination of ongoing studies which could materially and adversely affect our results of operations. Similar notices could be issued from the regulatory authorities in other countries where we conduct clinical studies. Furthermore, our reputation and prospects for future work could be materially and adversely diminished.

Changes in governmental regulation could reduce the need for the services we provide, which would negatively affect our future business opportunities.

In recent years the United States Congress, state legislatures and foreign governments have considered various types of health care reform in order to control growing health care costs. The United States Congress, state legislatures and foreign governments may again address health care reform in the future. We are unable to predict what legislative proposals will be adopted in the future, if any.

Implementation of health care reform legislation that results in additional costs to develop new drugs could limit the profits that can be made by our clients from the development of new products. This could adversely affect our clients' research and development expenditures, which could in turn decrease the business opportunities available to us both in the United States and elsewhere. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings. We cannot predict the likelihood of any of these events.

Governmental agencies throughout the world, but particularly in the U.S., strictly regulate the drug development and approval process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Any changes in drug approval regulatory requirements such as the introduction of simplified drug approval procedures or an increase in regulatory requirements that we have difficulty satisfying, could eliminate or substantially reduce the need for our services. These and other changes in regulation could have an impact on the business opportunities available to us. As a result, our business, results of operations and financial condition may be materially and adversely affected.

Proposed and future laws and regulations, including laws and regulations relating to the confidentiality of patient information, might increase the cost of our business, increase our risks of liability or limit our service offerings.

Various governments might adopt healthcare legislation or regulations that are more burdensome than existing regulations. These changes could increase our expenses or limit our ability to offer some of our products or services. For example, the confidentiality of patient specific information and the circumstances under which it may be released for inclusion in our databases or used in other aspects of our business are subject to substantial government regulation. Additional legislation governing the possession, use and dissemination of medical record information and other personal health information has been proposed at both the state and national levels and is likely to be proposed in other countries. Proposed federal regulations governing patient specific health information might require us to



implement new security measures that require substantial expenditures or limit our ability to offer some of our products and services. These regulations might also increase our costs by creating new privacy requirements and mandating additional privacy procedures for our business, thereby materially and adversely affecting our business, results of operations and financial condition.

Table of Contents

Adverse changes in general economic or political conditions in any of the major countries in which we do business could adversely affect our business, operating results and financial position.

Recently, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. If economic growth in the global economy is further slowed, many customers may delay or reduce spending on our services, which would harm our business, results of operations and financial condition.

Our operations may be interrupted by the occurrence of a natural disaster or other catastrophic event.

We depend upon our clients, study sites and our facilities, as well as the ability to readily travel among these, for the continued operation of our business. We also depend upon the continuous, effective, reliable and secure operation of our computer hardware, software, networks, telecommunications networks, internet servers and related infrastructure. However, catastrophic events, including terrorist attacks, could still disrupt our operations, those of our clients or study sites, or our ability to travel among these locations, which would also affect us. Although we carry business interruption insurance, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies. Any natural disaster or catastrophic event affecting our facilities could have a material and adverse affect on our business and results of operations.

Our success depends on our ability to keep pace with rapid technological changes that could make our products and services less competitive or obsolete.

The clinical research aspects of the pharmaceutical and biotechnology industries are subject to increasingly rapid technological changes. Our competitors or others might develop technologies, products or services that are more effective or commercially attractive than our current or future technologies, products or services, or render our technologies, products or services less competitive or obsolete. If we cannot make enhancements to our technologies, products and services necessary for us to remain competitive, our competitive position, and in turn our business, results of operations and financial condition, would be materially and adversely affected.

We may have exposure to substantial personal injury claims and may not have adequate insurance to cover such claims.

Our business primarily involves the testing of experimental drugs and biologics or other regulated products on consenting human volunteers pursuant to a study protocol. These tests create a risk of liability for personal injury to or death of volunteers resulting from negative reactions to the drugs administered or from improper care provided by third-party investigators, particularly to volunteers with life-threatening illnesses. In connection with many clinical trials, we contract with physicians to serve as investigators in conducting clinical trials to test new drugs on human volunteers. We do not believe that we are legally accountable for the medical care rendered by third party investigators, and we seek to limit our liability with our clients, third party investigators and others. Although our contracts with clients generally include indemnity provisions and we have loss insurance, our financial condition and results of operations could be materially and adversely affected if we had to pay damages or incur defense costs in connection with a claim that is outside the scope of an indemnity or insurance coverage. Additionally, our financial condition could be materially and adversely affected if our liability exceeds the amount of our insurance.

