

ENCORIUM GROUP INC
Form 10-Q
August 14, 2008
Table of Contents

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 June 30, 2008.

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)

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Delaware
*(State or other jurisdiction of
incorporation or organization)*

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

**One Glenhardie Corporate Center, 1275 Drummers Lane, Suite
100, Wayne, Pennsylvania**
(Address of principal executive offices)

19087
(Zip Code)

610-975-9533

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", a "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the 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 August 1, 2008, there were 20,834,004 shares of Encorium Group, Inc. common stock outstanding, par value \$.001 per share, which includes 230,864 shares in treasury.

Table of Contents

ENCORIUM GROUP, INC.

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. <u>Consolidated Condensed Financial Statements (unaudited)</u>	
<u>Consolidated condensed balance sheets June 30, 2008 and December 31, 2007</u>	2
<u>Consolidated condensed statements of operations Three and Six months ended June 30, 2008 and 2007</u>	3
<u>Consolidated condensed statements of cash flows Six months ended June 30, 2008 and 2007</u>	4
<u>Notes to consolidated condensed financial statements</u>	5
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
ITEM 4T. <u>Controls and Procedures</u>	37
<u>PART II. OTHER INFORMATION</u>	
ITEM 1A. <u>Risk Factors</u>	38
ITEM 4. <u>Submission of Matters to a Vote of Security Holders.</u>	40
ITEM 6. <u>Exhibits</u>	41
<u>SIGNATURES</u>	S-1

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ENCORIUM GROUP, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(UNAUDITED)**

	June 30, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,198,066	\$ 9,109,456
Investigator advances	377,545	551,697
Accounts receivable, less allowance of \$97,000 for 2008 and 2007, respectively	5,841,059	4,824,795
Prepaid expenses and other	935,075	867,651
Prepaid taxes	15,542	4,031
Costs and estimated earnings in excess of related billings on uncompleted contracts	1,532,941	994,777
Total Current Assets	12,900,228	16,352,407
Property and Equipment, Net	1,131,960	1,293,616
Deferred Acquisition Costs	500,000	
Intangible Assets		
Goodwill	15,388,299	15,388,299
Other intangibles, Net	3,498,033	4,204,825
Other assets	660,236	291,148
Total Assets	\$ 34,078,756	\$ 37,530,295
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 2,762,446	\$ 1,366,905
Accrued expenses	3,488,583	3,696,404
Deferred taxes	167,686	316,675
Obligations under capital leases	30,630	29,688
Billings in excess of related costs and estimated earnings on uncompleted contracts	2,230,972	3,329,869
Customer advances	3,053,858	3,244,834
Total Current Liabilities	11,734,175	11,984,375
Long Term Liabilities		
Obligations under capital leases	103,749	117,723
Deferred taxes	843,127	876,308
Other liabilities	424,988	446,253
Total Long Term Liabilities	1,371,864	1,440,284
Total Liabilities	13,106,039	13,424,659

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Stockholders Equity

Common stock, \$.001 par value 35,000,000 shares authorized, 20,834,004 shares issued and outstanding	20,834	20,834
Additional paid-in capital	32,288,669	32,154,227
Additional paid-in capital warrants	905,699	905,699
Accumulated deficit	(12,116,785)	(8,663,954)
Accumulated other comprehensive income	572,524	387,054
Less:	21,670,941	24,803,860
Treasury stock, at cost, 230,864 shares	(698,224)	(698,224)
Total Stockholders Equity	20,972,717	24,105,636
Total Liabilities and Stockholders Equity	\$ 34,078,756	\$ 37,530,295

See accompanying notes to the consolidated financial statements.

Table of Contents**ENCORIUM GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net revenue	\$ 8,262,478	\$ 7,332,431	\$ 15,746,084	\$ 16,143,777
Reimbursement revenue	1,381,528	1,216,607	2,487,558	2,478,958
Total Revenue	9,644,006	8,549,038	18,233,642	18,622,735
Operating Expenses				
Direct (exclusive of depreciation and amortization)	5,657,098	4,944,872	11,196,769	9,953,808
Reimbursement out-of-pocket expenses	1,381,528	1,216,607	2,487,558	2,478,958
Selling, general and administrative	3,726,661	2,846,655	7,199,532	5,940,472
Depreciation and amortization	343,950	629,056	989,227	1,241,776
Total Operating Expenses	11,109,237	9,637,190	21,873,086	19,615,014
Loss from Operations	(1,465,231)	(1,088,152)	(3,639,444)	(992,279)
Interest Income	28,945	82,366	83,518	135,214
Interest Expense	(8,672)	(16,079)	(11,775)	(26,335)
Net Interest Income	20,273	66,287	71,743	108,879
Net Loss before Income Taxes	(1,444,958)	(1,021,865)	(3,567,701)	(883,400)
Income Tax Expense (Benefit)	493	(174,875)	(114,870)	(145,143)
Net Loss	\$ (1,445,451)	\$ (846,990)	\$ (3,452,831)	\$ (738,257)
Net Loss per Common Share				
Basic	\$ (0.07)	\$ (0.04)	\$ (0.17)	\$ (0.04)
Diluted	\$ (0.07)	\$ (0.04)	\$ (0.17)	\$ (0.04)
Weighted Average Common and Common Equivalent Shares				
Outstanding				
Basic	20,603,140	19,070,611	20,603,140	18,207,771
Diluted	20,603,140	19,070,611	20,603,140	18,207,771

See accompanying notes to the consolidated financial statements.

Table of Contents**ENCORIUM GROUP, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Six Months Ended June 30,	2008	2007
Operating Activities:			
Net Loss	\$ (3,452,831)	\$	(738,257)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	989,227	1,241,776	
Share-based compensation expense	134,443	173,578	
Changes in assets and liabilities:			
Investigator advances	174,924	622,193	
Accounts receivable	(694,214)	194,300	
Prepaid expenses and other	(6,218)	(297,158)	
Prepaid taxes	(11,511)	(1,439)	
Costs and estimated earnings in excess of related billings on uncompleted contracts	(505,919)	(459,491)	
Other Assets	(364,957)	(8,097)	
Accounts payable	1,299,129	(344,412)	
Accrued expenses	(437,436)	7,701	
Other liabilities	(70,828)	(36,898)	
Deferred taxes	(189,238)	(150,047)	
Billings in excess of related costs and estimated earnings on uncompleted contracts	(995,439)	606,687	
Customer advances	(479,202)	(1,499,117)	
Net Cash Used By Operating Activities	(4,610,070)	(688,681)	
Investing Activities:			
Prologue acquisition	(500,000)		
Remedium acquisition			(1,710,766)
Cash paid for property and equipment	(102,732)		(494,878)
Net Cash Used By Investing Activities	(602,732)	(2,205,644)	
Financing Activities:			
Principal payments under capital leases	(13,032)	(14,222)	
Proceeds from stock issue and warrants		4,704,334	
Proceeds from exercise of stock options		314,501	
Proceeds from short-term borrowings	22,680	146,869	
Net Cash Provided By Financing Activities	9,648	5,151,482	
Effect of Exchange Rate Changes on Cash and Cash Equivalents	291,764	94,321	
Net (Decrease) Increase In Cash and Cash Equivalents	(4,911,390)	2,351,478	
Cash and Cash Equivalents, Beginning of Period	9,109,456	5,533,093	
Cash and Cash Equivalents, End of Period	\$ 4,198,066	\$ 7,884,571	

See accompanying notes to the consolidated financial statements.

Table of Contents

ENCORIUM GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Encorium Group, Inc. (the Company) is a Delaware corporation headquartered in Wayne, Pennsylvania with European operations based in Espoo, Finland.

The Company is a clinical research organization (CRO) that engages in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. The Company's mission is to provide its clients with high quality, full-service support for their biopharmaceutical development programs. Encorium offers therapeutic expertise, experienced team management and advanced technologies. The Company has clinical trials experience across a wide variety of therapeutic areas, such as cardiovascular, nephrology, endocrinology/metabolism, diabetes, neurology, oncology, immunology, vaccines, infectious diseases, gastroenterology, dermatology, hepatology, women's health and respiratory medicine. The Company has the capacity and expertise to conduct clinical trials on a global basis.

Basis of Presentation

The accompanying unaudited financial statements for the three and six months ended June 30, 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2008 may not necessarily be indicative of the results that may be expected for other quarters or for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires 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.

Table of Contents

Consolidation

The consolidated financial statements for the three and six months ended June 30, 2008 and 2007 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Investigator Advances

We received advance payments from several of our clients as part of a long-term contract, which included a separate cash account to be utilized for payment of investigator fees. As of June 30, 2008 and December 31, 2007, this cash amount was \$378 thousand and \$552 thousand, respectively. This amount is also included in customer advances in the accompanying balance sheets.

Accounts Receivable

Accounts receivable, net of an allowance for doubtful accounts, consists of customer billings pursuant to contractual terms related to work performed as of June 30, 2008. In general, amounts become billable upon the achievement of billing mechanisms or in accordance with predetermined payment schedules set forth in the contracts with our clients.

