Averion International Corp.
Form 10-Q
November 13, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

o **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 000-50095

AVERION INTERNATIONAL CORP.
(Exact name of registrant as specified in its charter)

Delaware	**20-4354185**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
225 Turnpike Road, Southborough, Massachusetts	**01772**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(508) 597-6000**

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

Common Stock, $0.001 par value per share, 950,000,000 shares authorized, 639,257,753 issued and outstanding as of November 13, 2009.

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AVERION INTERNATIONAL CORP.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,824	$ 4,492
Accounts receivable (net of allowance for doubtful accounts of $423 and $341 for 2009 and 2008, respectively)	11,331	11,168
Unbilled accounts receivable	5,583	7,816
Prepaid and other current assets	2,054	2,048
Total Current Assets	24,792	25,524
Property and equipment, net	5,183	6,229
Goodwill	25,528	25,528
Finite life intangibles (net of accumulated amortization of $4,782 and $3,846 for 2009 and 2008, respectively)	5,040	5,976
Deposits	678	709
Other non current assets	1,877	2,429
Total Assets	$ 63,098	$ 66,395
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 1,554	$ 3,964
Accrued payroll and employee benefits	3,104	2,367
Current portion of capital lease obligations		8
Current portion of accrued lease obligations	610	610
Customer advances	14,788	18,424
Deferred revenue	2,733	2,685
Deferred rent	400	463
Deferred transaction obligation	40	560
Accrued interest payable	768	615
Other accrued liabilities	2,906	2,224
Total Current Liabilities	$ 26,903	$ 31,920
Notes payable	33,122	29,635
Accrued lease obligations, less current portion	2,319	2,696
Deferred taxes	1,248	1,847
Deferred pension obligation	1,068	1,047
Other long-term liabilities		65

Total Liabilities	$	64,660	$	67,210
Commitments and contingencies				
Stockholders equity:				
Common stock, $.001 par value, 950,000,000 shares authorized, 639,257,753 and 634,972,039 shares issued and outstanding, respectively		639		635
Convertible warrants		164		164
Common stock to be issued				837
Additional paid-in capital		50,191		48,551
Other comprehensive income		146		25
Retained deficit		(52,702)		(51,027)
Total Stockholders equity		(1,562)		(815)
Total Liabilities and Stockholders equity	$	63,098	$	66,395

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

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AVERION INTERNATIONAL CORP.
Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Net service revenue	$ 17,269	$ 15,900	$ 48,860	$ 50,339
Reimbursement revenue	1,768	2,153	5,666	6,321
Total revenue	19,037	18,053	54,526	56,660
Operating expenses:				
Direct expenses	8,230	9,868	26,295	29,326
Reimbursable out-of-pocket expenses	1,768	2,153	5,666	6,321
Sales, general and administrative expenses	4,730	5,878	14,805	18,325
Depreciation and amortization expense	776	1,011	2,358	3,058
Total operating expenses	15,504	18,910	49,124	57,030
Net operating income (loss)	3,533	(857)	5,402	(370)
Other income (expense):				
Interest income	1	7	4	27
Interest expense	(906)	(454)	(2,596)	(1,529)
Foreign currency exchange gain (loss)	(396)	509	(334)	(244)
Amortization of debt discount	(1,165)	(1,199)	(3,461)	(3,258)
Other	33	76	147	200
Total other income (expense)	(2,433)	(1,061)	(6,240)	(4,804)
Income (loss) from operations before income taxes	1,100	(1,918)	(838)	(5,174)
Income tax expense	629	122	837	212
Net income (loss)	$ 471	$ (2,040)	$ (1,675)	$ (5,386)
Net income (loss) per share basic and fully-diluted				
Net income (loss)	$ 0.00	$ (0.00)	$ (0.00)	$ (0.01)
Weighted average number of common shares outstanding	639,257,753	634,996,948	639,242,054	628,833,185

