ENCORIUM GROUP INC
Form 10-K
October 03, 2011

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010.

OR

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

For the transition period from to

Commission file number: 0-21145

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

Delaware	56-1668867
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Keilaranta 10, FI02150 Espoo Finland	N/A
(Address of principal executive offices)	(Zip Code)

+358 20 751 8200
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $.001 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ¨ No x

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 o No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

Yes ¨ No x

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $1,751,887 based on the closing sale price as reported on the Pink Sheets Market System.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 29, 2011
Common Stock, $.001 par value per share	5,308,749*

*Does not include 38,765 shares which are held in treasury.

DOCUMENTS INCORPORATED BY REFERENCE: None

ENCORIUM GROUP, INC.

FORM 10-K ANNUAL REPORT

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

FORWARD LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

This Business section outlines our current business and sets forth our strategy to further expand our business. However, we do not currently have the funding necessary to carry out our expansion strategies. As a result, if we are unable to secure capital from external source or significantly increase our revenue we will need to significantly reduce our operating costs which will jeopardize the future strategic initiatives and business plans of the Company. See Item 1A. “Risk Factors” below.

General

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

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

Our clients consist of some of the largest companies in the pharmaceutical and biotechnology industries. From protocol design and clinical program development, to proven patient recruitment, to managing the regulatory approval

process, we have the resources to directly implement or manage Phase I through Phase IV clinical trials. We offer a broad range of clinical research and development services supporting Phase I through Phase IV clinical trials, such as strategic trial planning, project management, monitoring, data management and biostatistics, pharmacovigilance, medical writing, quality assurance, and outsourcing of clinical staff. We have clinical trial experience across a wide variety of therapeutic areas, such as cardiovascular, nephrology, endocrinology/metabolism, hematology, diabetes, neurology, oncology, immunology, vaccines, infectious diseases, gastroenterology, dermatology, hepatology, rheumatology, urology, ophthalmology, women's health and respiratory medicine. The mix of projects is subject to change from year to year.

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

On February 16, 2010, the Company affected a one-for-eight reverse split of its Common Stock effective at 5 PM Eastern Time on February 16, 2010. The Company implemented the reverse stock split under the authority granted to the Board of Directors by the Company's stockholders at their annual meeting on January 8, 2010, to affect a reverse stock split of the Company's Common Stock, par value $0.001 per share, at a ratio within a range of from one-for-three to one-for-ten shares. As a result of the reverse stock split, each eight shares of issued and outstanding shares of the Company's Common Stock, were combined and reconstituted as one share of Common Stock, par value $0.001 per share, of the Company. The reverse stock split reduced the number of outstanding shares of Common Stock from 27,105,383 shares to 3,388,173 shares. All fractional shares which would have otherwise resulted from the reverse stock split were rounded up to the nearest whole share in lieu of fractional shares.

On July 19, 2010, the Company acquired Progenitor Holding AG, a corporation organized in Switzerland ("Progenitor Holding") and its operating subsidiaries organized in Mexico, Panama, Argentina, Chile, Switzerland, India and Hong Kong (collectively referred to herein as "Progenitor"). Progenitor is a European headquartered emerging market clinical research organization providing international drug development services in emerging market regions. Pursuant to the terms of a Stock Purchase Agreement on July 19, 2010, the Company purchased from the shareholders of Progenitor Holding all of issued and outstanding shares of Progenitor Holding.

The consideration for the acquisition was a combination of cash and stock valued at $2.57 million, plus earn-out consideration of up to $1.8 million. The earn-out is subject to the achievement of certain targets as set forth in the purchase agreement and if achieved. As of December 31, 2010, the Company's management has determined that none of the earn-out targets set forth in the purchase agreement will be achieved; therefore, no further purchase price adjustments were necessary.

The Company financed the cash component of the purchase consideration by issuing an unsecured note in the amount of $1.4 million to Ilari Koskelo, a significant stockholder of the Company. In connection with the Company's rights offering which was completed on October 15, 2010, the Company exchanged the outstanding note payable to stockholder for shares of common stock of the Company.

On October 15, 2010 the Company completed a rights offering of its common stock. The rights offering entitled each stockholder of record on August 20, 2010 to purchase one share of common stock at $1.75 per share. Upon completion of the rights offering, the company issued 641,002 shares of its common stock in exchange for $1.1 million. Additionally, the Company exchanged notes payable of $1.8 million due to a significant stockholder for 1,015,000 shares of common stock.

On October 20, 2010, the Company received notification that the NASDAQ Qualifications Panel (the "Panel") determined to delist the Company's securities from The NASDAQ Stock Market, effective with the open of business on October 22, 2010, as a result of the Company's failure to regain compliance with the minimum $2.5 million stockholders' equity requirement. The Company's common stock is currently quoted on the Pink Sheets, trade symbol ENCO.PK. Investors can now view real time stock quotes for ENCO.PK at http://www.otcmarkets.com.