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a number of companies within the pharmaceutical, biotechnology and medical device industries. The majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of June 30, 2008, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was \$7.4 million. Of this amount, the exposure to our three largest clients was 46% of the total, with the three largest clients representing 21%, 16% and 9% of total exposure, respectively. As of December 31, 2007, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was \$5.8 million. Of this amount, the exposure to our three largest clients was 39% of the total, with the three largest clients representing 25%, 7%, and 7% of total exposure, respectively.

Revenue Recognition

A significant portion 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. Under some of our contracts work is 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.

Table of Contents

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. These unanticipated additional costs occurred on several long term contracts which we completed or substantially completed during 2004. These contracts spanned a period of three to nine years. 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 up front 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 as 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 down 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 service revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenue in any period is 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, employee utilization, 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. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Rule No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*, out-of-pocket costs are now included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Statements of Operations fees paid to investigators and the associated reimbursement since we acts as an agent on behalf of the clinical trial sponsors with regard to investigator payments, in accordance with EITF No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of investigator fees were \$3 million and \$1.7 million for the three months ended June 30, 2008 and 2007, respectively. The amounts of these investigator fees were \$5.1 million and \$2.7 million for the six months ended June 30, 2008 and 2007, respectively.

Share-Based Compensation

We have adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants.

Effective January 1, 2006, we adopted Statements of Financial Accounting Standards (SFAS) No. 123R using the Modified Prospective Approach. SFAS 123R revises SFAS No. 123, *Accounting for Stock Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires the costs for all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values at grant date, or the date of later modification, over the requisite period. In addition, SFAS No. 123R 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 period. Accordingly, prior period amounts have not been restated. See Note 7 for further detail regarding the adoption of this standard.

Goodwill and Intangible Assets

The Company follows the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, applicable to business combinations. In accordance with these

Table of Contents

standards, goodwill acquired in connection with the acquisition of Remedium was not amortized. However, the identifiable intangible assets acquired in connection with the acquisition of Remedium will be amortized over their useful lives. Under SFAS No. 142, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If carrying value exceeds current fair value, then goodwill is considered impaired and is reduced to fair value via a charge to earnings. The identifiable intangibles acquired in connection with the acquisition of Remedium are also subject to impairment testing under SFAS No. 142, whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Management made an assessment of Remedium's fair value as November 1, 2007, one year from the acquisition date, in order to determine whether the amount of goodwill and related intangible assets acquired had been impaired. Management has determined that both goodwill and intangible assets acquired in connection with the acquisition of Remedium were not impaired and that no adjustment to the carrying values was necessary. As of June 30, 2008, we had goodwill of approximately \$15.4 million and intangibles, net of amortization, of approximately \$3.5 million resulting from the acquisition of Remedium on November 1, 2006.

Foreign Currency Translation

The functional currency of the Company is the United States (U.S.) dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect for the reporting date, and consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive income in stockholder's equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated condensed statements of operations as unrealized (based on the applicable period exchange rate) or realized upon settlement of the transactions.

2. RECENTLY ISSUED ACCOUNTING STANDARDS:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted SFAS No. 157 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* . SFAS No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with

Table of Contents

limited exceptions. This statement is effective for the first fiscal year ending after December 15, 2006 for initial recognition and December 15, 2008 for measurement of plan assets and benefit obligations. We adopted SFAS No. 158 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective in the first fiscal year that begins after November 15, 2007. We adopted SFAS No. 159 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In July 2006, the FASB issued Financial Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted FIN 48 effective January 1, 2007. We have determined that it did not have a material impact on our consolidated financial statements in the year of adoption or for the current year.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) which replaces SFAS No. 141, *Business Combinations*. The scope of SFAS 141R is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. SFAS 141R revises accounting and reporting standards for business combinations and applies to all transactions or other events in which an entity obtains control of one or more businesses by transferring consideration as well as combinations achieved without the transfer of consideration. By applying the same method of accounting the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, this statement is intended to improve the comparability of the information about business combinations provided in financial reports. SFAS 141R applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently in the process of evaluating SFAS 141R, and has not yet determined the impact, if any, that accounting for future business combinations under SFAS 141R, effective January 1, 2009, will have on its consolidated results of operations or financial position.

3. EARNINGS PER SHARE

Earnings per share is calculated in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares plus the dilutive effect of outstanding stock options under our equity incentive plans. Stock options outstanding not included in the table below because of their anti-dilutive effect for the three and six months ended June 30, 2008 were 912 and 1,224, respectively.

Table of Contents

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:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net loss	\$ (1,445,451)	\$ (846,990)	\$ (3,452,831)	\$ (738,257)
Weighted average number of common shares outstanding used in computing basic earnings per share	20,603,140	19,070,611	20,603,140	18,207,771
Dilutive effect of stock options outstanding				
Weighted average shares used in computing diluted earnings per share	20,603,140	19,070,611	20,603,140	18,207,771
Basic loss income per share	\$ (0.07)	\$ (0.04)	\$ (0.17)	\$ (0.04)
Diluted loss income per share	\$ (0.07)	\$ (0.04)	\$ (0.17)	\$ (0.04)

4. COMPREHENSIVE INCOME

A reconciliation of comprehensive loss in accordance with SFAS No. 130, *Reporting Comprehensive Income* is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net loss	\$ (1,445,451)	\$ (846,990)	\$ (3,452,831)	\$ (738,257)
Foreign currency translation adjustment	(86,957)	56,537	185,470	72,199
Comprehensive loss	\$ (1,532,408)	\$ (790,453)	\$ (3,267,361)	\$ (666,058)

5. SEGMENT INFORMATION

The Company has adopted the provisions of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* which establishes standards for reporting business segment information. The Company operates predominantly in the clinical research industry providing a broad range of clinical research services on a global basis to the pharmaceutical, biotechnology and medical device industries.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008		2007		2008		2007	
	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts
Client A	11%	1	17%	3	12%	1	16%	8
Client B	7%	6	14%	13	10%	6	15%	13
Client C	10%	7	13%	2	9%	7	13%	2
	28%	14	44%	18	30%	14	44%	23

[Top](#)
[Clients](#)

Table of Contents

Client A, B and C in the table above represent the largest clients for each period, but do not represent the same client for each year shown. We have no other customers that comprise 10% of our net revenues.

The following table summarizes the distribution of net revenues from external clients by geographical region for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
U.S.	\$ 2,199,152	\$ 2,764,457	\$ 4,275,941	\$ 7,027,308
Finland	\$ 3,564,686	\$ 3,459,426	\$ 7,067,328	\$ 7,000,514
Other Europe	\$ 2,498,640	\$ 1,108,548	\$ 4,402,815	\$ 2,115,955
Total	\$ 8,262,478	\$ 7,332,431	\$ 15,746,084	\$ 16,143,777

The following table summarizes the distribution of the Company's long lived assets by geographical region as of June 30, 2008 and 2007.

	As of June 30,	
	2008	2007
U.S.	\$ 862,873	\$ 1,017,307
Europe	19,155,419	20,863,449
Total	\$ 20,018,292	\$ 21,880,756

6. OTHER LIABILITIES

Effective January 1, 2003, the Company increased by approximately 12,700 to 34,000 the amount of square feet under lease in the same building. The term of the lease was also extended to 2009 and monthly lease payments increased from \$50 thousand to \$72 thousand. As an incentive for the Company to acquire the additional space, the lessor granted the Company \$814 thousand in lease incentives that were used to pay for architectural fees, renovations and improvement costs for the new space. The lease incentives were capitalized as if the Company incurred the costs to make the improvements and are included in Property and Equipment. These assets and the related liability are amortized over the remaining life of the lease at a rate of approximately \$116 thousand per year as an additional amortization expense and a reduction in rent expense, respectively. The accounting for these lease incentives has no impact on net income, stockholders' equity or cash flow. In June 2008, the Company entered into an amended agreement with the lessor to reduce by approximately 10,774 to 23,252 the amount of square feet under lease in the same building. The term of the lease was also extended to December 2014 and the monthly payments decreased from \$79 thousand to \$60 thousand.

Table of Contents

7. STOCKHOLDERS EQUITY

Share-Based Compensation

Effective January 1, 2006 we adopted SFAS No. 123R using the Modified Prospective Approach. SFAS No. 123R revises SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R 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.

Under the Modified Prospective Approach, the amount of compensation expense recognized includes compensation expense for all share-based payments granted prior to, but not yet fully vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123 and compensation expense for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R. Prior to adoption of SFAS 123R, we determined share-based compensation expense by applying the intrinsic value method provided for in APB Opinion No. 25.

