

Averion International Corp.

Form 10-Q

November 07, 2008

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**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 SEPTEMBER 30, 2008**

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

**For the transition period from            to**









**AVERION INTERNATIONAL CORP.**

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(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-4354185**

(IRS Employer Identification No.)

**225 Turnpike Road,  
Southborough, Massachusetts**

(Address of principal executive offices)

**01772**

(Zip Code)

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

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





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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, 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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Common Stock, \$0.001 par value per share, 950,000,000 shares authorized, 634,972,039 issued and outstanding as of November 4, 2008.

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

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	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,371	\$ 7,384
Accounts receivable (net of allowance for doubtful accounts of \$307 and \$376 for 2008 and 2007, respectively)	14,146	14,293
Unbilled accounts receivable	6,714	2,571
Prepaid and other current assets	2,272	2,413
<b>Total Current Assets</b>	<b>25,503</b>	<b>26,661</b>
Property and equipment, net	6,324	6,509
Goodwill	51,595	48,717
Finite life intangibles (net of accumulated amortization of \$3,306 and \$1,614 for 2008 and 2007, respectively)	11,777	13,469
Deposits	689	658
Other non-current assets	2,369	1,878
<b>Total Assets</b>	<b>\$ 98,257</b>	<b>\$ 97,892</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 3,111	\$ 2,737
Accrued payroll and employee benefits	3,815	3,405
Deferred revenue	21,362	18,532
Current portion of notes payable	31	813
Current portion of accrued lease obligations	574	610
Deferred rent	475	510
Current portion of capital lease obligations	12	25
Deferred transaction obligation	560	3,683
Other accrued liabilities	2,736	4,313
<b>Total Current Liabilities</b>	<b>32,676</b>	<b>34,628</b>
Capital lease obligations, less current portion		8
Notes payable, less current portion	28,679	24,266
Accrued lease obligations, less current portion	2,702	2,966
Deferred income taxes	3,146	1,047
Other long-term liabilities	53	29
<b>Total Liabilities</b>	<b>\$ 67,256</b>	<b>\$ 62,944</b>
<b>Stockholders Equity:</b>		
Common stock, \$.001 par value, 950,000,000 and 750,000,000 shares authorized, 634,972,039, and 625,632,455 shares issued and outstanding, respectively	\$ 635	\$ 626
Convertible warrants	164	164
Common stock to be issued	837	837
Additional paid-in capital	48,418	47,308
Other comprehensive income (loss)	6	(316)
Retained deficit	(19,059)	(13,671)
<b>Total Stockholders equity</b>	<b>31,001</b>	<b>34,948</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 98,257</b>	<b>\$ 97,892</b>

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)**

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	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Net service revenue	\$ 15,900	\$ 7,820	\$ 50,339	\$ 22,197
Reimbursement revenue	2,153	980	6,321	2,005
Total revenue	18,053	8,800	56,660	24,202
Operating expenses:				
Direct expenses	9,868	4,214	29,326	13,301
Reimbursable out-of-pocket expenses	2,153	980	6,321	2,005
Sales, general and administrative expenses	5,878	2,800	18,325	8,266
Depreciation and amortization expense	1,011	338	3,058	1,044
Restructuring charges				723
Total operating expenses	18,910	8,332	57,030	25,339
Net operating income (loss)	(857)	468	(370)	(1,137)
Other income (expense):				
Interest income	7	76	27	247
Interest expense	(454)	(141)	(1,529)	(435)
Foreign currency exchange gain (loss)	509		(244)	
Amortization of debt discount	(1,199)		(3,258)	
Other	76	95	200	124
Total other income (expense)	(1,061)	30	(4,804)	(64)
Income (loss) from continuing operations before income taxes				
	(1,918)	498	(5,174)	(1,201)
Income tax expense	122		212	
Net income (loss) from continuing operations	\$ (2,040)	\$ 498	\$ (5,386)	\$ (1,201)
Loss from discontinued operations		(375)		(1,227)
Net income (loss)	\$ (2,040)	\$ 123	\$ (5,386)	\$ (2,428)
Net income (loss) per share				
Net income (loss) from continuing operations	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.00)
Loss from discontinued operations		\$ 0.00		\$ (0.00)
Net income (loss)	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding	634,996,948	502,423,301	628,833,185	498,484,840

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)**

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	Nine Months Ended	
	September 30, 2008	September 30, 2007
<b>Cash flows from operating activities</b>		
Net loss	\$ (5,386)	\$ (2,428)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	1,365	519
Amortization of finite life intangibles	1,693	599
Amortization of debt discount	3,258	
Amortization of deferred financing costs	262	
Amortization of deferred rent	(35)	(36)
Bad debt expense, net of recoveries	(232)	41
Stock based compensation	617	326
Effect of exchange rate on foreign currency denominated assets and liabilities	590	
Changes in assets and liabilities:		
Accounts receivable	666	356
Unbilled accounts receivable	(4,290)	949
Prepaid and other current assets	(529)	54
Accounts Payable	356	380
Accrued payroll and employee benefits	225	(324)
Deferred revenue	2,481	(1,201)
Deferred taxes	(136)	
Other accrued liabilities	(1,707)	306
Net cash used by operating activities	(802)	(459)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(1,034)	(561)
Other	(8)	30
Net cash used by investing activities	(1,042)	(531)
<b>Cash flows from financing activities</b>		
Payment on Cerep note	(3,038)	
Payments on capital lease obligation	(22)	8
Proceeds from debt issuance	2,000	
Payments on notes payable	(2,156)	(527)
Net cash used by financing activities	(3,216)	(519)
Effect of exchange rate changes on cash	47	(109)
Net decrease in cash and cash equivalents	(5,013)	(1,618)
Cash and cash equivalents, beginning of period	7,384	8,098
Cash and cash equivalents, end of period	\$ 2,371	\$ 6,480

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**

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DESCRIPTION OF BUSINESS

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**NATURE OF BUSINESS**



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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 (see note 5). On October 31, 2007, we acquired Hesperion AG ( Hesperion ), an international CRO based in Switzerland (see note 3).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION



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The accompanying unaudited financial statements for the three and nine months ended September 30, 2008 and 2007, respectively, should be read in conjunction with the Company's latest Annual Report on Form 10-KSB for the year ended December 31, 2007, filed with the Securities and Exchange Commission (the SEC) on March 31, 2008. These financial statements are unaudited with the exception of the consolidated balance sheet as of December 31, 2007, which was derived from the audited consolidated balance sheet dated December 31, 2007, 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 accounting principles generally accepted in the United States (GAAP) and in accordance with the applicable rules of the SEC. The operating results for the three and nine months ended September 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.





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Certain amounts in the September 30, 2007 unaudited financial statements have been reclassified to conform to the presentation of the September 30, 2008 financial statements.

### **PRINCIPLES OF CONSOLIDATION**



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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.

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**BUSINESS COMBINATIONS**



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Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*, requires assets acquired and liabilities assumed in a business combination to be recorded at fair value. Fair values are generally determined by independent appraisals using comparisons to market value transactions and present value techniques. The use of a discounted cash flow technique requires significant judgments with respect to expected cash flows to be derived from the assets, the estimated period of time the assets will produce those cash flows and the selection of an appropriate discount rate. Changes in such estimates could change the amounts allocated to individual identifiable assets, the lives over which the assigned values are amortized and the amounts allocated to goodwill. While the Company believes its assumptions are reasonable, if different assumptions were made, the purchase price allocation and the estimated useful lives of amortizable assets could differ substantially from the reported amounts.

### **FOREIGN CURRENCY TRANSLATION**





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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).

### **CASH AND CASH EQUIVALENTS**



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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. 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**



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Revenues are primarily recognized on a time-and-materials or percentage-of-completion 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) collectibility is reasonably assured. We determine if the fee is fixed and determinable and collectibility is reasonably assured based upon our judgment regarding the nature of the fee charged for services rendered and products delivered and the collectibility 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 percentage-of-completion 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 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 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.

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We comply with Financial Accounting Standards Board ( FASB ) Emerging Issues Task Force Rule No. 00-21 ( EITF 00-21 ), *Accounting for Revenue Arrangements with Multiple Deliverables*, which addresses how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. 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, 2008 and December 31, 2007, unbilled accounts receivable included in current assets totaled \$6.7 million and \$2.6 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, 2008 and December 31, 2007, deferred revenue was approximately \$21.4 million and \$18.5 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.

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**



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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 in accordance with FASB Emerging Issues Task Force Rule No. 01-14 ( EITF 01-14 ), *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*.