Table of Contents

Contractual indemnification provisions generally do not protect us against liability arising from certain of our own actions, such as negligence. Our financial condition and results of operations could be materially and adversely affected if we were required to pay damages or bear the cost of defending any claim which is not covered by a contractual indemnification provision, in the event that a party who must indemnify us does not fulfill its indemnification obligations, or if the amount we are required to pay is beyond the level of our insurance coverage. In addition, we may not be able to continue to maintain adequate insurance coverage on terms acceptable to us.

If we are unable to attract suitable willing volunteers for the clinical trials of our clients, our results could be materially and adversely affected.

One of the factors on which we compete is the ability to recruit independent investigators who can identify volunteers for the clinical studies we manage on behalf of our clients. These clinical trials rely upon the ready accessibility and willing participation of volunteer subjects. These subjects generally include volunteers from the communities in which the studies are conducted, which to date have provided an adequate pool of potential subjects for research studies. Many of our contracts include payments for achieving specific targets directly tied to the recruitment of study subjects. The trials we manage and our operating results could be materially and adversely affected if we are unable to attract suitable and willing volunteers on a consistent basis.

If we are unable to safeguard our networks and clients' data, our clients may not use our services and our business may be harmed.

Our networks may be vulnerable to unauthorized access, computer hacking, computer viruses and other security problems. An individual who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. Security measures that we adopt from time to time may be inadequate.

We may have difficulty obtaining director and officer liability insurance in acceptable amounts for acceptable rates.

We cannot assure that we will be able to obtain in the future sufficient director and officer liability insurance coverage at acceptable rates and with acceptable deductibles and other limitations. Failure to obtain such insurance could materially harm our financial condition in the event that we are required to defend against and resolve any future securities class actions or other claims made against us or our management. Further, the inability to obtain such insurance in adequate amounts may impair our future ability to retain and recruit qualified officers and directors.

We do not intend to pay dividends.

We have never paid any cash dividends on our common stock and do not expect to declare or pay any cash or other dividends in the foreseeable future.

Failure to comply with Section 404 of the Sarbanes-Oxley Act could negatively impact the market price of our stock  
Failure to maintain effective internal controls in accordance price.

If, in the future, we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could negatively impact the market price of our common stock.



Table of Contents

Actions or inspections by regulatory authorities may cause clients not to award future contracts to us or to cancel existing contracts, which may have a material and adverse effect on our results of operations.

We may be subject to continuing inspections of our facilities and documentation in connection with studies we have conducted in support of marketing applications, or routine inspections of our facilities that have yet to be inspected by regulatory authorities. Regulatory authorities can have significant authority over the conduct of clinical trials, and they have the power to take regulatory and legal action in response to violations of clinical standards, subject protection and regulatory requirements in the form of civil and criminal fines, injunctions and other measures. Additionally, there is a risk that actions by regulatory authorities, if they result in significant inspectional observations or other measures, could cause clients not to award us future contracts or to cancel existing contracts. Depending upon the amount of revenue lost, the results could have a material and adverse affect on our results of operations.

We might lose business opportunities as a result of healthcare reform.

Numerous governments have undertaken efforts to control healthcare costs through legislation, regulation and voluntary agreements with healthcare providers and drug companies. Healthcare reform could reduce the demand for our services and, as a result, our revenue. Any such legislation could cause our customers to spend less on research and development. If this were to occur, we could have fewer clinical trials for our business, which could reduce our earnings.

Our business is subject to international economic, political and other risks that could negatively affect our results of operations or financial position.

Since the sale of our U.S. Business on July 16, 2009, all of our operations are conducted outside the U.S. Our business is subject to substantial risks associated with doing business internationally, including:

- less stable political and economic environments and changes in a specific country's or region's political or economic conditions,

- potential negative consequences from changes in tax laws affecting our ability to repatriate profits,

- unfavorable labor regulations,

- greater difficulties in managing and staffing foreign operations,

- the need to ensure compliance with the numerous regulatory and legal requirements applicable to our business in each of these jurisdictions, and to maintain an effective compliance program to ensure compliance,

- changes in trade policies, regulatory requirements and other barriers,

- civil unrest or other catastrophic events, and

- longer payment cycles of foreign customers and difficulty collecting receivables in foreign jurisdictions.