For the three and six months ended June 30, 2008, SFAS 123R resulted in incremental stock-based compensation expense of \$63 thousand, and compensation expense of \$134 thousand, respectively, or \$0.01 and \$0.01 on a basic and diluted earning per share basis. For the three and six months ended June 30, 2007, SFAS 123R resulted in incremental stock-based compensation expense of \$91 thousand and \$174 thousand, respectively, or \$0.01 and \$0.01, respectively, on a basic and diluted earning per share basis. The compensation expense associated with SFAS 123R did not have a net impact on cash flows from operating, investing or financing activities. A deduction is not allowed for income tax purposes until the options are exercised. The amount of the income tax deduction will be the difference between the fair value of the Company's common stock and the exercise price at the date of exercise. The tax effect of the income tax deduction in excess of the financial statement expense will be recorded as an increase in additional paid-in-capital. Accordingly, SFAS 123R requires the recognition of a deferred tax asset for the tax effect of the financial statement expense recorded. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, deferred tax assets have been fully reserved as of June 30, 2008. The net operating losses incurred to date by the Company are being carried forward and may be applied against future taxable income subject to certain limitations set forth in Section 382 of the Internal Revenue Code.

The Company has issued stock options to employees under share-based compensation plans. Stock options issued prior to January 1, 2007 were issued at the current market price on the date of the grant, subject to a 3 year vesting period with a contractual term of 5 years. Stock options issued after January 1, 2007 were issued at the current market price on the date of grant, subject to a 3 year vesting period with a contractual term of 10 years. 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 prior to January 1, 2006, we determined the expected life to be 5 years, and an expected life of 4 years for any options granted between January 1, 2006 and December 31, 2006. For options

Table of Contents

issued subsequent to January 1, 2007, we determined the expected life to be 7 years due to the adoption of a new stock option plan under which these shares were issued. The risk free rate is based on the U.S. Treasury bond rate commensurate with the expected life of the option.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate	3.63%	4.57 - 4.59%	2.91 - 2.93%	4.57 - 4.92%
Expected dividend yield				
Expected life	7 years	7 years	7 years	7 years
Expected volatility	49.70%	63.80%	55.15%	63.80%
Forfeiture rate	15.00%	15.00%	15.00%	15.00%

A summary of award activity under the stock option plans as of June 30, 2008 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, 2007	1,091,733	2.05 - 6.08	\$ 2.64	\$ (1,189,989)
Granted	35,000	1.88 - 1.90	1.89	(11,900)
Exercised				
Canceled	(500)	2.20	2.20	325
Options outstanding at March 31, 2008	1,126,233	1.88 - 6.08	\$ 2.62	\$ (1,205,069)
Granted	20,000	1.60	1.60	(1,000)
Exercised				
Canceled	(23,000)	2.17 - 2.86	2.77	28,060
Options outstanding at June 30, 2008	1,123,233	1.88 - 6.08	\$ 2.62	\$ (1,201,859)
Vested options outstanding at:				
June 30, 2008	684,986	\$ 1.88 - 6.08	\$ 2.59	\$ (712,385)
Non-vested options outstanding at:				
June 30, 2008	438,247	\$ 1.88 - 6.08	\$ 2.67	\$ (490,837)

Approximately 236,702 options, net of forfeitures, of the 438,247 non-vested options as of June 30, 2008 will vest within the next year.

As of June 30, 2008, there was \$295 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 3 years.

Based upon the above assumptions, the weighted average fair value of the stock options granted for the three months ended June 30, 2008 and June 2007 was \$0.89 and \$2.45. Based upon the above assumptions, the weighted average fair value of the stock options granted for the six months ended June 30, 2008 and 2007 was \$1.02 and \$2.45, respectively.

Table of Contents

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

The following table summarizes information regarding stock options outstanding at June 30, 2008:

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price per Share
	Number Outstanding at June 30, 2008	Weighted Average Remaining Contractual Life in Years	
\$1.51-\$2.00	55,000	9.79	1.79
2.01-2.50	768,667	1.95	2.26
2.51-3.00	112,566	6.96	2.65
3.01-3.50	5,500	3.26	3.13
3.51-4.00	134,000	3.02	3.70
4.01-4.50	7,500	8.67	4.10
\$6.00 - \$6.50	40,000	8.57	6.08
	1,123,233	3.13	2.62

The following table summarizes information regarding exercisable stock options at June 30, 2008:

Range of Exercise Prices	Options Exercisable		Weighted Average Exercise Price per Share
	Number of Exercisable Options at June 30, 2008	Weighted Average Remaining Contractual Life in Years	
2.01-2.50	525,419	1.92	26.00
2.51-3.00	30,567	0.55	2.60
3.01-3.50	1,832	3.26	3.13
3.51-4.00	111,334	1.85	3.69
4.01-4.50	2,500	8.67	4.10
\$6.00 - \$6.50	13,334	8.57	6.08
	684,986	2.01	2.59

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		Weighted Average Exercise	
	Options Expected to Vest Net of Forfeitures	Weighted Average Remaining Contractual Life in Years	Price Per Share	
\$1.51-\$2.00	15,583	9.79	1.79	
2.01-2.50	172,762	2.01	2.25	
2.51-3.00	23,422	9.29	2.67	
3.01-3.50	1,559	3.26	3.13	
3.51-4.00	9,918	8.76	3.74	
4.01-4.50	2,125	8.67	4.10	
\$6.00-\$6.50	11,333	8.57	6.08	
	236,702	3.76	2.55	

8. SUPPLEMENTAL CASH FLOW INFORMATION

No income tax payments were required for the six months ended June 30, 2008 and 2007, respectively. Cash paid for interest for the six months ended June 30, 2008 and 2007 was approximately \$12 thousand and \$26 thousand, respectively. We did not enter into any capital lease obligations during the three and six months ended June 30, 2008 and 2007. We did not acquire any property and equipment through leasing arrangements during the three and six months ended June 30, 2008 or 2007, respectively.

9. ACQUISITION OF REMEDIUM OY

On November 1, 2006, Encorium Group, Inc. acquired Remedium Oy, a corporation organized under the laws of Finland (Remedium), in which the Company purchased all of the issued and outstanding shares of capital stock of Remedium (the Shares) pursuant to the Combination Agreement dated July 6, 2006 (the Amended Agreement). The consideration paid at closing to Remedium s stockholders (the Stockholders) for the Shares consisted of (i) shares of Common Stock of the Company with a value of \$11 million; and (ii) \$2.5 million in cash. An additional cash payment of \$1.5 million was paid to the Stockholders on March 30, 2007. The Company issued to the Stockholders additional shares of Common Stock of the Company with a value of \$2 million on November 1, 2007, the anniversary of the closing. The Company also issued additional Earn-Out Shares of its Common Stock with a value of \$2 million on April 10, 2007. The value of the Earn-Out Shares was based on the attainment of certain consolidated net revenue targets by Remedium for the year ended December 31, 2006, as described in the Amended Agreement. The Company incurred approximately \$2.26 million of acquisition related costs as of December 31, 2006, and additional acquisition related costs of \$15,760 during 2007. All of the costs associated with the acquisition of Remedium were paid by December 31, 2007.

Table of Contents**10. GOODWILL AND OTHER INTANGIBLES**

The Company follows the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, applicable to business combinations. The amount of Goodwill that resulted from the Remedium acquisition, including deferred taxes of \$1,697,724, was \$15,388,299. In accordance with SFAS No. 141 the amount of goodwill resulting from the Remedium acquisition was determined as the excess of cost over the fair values of acquired net assets. In accordance with these standards, goodwill acquired in connection with the acquisition of Remedium was not amortized. Under SFAS No. 142, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If carrying value exceeds current fair value, then goodwill is considered impaired and is reduced to fair value via a charge to earnings. Should the goodwill become impaired, our consolidated earnings and net worth may be materially adversely affected. In addition, impairment testing involves the use of accounting estimates and assumptions, changes in which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. Management made an assessment of Remedium's fair value as November 1, 2007, one year from the acquisition date, in order to determine whether the amount of goodwill and related intangible assets acquired had been impaired. Management determined that both goodwill and intangible assets acquired in connection with the acquisition of Remedium were not impaired and that no adjustment to the carrying values was necessary.

The Company also acquired \$6.5 million of identifiable intangible assets in connection with the Remedium 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 ended June 30, 2008 and 2007 was \$209 thousand and \$498 thousand, respectively. Amortization expense for the six months ended June 30, 2008 and 2007 was \$707 thousand and \$996 thousand, respectively. The estimated amortization of intangibles expense to be recorded in future periods is as follows:

2008	\$ 127,618
2009	255,236
2010	253,009
2011	241,874
2012	241,874

11. INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 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 June 30, 2008, 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.

Table of Contents

The Company adopted the provisions of Financial Interpretation Number 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109* on January 1, 2007. The implementation of FIN 48 did not result in any adjustment of the Company's beginning tax positions. The impact of the Company's reassessment of its tax positions in accordance with FIN 48 had no material impact on the results of operations, financial condition or liquidity for the six months ended June 30, 2008. The Company has unrecognized United States federal and state net operating loss carryforwards of approximately \$3.6 million and \$7.8 million, respectively. Future changes in the unrecognized tax benefit, will have no impact on the effective tax rate due to the existence of the valuation allowance.

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.

12. COMMON STOCK AND WARRANTS

In May 2007, the Company sold 1,748,252 shares of its common stock, \$0.001 par value in a private placement (the Offering) at a price of \$2.86 per share and warrants to purchase an aggregate of 874,126 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. The Offering resulted in aggregate gross proceeds to the Company of \$5 million before deducting commissions, fees and expenses.