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 in accordance with the FASB Emerging Issues Task Force Rule No. 99-19 ( EITF 99-19 ), *Reporting Revenue Gross as a Principal versus Net as an Agent*. The amount of investigator fees paid were \$3.9 million and \$1.2 million for the three months ended September 30, 2008 and 2007, respectively. The amount of investigator fees paid were \$9.4 million and \$2.2 million for the nine months ended September 30, 2008 and 2007, respectively.

### **CONCENTRATION OF CREDIT RISK**





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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, 2008, the total of accounts receivable and unbilled accounts receivable was \$21.2 million. Of this amount, approximately 38% was due from one customer. As of December 31, 2007, the total of accounts receivable and unbilled accounts receivable was \$17.2 million. Of this amount, approximately 15%, 11%, and 10% was due from three customers.

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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**



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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 and a subsequent financing (see notes 3 and 4) 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**



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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.

### **FINITE LIFE INTANGIBLE ASSETS**





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The Company accounts for finite life intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, ( SFAS No. 142 ). Accordingly, finite life intangibles are amortized over their estimated useful lives which range between 1 and 10 years. This standard requires that finite life intangibles be tested for impairment at least annually. Any such impairment is required to be recorded as a charge to operations. At September 30, 2008 and December 31, 2007, respectively, the Company had no impairment in the carrying value of its finite life intangibles.

### **GOODWILL**



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The Company accounts for goodwill as an indefinite life intangible asset in accordance with SFAS No. 142. As such, the standard requires that goodwill be tested for impairment at least annually. Any such impairment is required to be recorded as a charge to operations. At September 30, 2008 and December 31, 2007, respectively, the Company had no impairment in the carrying value of its goodwill.

### **STOCK-BASED COMPENSATION**



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We recognize and record stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment* ( SFAS 123R ), using the Modified Prospective Approach.

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.

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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 outlined in the Securities and Exchange Commission's Staff Accounting Bulletin, (SAB), No. 107 as amended by SAB No. 110. 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**



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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.

### **NET INCOME (LOSS) PER SHARE**

The Company calculates net income (loss) per share in accordance with SFAS No. 128, *Earnings per Share* ( SFAS No. 128 ). Basic net income (loss) per share is computed by dividing the net income available to common stockholders by the weighted average common shares outstanding. Diluted net income (loss) per share is computed by giving effect to all potentially dilutive common stock, including options and all convertible securities to the extent they are dilutive. Since the effect of the stock options and warrants which are included in the calculation of fully diluted shares outstanding is anti-dilutive, 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, 2008 and 2007.

### **OTHER COMPREHENSIVE INCOME (LOSS)**





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Other comprehensive income (loss) 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 (loss) 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**



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The Company maintains a statutory defined benefit pension plan for its employees in Switzerland for which current service costs are charged to operations as they accrue based on services rendered by employees during the year. Our pension benefit obligation is determined by an independent actuary using management's best estimate assumptions, with accrued benefits prorated based on service. The obligation is recorded under the corridor method in accordance with SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* ( SFAS 158 ).

### USE OF ESTIMATES



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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.

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**RECENT ACCOUNTING PRONOUNCEMENTS**





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In December 2007, the EITF of the FASB reached a consensus on issue No. 07-1, *Accounting for Collaborative Arrangements* ( EITF 07-1 ). EITF 07-1 concluded on the definition of a collaborative arrangement and that revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF 99-19 and other accounting literature. Based on the nature of the arrangement, payments to or from collaborators would be evaluated and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature would be presented. Companies are also required to disclose the nature and purpose of collaborative arrangements along with the accounting policies and the classification and amounts of significant financial-statement balances related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF 07-1 applies to the entire collaborative agreement. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We do not expect EITF 07-1 to have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141-R, *Business Combinations* ( SFAS No. 141-R ). SFAS No. 141-R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which would be business combinations in the year ending December 31, 2009 for the Company. The objective of SFAS No. 141-R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. We do not expect SFAS No. 141-R to have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* ( SFAS No. 160 ). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which for the Company is the year ending December 31, 2009 and the interim periods within that fiscal year. The objective of this SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 currently does not impact the Company as it has full controlling interest of all of its subsidiaries.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP FAS 157-2 ). FSP FAS 157-2 defers the effective date provision of SFAS No. 157 for nonfinancial assets and liabilities. As a result of the issuance of FSP FAS 157-2, the provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS No. 157 on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133* ( SFAS No. 161 ). SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities*; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of adopting SFAS No. 161 on our financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 162 ). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect SFAS No. 162 to have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3 ( FSP 142-3 ), *Determination of the Useful Life of Intangible Assets* . FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible

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assets under FASB Statement No. 142, Goodwill and Other Intangible Assets . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. Since this guidance will be applied prospectively, on adoption, there will be no impact to our current consolidated financial statements.

Table of Contents**3. HESPERION ACQUISITION**

On October 31, 2007 (the Cerep Closing Date), we entered into a Securities Purchase Agreement (the Cerep SPA) with Cerep S.A., a French corporation (Cerep), pursuant to which we purchased all of the outstanding capital stock of Hesperion AG, a Swiss corporation and a wholly owned subsidiary of Cerep (Hesperion), for an aggregate purchase price of 25 million Euros (or, based upon the exchange rate on the Cerep Closing Date, approximately \$36.2 million excluding transaction costs of \$0.8 million) (the Purchase Price) as follows: (i) on the Cerep Closing Date, we paid Cerep 20 million Euros in cash; and (ii) in January 2008, we issued Cerep a promissory note in the aggregate principal amount of 2.5 million Euros and paid Cerep an additional 2.0 million Euros in cash. The January 2008 cash payment reflected a working capital adjustment and the retention of an additional 0.25 million Euros pending resolution of certain issues relating to the 2006 financial statements of Hesperion. The additional 0.25 million Euro payment was remitted to Cerep during July of 2008. The Purchase Price was partially paid with funds received from the Debt Financing Transaction (as defined below), a portion of which funds were provided to us by certain of our affiliates as described below under the heading Debt Financing Transaction.

The entire unpaid principal balance of the promissory note to be issued as part of the Purchase Price, plus all accrued but unpaid interest thereon, will become due and payable by us to Cerep on October 31, 2010 (the Maturity Date). In addition, this promissory note will bear interest at the rate of six percent (6%) per annum and shall be paid quarterly in arrears beginning on December 31, 2007 and on the last day of each and every quarterly period thereafter until the Maturity Date.

Pursuant to the Cerep SPA, Cerep has agreed to indemnify us and our representatives (the Representatives) for a period of eighteen (18) months after the Cerep Closing Date for any damages (including consequential, indirect and special damages) that we or our Representatives sustain or incur (collectively, the Losses) to the extent caused by or arising out of any inaccuracy or breach of any of the representations, warranties or covenants made by Cerep to us in the Cerep SPA. Cerep shall not have any obligation to indemnify us or our Representatives to the extent the aggregate amount of the Losses for which we and our Representatives are entitled to indemnification under the Cerep SPA exceeds an amount equal to 2.5 Million Euros (after which point Cerep will have no obligation to indemnify us or our Representatives from and against any further Losses). In addition, we have the right to offset the amount of any Losses against the outstanding balance of unpaid principal and interest under the promissory note issued to Cerep as part of the Purchase Price.

In connection with the acquisition of Hesperion, we paid ComVest Group Holdings, LLC, an affiliate of ComVest (defined below), a financial advisory services fee in the amount of \$0.3 million.

The following table summarizes the fair value of the assets acquired and the liabilities assumed at the date of the acquisition (in thousands):

Assets Acquired	\$	25,360
Finite-Life Intangible Assets		9,900
Goodwill		26,749
Liabilities Assumed		(24,991)
Purchase Price	\$	37,018

*Debt Financing Transaction*

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On October 31, 2007 (the Debt Financing Closing Date ), we also entered into the following agreements pursuant to which we sold \$24.0 million of senior secured notes (the Senior Secured Notes ) and issued an aggregate of 115,200,000 shares of our common stock (the Shares ) (the Debt Financing Transaction ) to ComVest Investment Partners II LLC, a Delaware limited liability company ( ComVest ), Cumulus Investors, LLC, a Nevada limited liability company ( Cumulus ), and Dr. Philip T. Lavin ( Lavin ) and together with ComVest and Cumulus, each a Buyer and collectively, the Buyers ): (i) a Securities Purchase Agreement between us and the Buyers (the Debt SPA ); (ii) a Registration Rights Agreement between us and the Buyers (the Registration Rights Agreement ); (iii) a Pledge Agreement between us and Cumulus, in its capacity as collateral agent for the Buyers (the Collateral Agent ) (the Pledge Agreement ); (iv) a Security Agreement between us, Averion Inc., a Delaware corporation and our wholly owned subsidiary ( Averion Inc. ), and IT&E International, a California corporation and our wholly owned subsidiary ( IT&E California ), on the one hand, and the Buyers and Collateral Agent, on the other hand (the Security Agreement ); and (v) a Guaranty in favor of the Collateral Agent for the benefit of the Buyers which was executed by Averion Inc. and IT&E California (the Guaranty ).