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

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AVERION INTERNATIONAL CORP.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2009	September 30, 2008
Cash flows from operating activities		
Net loss	$ (1,675)	$ (5,386)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation of fixed assets and amortization of software	1,422	1,365
Amortization of finite life intangibles	936	1,693
Amortization of debt discount and financing costs	3,461	3,520
Amortization of deferred rent	(63)	(35)
Bad debt expense	23	(232)
Stock based compensation	807	617
Effect of exchange rate on foreign currency denominated assets and liabilities	565	590
Changes in assets and liabilities:		
Accounts receivable	(186)	666
Unbilled accounts receivable	2,233	(4,290)
Prepaid and other current assets	(6)	(529)
Accounts payable	(2,410)	356
Accrued payroll and employee benefits	1,805	225
Deferred revenue and customer deposits	(3,766)	2,481
Deferred taxes	(487)	(136)
Other accrued liabilities	(496)	(1,707)
Net cash provided (used) by operating activities	2,163	(802)
Cash flows from investing activities		
Purchase of property and equipment	(399)	(1,034)
Other	76	(8)
Net cash used by investing activities	(323)	(1,042)
Cash flows from financing activities		
Payment on Cerep note		(3,038)
Payments on capital lease obligation	(413)	(22)
Proceeds from debt issuance		2,000
Payments on notes payable		(2,156)
Net cash used by financing activities	(413)	(3,216)
Effect of exchange rate changes on cash	(95)	47

Net increase (decrease) in cash and cash equivalents		1,332		(5,013)
Cash and cash equivalents, beginning of period		4,492		7,384
Cash and cash equivalents, end of period	$	5,824	$	2,371

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

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AVERION INTERNATIONAL CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

NATURE OF BUSINESS

Averion International Corp. and its consolidated subsidiaries are referred to throughout this report as Averion, we, us, our, and the Company.

We are an international clinical research organization (CRO) focused on providing our clients with global clinical research services and solutions throughout the drug development lifecycle. We serve a variety of clients in the pharmaceutical, biotechnology and medical device industries.

Our core competencies are in product agency registration support, trial design, site selection, project management, medical and site monitoring, data management, biostatistical analysis and reporting, pharmacovigilance, medical writing, and full clinical trial management and consulting services throughout the clinical trials lifecycle. We have the resources to directly implement or manage Phase I through Phase IV clinical trials and have clinical trial experience and expertise across a wide variety of therapeutic areas, including the following core focus areas: Oncology, Cardiovascular Diseases and Medical Devices.

Averion International Corp. was originally organized under the name Clinical Trials Assistance Corporation. We acquired IT&E International Corporation, a provider of staffing services to the life sciences industry, and changed the corporate name from Clinical Trials to IT&E International Group. On July 31, 2006, we acquired Averion Inc., a CRO that provided clinical research services for Phase I through Phase IV clinical trials, with a focus in medical devices, oncology, dermatology, nephrology and other complex medical conditions. On September 21, 2006, we changed our name to Averion International Corp. On October 3, 2007, we sold our former staffing services operating segment to members of management of that operating segment. On October 31, 2007, we acquired Hesperion AG (Hesperion), an international CRO based in Switzerland.

2. REVERSE/FORWARD STOCK SPLIT AND GO PRIVATE TRANSACTION

On September 4, 2009, we filed with the Securities and Exchange Commission (the SEC) an Information Statement on Schedule 14C and a Schedule 13E-3, each related to a going private transaction (collectively, the Information Statement). As more fully set forth in the Information Statement, the Averion International Board of Directors (Board), including all of its independent, non-employee directors, authorized, and stockholders approved, a twenty thousand five hundred to one reverse split of Averion common stock, followed immediately thereafter by a one to twenty thousand five hundred Forward Split of Averion common stock (the Reverse/Forward Stock Split). In so doing, the Board formed a Special Committee comprised of independent directors to review and, if determined to be fair, recommend to the full Board a Reverse/Forward Stock Split ratio and a price per share to be paid for the shares of Averion common stock held by stockholders holding less than twenty thousand five hundred shares that are to be cashed out as a result of the Reverse/Forward Stock Split.