13. PROPOSED ACQUISITION OF PROLOGUE AND MERGER WITH LINKCON AND RISKS RELATING THERETO

Description of Transactions

On June 6, 2008 the Company entered into a non-binding letter of intent with Prologue Research International, Inc., an Ohio based clinical research company ("Prologue"). Pursuant to the non-binding letter of intent, as amended, the Company will acquire all of the issued and outstanding shares of Prologue for \$13.0 million, consisting of \$4.5 million in cash, approximately \$2 million of non-convertible, non-redeemable senior subordinated debt and approximately \$6.5 million of convertible, redeemable senior subordinated debt. The non-refundable deposit of \$500,000 previously paid to Prologue will be applied to the cash portion of the purchase price at closing. Closing of the transaction is subject to approval of the transaction by Encorium's and Prologue's Board of Directors and the signing of a definitive agreement. The closing is expected to occur in the third quarter of 2008.

The cash portion of the purchase price is anticipated to be funded through a loan arranged by Chardan Capital, LLC ("Chardan") in the amount of \$5,000,000. In consideration for the \$5,000,000 the Company will issue Chardan a Note. Although the terms of the Note have not been finalized, it is expected that it will be senior unsecured debt, bear interest at 10% and include warrants to purchase 500,000 shares of common stock of the Company at an exercise price of \$1.80 per share. Principal and accrued interest on the Note will be payable upon the earlier of the consummation of the Company's anticipated merger with Fine Success Investments, Ltd., a British Virgin Islands company doing business as Linkcon (Linkcon), or 12 months from the date of the Note.

On June 11, 2008, the Company entered into a non-binding term sheet to merge with Linkcon.

As of the date of the term sheet it was anticipated that Linkcon had acquired or would acquire, either prior to or simultaneously with the proposed business combination with Encorium, the following:

- 1) a CRO based in India with over 10 years of clinical trial experience; and

Table of Contents

- 2) a Chinese company that holds licenses to conduct clinical trials in the People's Republic of China and Hong Kong and the license for JK1, a healthcare portal for medical professionals and consumers promoting the exchange of medical information between China and the Western world.

In addition, it was anticipated as of the date of the term sheet that Linkcon would acquire, either prior to or simultaneously with the proposed business combination with Encorium, a CRO operating in a number of Latin American countries. Linkcon has advised us that it will not have sufficient information regarding this company available at the time Linkcon and Encorium expect to agree on the terms of their business combination to enable Linkcon to determine if it will make the acquisition of the Latin American company. For that reason, Linkcon has ended its efforts to acquire that company. The terms of the business combination as currently contemplated are being negotiated by the parties.

The closing of the Business Combination is subject to a number of conditions, including Encorium's completion of its due diligence, Linkcon's ability to enter into definitive agreements with the CRO entities to be acquired by Linkcon, Linkcon's ability to complete those transactions pursuant to the existing non-binding term sheets, the entry into a definitive agreement between Encorium and Linkcon, approval of the transaction by Encorium's Board of Directors and Encorium's stockholders, Chardan's ability to raise the necessary capital for investment in the combined entity and Encorium's obtaining a fairness opinion relating to the purchase price for Linkcon.

Risk Factors Relating to The Transactions.

We may not be able to complete the acquisition of Prologue or merger with Linkcon, which could cause our stock price to decline.

A significant part of our current business strategy is to expand our therapeutic offerings through the acquisition of Prologue as well as to broaden our geographical reach through the merger with Linkcon. Although we have entered into non-binding term sheets with Prologue and Linkcon, we have not yet entered into definitive agreements with respect to such transactions. No assurances can be given that we will successfully conclude the acquisition of Prologue or the merger with Linkcon in a timely fashion or at all for a number of reasons, including, but not limited to (i) our failure to satisfactorily complete due diligence; (ii) our failure to obtain a fairness opinion relating to the purchase price for Linkcon; (iii) our inability to negotiate definitive agreements with Prologue and Linkcon; (iv) Linkcon's inability to enter into definitive agreements with the CRO entities to be acquired by Linkcon and Linkcon's ability to complete those transactions pursuant to the existing non-binding term sheets; (v) Chardan inability to secure the financing necessary for investment in the combined entity; and (vi) our inability to obtain the required corporate, stockholder and, if applicable, third-party and governmental approvals. If the transactions are not completed, it may have a negative effect on our stock trading price.

Table of Contents

We will incur significant expenses related to the proposed acquisition of Prologue and merger with Linkcon whether or not completed.

The proposed acquisition of Prologue and merger with Linkcon will result in significant costs to Encorium. Excluding costs associated with combining the operations of the entities, which are difficult to estimate, direct transaction costs are estimated at approximately \$1 million. We expect these costs to consist primarily of fees for investment bankers, attorneys, accountants, filing fees, and financial printing. Our current estimates of these costs are preliminary and are subject to change. Accordingly, the aggregate amount of these costs may be greater than currently anticipated. The substantial majority of the costs other than those associated with combining the operations of the entities will be incurred whether or not the proposed acquisition of Prologue and/or merger with Linkcon are completed. Also, additional unanticipated expenses may be incurred in the integration of our businesses.

The market price of our common stock may decline as a result of the consummation of the proposed acquisition of Prologue and merger with Linkcon.

The market price of our common stock may decline as a result of the consummation of the proposed acquisition of Prologue and merger with Linkcon for a number of reasons, including, but not limited to, if:

we do not achieve the perceived benefits of the transaction as rapidly or to the extent anticipated by financial or industry analysts;

the effects of the transactions on the businesses are not consistent with the expectations of financial or industry analysts; or

investors react negatively to the effects of the transactions.

We may need additional capital to fund our future operations.

We believe that our existing working capital and cash available from operations will enable us to meet our working capital requirements for at least the next 12 months. However, in the event we acquire Prologue but do not merge with Linkcon or in the event we do merge with Linkcon but Chardan is unable to secure the necessary capital for investment in the combined entity we will have significant debt obligations, as well as integration costs. Our cash from operation may be insufficient to service the debt or otherwise provide sufficient working capital, resulting in our need for additional financing. Our ability to obtain such 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.

We may be unable to quickly and effectively integrate operations which could materially adversely affect our combined businesses, financial condition and results of operations.

Following the proposed acquisition of Prologue and merger with Linkcon, in order to maintain and increase profitability and operating efficiencies, we will need to integrate and coordinate certain key elements of the businesses, including:

service offerings;

we incur charges to earnings resulting from the proposed transactions;

marketing and business development efforts;

Table of Contents

management and other professional personnel; and

operational systems.

We may not accomplish the integration smoothly, expeditiously or successfully. The difficulties of combining the companies' operations include:

coordinating the efforts and managing the operation, facilities and decision-making process in a geographically disjointed organization;

integrating organizations whose personnel have diverse business and cultural backgrounds; and

combining different corporate cultures.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined company's businesses and the loss of key personnel. We will need to dedicate management resources to the integration process which may distract attention from normal operations. Employee uncertainty and lack of focus during the integration process may also disrupt our businesses. If we fail to timely and effectively complete the integration of our operations, there could be uncertainty in the marketplace or client concern regarding the impact of the business combinations, which could materially adversely affect the financial condition and results of operations of the combined businesses.

The success of our proposed acquisition of Prologue and proposed merger with Linkcon will depend on the retention of our senior executives and the senior executives of Prologue and Linkcon and our ability to recruit, hire and retain other senior management, including business development professionals.

Our success following the closing of the transactions will depend upon the retention and integration of senior executives and other key employees from each of the businesses who are critical to the continued advancement, development and support of our services. The loss for any reason of any key executive officer or of any significant group of our client-serving professionals could negatively affect our business and prospects.

The success of the transactions is also dependent on our ability to attract and retain other qualified senior management, including, most importantly, business development professionals, who are critical in our ability to successfully market and sell our business offerings and thus increase profitability. The market for these professionals is competitive, and the supply is limited. We cannot provide any assurance that we will be successful in our efforts to retain or attract qualified senior executives, which could harm our future growth and profitability.

Our stockholders will suffer immediate and substantial dilution to their equity and voting interests as a result of the proposed acquisition of Prologue and merger with Linkcon.

We intend to issue a substantial number of shares in connection with the acquisition of Prologue and the Merger with Linkcon. The current Prologue and Linkcon stockholders could own approximately 49% of the total number of shares of Encorium's common stock following the closing of the transactions. If the combined business is unable to realize the strategic and financial benefits currently anticipated, the current Encorium stockholders will have experienced substantial dilution of their ownership interest without receiving any commensurate benefit.

Table of Contents

Consummation of the merger with Linkcon will subject us to further risks inherent in foreign operations.

If we consummate the merger with Linkcon, we will be further subject to risks inherent in business operations outside of the United States. These risks include, for example, currency fluctuations, regulatory problems, punitive tariffs, unstable local tax policies, trade embargoes, and cultural and language differences. Foreign economies may differ favorably or unfavorably from the United States economy in growth of gross national product, rate of inflation, market development, and capital investment, resource self-sufficiency and balance of payments positions, and in other respects

We could lose clients as a result of uncertainty regarding the acquisition of Prologue and merger with Linkcon.