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ComVest, which beneficially owned directly or through affiliates approximately 52.98% of our outstanding common stock immediately prior to the Debt Financing Closing Date, purchased a Note in the principal amount of \$11.0 million and was issued 52,800,000 Shares in connection therewith. After the Second Closing (defined below), ComVest, or its affiliates, beneficially owned approximately 50.7% of our common stock. Michael Falk, chairman of our board of directors (the Board ) and Cecilio Rodriguez, one of our directors, are affiliates of ComVest. In addition, Lavin, one of our directors, our current Executive Chairman and former Chief Executive Officer, who beneficially owned directly or through affiliates approximately 21.12% of our outstanding common stock immediately prior to the Debt Financing Closing Date, purchased a Note in the principal amount of \$2.0 million and was issued 9,600,000 Shares in connection therewith. After the Second Closing, Lavin, or his affiliates, beneficially owned approximately 18.4% of our common stock.

In connection with the Debt Financing Transaction, our Board determined that it would be in our best interests and the best interests of our stockholders to appoint a special committee of disinterested directors to consider the terms and conditions of the Debt Financing Transaction and approve such terms. To that end, our Board appointed Alastair McEwan, Robert Tucker and James Powers to a special committee of the Board (the Special Committee ) with the sole power to approve the Debt Financing Transaction. In addition, the Special Committee retained independent counsel ( Special Counsel ) to assist it in evaluating the Debt Financing Transaction. On October 30, 2007, at a meeting of the Special Committee at which Special Counsel was present, the Special Committee approved the Debt Financing Transaction.

*Debt SPA*

Pursuant to the Debt SPA, we were obligated to sell and the Buyers were obligated to buy Senior Secured Notes in the aggregate principal amount of \$26.0 million and shares of our common stock in the aggregate amount of 124,800,000 Shares as follows: (i) on the Debt Financing Closing Date, we sold and issued to the Buyers and the Buyers purchased from us Senior Secured Notes in the aggregate principal amount of \$24.0 million and shares of our common stock in the aggregate amount of 115,200,000 Shares; and (ii) within thirty (30) days after the Debt Financing Closing Date, we were obligated to sell and certain Buyers were obligated to buy from us Senior Secured Notes in the aggregate principal amount of an additional \$2.0 million and shares of our common stock in the aggregate amount of 9,600,000 Shares (the Second Closing ).

Pursuant to the Debt SPA, from the Debt Financing Closing Date until the date that no Senior Secured Notes remain outstanding, before we, or any of our affiliates, enter into any debt or equity financing or issue any debt or equity securities, subject to certain standard and customary exceptions (each, a Future Offering ), we must give the Buyers the right to participate in any such Future Offering as follows: the Buyers will have the option to purchase up to an aggregate of twenty five percent (25%) of the total amount of securities to be issued in such Future Offering on a pro rata basis.

Pursuant to the Debt SPA, from the Debt Financing Closing Date until the date that no Senior Secured Notes remain outstanding, Cumulus shall have the right to appoint one (1) person to attend and observe our Board meetings in a non-voting capacity. Such observation rights shall not be transferable to any third party or assignee.

In addition, pursuant to the Debt SPA, in the event that any Buyer's Senior Secured Note is outstanding on the first (1) anniversary of the Debt Financing Closing Date, we shall pay such Buyer a transaction fee in an amount equal to two percent (2%) of the purchase price of such outstanding Senior Secured Note.

*Senior Secured Notes*

We pay interest on the Senior Secured Notes quarterly in arrears, beginning with the calendar quarter that commenced on October 1, 2007 as follows: (i) for the period commencing on the Debt Financing Closing Date and ending on the first (1<sup>st</sup>) anniversary thereafter, three percent (3%) per annum; (ii) for the period commencing on the first (1<sup>st</sup>) anniversary of the Debt Financing Closing Date and ending on the second (2<sup>nd</sup>) anniversary of the Debt Financing Closing Date, ten percent (10%) per annum; and (iii) for the period commencing on the second (2<sup>nd</sup>) anniversary of the Debt Financing Closing Date and ending on the third (3<sup>rd</sup>) anniversary of the Debt Financing Closing Date, fifteen percent (15%) per annum. The entire unpaid principal balance of the Senior Secured Notes, plus all accrued interest thereon remaining unpaid, shall be due and payable by us to the Buyers on October 31, 2010 (the Debt Maturity Date ). In addition, we have agreed to certain financial covenants, including covenants to maintain a certain revenue ratio, net book-to-bill ratio, EBITDA ratio and required cash amount, as set forth in detail in the Senior Secured Notes. The covenants regarding revenue ratio, net book-to-bill ratio and EBITDA ratio became applicable as of June 30, 2008. The covenant requiring us to maintain a certain amount of cash does not become applicable until March 31, 2009. If we breach any of the financial covenants set forth in the Senior Secured Notes, we will be required to make certain payments to the holders of the Senior Secured Notes.

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The repayment of all outstanding principal and accrued interest under the Senior Secured Notes may be accelerated by the holders thereof upon any of the following events of default: (i) default in payment of any principal amount due under the Senior Secured Notes; (ii) failure by us for ten (10) business days to comply with any other provision of the Senior Secured Notes in all material respects; (iii) initiation of a bankruptcy proceeding or related proceeding; (iv) an involuntary case or other proceeding is commenced directly against us or any of our subsidiaries seeking liquidation, reorganization or other relief; (v) breach of any covenant or other term or condition of any Debt Financing Transaction agreement, except, in the case of a breach of a covenant or other term that is curable, only if such breach continues for a period of at least ten (10) business days after written notice to us thereof; (vi) one or more judgments, non-interlocutory orders or decrees shall be entered by a U.S. state or federal or a foreign court or administrative agency of competent jurisdiction involving, in the aggregate, a liability (to the extent not covered by independent third-party insurance) as to any single or related series of transactions, incidents or conditions, of \$250,000 or more, and the same shall remain unsatisfied, unvacated, unbonded or unstayed pending appeal for a period of forty-five (45) days after the entry thereof; (vii) any lien created by any Debt Financing Transaction agreement shall at any time fail to constitute a valid and perfected first priority lien on all of the collateral purported to be secured thereby and the same is not cured within ten (10) business days of any such failure; (viii) there shall occur a change of control; or (ix) there occurs with respect to any issue or issues of indebtedness having an outstanding amount of \$250,000 or more in the aggregate, whether such indebtedness exists on the issue date or shall thereafter be created, an event of default that permits the holder thereof to declare such indebtedness to be due and payable prior to its stated maturity.

*Registration Rights Agreement*

The Registration Rights Agreement obligated us to file a registration statement covering all of the Shares within eighty (80) days after the Debt Financing Closing Date. On March 27, 2008, the Company and the requisite majority of Buyers agreed to terminate the Registration Rights Agreement and the rights of all Buyers thereunder.

*Security Agreement*

Pursuant to the Security Agreement, we, Averion Inc. and IT&E California granted to the Collateral Agent, for the benefit of itself and the Buyers, a security interest in and lien upon all of our, Averion Inc. s and IT&E California s assets as security for our performance of our obligations under the Senior Secured Notes. Averion Inc. and IT&E California were both dissolved effective December 31, 2007.

*Guaranty*

Pursuant to the Guaranty, Averion Inc. and IT&E California (the Guarantors ), jointly and severally, agreed to guarantee the full and prompt payment and performance to the Buyers and Collateral Agent when due, upon demand, at maturity or by reason of acceleration or otherwise, of any and all of our, or the Guarantors, obligations, under the Debt Financing Transaction agreements. Averion Inc. and IT&E California were both dissolved effective December 31, 2007.