The Special Committee recommended to the Board and the Board authorized a price per share of one cent to be paid for the shares of Averion common stock held by stockholders holding less than twenty thousand five hundred shares that are to be cashed out as a result of the Reverse/Forward Stock Split. When the Reverse/Forward Stock Split becomes effective, holders of at least twenty thousand five hundred shares of common stock will have no change in the number of shares of common stock held. They will also not participate in any cash payments.

Averion has approximately eight hundred seventy five stockholders of record of its common stock, of which approximately seven hundred twenty five stockholders each own fewer than twenty thousand five hundred shares. In the aggregate, the shares held by these small holders comprise less than 1% of Averion outstanding capital stock. When the Reverse/Forward Stock Split is effected, approximately one hundred twenty five stockholders will remain as holders of Averion common stock, beneficially owning 100% of the outstanding common stock. Common stockholders, who now beneficially own approximately 99% of the outstanding common stock, will beneficially own 100% of the outstanding common stock after the Reverse/Forward Stock Split.

The Reverse/Forward Stock Split will not affect the outstanding stock options, whether exercisable or unexercisable, granted under Averion s option plans and holders of options will, following the Reverse/Forward Stock Split, continue to hold options for the same number of shares of common stock at the same exercise prices and other option terms.

The Reverse/Forward Stock Split will not affect the outstanding warrants to purchase Averion common stock and holders of warrants will, following the Reverse/Forward Stock Split, continue to hold warrants to purchase the same number of shares of common stock at the same exercise prices and other warrant terms.

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When the Reverse/Forward Stock Split becomes effective, the Company will be able to terminate registration of its securities under Section 12(g) of the Exchange Act, suspend its duty to file periodic reports pursuant to Section 15(d) of the Exchange Act, and terminate the quotation of shares of its common stock on the OTCBB. Once Averion terminates registration of its common stock under Section 12(g) of the Exchange Act, suspends its duty to file periodic reports pursuant to Section 15(d) of the Exchange Act and terminate the quotation of our common stock, we will no longer be obligated to file periodic reports with the SEC or furnish reports to our stockholders.

Although the Reverse/Forward Stock Split has been approved by the requisite number of stockholders, our Board reserves the right, in its discretion, to abandon the Reverse/Forward Stock Split prior to the effective date if it determines that abandoning the Reverse/Forward Stock Split is in the best interests of the Company and its stockholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited financial statements for the three and nine months ended September 30, 2009 and 2008, respectively, should be read in conjunction with the Company s latest Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission (the SEC) on March 30, 2009. These financial statements are unaudited but reflect all adjustments that, in our opinion, are necessary to fairly present our financial position and results of operations. All adjustments are of a normal and recurring nature unless otherwise noted. These financial statements, including the notes, have been prepared in accordance with generally accepted accounting principles (GAAP) and in accordance with the applicable rules of the SEC, but do not include all of the information and disclosures required by GAAP for complete financial statements. The operating results for the three and nine months ended September 30, 2009 may not necessarily be indicative of the results that may be expected for other quarters or for the year ending December 31, 2009.

Certain amounts in the December 31, 2008 balance sheet and unaudited Statement of Cash Flows have been reclassified to conform to the presentation of the September 30, 2009 financial statements.

The Company has evaluated subsequent events through November 13, 2009, the filing date of this document, and has determined that there were no new material events to disclose.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Averion International Corp. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

BUSINESS COMBINATIONS

The Company applies US GAAP to business combinations. US GAAP establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. In addition, US GAAP requires that changes in the amount of acquired tax attributes be included in the Company s results of operations.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company s wholly-owned subsidiaries are translated into U.S. dollars at period-end exchange rates. Income statement accounts are translated at average exchange rates for the applicable periods. These translation adjustments are recorded as a separate component of stockholders equity. Foreign currency transaction gains and losses are included in the Consolidated Statements of Operations in Other Income (Expenses).

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CASH AND CASH EQUIVALENTS

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Our cash accounts are with banks and other financial institutions. The balances in these accounts may exceed the maximum U.S. federally insured amount and our deposits held at institutions outside of the United States may not be insured against loss. We have not experienced any losses in such accounts and do not believe that our cash and cash equivalents expose us to any significant credit risk.