Uncertainty regarding the acquisition of Prologue and merger with Linkcon and the future ability of the businesses to integrate their operations effectively without significant reduction in quality of service, as well as fear of diversion of management and employees attention during the transaction and integration period, could lead some clients to select other vendors. The loss of business from significant clients could have a negative effect on our business.

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 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) our success in attracting new business and retaining existing clients and projects; (ii) the size, duration and timing of clinical trials we are currently managing may change unexpectedly; (iii) the termination, delay or cancellation of clinical trials we are currently managing could cause revenues and cash-on-hand to decline unexpectedly; (iv) the timing difference between our receipt of contractual or scheduled payments and our incurring costs to manage these trials; (v) outsourcing trends in the pharmaceutical, biotechnology and medical device industries; (vi) the ability to maintain profit margins in a competitive marketplace; (vii) our ability to attract and retain qualified personnel; (viii) the sensitivity of our business to general economic conditions; (ix) other economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices; (x) announced awards received from existing and potential customers are not definitive until fully negotiated contracts are executed by the parties; (xi) our backlog may not be indicative of future results and may not generate the revenues expected; (xii) our ability to successfully integrate the business of Remedium Oy, which we acquired on November 1, 2006; and (xiii) the ability of the combined businesses to operate successfully, generate revenue growth. 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 that Might Affect our Business or Stock Price beginning on page 9 in our Annual Report on Form 10-K for the year ended December 31, 2007 for a more complete discussion of factors which could cause our actual results and financial position to change.

In addition, this Report on Form 10-Q contains forward-looking statements regarding the potential acquisition of Prologue and the merger with Linkcon. Those statements involve risks and uncertainties and the actual effects of the transactions could differ materially from those discussed. Please refer to the Part II, Item 1A beginning on page 38 for a more complete discussion of risk factors relating to the risks and uncertainties regarding the transactions.

Overview

We are a clinical research organization (CRO) 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 headquarters is in Wayne, Pennsylvania and our international operations are based in Espoo, Finland.

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

Table of Contents

across a wide variety of therapeutic areas, such as cardiovascular, nephrology, 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.

A significant aspect of our strategy is to expand our geographic presence and add to our clinical development capabilities in existing new therapeutic areas or service offerings. On July 6, 2006, we entered into an Amended and Restated Combination Agreement (the Amended Agreement) with the stockholders of Remedium Oy, a corporation organized under the laws of Finland (Remedium), which amends and restates the Combination Agreement entered into on March 2, 2006. Pursuant to the Amended Agreement, at the closing on November 1, 2006, the Company purchased all of the issued and outstanding shares of capital stock of Remedium (the Shares).

The consideration paid at closing to Remedium's stockholders (the Stockholders) for the Shares consisted of (i) shares of Common Stock of the Company with a value of \$11 million; and (ii) \$2.5 million in cash. An additional cash payment of \$1.5 million was paid to the Stockholders on March 30, 2007. The Company issued to the Stockholders additional shares of Common Stock of the Company with a value of \$2 million on November 1, 2007, the anniversary of the closing. The Company also issued additional Earn-Out Shares of its Common Stock with a value of \$2 million on April 10, 2007. The value of the Earn-Out Shares was based on the attainment of certain consolidated net revenue targets by Remedium for the year ended December 31, 2006, as described in the Amended Agreement. The Company incurred approximately \$2.26 million of acquisition related costs as of December 31, 2006, and additional acquisition related costs of \$15,760 during 2007. All of the costs associated with the acquisition of Remedium were paid by December 31, 2007.

On June 6, 2008 the Company entered into a non-binding letter of intent with Prologue Research International, Inc., an Ohio based clinical research company (Prologue). Pursuant to the non-binding letter of intent, as amended, the Company will acquire all of the issued and outstanding shares of Prologue for \$13.0 million, consisting of \$4.5 million in cash, approximately \$2.0 million of non-convertible, non-redeemable senior subordinated debt and approximately \$6.5 million of convertible, redeemable senior subordinated debt. The non-refundable deposit of \$500,000 previously paid to Prologue will be applied to the cash portion of the purchase price at closing. Closing of the transaction is subject to approval of the transaction by Encorium's and Prologue's Board of Directors and the signing of a definitive agreement. The closing is expected to occur in the third quarter of 2008.

The cash portion of the purchase price is anticipated to be funded through a loan arranged by Chardan Capital, LLC (Chardan) in the amount of \$5,000,000. In consideration for the \$5,000,000 the Company will issue Chardan a Note. Although the terms of the Note have not been finalized, it is expected that it will be senior unsecured debt, bear interest at 10% and include warrants to purchase 500,000 shares of common stock of the Company at an exercise price of \$1.80 per share. Principal and accrued interest on the Note will be payable upon the earlier of the consummation of the Company's anticipated merger with Fine Success Investments, Ltd., a British Virgin Islands company doing business as Linkcon (Linkcon), or 12 months from the date of the Note.

On June 11, 2008, the Company entered into a non-binding term sheet to merge with Linkcon.

As of the date of the term sheet it was anticipated that Linkcon had acquired or would acquire, either prior to or simultaneously with the proposed business combination with Encorium, the following:

- 1) a CRO based in India with over 10 years of clinical trial experience; and

Table of Contents

- 2) a Chinese company that holds licenses to conduct clinical trials in the People's Republic of China and Hong Kong and the license for JK1, a healthcare portal for medical professionals and consumers promoting the exchange of medical information between China and the Western world.

In addition, it was also anticipated as of the date of the term sheet that Linkcon would acquire, either prior to or simultaneously with the proposed business combination with Encorium, a CRO operating in a number of Latin American countries. Linkcon has advised us that it will not have sufficient information regarding this company available at the time Linkcon and Encorium expect to agree on the terms of their business combination to enable Linkcon to determine if it will make the acquisition of the Latin American company. For that reason, Linkcon has ended its efforts to acquire that company. The terms of the business combination as currently contemplated are being negotiated by the parties.

The closing of the Business Combination is subject to a number of conditions, including Encorium's completion of its due diligence, Linkcon's ability to enter into definitive agreements with the CRO entities to be acquired by Linkcon, Linkcon's ability to complete those transactions pursuant to the existing non-binding term sheets, the entry into a definitive agreement between Encorium and Linkcon, approval of the transaction by Encorium's Board of Directors and Encorium's stockholders, Chardan's ability to raise the necessary capital for investment in the combined entity and Encorium's obtaining a fairness opinion relating to the purchase price for Linkcon.

General

The information set forth and discussed below for the three and six months ended June 30, 2008 and 2007 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. The majority 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

Table of Contents

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 was approximately \$33.8 million as of June 30, 2008 as compared to \$41 million as of June 30, 2007. 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 six months ended June 30, 2008 we obtained approximately \$15.7 million of new business awards as compared to approximately \$18.4 million for the six months ended June 30, 2007.

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses				
Direct	68.5%	67.4%	71.1%	61.7%
Selling, general and administrative	45.1%	38.8%	45.7%	36.8%
Depreciation	4.2%	8.6%	6.3%	7.7%
Loss from operations	(17.7)%	(14.8)%	(23.1)%	(6.1)%
Net loss	(17.5)%	(11.6)%	(21.9)%	(4.6)%

Contractual Obligations and Commitments

We did not enter into any capital lease obligations during the three and six months ended June 30, 2008 and 2007. We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment.

In June 2008, the Company decreased by approximately 10,774 to 23,252 the amount of square feet under the lease agreement for its corporate office located in Wayne, Pennsylvania. The term of the lease was also

Table of Contents

extended to December 31, 2014 from November 30, 2009 and the monthly lease payments were reduced from \$79 thousand to \$60 thousand. Under the terms of the agreement, the Company was required to establish an irrevocable letter of credit in the amount \$170,000 as a security deposit. The amount of the letter of credit is reduced by \$28,333 each year beginning on June 1, 2009 until reduced to \$0 on December 31, 2014. The letter of credit was obtained in June 2008 and is included in Other Assets .

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:

	2008	2009	2010	Thereafter	Total
Obligations under capital leases	\$ 16,655	\$ 28,445	\$ 30,501	\$ 58,777	\$ 134,378
Operating leases	1,503,028	2,533,369	2,169,217	5,356,134	\$ 11,561,747
Employment agreements	137,500	229,167			\$ 366,667
Service agreements	411,957				\$ 411,957
Total	\$ 2,069,140	\$ 2,790,981	\$ 2,199,718	\$ 5,414,911	\$ 12,474,749

In 2008, we anticipate capital expenditures of approximately \$200,000 \$300,000 for leasehold improvements, software applications, workstations, personal computer equipment and related assets. There have been no material changes to the above data since December 31, 2007.

Critical Accounting Policies and Estimates

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

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. On an ongoing basis, management evaluates its judgments and estimates. Management bases its judgments and estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management considers the following policies to be most critical in understanding the more complex judgments that are involved in preparing our consolidated financial statements and the uncertainties that could affect our results of operations and financial condition.