*Further Assurances*



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Pursuant to a side letter entered into between us and the Buyers, we agreed to take, or cause to be taken, all applicable action necessary in connection with the consummation of the transactions contemplated by the Debt Financing Transaction agreements, which includes, without limitation, perfecting the Buyers' security interests in the applicable jurisdictions, entering into deposit account control agreements with our financial institutions and obtaining pledges of capital stock from our European subsidiaries.

### *Amendment to Debt Financing Transaction Agreements and Second Closing*

On November 5, 2007, we entered into an amendment to each of the following agreements related to the Debt Financing Transaction: (i) Debt SPA; (ii) Registration Rights Agreement; and (iii) Security Agreement (collectively, the Amendments ). Pursuant to the Amendments, the parties agreed to amend the Schedule of Buyers to add Gene Resnick, M.D., (Resnick ), MicroCapital Fund, Ltd., a Cayman-domiciled investment corporation, and MicroCapital Fund LP, a Delaware limited partnership, as additional buyers (the Additional Buyers ) to participate in the Second Closing in place of the Buyer originally designated to participate in the Second Closing and to join the Additional Buyers as parties to the Debt SPA, the Registration Rights Agreement and the Security Agreement. On November 5, 2007, we sold Senior Secured Notes in the aggregate principal amount of \$2.0 million and issued an aggregate of 9,600,000 Shares to the Additional Buyers. Resnick, our Chief Medical Officer, purchased a Senior Secured Note in the principal amount of \$0.1 million and was issued 600,000 Shares in connection therewith.

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**4. FINANCING TRANSACTION**

On June 27, 2008 (the *New Debt Financing Closing Date*), we entered into the following agreements pursuant to which we sold Two Million Dollars (\$2,000,000) of senior secured notes (the *Notes*) and issued an aggregate of nine million six hundred thousand (9,600,000) shares of our common stock (the *New Debt Financing Transaction*) to ComVest and Cumulus Investors, (and together with ComVest, each a *Buyer* and collectively, the *Buyers*): (i) a Securities Purchase Agreement between us and the Buyers (the *New Debt SPA*); (ii) Amendment No. 2 to Security Agreement between us and Hesperion US, Inc., a Maryland corporation and our wholly owned indirect subsidiary (*Hesperion US*), on the one hand, and Cumulus in its capacity as collateral agent for the benefit of the Buyers (the *Collateral Agent*), on the other hand (the *Amended Security Agreement*); (iii) Amendment No. 1 to Guaranty in favor of the Collateral Agent for the benefit of the Buyers which was executed by Hesperion US (the *Amended Guaranty*); and (iv) Amendment No. 2 to Securities Purchase Agreement and Waiver by and among us the Buyers and the Prior Buyers (as defined below) (the *Amended SPA*).

ComVest, which beneficially owned directly or through affiliates, approximately 50.73% of our outstanding common stock immediately prior to the *New Debt Financing Closing Date*, purchased a Note in the principal amount of One Million Dollars (\$1,000,000) and was issued four million eight hundred thousand (4,800,000) Shares in connection therewith. Immediately after the *New Debt Financing Closing Date*, ComVest, or its affiliates, beneficially owned approximately 50.71% of our common stock. Michael Falk, chairman of our board of directors (the *Board*) and Cecilio Rodriguez, one of our directors, are affiliates of ComVest.

Our Board previously determined that it would be in our best interests and the best interests of our stockholders to appoint a special committee of disinterested directors to consider and approve the Debt Financing Transaction. Alastair McEwan, Robert Tucker and James Powers were appointed to the special committee of the Board (the *Special Committee*) with the power to approve the Debt Financing Transaction. On May 22, 2008, at a meeting of the Special Committee, the Special Committee approved the Debt Financing Transaction.

*New Debt SPA*

Pursuant to the *New Debt SPA*, we are obligated to sell and the Buyers are obligated to buy Notes in the aggregate principal amount of Two Million Dollars (\$2,000,000) and shares of our common stock in the aggregate amount of nine million six hundred thousand (9,600,000) Shares.

Pursuant to the *New Debt SPA*, from the *New Debt Financing Closing Date* until the date that no Notes or Prior Notes (as defined below) remain outstanding, Cumulus shall have the right to appoint one (1) person to attend and observe our Board meetings in an observer, non-voting capacity. Such observation rights shall not be transferable to any third party or assignee.

In addition, pursuant to the *New Debt SPA*, in the event that any Buyer's Note is outstanding on the first (1st) anniversary of the *New Debt Financing Closing Date*, we shall pay such Buyer a transaction fee in an amount equal to two percent (2%) of the purchase price of such outstanding Note.

*Notes*

We will pay interest on the Notes quarterly in arrears, beginning with the calendar quarter that commenced on April 1, 2008 as follows: (i) for the period commencing on the New Debt Financing Closing Date and ending on October 31, 2008, three percent (3%) per annum; (ii) for the period commencing on November 1, 2008 and ending on October 31, 2009, ten percent (10%) per annum; and (iii) for the period commencing on November 1, 2009 and ending on October 31, 2010, fifteen percent (15%) per annum. The entire unpaid principal balance of the Notes, plus all accrued interest thereon remaining unpaid, shall be due and payable by us to the Buyers on October 31, 2010. In addition, we have agreed to certain financial covenants as set forth in the Notes. If we breach any of the financial covenants set forth in the Notes, we will be required to make certain payments to the holders of the Notes.

The repayment of all outstanding principal and accrued interest under the Notes may be accelerated by the holders thereof upon any of the following events of default: (i) default in payment of any principal amount due under the Notes; (ii) failure by us for ten (10) business days to comply with any other provision of the Notes in all material respects; (iii) initiation of a bankruptcy proceeding or related proceeding; (iv) an involuntary case or other proceeding is commenced directly against us or any of our subsidiaries seeking liquidation, reorganization or other relief; (v) breach of any covenant or other term or condition of any New Debt Financing Transaction agreement, except, in the case of a breach of a covenant or other term that is curable, only if such breach continues for a period of at least ten (10) business days after written notice to us thereof; (vi) one or more judgments, non-interlocutory orders or decrees shall be entered by a U.S. state or federal or a foreign court or administrative agency of competent jurisdiction involving, in the aggregate, a liability (to the extent not covered by independent third-party insurance) as to any single or related series of transactions, incidents or conditions, of Two Hundred Fifty Thousand Dollars (\$250,000) or more, and the same shall remain unsatisfied, unvacated, unbonded or unstayed pending appeal for a period of forty-five (45) days after the entry thereof; (vii) any lien created by any New Debt Financing Transaction agreement shall at any time fail to constitute a valid and perfected first

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priority lien on all of the collateral purported to be secured thereby and the same is not cured within ten (10) business days of any such failure; (viii) there shall occur a change of control; or (ix) there occurs with respect to any issue or issues of indebtedness having an outstanding amount of Two Hundred Fifty Thousand Dollars (\$250,000) or more in the aggregate, whether such indebtedness exists on the issue date or shall thereafter be created, an event of default that permits the holder thereof to declare such indebtedness to be due and payable prior to its stated maturity.

*Amendment No. 2 to Security Agreement*

The Buyers, along with additional buyers (collectively, the Prior Buyers ), previously purchased certain secured notes in an original aggregate principal amount of Twenty Six Million Dollars (\$26,000,000) (the Prior Notes ) and entered into that certain Security Agreement, dated October 31, 2007 (the Security Agreement ), pursuant to which we, IT&E International, a California corporation and our former wholly owned subsidiary ( IT&E ), and Averion Inc., a Massachusetts corporation and our former wholly owned subsidiary ( Averion Inc. ), and together with IT&E, the Former Subsidiaries ), granted to the Collateral Agent, for the benefit of itself and the Buyers, a security interest in and lien upon all of our and our Former Subsidiaries' assets as security for our performance of our obligations under the Notes. Pursuant to the Amended Security Agreement, the Security Agreement was amended to: (i) include the Notes, as well as the Prior Notes, as being covered by the Security Agreement; and (ii) to reflect that the security interest in and lien that was granted as security for our performance of our obligations under the Prior Notes and the Notes now also includes a security interest in and lien upon all of Hesperion US's assets as well as our assets and no longer includes a security interest in and lien upon our Former Subsidiaries' assets which are now owned directly by us.

*Amended Guaranty*

The Former Subsidiaries previously entered into that certain Guaranty, dated October 31, 2007 (the Guaranty ), pursuant to which the Former Subsidiaries agreed to guarantee the full and prompt payment and performance to the Prior Buyers and Collateral Agent when due, upon demand, at maturity or by reason of acceleration or otherwise, of any and all of our, or the Former Subsidiaries, obligations, under the transaction documents related to the Prior Notes. Pursuant to the Amended Guaranty, the Guaranty was amended to: (i) include the Notes, as well as the Prior Notes, as being covered by the Guaranty; and (ii) to reflect that the guarantor under the Guaranty is now Hesperion US and no longer the Former Subsidiaries which have each been dissolved.