These factors are beyond our control. The realization of any of these or other risks associated with operating in foreign countries could have a material adverse effect on our business, results of operations or financial condition.

We have substantial exposure to currency risks.

Since the sale of our U.S. Business on July 16, 2009, all of our operations are conducted outside the U.S. We operate in many foreign countries and are subject to exchange rate gains and losses for multiple currencies. We may also be subject to foreign currency transaction risk when our service contracts are denominated in a currency other than the currency in which we incur expenses or earn fees related to such contracts. Changes in the exchange rate foreign currencies and the U.S. dollar could materially affect the translation of our subsidiaries' financial results into U.S. dollars for purposes of reporting our consolidated financial results.

Table of Contents

The Company depends on the biopharmaceutical industry for most of its revenue.

The Company's revenues depend on the outsourcing trends, size of the drug-development pipeline and research and development expenditures of the biopharmaceutical industry. Economic factors and industry trends that affect companies in the industry affect its business. A slowdown in research and development spending or a reprioritization of the drug development pipelines or limited access to capital to fund projects in the biopharmaceutical industry could negatively affect our net service revenues and results of operations. Mergers and acquisitions in the biopharmaceutical industry and the related rationalization of the drug-development pipelines could result in delay or cancellation of certain existing projects.

The Company's indebtedness could adversely affect its business and financial condition.

As of March 31, 2010, the Company's consolidated indebtedness was \$1.6 million. The Company's level of indebtedness will have several important effects on its future operations. For example, the Company will be required to use a portion of its cash flow from operations for the payment of principal and interest due on its outstanding indebtedness. In addition, the Company's outstanding indebtedness and leverage could increase the impact of negative changes in general economic and industry conditions, as well as competitive pressures. Finally, the level of the Company's outstanding indebtedness may affect its ability to obtain additional financing for working capital, capital expenditures or general corporate purposes.

General economic conditions as well as conditions affecting the Company's operations specifically, including, but not limited to, financial and business conditions, many of which are beyond its control, may affect its future performance. As a result, these and other factors may affect the Company's ability to make principal and interest payments on its indebtedness. The Company's business might not generate the cash flow necessary to service its indebtedness. If the Company cannot generate sufficient cash flow from operations in the future to service its indebtedness, it may, among other things:

- Seek additional financing in the debt or equity markets;
- Seek to refinance or restructure all or a portion of its indebtedness;
- Sell selected assets; and/or
- Reduce or delay planned capital expenditures.

These measures might not be sufficient to enable the Company to service its indebtedness in which event an event of default could potentially occur under one of the Companies loan facilities which would materially and adversely affect the Company's financial condition and operations.

The Company may be exposed to risk from its various counterparties.

The current global economy has shown signs of weakening and continues to show signs of fragility; its impact may be far reaching. As a result, the Company may be exposed to risks related to defaults from its suppliers and customers. Key suppliers could fail to deliver agreed upon goods or services. Customers may not be able to obtain financing for their clinical trials with the Company, which may result in the delay or cancellation of these trials. Additionally, customers may not be able to pay or may pay receivables more slowly than in the past resulting in bad debt expenses or poor cash flow.





Table of Contents

We could make acquisitions that could be difficult to integrate, disrupt our business, dilute the equity of our stockholders and harm our operating results.

In an effort to realize our strategic goal of becoming the world's leading vaccine CRO, we may make acquisitions. Acquisitions involve risks, including (i) the inability to successfully integrate acquired businesses or to realize anticipated synergies, economies of scale or other expected value; (ii) difficulties in managing and coordinating operations at new sites; (iii) the loss or termination of key employees of acquired businesses; (iv) the loss of key customers of acquired businesses; (v) performance of acquired products; (vi) unanticipated expenses in connection with refining and improving acquired products; (vii) diversion of management's attention from other business concerns; and (viii) risks of entering businesses and markets in which we have no direct or limited prior experience. Acquisitions may result in the utilization of cash and marketable securities, dilutive issuances of equity securities and the incurrence of debt, any of which would weaken our financial position. In addition, acquisitions may result in the creation of (i) certain definite-lived intangible assets that increase amortization expense, (ii) goodwill and other indefinite-lived intangible assets that subsequently may result in large write-downs should these assets become impaired and (iii) earn-out or other payments that may need to be expensed rather than recorded as additional goodwill.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

