

## Accounting Errors Cost Parexel in Fiscal Year

**P**arexel's 2009 financial results took a significant hit due to accounting errors connected with the August 2008 acquisition of clinical trials technology company Clinphone.

According to fiscal year 2009 financial results released last week, Parexel discovered that it had violated several rules related to the recognition and deferral of revenues and costs for Clinphone.

First, the contract research organization (CRO) had been recognizing revenue and direct cost amounts during the start-up (i.e., design, development and validation) of certain Clinphone contracts rather than deferring them during the course of the clinical trial, as is

required by accounting rules. Second, the company broke rules related to how a company can defer and recognize the revenues of an acquired entity.

To correct these errors, Parexel must now defer some previously recognized revenue and direct costs and reduce its full year and fourth quarter service revenues by \$21 million, its expenses by \$5.1 million and its operating income by \$15.9 million.

Chief financial officer James Winschel told investors on a conference call last week that the errors had just been discovered in the last several days and that accounting

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## Essential CRO Expands Global Reach through Ecron Acunova Partnership

**U**p until a year ago, Gurnee, Ill.-based contract research organization (CRO) Essential CRO conducted most of its work in the United States, with a few projects in Canada and Mexico. Today, as a result of a strategic partnership with India-based Ecron Acunova, the company is growing its global footprint into India and Eastern Europe and plans to expand even more in the future.

Essential CRO and Ecron Acunova began bidding together on global projects last year, and the companies are now working on several global projects together. Because Essential CRO is not an integrated CRO (the company does not offer its own data management and statis-

tics services, for example), the company is used to partnering with other CROs for services. However, this is the first strategic alliance of its kind for the company because it enables them to expand into new areas of the world, not just services.

"It was our strategy to grow this business globally as well as adding services," said Essential CRO executive vice president and chief financial officer Dennis Cavender. "We'd been doing studies for non-U.S. pharma and biotech companies in the U.S. but not studies located outside the U.S. This really opens up an avenue for us to be able to get outside of the

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## Parexel

changes would not affect the company's overall business or cash flow.

According to Parexel, the integration of ClinPhone's accounting system was made more complex by the transition from International Financial Reporting Standards (IFRS), under which ClinPhone previously reported, to U.S. Generally Accepted Accounting Principles (GAAP).

When asked by a caller why the errors were not discovered earlier, Winschel told investors that Parexel had employed one of the big four accounting firms to assist them in the transition to GAAP but that the firm did not identify any issues related to recognition of revenues. It was

only when Parexel's internal financial department and auditors started looking at the numbers in the past few weeks that the problems came to light.

Once Parexel adjusted its numbers to account for the ClinPhone errors, the CRO's fourth quarter service revenue fell to \$247.4 million, compared with \$272.2 million in the same period of 2008. Net income for the quarter was \$6.3 million, or \$0.11 per diluted share, compared with net income of \$25 million, or \$0.43 per diluted share, in 2008. Fiscal year 2009 service revenue was \$1.1 billion compared with \$964.3 million in fiscal year 2008. Net income for the year was \$39.3 million, or \$0.68 per diluted share, compared with net income of \$64.6 million, or \$1.12 per dilut-

ed share, in 2008.

Parexel chairman and CEO Josef von Rickenbach told investors that the competitive pricing environment remains challenging, a sentiment that has been echoed by other CROs.

"From a competitive point of view, I would have to say this was probably one of the most difficult quarters in a long time. We held our own, but it was a slump," von Rickenbach said. "Toward the end of the quarter, things started to ease, proposals started to flow better."

Von Rickenbach said he does not expect the first quarter 2010 to be much better from a competitive standpoint, but, based on discussions and proposal flow, the landscape will improve later on in 2010.

## Essential

U.S. The market is still strong inside North America and the U.S., but, outside the U.S., the market is growing even more robust."

As a result of the partnership, Essential CRO will now be able to offer its clients access to services in 18 countries. Essential CRO's headcount is 75, but the partnership with Ecron Acunova provides them access to a total of 350 global employees, Cavender said.

Ecron Acunova has offices in Bangalore, India; Frankfurt, Germany; and Princeton, N.J. Although the CRO already has an office in the United States, they, too, hope to see their global portfolio grow through a partnership with a U.S.-based company, Cavender said.

"[The alliance] enables each of us to scale our operations and our capability without a significant dollar investment of trying to do it on our own," Cavender said.

The Essential-Ecron Acunova alliance is the result of two years of discussion between the two companies—talks that reinforced the similarities between the CROs' competencies, capabilities and senior management style, Cavender explained.

"Everyone has some differences in how they do things and in their SOPs [standard operating procedures], but, by and large, we're very compatible in terms of how we approach it, how we write our SOPs, the commitment to quality, and the commitment to delivering with excellence," Cavender said. "You might say we

dated and got to know each other a little bit more, and at the end of the day, it's about being able to produce results together that produce some synergies."

Essential's alliance with Ecron Acunova is open-ended in terms of end date and exclusivity, which leaves the door open for either company to partner with other CROs in other countries and regions of the world. Essential, however, is committed to this partnership for the time being.

"[The partnership] doesn't limit us from entering into other partnerships, but, practically speaking, we'd like to see this one grow and flourish, and we can only handle so much at a time. Even with a partnership, it takes a lot of work," Cavender said.

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