*Amended SPA*

The Buyers and Prior Buyers previously entered into that certain Securities Purchase Agreement with the Company dated October 31, 2007 (the Prior SPA ), pursuant to which the Buyers and Prior Buyers purchased the Prior Notes. In addition, pursuant to the Prior SPA, the Prior Buyers and the Buyers were given the right to participate in any future Company financing. Pursuant to the Amended SPA: (i) the Prior Buyers agreed to waive any right to participate in the Debt Financing Transaction; and (ii) the Prior SPA was amended as follows: (a) the definitions of Permitted Liens and Indebtedness were modified to include those created or incurred by the Debt SPA; (b) the definition of Affiliate Transactions was amended to allow for the transactions contemplated by the Debt SPA; and (c) the definition of Subsidiary was revised to mean any person of which fifty percent (50%) or more of the outstanding voting securities or other equity interests are owned, directly or indirectly, by such person; provided, however that the change in definition of Subsidiary is not intended to, and does not, in any way effect the representations or warranties set forth in Section 3 of the Prior SPA which were made as of the date of the Prior SPA and the closing date of the Prior SPA.

The parties also acknowledged the continuing obligations set forth in the side letter referenced above including our agreement to take, or cause to be taken, all applicable action necessary in connection with the consummation of the transactions contemplated by the New Debt Financing Transaction agreements, which include, without limitation, perfecting the Buyers' security interests in the applicable jurisdictions and entering into deposit account control agreements with our financial institutions.

**5. DIVESTITURE OF STAFFING SERVICES BUSINESS SEGMENT**

On October 3, 2007, we entered into an Asset Purchase Agreement, pursuant to which we sold all of the assets of our staffing services business segment which provided staffing and regulatory compliance and validation services to life sciences companies, for an aggregate purchase price of \$2.3 million.

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ), the operating results of the staffing services segment have been presented in the Company's 2007 financial statements as discontinued operations for all periods presented. No tax benefit has been attributed to discontinued operations.

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A consolidated summary of the operating results of discontinued operations for the three and nine month period ended September 30, 2007 is as follows:

<b>(in thousands)</b>	<b>For the three months ended, September 30, 2007</b>		<b>For the nine months ended, September 30, 2007</b>	
Net service revenue	\$	1,271	\$	4,971
Direct expenses		988		3,598
SG&A expense		658		2,600
Loss from discontinued operations	\$	375	\$	1,227

6.

SUPPLEMENTAL PROFORMA INFORMATION





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The results of operations for the three and nine months ended September 30, 2007 do not include the results of Hesperion Inc. as the date of acquisition was October 31, 2007. Had we acquired Hesperion Inc. on January 1, 2007, our total revenues would have been \$18.1 million and \$50.1 million, respectively, for the three and nine months ended September 30, 2007, an increase of \$9.3 million and \$25.9 million, respectively. Our net loss for the nine months ended September 30, 2007 would have been \$2.7 million, an increase in our net loss of \$0.3 million. Our net income for the three months ended September 30, 2007 would have been \$0.2 million, an increase in our net income of \$0.1 million. Our net income (loss) per share would have remained unchanged.

### 7. GOODWILL

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Goodwill consisted of the following at September 30, 2008 and December 31, 2007 (in thousands):

Goodwill attributable to the Millennix transaction	\$	4,635
Goodwill attributable to the Averion transaction		17,333
Goodwill attributable to the Hesperion transaction		26,749
Balance at December 31, 2007	\$	48,717
Purchase accounting adjustment		829
Deferred income tax effect of Hesperion intangibles		2,049
Balance at September 30, 2008	\$	51,595

During the nine month period ended September 30, 2008, adjustments were made to record the deferred income tax effect related to intangible assets and adjust the fair value of other assets and liabilities associated with the Hesperion acquisition. In accordance with SFAS No. 141, no amortization is recorded on goodwill.

### 8. NOTES PAYABLE AND FINANCING ARRANGEMENTS

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In November 2005, as a part of the Millennix acquisition, we assumed notes payable to Millennix employees in the aggregate principal amount of \$0.8 million and issued an additional note for \$0.3 million in September of 2006 when we amended that asset purchase agreement. At September 30, 2008 approximately \$0.1 million in principal payments on these notes remained outstanding, all of which are scheduled to be repaid by October 31, 2008.

In July 2006, we purchased all of the outstanding capital stock of Averion Inc. In connection with that purchase we issued two year promissory notes in the aggregate principal amount of \$0.7 million and five year promissory notes in the aggregate principal amount of \$5.7 million, each bearing interest at the prime rate of interest as set forth at the beginning of the calendar year (8.25% and 7.25% as of January 1, 2007 and January 1, 2008, respectively). At September 30, 2008 \$5.7 million in principal payments remained on these notes, all of which are scheduled to be repaid by July 31, 2011.

We issued stock and Senior Secured Notes in connection with the Hesperion financing transaction during October and November of 2007 (see Note 3). The Senior Secured Notes have a principal amount at maturity of \$26.0 million and interest is due and payable quarterly in arrears in the amount of 3% for the first year, 10% for the second year and 15% for the third year. The entire unpaid principal balance plus all accrued and unpaid interest is due and payable by October 31, 2010. The principle amounts of these notes have been discounted to fair value for balance sheet presentation. The accretion of the original issue discount will cause an increase in indebtedness from September 30, 2008 to October 31, 2010 of \$7.8 million.

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We issued Cerep a promissory note (the Cerep Note ) in connection with the Hesperion acquisition in the principal amount of 2.5 million Euros with interest accruing at a rate of 6% per annum due and payable quarterly in arrears. The entire unpaid principal balance, plus all accrued and unpaid interest, is due and payable by October 31, 2010. The principal amount of the Cerep Note has been discounted to fair value for balance sheet presentation. The accretion of the original issue discount will cause an increase in indebtedness from September 30, 2008 to October 31, 2010 of \$0.3 million.

We issued stock and New Senior Secured Notes in connection with a financing transaction during June of 2008 (see Note 4). The New Senior Secured Notes have a principal amount at maturity of \$2.0 million and interest is due and payable quarterly in arrears in the amount of 3% for the first four months, 10% for the next twelve months and 15% for the final twelve months. The entire unpaid principal balance plus all accrued and unpaid interest is due and payable by October 31, 2010. The principle amounts of these notes have been discounted to fair value for balance sheet presentation. The accretion of the original issue discount will cause an increase in indebtedness from September 30, 2008 to October 31, 2010 of \$0.5 million.

Aggregate maturities of notes payable as of September 30, 2008 are as follows (in thousands):

2008	\$	31
2009		
2010		31,612
2011		5,700
Total	\$	37,343
Less: unamortized original issue discount		(8,633)
Total notes payable		28,710

**9. CONCENTRATION OF REVENUE AND ASSETS**

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Total revenues are attributed to geographic areas based on location of the customer. Assets are assigned based on physical location.

Geographic information is summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Total revenues:</b>				
United States	\$ 7,638	\$ 8,278	\$ 25,354	\$ 23,141
Europe	10,415	522	31,306	1,061
Total revenue	\$ 18,053	\$ 8,800	\$ 56,660	\$ 24,202

	September 30, 2008	December 31, 2007
<b>Long-lived assets, net of accumulated depreciation:</b>		
United States	\$ 1,467	\$ 1,397
Europe	4,857	5,112
Total long-lived assets, net	\$ 6,324	\$ 6,509

### 10. COMMITMENTS AND CONTINGENCIES

We are involved in various legal actions arising in the normal course of our business. We believe that the outcome of these matters will not have a material adverse effect on our financial position or results of operation.

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**11. INCOME TAXES**

The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of SFAS No. 109 ( FIN 48 ), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have an impact on the Company s consolidated financial statements. There have been no changes to the unrecognized tax benefit balance during the nine months ended September 30, 2008 and no significant changes in the unrecognized tax benefit balance are expected in the next twelve months.

In the three months ended September 30, 2008, the Company recorded a \$0.1 million tax provision inclusive of discrete items and based on a projected effective 2008 income tax benefit rate of 27.1%. Our tax provision for the nine month period ended September 30, 2008 was \$0.2 million. The Company provides for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period in which they occur.