Revenue Recognition

A significant portion 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.

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

Table of Contents

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. These unanticipated additional costs occurred on several long term contracts which we completed or substantially completed during 2004. These contracts spanned a period of three to six years. 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 up front 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.

Table of Contents

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 service 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 is 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, employee utilization, 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. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board Emerging Issues Task Force Rule No. 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*, out-of-pocket costs are now included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Statements of Operations fees paid to investigators and the associated reimbursement since we act as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments, in accordance with EITF No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. 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 \$3.0 million and \$1.7 million for the three months ended June 30, 2008 and 2007, respectively. The amounts of these investigator fees were \$5.1 million and \$2.7 million for the six months ended June 30, 2008 and 2007, respectively.

Stock-Based Compensation

The Company has adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants.

Effective January 1, 2006, we adopted SFAS No. 123R using the Modified Prospective Approach. SFAS 123R revises SFAS No. 123, *Accounting for Stock Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires the costs for all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values at grant date, or the date of later modification, over the requisite period. In addition, SFAS No. 123R 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 period.

The grant date fair value of each stock option is based on the underlying price on the date of grant and is determined using an option pricing model. The option pricing model requires the use of estimates and assumptions as to (a) the expected volatility of the price of underlying stock option (b) the expected life of the option and (c) the risk free rate for the expected life of the option. The Company is currently using the Black-Scholes option pricing model to determine the grant date fair value of each stock option.

Table of Contents

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 the options granted prior to January 1, 2006, we determined the expected life to be 5 years, and an expected life of 4 years for any options granted between January 1, 2006 and December 31, 2006. For options granted subsequent to January 1, 2007 we determined the expected life to be 7 years due to the adoption of a new stock option plan under which these shares were issued. The risk free rate is based on the U.S. Treasury bond rate commensurate with the expected life of the option. Forfeiture rates are estimated based upon past voluntary termination behavior and past option forfeitures.

The estimated annual share-based compensation expense relating to SFAS No. 123R for the twelve months ended December 31, 2008 is expected to be \$224 thousand. The Company recognized stock-based compensation expense of \$63 thousand, or \$0.01 on a basic and diluted earning per share basis, for the three months ended June 30, 2008 and compensation expense of \$134 thousand for the six months ended June 30, 2008 or \$0.01 on a basic and diluted earning per share basis. The Company recognized stock-based compensation expense of \$91 thousand and \$174 thousand for the three and six months ended June 30, 2007, or \$0.01 on a basic and diluted earning per share basis.

Goodwill and Intangible Assets

The Company follows the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, applicable to business combinations. In accordance with these standards, goodwill acquired in connection with the acquisition of Remedium was not amortized. However, the identifiable intangible assets acquired in connection with the acquisition of Remedium will be amortized over their useful lives. Under SFAS No. 142, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If carrying value exceeds current fair value, then goodwill is considered impaired and is reduced to fair value via a charge to earnings. The identifiable intangibles acquired in connection with the acquisition of Remedium are also subject to impairment testing under SFAS No. 142, whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Management has made an assessment of Remedium's fair value as November 1, 2007, one year from the acquisition date, in order to determine whether the amount of goodwill and related intangible assets acquired had been impaired. Management determined that both goodwill and intangible assets acquired in connection with the acquisition of Remedium were not impaired and that no adjustment to the carrying values was necessary. As of June 30, 2008, we had goodwill of approximately \$15.4 million and intangibles, net of amortization, of approximately \$3.5 million resulting from the acquisition of Remedium on November 1, 2006.

Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect for the reporting date, and consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive income in stockholder's equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated condensed statements of operations as unrealized (based on the applicable period exchange rate) or realized upon settlement of the transactions.

Table of Contents**Results of Operations*****Three Months Ended June 30, 2008 Compared With Three Months Ended June 30, 2007***

Net revenue for the three months ended June 30, 2008 increased by \$1 million to \$8.3 million as compared to \$7.3 million for the three months ended June 30, 2007. The increase in net revenues was primarily due to a \$1.5 million increase in revenues generated by our European operations that was offset by a \$500 thousand million decrease in revenues generated in the U.S. Of the \$1.5 million increase in revenue generated by our European operations, approximately \$835 thousand was attributable to favorable foreign currency fluctuations for the three months ended June 30, 2008 compared with the same prior year period. The decrease in net revenues generated in the U.S. was primarily due to a decrease in the number of contracts and related contract values of active clinical studies being conducted in U.S. during the second quarter of 2008 compared to the same prior year period. There were \$9.4 million of announced new business awards for the three months ended June 30, 2008 compared to \$12.5 million for the three months ended June 30, 2007. For the three months ended June 30, 2008, net revenue from our largest clients amounted to 28% of our net revenue, with the largest clients representing 11%, 10% and 7% of net revenue, respectively. For the three months ended June 30, 2007, net revenue from our largest clients amounted to 44% of our net revenue, with the largest clients representing 17%, 14% and 13% 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.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs increased by approximately \$700 thousand to \$5.6 million for the three months ended June 30, 2008 from \$4.9 million for the three months ended June 30, 2007. The increase in direct expenses was primarily due to a \$1 million increase in direct expense of our European operations that was offset by a \$300 thousand decrease in direct expenses incurred by our U.S. operations. Of the \$1 million increase in direct expense of our European operations, approximately \$548 thousand was attributable to unfavorable foreign currency fluctuations for the three months ended June 30, 2008 compared with the same prior year period. In addition, direct expenses increased as a result of staff additions needed to meet the resource requirements of active clinical studies being conducted by our European operations during the three months ended June 30, 2008 compared to same prior year period. Direct expenses as a percentage of net revenue remained relatively unchanged at 68% for the three months ended June 30, 2008 as compared to 67% for the three months ended June 30, 2007.

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 increased by approximately \$900 thousand to \$3.7 million for the three months ended June 30, 2008 from \$2.8 million for the three months ended June 30, 2007. Of the \$900 thousand increase in SG&A, \$700 thousand was incurred by our European operations of which \$300 thousand related to unfavorable foreign currency fluctuations. The remaining \$200 thousand of the increase in SG&A was incurred by our U.S. operations. As a percentage of revenues, SG&A expenses increased by 6% to 45% for the three months ended June 30, 2008 compared with 39% the prior year period. The increase in SG&A expense was primarily attributable to an increase in professional fees and marketing expenses incurred, as well as, unfavorable foreign currency fluctuations for the three months ended June 30, 2008 compared with the same prior year period.

Depreciation and amortization expense decreased by \$290 thousand to \$340 thousand for the three months ended June 30, 2008 from \$630 thousand for the three months ended June 30, 2007, primarily as a result of a reduction in the amount of amortization related to the intangible assets acquired from the Remedium acquisition.

Table of Contents

Loss from operations increased by \$400 thousand to \$1.5 million for the three months ended June 30, 2008 compared to loss from operations of \$1.1 million from operations for the three months ended June 30, 2007, primarily for the reasons noted in the preceding paragraphs.

Net interest income for the three months ended June 30, 2008 was \$20 thousand compared to net interest income of \$66 thousand for the three months ended June 30, 2007. This decrease was due to a decrease in the amount of cash on hand during the three months ended June 30, 2008 compared to the same prior year period.

The income tax expense of \$493 was principally related to \$55 thousand of income taxes due for two of our foreign subsidiaries which was offset by reversal of the deferred tax liability related to intangible assets acquired from the Remedium acquisition of approximately \$54 thousand. The reversal of a portion of the deferred tax liability that was established for the difference between the assigned value of the intangible assets acquired and the tax basis of the intangible assets acquired in the Remedium acquisition. There was no income tax provision for the prior period due to the losses incurred. In the United States the Company is in a net operating loss carry forward position. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, these deferred tax assets have been fully reserved as of June 30, 2008.

Net loss for the three months ended June 30, 2008 was \$1.4 million, or \$(0.07) per diluted share, as compared to a net loss of \$850 thousand, or \$(0.04) per diluted share for the three months ended June 30, 2007.