REVENUE RECOGNITION

Revenues are primarily recognized on a time-and-materials or proportional performance basis. Before revenues are recognized, the following four criteria must be met: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred or services rendered; (c) the fee is fixed and determinable; and (d) collectability is reasonably assured. We determine if the fee is fixed and determinable and collectability is reasonably assured based upon our judgment regarding the nature of the fee charged for services rendered and products delivered and the collectability of those fees. Arrangements range in length from less than one year to several years.

Revenues from time-and-materials arrangements are generally recognized based upon contracted hourly billing rates as the work progresses. Revenues from unit based and fixed price arrangements are generally recognized on a proportional performance basis. Revenues recognized on unit based and fixed price contracts are subject to revisions as the contract progresses to completion. 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 a written 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 collectability 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 estimated contract costs will change in the near term and may have a material adverse impact on our financial performance. Revisions in our contract estimates are reflected in the period in which the determination is made and the facts and circumstances dictate a change of estimate. Provisions for estimated losses on individual contracts are made in the period in which the loss first becomes known.

We may have to commit unanticipated resources to complete projects resulting in lower margins on those projects. If we do not accurately estimate the resources required or the scope of the work to be performed, do not complete our projects within the planned periods of time, or do not satisfy our obligations under the contracts, then our operating results may be significantly and adversely affected or losses may need to be recognized. 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.

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the client on a stand-alone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions.

In general, amounts become billable to the customer pursuant to contractual terms in accordance with predetermined payment schedules. Unbilled accounts receivable represents revenue recognized to date that is currently not billable to the client pursuant to contractual terms or was not billed as of the balance sheet date. As of September 30, 2009 and December 31, 2008, unbilled accounts receivable included in current assets totaled $5.6 million and $7.8 million, respectively. The majority of these amounts were billed in the subsequent month.

Deferred revenue represents amounts billed to customers for which revenue has not been recognized at the balance sheet date. As of September 30, 2009 and December 31, 2008, deferred revenue was approximately $2.7 million and $2.7 million, respectively.

The majority of contracts contain provisions permitting the customer to terminate for a variety of reasons. The contracts generally provide for recovery of costs incurred, including the costs to wind down the study, and payment of fees earned to date. In some cases, the customer may be required to remit a portion of the fees due or profits that would have been earned under the contract had the contract not been terminated prematurely.

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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 period can fluctuate depending upon, among other things, the number of weeks in the period, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the period, 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 and other out-of-pocket costs for which we are reimbursed at cost. Out-of-pocket costs are included in operating expenses, while the reimbursements received are reported separately as reimbursement revenue in the Consolidated Statements of Operations.

We act as an agent on behalf of company sponsors with regard to certain investigator payments. Accordingly, we exclude certain fees paid to investigators and the associated reimbursement from revenue and reimbursable out-of-pocket expenses in the Consolidated Statements of Operations. The amount of investigator fees excluded from revenue was $0.7 million and $3.9 million for the three months ended September 30, 2009 and 2008, respectively. The amount of investigator fees excluded from revenue was $6.2 million and $9.4 million for the nine months ended September 30, 2009 and 2008, respectively.

CONCENTRATION OF CREDIT RISK

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and unbilled accounts receivable. Our clients consist primarily of a small number of companies within the pharmaceutical, biotechnology and medical device industries. These industries may be affected by general business and economic factors, which may impact accounts receivable and unbilled accounts receivable. As of September 30, 2009, the total of accounts receivable and unbilled accounts receivable was $17.3 million. Of this amount, approximately 14%, 13%, 13% and 12% was due from four respective customers. As of December 31, 2008, the total of accounts receivable and unbilled accounts receivable was $19.3 million. Of this amount, approximately 27% was due from one customer.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of clients to make required payments. This allowance is based on current accounts receivable, historical collection experience, current economic trends, and changes in client payment patterns. Management reviews the outstanding receivables on a monthly basis to determine collectibility and to determine if proper reserves are established for uncollectible accounts. Receivables that are deemed to not be collectible are written off against the allowance for doubtful accounts.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, unbilled accounts receivable, accounts payable, deferred revenue and certain other liabilities approximate their estimated fair values due to the short-term nature of these instruments. The fair value of long-term notes payable approximates quoted market prices for the same or similar debt instruments. Senior Secured Notes payable associated with the Hesperion acquisition were issued in combination with equity and consequently the carrying value of these notes on the Company s balance sheet reflects a discount to their stated maturity values.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, which range from three to seven years. Leasehold improvements are amortized over the life of the respective leases or the service life of the improvements, whichever is shorter.