**12. COMPREHENSIVE LOSS**



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The components of comprehensive income (loss), net of tax, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ (2,040)	\$ 123	\$ (5,386)	\$ (2,428)
Change in accumulated translation adjustments	239	(74)	322	(89)
Total comprehensive income (loss)	\$ (1,801)	\$ 49	\$ (5,064)	\$ (2,517)

### 13. POST-RETIREMENT BENEFITS

The Company has a contributory defined benefit plan (the Benefit Plan) covering its employees in Switzerland as mandated by the Swiss government. Benefits are based on the employee's years of service and compensation. Benefits are paid directly by the Company when they become due, in conformity with the funding requirements of applicable government regulations.

The effect on the Company's consolidated statement of operations of the Benefit Plan is summarized in the following table (in thousands):

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Service cost	\$ 176	\$ 494
Interest cost on projected benefit obligation	38	164
Expected return on plan assets	(35)	(155)
Settlement Cost	289	289
Net periodic pension expense	\$ 468	\$ 792

During the nine months ended September 30, 2008, the Company contributed \$0.7 million to the Benefit Plan. The Company has made its entire contribution to the Benefit Plan for the year ending December 31, 2008.

### 14. RESTRUCTURING CHARGES



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During the three months ending March 31, 2007, we implemented plans to reduce our workforce in order to improve profitability and operating efficiencies across our business. As a result of these plans, we incurred restructuring charges in the quarter ended March 31, 2007 related to one-time employee related costs of \$0.7 million. We made actual payments to employees of \$0.1 million during the quarter ended March 31, 2008, and as of September 30, 2008 have no remaining payment obligations.

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



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The information discussed below is derived from the unaudited consolidated financial statements included in this Form 10-Q for the three and nine months ended September 30, 2008, and should be read in conjunction therewith. Our results of operations for a particular quarter may not be indicative of results expected during subsequent quarters or for the entire year.

### **Company Overview**



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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.

We have pursued a strategy of seeking other complimentary businesses to acquire so that we can expand our geographic presence and CRO capabilities. We believe the expansion of our business through the acquisition of established CROs enables us to provide a multitude of services sooner and more effectively than if we were to build such services organically.

Averion International Corp. was originally organized under the name Clinical Trials Assistance Corporation ( Clinical Trials ) by the filing of Articles of Incorporation with the Secretary of State of the State of Nevada on April 22, 2002. On June 14, 2004, Clinical Trials acquired IT&E International Corporation, which was engaged in the life sciences staffing services business, and amended its Articles of Incorporation to change the corporate name from Clinical Trials to IT&E International Group.

In November 2005, we acquired substantially all the assets of Millennix, Inc. ( Millennix ), a CRO based in the State of New York that provided comprehensive clinical research services for Phase I through Phase IV clinical trials in oncology. On March 2, 2006, with the written consent of holders of the majority of our shares of common stock, we reincorporated into Delaware and filed a Certificate of Incorporation to change our corporate name to IT&E International Group, Inc.

On July 31, 2006, we expanded our CRO operation through the acquisition of Averion Inc. (formerly, Boston Biostatistics, Inc), a CRO located in the Commonwealth of Massachusetts, which provided comprehensive clinical research services for Phase I through Phase IV clinical trials, with a focus on oncology, dermatology, nephrology, critical care and medical devices. The acquisition of Averion Inc. enabled us to diversify our portfolio of clinical trial support services and expertise and deepen our relationship with existing clients. In August of 2006, we expanded our CRO business into Europe with the formation of Averion Europe GmbH, which allowed us to assist our clients that wish to run clinical trials and gain access to patients internationally. On September 21, 2006, we filed an amendment to our Certificate of Incorporation to change our corporate name to Averion International Corp. Our common stock symbol was changed from ITER.OB to AVRO.OB in conjunction with the name change.

On October 3, 2007, we sold our former staffing services operating segment to members of management of that operating segment. The divestiture of our staffing services business segment enables us to focus on our core CRO business.

On October 31, 2007, we acquired Hesperion AG ( Hesperion ), an international CRO based in Switzerland. The acquisition of Hesperion significantly strengthened our presence in Europe and significantly improved our capabilities to manage complex larger global clinical trials for our clients.

Our industry continues to be dependent on the research and development efforts of pharmaceutical, biotechnology and medical device companies as major clients, and we believe this dependence will continue. Our client list includes several large pharmaceutical and biotechnology companies. With the strategic acquisition of Hesperion Ltd., we have expanded our customer base, and our ability to conduct

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clinical trials on a global basis. For the nine month period ended September 30, 2008, approximately 22% of our total net service revenue was from one (1) client. For the nine month period ended September 30, 2007, 32% of our total net service revenues were from two (2) clients, representing 19% and 13% of total net service revenues, respectively. Although the expansion of our client base through the acquisitions of Averion Inc. and Hesperion Ltd. has increased our revenues, the loss of business from any of our major clients could have a material adverse effect on our financial position and consolidated statements of operations.

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Our revenue growth has and will continue to be highly dependent on our ability to attract, develop, motivate and retain skilled professionals. We closely monitor our overall attrition rates and patterns to ensure our personnel management strategy aligns with our growth objectives. There is intense competition for professionals with the skills necessary to provide the type of services we offer. If our attrition rate increases and was to be sustained at higher levels, our growth may slow and our cost of attracting and retaining clinical professionals could increase.

**Backlog**





*Our clinical research backlog consists of anticipated net service revenue from uncompleted projects which have been authorized by the client, through a written contract or letter of intent. 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 service revenue in our consolidated statement of operations. Once contracted work begins, net service revenue is recognized over the life of the contract on a fee for service or percentage completion basis. The recognition of net service revenue reduces our backlog while the awarding of new business increases our backlog. Our backlog for clinical research services was approximately \$68.0 million at September 30, 2008, representing a decrease of approximately \$6.7 million from backlog of \$74.7 million at December 31, 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 may be delayed or cancelled during the course of a study. For these reasons, we might not be able to fully realize our entire backlog as net service revenue.*



### Application of Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of revenue and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the preparation of our financial statements when both of the following are present:

- the estimate is complex in nature or requires a high degree of judgment
- the use of different estimates and assumptions could have a material impact on the consolidated financial statements

We have discussed the development and selection of our critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors. Those estimates critical to the preparation of our consolidated financial statements are listed below.

#### *Revenue Recognition*

Our services are performed under both time-and-material and fixed-price arrangements. All revenue is recognized pursuant to accounting principles generally recognized in the United States of America ( GAAP ). Revenue is recognized as work is performed and amounts are earned in accordance with the SEC Staff Accounting Bulletin ( SAB ) No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition*. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectibility is reasonably assured. For contracts with fees billed on a time-and-materials basis, we generally recognize revenue over the period of performance.

We comply with FASB Emerging Issues Task Force Rule No. 00-21 ( EITF 00-21 ), *Accounting for Revenue Arrangements with Multiple Deliverables*, which addresses how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. 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.

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Fixed-price contracts are accounted for under the percentage-of-completion method. Under the percentage-of-completion method, we estimate the percentage-of-completion by comparing the actual number of work hours performed or units delivered to date to the estimated total number of hours or units required to complete each engagement. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenue and costs to completion, including assumptions and estimates relative to the length of time to complete the project, the nature and complexity of the work to be performed and anticipated changes in other contract-related costs. Estimates of total contract revenue and costs to completion are continually monitored during the term of the contract and are subject to revision as the contract progresses. Unforeseen circumstances may arise during an engagement requiring us to revise our original estimates and may cause the estimated profitability to decrease. When revisions in estimated contract revenue and efforts are determined, such adjustments are recorded in the period in which they are first identified. Provisions for estimated losses on individual contracts are made in the period in which the loss first becomes known. Depending on the specific contractual provisions and nature of the deliverable, revenue may be recognized as milestones are achieved or when final deliverables have been accepted.

*Goodwill*

We account for goodwill as an indefinite life intangible asset in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets* ( SFAS No. 142 ) As such, SFAS No. 142 requires that goodwill be tested for impairment at least annually and requires that any such impairment be recorded as a charge to operations. At September 30, 2008 and December 31, 2007, we had no impairment in the carrying value of our goodwill.

*Long-lived assets*

Our long-lived assets include finite-life intangible assets, property and equipment and long-term notes receivable. We evaluate the recoverability of our 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.

*Share-Based Compensation*

We recognize and record stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment* ( SFAS No. 123R ) using the Modified Prospective Approach.

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.