Six Months Ended June 30, 2008 Compared With Six Months Ended June 30, 2007

Net revenue for the six months ended June 30, 2008 decreased by \$400 thousand to \$15.7 million as compared to \$16.1 million for the six months ended June 30, 2007, primarily due to a \$2.7 million decrease in revenues generated in the U.S. that was offset by a \$2.3 million increase in revenues generated by our European operations. Of the \$2.3 million increase in revenue generated by our European operations, approximately \$1.5 million was attributable to favorable foreign currency fluctuations for the six months ended June 30, 2008 compared with the same prior year period. The decrease in net revenues generated in the U.S. was primarily due to a decrease in the number of contracts and related contract values of active clinical studies being conducted in U.S. during the first half of 2008 compared to the same prior year period. There were \$15.7 million of announced new business awards for the six months ended June 30, 2008 compared to \$18.4 million for the six months ended June 30, 2007. For the six months ended June 30, 2008, net revenue from our largest clients amounted to 30% of our net revenue, with the largest clients representing 12%, 10%, and 9% of net revenue, respectively. For the six months ended June 30, 2007, net revenue from our largest clients amounted to 44% of our net revenue, with the largest clients representing 16%, 15%, and 13% 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.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs increased by approximately \$1.2 million to \$11.2 million for the six months ended June 30, 2008 from \$10 million for the six months ended June 30, 2007. The increase in direct expenses was primarily due to a \$2.1 million increase in direct expense of our European operations that was offset by a \$900 thousand decrease in direct expenses incurred by our U.S. operations. Of the \$2.1 million increase in direct expense from our European operations, approximately \$1.0 million was attributable to unfavorable foreign currency fluctuations for the six months ended June 30, 2008 compared with the same prior year period. In addition, direct expenses increased as a result of staff additions needed to meet the resource requirements of active clinical studies being conducted by our European operations during the first six months of 2008 compared to

Table of Contents

same prior year period. Direct expenses as a percentage of net revenue were 71% for the six months ended June 30, 2008 as compared to 62% for the six months ended June 30, 2007. The increase in direct expenses as a percentage of net revenues was principally due to decreased utilization of our personnel on clinical study activities and a decrease in the number of active clinical studies conducted in the U.S. and from unfavorable foreign currency fluctuations for the six months ended June 30, 2008 compared with the same prior year period.

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 increased by approximately \$1.3 million to \$7.2 million for the six months ended June 30, 2008 compared to \$5.9 million for the six months ended June 30, 2007. Of the \$1.3 million increased in SG&A, \$1.0 million was incurred by our European operations of which \$535 thousand related to unfavorable foreign currency fluctuations. The remaining \$300 thousand of the increase in SG&A was incurred by our U.S. operations. As a percentage of revenues, SG&A expenses increased by 9% to 46% for the six months ended June 30, 2008 compared with 37% for the prior year period. The increase in SG&A expense was primarily attributable to an increase in professional fees and marketing expenses incurred, as well as, unfavorable foreign currency fluctuations for the six months ended June 30, 2008 compared with the same prior year period.

Depreciation and amortization expense decreased by \$250 thousand to \$1 million for the six months ended June 30, 2008 compared to \$1.25 million for the six months ended June 30, 2007, primarily as a result of a reduction in the amount of amortization related to the intangible assets acquired from the Remedium acquisition.

Loss from operations increased by \$2.7 million for the six months ended June 30, 2008 as compared to a loss of \$700 thousand from operations for the six months ended June 30, 2007, primarily for the reasons noted in the preceding paragraphs.

Net interest income for the six months ended June 30, 2008 was \$72 thousand compared to net interest income of \$109 thousand for the six months ended June 30, 2007. The decrease in net interest income was due to a decrease in the amount of cash on hand during the first six months of 2008 compared to the same prior year period.

The income tax benefit of \$115 thousand was principally related to the reversal of a portion of the deferred tax liability that was established for the difference between the assigned value of the intangible assets acquired and the tax basis of the intangible assets acquired in the Remedium acquisition. There was no income tax provision for the prior period due to the losses incurred. In the U.S. the Company is in a net operating loss carry forward position. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, these deferred tax assets have been fully reserved as of June 30, 2008.

Net loss for the six months ended June 30, 2008 was \$3.5 million, or \$(0.17) per diluted share, as compared to a net loss of \$738 thousand, or \$(0.04) per diluted share for the six months ended June 30, 2007.

Liquidity and Capital Resources

The clinical research organization industry is generally not considered capital intensive. We expect to continue to fund our operations from existing cash resources and cash flow from operations. We expect that our principal cash requirements on both a short and long-term basis will be for the funding of our operations and capital expenditures. We expect to continue expanding our operations through internal growth, merger and acquisitions, expansion of our existing services, and the development of new products and services for the pharmaceutical, biotechnology and medical device industries. We believe that our existing cash resources and cash generated from operations will provide sufficient liquidity for the next twelve months. However, in the event that we make significant acquisitions in the future, we may need to raise additional funds through additional borrowings or the issuance of debt and possibly, with the proceeds from the sale of our common stock. We may also pursue acquisitions in which the consideration we pay takes the form of our common stock.

Table of Contents

Although we believe that our existing working capital and cash available from operations will enable us to meet our working capital requirements for at least the next 12 months, in the event we acquire Prologue but do not merge with Linkcon or in the event we do merge with Linkcon but Chardan is unable to secure the necessary capital for investment in the combined entity we will have significant debt obligations, as well as integration costs. Our cash from operations may be insufficient to service the debt or otherwise provide sufficient working capital, resulting in our need for additional financing. Our ability to obtain such 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. Please refer to the Part II, Item 1A beginning on page 38 for a more complete discussion of risk factors relating to the risks and uncertainties regarding the transactions.

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 June 30, 2008, the net days revenue outstanding was 6 days compared to (21) days at December 31, 2007. This change was primarily due to a reduction in cash collections as well as a reduction in the amount upfront payments received on recently signed contracts. Compared to December 31, 2007, accounts receivable increased \$1.0 million to \$5.8 million at June 30, 2008, primarily due an increase in billing related to our ongoing active clinical studies in Europe.

Costs and estimated earnings in excess of related billings on uncompleted contracts increased by \$500 thousand to \$1.5 million as of June 30, 2008 compared to \$1.0 million as of December 31, 2007. The balance at June 30, 2008 primarily consisted of 2 clinical trials. The top two balances constituted 46%, and 19% of the balance. This balance is mostly attributable to a delay in the timing of billings compared to when the work was performed. The \$1.1 million decrease in the liability account, billings in excess of related costs and estimated earnings on uncompleted contracts, to \$2.2 million as of June 30, 2008 from \$3.3 million as of December 31, 2007, resulted primarily from the utilization of advances for services from our clients. Customer advances decreased by \$200 thousand to \$3.0 million from \$3.2 million as of December 31, 2007.

Our net cash used by operating activities was \$4.6 million for the six months ended June 30, 2008, compared to net cash used by operating activities of \$689 thousand for the six months ended June 30, 2007. The \$3.9 million increase is primarily related to increases in accounts receivable, cost and estimated earnings in excess of related billings on uncompleted contracts and decreases in accrued expenses, billings in excess of related cost and estimated earnings on uncompleted contracts, customer advances and deferred taxes for the six months ended June 30, 2008 as compared to same prior year period. Net cash used by investing activities was \$602 thousand for the six months ended June 30, 2008 of which \$500 thousand was used as a partial payment in connection with the proposed Prologue acquisition. Net cash used by investing activities to purchase computer equipment and software applications was \$103 thousand. This compares to net cash used by investing activities of \$2.2 million for the six months ended June 30, 2007, which consisted principally of costs associated with the Remedium acquisition. The cost associated with the Remedium acquisition have been capitalized and presented on the balance sheet as goodwill. Net cash provided by financing activities was \$10 thousand for the six

Table of Contents

months ended June 30, 2008, compared with net cash provided by financing activities of \$5.2 million for the six months ended June 30, 2007. The primary difference related to \$4.7 million received due to the sale of \$1,748,252 shares of common stock in a private placement net of applicable fees and expenses, \$315 thousand received from the exercise of employee stock options and \$147 thousand received from short term borrowings during the six months ended June 30, 2007.

As a result of these cash flows, our cash and cash equivalents balance at June 30, 2008 was \$4.2 million as compared to \$9.1 million at December 31, 2007.

We purchased approximately \$103 thousand of computer equipment and software applications for six months ended June 30, 2008. We anticipate capital expenditures of approximately \$100,000 \$200,000 during the remainder of 2008, primarily for leasehold improvements, software applications, workstations, personal computer equipment and related assets.

RECENTLY ISSUED ACCOUNTING STANDARDS:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* . SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted SFAS No. 157 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* . SFAS 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. This statement is effective for the first fiscal year ending after December 15, 2006 for initial recognition and December 15, 2008 for measurement of plan assets and benefit obligations. We adopted SFAS No. 158 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective in the first fiscal year that begins after November 15, 2007. We adopted SFAS No. 159 and have determined that it did not have a material impact on our consolidated financial statements or results of operations.

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109* , which became effective for the Company on January 1, 2007. FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement with taxing authorities. This Interpretation also provides guidance regarding interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. The Company is required to apply the provisions of FIN 48 to all tax

Table of Contents

positions upon initial adoption with any cumulative effect adjustment to be recognized as an adjustment to retained earnings. The Company adopted FIN 48 effective January 1, 2007. We have determined that it did not have a material impact on our consolidated financial statements in the year of adoption or for the current year.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (*SFAS 141R*) which replaces SFAS No. 141, Business Combinations. The scope of SFAS 141R is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. SFAS 141R revises accounting and reporting standards for business combinations and applies to all transactions or other events in which an entity obtains control of one or more businesses by transferring consideration as well as combinations achieved without the transfer of consideration. By applying the same method of accounting the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, this statement is intended to improve the comparability of the information about business combinations provided in financial reports. SFAS 141R applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently in the process of evaluating SFAS 141R, and has not yet determined the impact, if any, that accounting for future business combinations under SFAS 141R, effective January 1, 2009, will have on its consolidated results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The fair value of cash and cash equivalents, investigator payment advances, 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 are not materially different than their carrying amounts as reported at June 30, 2008 and June 30, 2007.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency exchange risk through its international operations. For the six months ended June 30, 2008, approximately 71% of our net revenue was derived from contracts denominated in other than U.S. Dollars compared to 46% of net revenues for the six months ended June 30, 2007. The increase in the percentage of net revenue derived from contracts denominated in currencies other than the U.S. Dollar is principally attributable to the acquisition of Remedium. Since our financial results are reported in U.S. Dollars changes in foreign currency exchange rates could adversely affect our results of operations and financial condition. To date, we have not engaged in any derivative or contractual hedging activities related to our foreign exchange exposures.