Upon sale or retirement of property and equipment, the costs and related accumulated depreciation are eliminated and any gain or loss on such disposition is reflected in our consolidated financial statements. Expenditures for repairs and maintenance are charged to operations as incurred.

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FINITE LIFE INTANGIBLE AND LONG-LIVED ASSETS
Finite life intangibles are amortized over their estimated useful lifes which range between 1 and 10 years. The Company evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Such circumstances would include a significant decrease in the market price of a long-lived asset, a significant adverse change to the manner in which the asset is being used or its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes to the expected useful lives of these long-lived assets may also be an indicator of impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets and the resulting losses are included in the statement of operations. A valuation of the Company was performed using a discounted cash flow analysis and a market-based approach giving appropriate weighting to both. Using these guidelines it was determined that the carrying value of certain finite-life intangible assets at December 31, 2008 was impaired. The impairment loss of $5.3 million is included in operating income in our consolidated results of operations for the 2008 fiscal year. For the period ended September 30, 2009, the Company performed no impairment testing on its finite life intangible assets.

GOODWILL
The Company accounts for goodwill as an indefinite life intangible asset and tests for impairment at least annually. The Company reviews goodwill for impairment on an annual basis in conjunction with our year end reporting date of December 31. The Company operates as one reporting unit and goodwill is evaluated based on this approach. A valuation of the Company was performed using a discounted cash flow analysis and a market-based approach giving appropriate weighting to both. Using these guidelines it was determined that the carrying value of goodwill at December 31, 2008 was significantly impaired. The impairment loss of $26.1 million is included in operating income in our consolidated results of operations for the 2008 fiscal year. For the period ending September 30, 2009, the Company performed no impairment testing on its goodwill.

STOCK-BASED COMPENSATION
Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. The Company uses historical data to estimate pre-vesting option forfeitures.

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 the stock underlying the stock option, (b) the expected life of the option, (c) the risk free rate for the expected life of the option and (d) forfeiture rates. The Company is currently using the Black-Scholes option pricing model to determine the grant date fair value of each stock option.

Expected volatility is calculated based on a blended weighted average of historical information of the Company s stock and the weighted average of historical information of similar public entities for which historical information is available. The Company will continue to use a weighted average approach using its own historical volatility and other similar public entity volatility information until historical volatility of the Company is relevant to measure expected volatility for future option grants. The expected term assumption is based on the simplified or safe-haven method which calculates the term based on certain grant date provisions. 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.

INCOME TAXES
Deferred income taxes are provided under the liability method. The liability method requires that deferred tax assets and liabilities be determined based on the difference between the financial reporting and tax bases of assets and liabilities using the tax rate expected to be in effect when the taxes will actually be paid or refunds received. In estimating future tax consequences, we generally consider all expected future events other than the enactment of changes in tax law or rates. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recorded.

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NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed giving effect to all potentially dilutive common stock, including options and all convertible securities to the extent they are dilutive. The strike prices of the existing stock options currently outstanding are all above the average stock price of the Company during the three month period ended September 30, 2009. Under these circumstances, the fully diluted number of shares is not calculated and only basic earnings per share will be presented for the three and nine month periods ending September 30, 2009 and 2008.

OTHER COMPREHENSIVE INCOME

Other comprehensive income represents the change in equity of a business enterprise from non-stockholder transactions affecting stockholders equity that are not included in net income (loss) on the Consolidated Statement of Operations and are reported as a separate component of stockholders equity. Other comprehensive income includes any adjustments resulting from the translation process of the financial statements of our foreign entities functional currency to U.S. dollars using the current rate method and actuarial gains or losses on our defined pension benefit plans.