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

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 life of the option assumption is based on the simplified or "safe-haven" method outlined in the SAB No. 107, *Share-Based Payment* as amended by SAB No. 110. 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.



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We believe there is a high degree of subjectivity involved when using option-pricing models to estimate share-based compensation under SFAS No. 123R. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions, are fully transferable and do not cause dilution. Because our share-based payments have characteristics different from those of freely traded options and because changes in the subjective input assumptions can materially affect our estimates of fair values (such as attrition), in our opinion, existing valuation models, including Black-Scholes, may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination, or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that is significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with SFAS No. 123R using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and willing seller. If factors change and we employ different assumptions in the application of SFAS No. 123R in future periods than those currently applied under SFAS No. 123R and those previously applied under SFAS No. 123 in determining our pro forma amounts, the compensation expense that we record in the future under SFAS No. 123R may differ significantly from what we have reported during the three and nine month periods ended September 30, 2008 and 2007, respectively.

*Income Taxes*

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions. We record liabilities for estimated tax obligations in the United States and other tax jurisdictions. Determining the consolidated provision for income tax expense, tax reserves, deferred tax assets and liabilities and related valuation allowance, if any, involves judgment. We calculate and provide for income taxes in the jurisdictions in which we operate, including the United States, Switzerland, Germany, Israel, the United Kingdom, France, Austria, the Netherlands, and several eastern European countries. It is our policy to file tax returns as prescribed by the tax laws of the jurisdictions in which we operate. We are currently not under examination by any federal, state or local taxing jurisdiction. The 2002 to 2007 tax years for which we have filed tax returns with federal, state and local taxing jurisdictions remain subject to examination. In the normal course of business, we conduct operations in various state and local taxing jurisdictions. We may have exposure for examination or tax assessment by a state or local taxing jurisdiction where we have not historically filed tax returns. We believe any such potential tax assessment would not have a material impact on our financial position or results of operations. Our overall effective tax rate fluctuates due to a variety of factors, including changes in the geographic mix or estimated level of annual pretax income, the ability to utilize our accumulated net operating loss carryforwards and newly enacted tax legislation in each of the jurisdictions in which we operate.

Applicable transfer pricing regulations require that transactions between and among our subsidiaries be conducted at an arm's-length price. On an ongoing basis we estimate an appropriate arm's-length price and use such estimate for our intercompany transactions.

On an ongoing basis, we evaluate whether a valuation allowance is needed to reduce our deferred tax assets to the amount that is more likely than not to be realized. This evaluation considers the weight of all available evidence, including both future taxable income and ongoing prudent and feasible tax planning strategies. In the event that we determine that we will not be able to realize a recognized deferred tax asset in the future, an adjustment to the valuation allowance would be made resulting in a decrease in income in the period such determination was made. Likewise, should we determine that we will be able to realize all or part of an unrecognized deferred tax asset in the future, an adjustment to the valuation allowance would be made resulting in an increase to income (or equity in the case of excess stock option tax benefits). 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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**Results of Operations**

*Three months ended September 30, 2008 and 2007*



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The following table presents an overview of our results of continuing operations for the three months ended September 30, 2008 and 2007.

(in thousands)	September 30, 2008		September 30, 2007	
	\$	% of revenue	\$	% of revenue
Net service revenue	\$ 15,900	100%	\$ 7,820	100%
Direct expenses	9,868	62%	4,214	54%
SG&A expense	5,878	37%	2,800	36%
Depreciation and amortization	1,011	6%	338	4%
Restructuring and related charges				
Net operating income(loss)	(857)	(5)%	468	6%
Other income (expense)	(1,061)	(6)%	30	(0)%
Loss before income tax expense	(1,918)	(12)%	498	6%
Income tax provision	122	1%		
Net loss from continuing operations	\$ (2,040)	(13)%	\$ 498	6%

Net service revenue for the three months ending September 30, 2008 increased \$8.1 million to \$15.9 million as compared to \$7.8 million for the three months ending September 30, 2007, an increase of 103%. The increase in net service revenues was primarily related to the inclusion of results from the Hesperion acquisition completed on October 31, 2007, which contributed \$8.7 million in net service revenue during the three months ended September 30, 2008.

Direct expenses consist primarily of compensation, related payroll taxes and fringe benefits for our project-related staff and contracted personnel, and other expenses directly related to specific contracts. Direct expenses increased by \$5.7 million to \$9.9 million for the three months ended September 30, 2008 from \$4.2 million for the three months ended September 30, 2007. The increase in direct expenses was primarily related to the inclusion of results from the Hesperion acquisition completed on October 31, 2007 which contributed \$5.4 million in direct expenses during the three months ended September 30, 2008. As a percentage of net service revenues, direct expenses increased to 62% during the three months ended September 30, 2008 from 54% during the comparative period in 2007. The degradation in direct expenses as a percentage of net service revenues was principally the result of an unfavorable margin mix in services delivered during the period and lower staff utilization on clinical study activities.

Selling, general and administrative expenses included the salaries, wages, and benefits of all administrative, financial and business development personnel and all support and overhead expenses not directly related to specific contracts. Selling, general and administrative expenses for the three months ended September 30, 2008 were \$5.9 million or 37% of net service revenue, as compared to \$2.8 million or 36% of net service revenue for the three month period ended September 30, 2007. The increase in expenses of \$3.1 million was the result of the increased cost structure associated with the Hesperion acquisition during the quarter, and expenses associated with supporting a larger, international public company.

Depreciation expense increased to \$0.4 million for the three months ended September 30, 2008 as compared to \$0.1 million for the three months ended September 30, 2007. The increase in depreciation expense was primarily the result of the additional depreciation associated with the fixed assets acquired in the Hesperion acquisition. Amortization expense increased to \$0.6 million for the three months ended September 30, 2008 as compared to \$0.2 million for the three months ended September 30, 2007, primarily due to the values assigned to finite life intangibles acquired in connection with the Hesperion acquisition.

Other income and expense is comprised primarily of interest charges on our outstanding notes, the amortization of the original issue discount on the Senior Secured Notes issued in conjunction with the Hesperion acquisition, and foreign exchange gains and losses. Net interest expense increased to \$0.5 million for the three months ended September 30, 2008, as compared to \$0.1 million for the same period in 2007, due to the increase in the principal amount outstanding as a result of the notes issued in connection with the recent acquisition activity. In addition, we incurred approximately \$1.1 million of non-cash expense during the three month period ended September 30, 2008 for the amortization of the original issue discount on debt issued in connection with the Hesperion acquisition. We had foreign currency translations gains during the period of approximately \$0.5 million.

Our net loss from continuing operations for the three months ended September 30, 2008 increased to \$2.0 million or \$0.00 per share, as compared to net income from continuing operations for the three months ended September 30, 2007 of \$0.5 million.

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*Nine months ended September 30, 2008 and 2007*





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The following table presents an overview of our results of continuing operations for the nine months ended September 30, 2008 and 2007.

(in thousands)	September 30, 2008		September 30, 2007	
	\$	% of revenue	\$	% of revenue
Net service revenue	\$ 50,339	100%	\$ 22,197	100%
Direct expenses	29,326	58%	13,301	60%
SG&A expense	18,325	36%	8,266	37%
Depreciation and amortization	3,058	6%	1,044	5%
Restructuring and related charges			723	3%
Net operating income (loss)	(370)	(1)%	(1,137)	(5)%
Other income (expense)	(4,804)	(10)%	(64)	(0)%
Loss before income tax expense	(5,174)	(10)%	(1,201)	(5)%
Income tax provision	212	(1)%		
Net loss from continuing operations	\$ (5,368)	(11)%	\$ (1,201)	(5)%

Net service revenue for the nine months ending September 30, 2008 increased \$28.1 million to \$50.3 million as compared to \$22.2 million for the nine months ending September 30, 2007, an increase of 127%. The increase in net service revenues was primarily related to the inclusion of results from the Hesperion acquisition completed on October 31, 2007, which contributed \$26.7 million in net service revenue during the nine months ended September 30, 2008.

Direct expenses consist primarily of compensation, related payroll taxes and fringe benefits for our project-related staff and contracted personnel, and other expenses directly related to specific contracts. Direct expenses increased by \$16.0 million to \$29.3 million for the nine months ended September 30, 2008 from \$13.3 million for the nine months ended September 30, 2007. The increase in direct expenses was primarily related to the inclusion of results from the Hesperion acquisition completed on October 31, 2007 which contributed \$15.8 million in direct expenses during the nine months ended September 30, 2008. As a percentage of net service revenues, direct expenses decreased to 58% during the nine months ended September 30, 2008 from 60% during the comparative period in 2007. The improvement in direct expenses as a percentage of net service revenues was principally the result of an increase in the number of clinical studies, primarily obtained through the acquisition of Hesperion, and an associated increase in staff utilization on clinical study activities.