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 period. Gains or losses from translating foreign currency financial statements are recorded in a separate stockholders equity account entitled Accumulated Other Comprehensive Income. The cumulative translation adjustment included in accumulated other comprehensive income for the six months ended June 30, 2008 and 2007 was \$185 thousand and \$72 thousand, respectively.

Inflation

We believe that the effects of inflation generally do not have a material adverse impact on our operations or financial condition.

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 June 30, 2008, and has concluded that there was no change that occurred during the quarter ended June 30, 2008 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 complete the acquisition of Prologue or merger with Linkcon, which could cause our stock price to decline.

A significant part of our current business strategy is to expand our therapeutic offerings through the acquisition of Prologue as well as to broaden our geographical reach through the merger with Linkcon. Although we have entered into non-binding term sheets with Prologue and Linkcon, we have not yet entered into definitive agreements with respect to such transactions. No assurances can be given that we will successfully conclude the acquisition of Prologue or the merger with Linkcon in a timely fashion or at all for a number of reasons, including, but not limited to (i) our failure to satisfactorily complete due diligence; (ii) our failure to obtain a fairness opinion relating to the purchase price for Linkcon; (iii) our inability to negotiate definitive agreements with Prologue and Linkcon; (iv) Linkcon's inability to enter into definitive agreements with the CRO entities to be acquired by Linkcon and Linkcon's ability to complete those transactions pursuant to the existing non-binding term sheets; (v) Chardan's inability to secure the financing necessary for investment in the combined entity; and (vi) our inability to obtain the required corporate, stockholder and, if applicable, third-party and governmental approvals. If the transactions are not completed, it may have a negative effect on our stock trading price.

We will incur significant expenses related to the proposed acquisition of Prologue and merger with Linkcon whether or not completed.

The proposed acquisition of Prologue and merger with Linkcon will result in significant costs to Encorium. Excluding costs associated with combining the operations of the entities, which are difficult to estimate, direct transaction costs are estimated at approximately \$1 million. We expect these costs to consist primarily of fees for investment bankers, attorneys, accountants, filing fees, and financial printing. Our current estimates of these costs are preliminary and are subject to change. Accordingly, the aggregate amount of these costs may be greater than currently anticipated. The substantial majority of the costs other than those associated with combining the operations of the entities will be incurred whether or not the proposed acquisition of Prologue and/or merger with Linkcon are completed. Also, additional unanticipated expenses may be incurred in the integration of our businesses.

The market price of our common stock may decline as a result of the consummation of the proposed acquisition of Prologue and merger with Linkcon.

The market price of our common stock may decline as a result of the consummation of the proposed acquisition of Prologue and merger with Linkcon for a number of reasons, including, but not limited to, if:

we do not achieve the perceived benefits of the transaction as rapidly or to the extent anticipated by financial or industry analysts;

the effects of the transactions on the businesses are not consistent with the expectations of financial or industry analysts; or

Table of Contents

investors react negatively to the effects of the transactions.

We may need additional capital to fund our future operations.

We believe that our existing working capital and cash available from operations will enable us to meet our working capital requirements for at least the next 12 months. However, in the event we acquire Prologue but do not merge with Linkcon or in the event we do merge with Linkcon but Chardan is unable to secure the necessary capital for investment in the combined entity we will have significant debt obligations, as well as integration costs. Our cash from operation may be insufficient to service the debt or otherwise provide sufficient working capital, resulting in our need for additional financing. Our ability to obtain such 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.

We may be unable to quickly and effectively integrate operations which could materially adversely affect our combined businesses, financial condition and results of operations.

Following the proposed acquisition of Prologue and merger with Linkcon, in order to maintain and increase profitability and operating efficiencies, we will need to integrate and coordinate certain key elements of the businesses, including:

service offerings;

we incur charges to earnings resulting from the proposed transactions;

marketing and business development efforts;

management and other professional personnel; and

operational systems.

We may not accomplish the integration smoothly, expeditiously or successfully. The difficulties of combining the companies' operations include:

coordinating the efforts and managing the operation, facilities and decision-making process in a geographically disjointed organization;

integrating organizations whose personnel have diverse business and cultural backgrounds; and

combining different corporate cultures.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the combined company's businesses and the loss of key personnel. We will need to dedicate management resources to the integration process which may distract attention from normal operations. Employee uncertainty and lack of focus during the integration process may also disrupt our businesses. If we fail to timely and effectively complete the integration of our operations, there could be uncertainty in the marketplace or client concern regarding the impact of the business combinations, which could materially adversely affect the financial condition and results of operations of the combined businesses.

Table of Contents

The success of our proposed acquisition of Prologue and proposed merger with Linkcon will depend on the retention of our senior executives and the senior executives of Prologue and Linkcon and our ability to recruit, hire and retain other senior management, including business development professionals.

Our success following the closing of the transactions will depend upon the retention and integration of senior executives and other key employees from each of the businesses who are critical to the continued advancement, development and support of our services. The loss for any reason of any key executive officer or of any significant group of our client-serving professionals could negatively affect our business and prospects.

The success of the transactions is also dependent on our ability to attract and retain other qualified senior management, including, most importantly, business development professionals, who are critical in our ability to successfully market and sell our business offerings and thus increase profitability. The market for these professionals is competitive, and the supply is limited. We cannot provide any assurance that we will be successful in our efforts to retain or attract qualified senior executives, which could harm our future growth and profitability.

Our stockholders will suffer immediate and substantial dilution to their equity and voting interests as a result of the proposed acquisition of Prologue and merger with Linkcon.

We intend to issue a substantial number of shares in connection with the acquisition of Prologue and the Merger with Linkcon. The current Prologue and Linkcon stockholders could own approximately 49% of the total number of shares of Encorium's common stock following the closing of the transactions. If the combined business is unable to realize the strategic and financial benefits currently anticipated, the current Encorium stockholders will have experienced substantial dilution of their ownership interest without receiving any commensurate benefit.

Consummation of the merger with Linkcon will subject us to further risks inherent in foreign operations.

If we consummate the merger with Linkcon, we will be further subject to risks inherent in business operations outside of the United States. These risks include, for example, currency fluctuations, regulatory problems, punitive tariffs, unstable local tax policies, trade embargoes, and cultural and language differences. Foreign economies may differ favorably or unfavorably from the United States economy in growth of gross national product, rate of inflation, market development, and capital investment, resource self-sufficiency and balance of payments positions, and in other respects.

We could lose clients as a result of uncertainty regarding the acquisition of Prologue and merger with Linkcon.

Uncertainty regarding the acquisition of Prologue and merger with Linkcon and the future ability of the businesses to integrate their operations effectively without significant reduction in quality of service, as well as fear of diversion of management and employees attention during the transaction and integration period, could lead some clients to select other vendors. The loss of business from significant clients could have a negative effect on our business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The company held its Annual Meeting of Stockholders on June 13, 2008 (the "Annual Meeting").

Table of Contents

(b) Not required.

(c) The following proposals were submitted to a vote of stockholders.

(i) The election of seven directors to serve until the 2009 Annual Meeting of Stockholders:

Nominees	Votes For	Votes Withheld
Kenneth M. Borow, M.D.	15,442,704	324,235
Scott M. Jenkins	15,477,404	289,535
Dr. Kai Lindevall	15,137,643	629,296
Petri Manninen	15,470,371	296,568
Dr. Jyrki Mattila	15,478,018	288,921
Christopher F. Meshginpoosh	15,477,404	289,535
Paul J. Schmitt	15,477,071	289,868

(ii) The proposal to ratify the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on the Company's financial statements for the fiscal year ending December 31, 2008:

For	Against	Abstain
15,628,044	119,960	18,934

(d) Not required.

ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 Summary of binding terms included in the Letter of Intent between Encorium Group, Inc. and Prologue Research International, Inc.
- 10.2 Summary of binding terms included in the non-binding term sheet by and among Encorium Group, Inc., Fine Success Investments, Ltd., and Chardan Capital, LLC.
- 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.

Table of Contents

- 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.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENCORIUM GROUP, INC.

Dated: August 14, 2008

By: /s/ Kai Lindevall
Kai Lindevall, M.D., Ph.D.
Chief Executive Officer (Principal Executive Officer)

Dated: August 14, 2008

By: /s/ Philip L. Calamia
Philip L. Calamia
Interim Chief Financial Officer
(Principal Accounting Officer)

S-1