DEFINED BENEFIT PENSION PLANS

The Company maintains statutory defined benefit pension plans for its employees in Benelux and Switzerland for which current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by independent actuaries using management s best estimate assumptions, with accrued benefits prorated on service. Obligations are recorded under the corridor method.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Standards Adopted in 2009

Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that established the FASB Accounting Standards Codification TM (ASC) and amended the hierarchy of generally accepted accounting principles (GAAP) such that the ASC became the single source of authoritative nongovernmental U.S. GAAP. The ASC did not change current U.S. GAAP, but was intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All previously existing accounting standard documents were superseded and all other accounting literature not included in the ASC is considered non-authoritative. New accounting standards issued subsequent to June 30, 2009 are communicated by the FASB through Accounting Standards Updates (ASUs). Averion adopted the ASC on July 1, 2009. This standard did not have an impact on Averion s consolidated results of operations or financial condition. However, throughout the notes to the consolidated financial statements references that were previously made to various former authoritative U.S. GAAP pronouncements have been changed to coincide with the appropriate section of the ASC.

Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued an accounting standard regarding interim disclosures about fair value of financial instruments. The standard essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the standard requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. The adoption of the provisions of this standard did not affect the Company s historical consolidated financial statements.

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Subsequent Events

In May 2009, the FASB issued a new accounting standard regarding subsequent events. This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under the new standard, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard added an additional required disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued. The additional disclosures required by this standard are included in Note 3.

Recognition and Presentation of Other-Than-Temporary-Impairments

In April 2009, the FASB issued an accounting standard which modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The standard also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the standard, impairment of debt securities will be considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security s entire amortized cost basis (even if the entity does not intend to sell). The standard further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security s fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. The standard requires entities to initially apply its provisions to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulated other comprehensive income. For Averion, this standard was effective beginning April 1, 2009. The adoption of this standard did not have a material impact on Averion s consolidated results of operations or financial condition.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued an accounting standard which provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. The standard also amended certain disclosure provisions for fair value measurements and disclosures in ASC 820 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value as well as disclosure of the hierarchy of the source of underlying fair value information on a disaggregated basis by specific major category of investment. For Averion, this standard was effective prospectively beginning April 1, 2009. The adoption of this standard did not have a material impact on Averion s consolidated results of operations or financial condition.

Business Combinations

In December 2007, the FASB issued and, in April 2009, amended a new business combinations standard codified within ASC 805, which changed the accounting for business acquisitions. Accounting for business combinations under this standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting; and change accounting practices for acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. For Averion, this standard was effective for business combinations and adjustments to an acquired entity s deferred tax asset and liability balances occurring after December 31, 2008. This standard had no immediate impact upon adoption by Averion.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued an accounting standard related to disclosures about derivative instruments and hedging activities, codified in ASC 815, which requires additional disclosures about an entity s strategies and objectives for using derivative instruments; the location and amounts of derivative instruments in an entity s financial statements; how derivative instruments and related hedged items are accounted for under ASC 815, and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Certain disclosures are also required with respect to derivative features that are credit-risk-related. The standard was effective for Averion beginning January 1, 2009 on a prospective basis. The adoption did not affect the Company s historical consolidated financial statements.

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Accounting for Collaborative Arrangements

In December 2007, the FASB ratified a standard related to accounting for collaborative arrangements which discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The standard indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to ASC 605-45, *Principle Agent Consideration*. Additionally, the guidance provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative standards; analogy to such standards if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. This guidance was effective for Averion beginning January 1, 2009 and applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The adoption of this standard did not have a material impact on Averion s consolidated results of operations or financial condition.

Recent Accounting Standards Not Yet Adopted

Certain Revenue Arrangements That Include Software Elements

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements a consensus of the FASB Emerging Issues Task Force*, that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product s essential functionality, and undelivered components that relate to software that is essential to the tangible product s functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). For Averion, ASU No. 2009-14 is effective beginning January 1, 2011. Averion may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. However, Averion must elect the same transition method for this guidance as that chosen for ASU No. 2009-13. The Company is currently evaluating the impact of this standard on Averion s consolidated results of operations and financial condition.

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* , that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also req