Selling, general and administrative expenses included the salaries, wages, and benefits of all administrative, financial and business development personnel and all support and overhead expenses not directly related to specific contracts. Selling, general and administrative expenses for the nine months ended September 30, 2008 were \$18.3 million or 36% of net service revenue, as compared to \$8.3 million or 37% of net service revenue for the nine month period ended September 30, 2007. The increase in expenses of \$10.0 million was the result of the increased cost structure associated with the Hesperion acquisition and expenses associated with supporting a larger, international public company.

During the nine months ended September 30, 2007, we implemented plans to reduce our workforce in order to improve operating efficiencies and reduce costs across our business. Under such plans, our active clinical research employee base declined by approximately 13%. The reduction of our workforce was completed during the nine months ending September 30, 2007. We incurred \$0.7 million of restructuring charges for associated pay and benefits for effected personnel in the nine month period ended September 30, 2007. We made actual payments to employees of \$0.1 million during the quarter ended March 31, 2008 and as of September 30, 2008 have no remaining payment obligations.

Depreciation expense increased to \$1.3 million for the nine months ended September 30, 2008 as compared to \$0.4 million for the nine months ended September 30, 2007. The increase in depreciation expense was primarily the result of the additional depreciation associated with the fixed assets acquired in the Hesperion acquisition augmented by the depreciation of new assets acquired during our efforts to build out our infrastructure. Amortization expense increased to \$1.8 million for the nine months ended September 30, 2008 as compared to \$0.6 million for the nine months ended September 30, 2007, primarily due to the values assigned to finite life intangibles acquired in connection with the Hesperion acquisition.



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Other income and expense is comprised primarily of interest charges on our outstanding notes, the amortization of the original issue discount on the Senior Secured Notes issued in conjunction with the Hesperion acquisition, and foreign exchange gains and losses. Net interest expense increased to \$1.3 million for the nine months ended September 30, 2008, as compared to \$0.4 million for the same period in 2007, due to the increase in the principal amount outstanding as a result of the notes issued in connection with acquisition activity. In addition, we incurred approximately \$3.2 million of non-cash expense for the amortization of the original issue discount on debt issued in connection with the Hesperion acquisition. During the nine months ended September 30, 2008, we experienced a foreign currency exchange loss of approximately \$0.2 million. This loss was primarily due to the net effects of a weaker U.S. dollar against the Swiss franc and the Euro. We carry a Euro denominated note on our U.S. books as a result of the acquisition of Hesperion. This note is in the amount of EUR 2.5 million and is due during the latter half of 2010. In addition, we have receivable balances on the books of our Swiss subsidiary that are denominated in currencies other than the functional currency of that subsidiary, the Swiss franc. As foreign exchange rates change from period to period these receivables are revalued resulting in an offsetting gain or loss in the income statement.

Our net loss from continuing operations for the nine months ended September 30, 2008 increased to \$5.4 million or \$0.01 per share, as compared to a net loss from continuing operations of \$1.2 million, or \$0.00 per share, for the nine months ended September 30, 2007. The increase in net loss is directly attributable to increases in non-cash charges and interest expense associated with the Hesperion acquisition.

**Liquidity and Capital Resources**

We have financed our growth and operations from the issuance of debt and equity. The CRO industry is generally not capital intensive. Our principal source of cash for operations is from contracts with clients. If we are unable to generate new contracts with existing and new clients and/or if the level of contract cancellations increases, revenues and cash flow will be materially and adversely affected. Absent a material adverse change in the level of our new business bookings or contract cancellations, we believe that our existing capital resources together with cash flow from operations will be sufficient to meet our operating cash needs for the next twelve months. However, if we engage in further business expansion through acquisitions and/or continue to incur a loss from operations, we may need to raise additional funds through the sale of debt or equity securities.

At September 30, 2008 we had cash and cash equivalents of \$2.4 million as compared to \$6.5 million at September 30, 2007, a decrease of \$4.1 million. Approximately \$1.9 million in cash was on deposit outside of the United States at September 30, 2008.

Our primary operating cash needs are for the payment of salaries and fringe benefits, hiring and recruiting expenses, business development costs, capital expenditures, and facilities-related expenses.

Net cash used by operating activities was \$0.8 million for the nine months ended September 30, 2008, compared with net cash used by operating activities of \$0.5 million for the nine months ended September 30, 2007. The amount of noncash charges included in net loss from continuing operations during the quarter ended September 30, 2008 was \$7.7 million as compared to \$1.4 million during the same period in 2007. Increases in our accounts receivable and unbilled accounts receivable balances of \$5.2 million, and prepaid expenses of \$0.6 million combined with decreases in other accrued liabilities of \$2.0 million as compared to the same period in the prior year were partially offset by an increase in accrued compensation of \$0.5 million and deferred revenue and customer deposits of \$3.7 million from the comparative period in the prior year. The changes in our asset and liability accounts reflected on our Consolidated Statement of Cash Flows for the nine months ended September 30, 2008 were primarily due to the expansion of our business and the inclusion of additional activity associated with the Hesperion acquisition which occurred during October, 2007.

Net cash used by investing activities was comprised primarily of outlays for the purchase of capital equipment. We experienced an increase period over period due to the costs of supporting a much larger global information technology infrastructure, due to the acquisition of Hesperion in October of 2007.

Net cash used by financing activities was \$3.2 million for the nine months ended September 30, 2008, compared with net cash used by financing activities of \$0.5 million for the nine months ended September 30, 2007. The increase was directly attributable to the payment of approximately \$3.0 million to Cerep, which represented a deferred portion of the purchase price related to the October 2007 acquisition of Hesperion, and principal payments on a notes associated with earlier acquisitions in the amount of \$2.2 million, partially offset by a \$2.0 million debt financing completed in June of 2008. Repayment of notes during the same period in the prior year totaled approximately \$0.5 million.

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**Off Balance Sheet Financing Arrangements**

As of September 30, 2008, we did not have any off-balance sheet financing arrangements or any equity ownership interests in any variable interest entity or other minority owned ventures.

**Forward-Looking Statements**

This Form 10-Q includes forward-looking statements. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-Q which address activities, events or developments which we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), finding suitable merger or acquisition candidates, expansion and growth of our business and operations, and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances.

However, whether actual results or developments will conform to our expectations and predictions is subject to a number of risks and uncertainties, general economic market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by us; changes in laws or regulation; and other factors, most of which are beyond our control.

Forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as believes, anticipates, expects, intends, estimates, plans, may, will, or similar terms. These statements appear in a number of places in this Form 10-Q and include statements regarding the intent, belief or current expectations of the Company, our directors or our officers with respect to, among other things: (i) trends affecting our financial condition or results of operations for our limited history; and (ii) our business and growth strategies. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that could adversely affect actual results and performance include, among others, our limited operating history, potential fluctuations in quarterly operating results and expenses, government regulation, technological change and competition. We refer you to the cautionary statements and risk factors set forth in the documents we file from time to time with the SEC, particularly our Annual Report on Form 10-KSB for the year ended December 31, 2007 filed on March 31, 2008.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effects on us or our business or operations. We assume no obligation to update any such forward-looking statements.

**ITEM 4T. CONTROLS AND PROCEDURES**



**Disclosure Controls and Procedures**





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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### **Internal Controls over Financial Reporting**



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There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**



**ITEM 1. LEGAL PROCEEDINGS**



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We are involved in various legal actions arising in the normal course of our business. We believe that the outcome of these matters will not have a material adverse effect on our financial position or results of operation.

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

We held an Annual Meeting of Stockholders of the Company on September 4, 2008 (the Annual Meeting ). The results of the vote on all items voted upon at the Annual Meeting were previously reported in our Current Report on Form 8-K filed on September 9, 2008 which is incorporated herein by reference.

### **ITEM 6. EXHIBITS**





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(a) Exhibits

<b>Exhibit Number</b>	<b>Title of Document</b>
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**



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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.

Averion International Corp.  
(Registrant)

Dated: November 6, 2008

By: */s/ Dr. Markus H. Weissbach*  
Dr. Markus H. Weissbach  
Chief Executive Officer

Dated: November 6, 2008

By: */s/ Lawrence R. Hoffman*  
Lawrence R. Hoffman  
Chief Financial Officer