Industry Overview

The CRO industry provides independent clinical trial and product development services for the pharmaceutical and biotechnology industries. Companies in these industries often outsource product development services to CROs in order to manage the drug development process more efficiently and cost-effectively. Outsourcing also enables these companies to access expertise and experience beyond their organizations. Historically, many companies in the pharmaceutical and biotechnology industries have performed the majority of their product development internally. Outsourcing drug development activities to CROs provides these companies with a variable cost alternative to the fixed costs associated with internal drug development. Companies no longer need to staff for peak periods and can

benefit from a CRO's technical resources, therapeutic expertise, and the global infrastructure required to conduct clinical trials on a worldwide basis.

At the present time, we believe that the percentage of services required for product development that are being outsourced is increasing and will continue to increase in the future because of numerous factors, including: cost containment pressures; attempts to overcome limitations on internal capacity; a desire to improve the timeline for evaluating and developing new drugs and/or devices; the desire to increase the percentage of development costs that are variable as compared to fixed costs; the need to perform research relating to new drugs in multiple countries simultaneously; the response to increasingly stringent government regulations in various countries; and the desire to use external expertise to supplement internal design and development capabilities.

As the investment required to develop new drugs continues to increase, an opportunity is created to help speed the drug development process or make this process more efficient.

Our Strategy

The Company's strategy is to continue to enhance its reputation as a superior provider of CRO services by providing its clients with exceptional performance ensuring that they achieve their goals on-time, on-budget and with superlative quality. This year has been a challenging one for the CRO industry, for the Company and for its customers. The Company and the biopharmaceutical industry as a whole have been profoundly affected by the negative conditions in the global economy. In the near term, the Company's strategy is to continue to adapt to the current changes in the industry and to continue to stabilize the Company's operations by focusing on business development and reduction of expenses. The Company's longer term strategy is to become the world's leading vaccine CRO with a primary focus on immunology and oncology. With vaccine development as one of the Company's primary focuses, the Company believes that global expansion through organic growth, acquisition and the formation of strategic partnerships into certain key markets such as South America and Asia Pacific is necessary to serve its clients' needs. In addition, the Company believes it will be necessary to market its services in the U.S. again but, in an effort to minimize risk, the Company currently plans to expand in the U.S. through strategic partnerships, as opposed to acquisition.

Our Services

We offer our clients on a global basis a broad range of clinical research and development services supporting Phase I through Phase IV clinical trials. Our services include study protocol design, clinical trials management, global data management services, biostatistics, medical and regulatory affairs, quality assurance and compliance and medical report writing.

Study Protocol Design

A significant value we provide to our clients is in designing the initial study protocol or in significantly enhancing the protocol's design. The study protocol is the critical document provided to the study investigators that defines the study and details the procedures which must be followed for the proper conduct of the trial. The protocol defines the medical issues the study seeks to examine and the statistical tests that will be conducted. The protocol also defines the frequency and type of laboratory and clinical measurements to be performed, tracked and analyzed. Also defined is the number of patients required to produce a statistically meaningful result, the period of time over which they must be tracked, and the frequency and dosage of drug administration.

A properly designed protocol targets the correct primary efficacy variable or safety parameters (i.e. the key outcome being studied, such as a reduction in sitting diastolic or systolic blood pressure), is statistically sound, effectively incorporates strategic marketing and product positioning issues, and proactively conforms to regulatory guidelines. We believe that many of the reported regulatory delays or rejections for prospective drugs can be directly attributed to underlying issues in protocol design and study process.

Clinical Trials Management

We serve our clients' needs by conducting clinical trials through a project team. A project manager leads and facilitates all aspects of the conduct of the clinical trial. Other members of the project team typically include representatives from clinical trials management, global data services, regulatory affairs, information services, quality assurance, medical writing and field monitoring. Within this project-oriented structure, we can manage every aspect of clinical trials conducted in Phase I through Phase IV of the drug development process.

We have adopted global standard operating procedures intended to satisfy global regulatory requirements and serve as tools for controlling and enhancing the quality of our clinical trials. All of our standard operating procedures are designed and maintained in compliance with Good Clinical Practice ("GCP") requirements and the International

Conference on Harmonization (“ICH”) standards which have been adopted by both the U.S. Food and Drug Administration (the “FDA”) and the European Union. We compile, analyze, interpret and submit data generated during clinical trials in report form to our clients, as well as, at our client’s request, directly to the FDA or other relevant regulatory agencies for purposes of obtaining regulatory approval.

Clinical trials represent one of the most expensive and time-consuming parts of the overall drug development process. The information generated during these trials is critical for gaining marketing approval from the FDA or other regulatory agencies. We assist our clients with one or more of the following steps:

- Case Report Form Design. Once the study protocol has been finalized, the Case Report Form (“CRF”) must be developed. The CRF is the document for collecting the necessary clinical data as defined by the study protocol, which for a single patient in a study could consist of 100 or more pages.

- Investigator Recruitment. The success of a clinical trial is dependent upon finding experienced investigators who are capable of performing clinical trials in accordance with the highest ethical and scientific standards. During clinical trials, physicians (who are also referred to as investigators) at hospitals, clinics or other locations, supervise administration of the drug or study product to patients. We recruit investigators who contract directly with either us or our clients to participate in clinical trials. Our global investigator database includes thousands of physician-investigators specializing in a multitude of therapeutic areas.

- Patient Enrollment. The investigators find and enroll patients suitable for the study. The speed at which trials can be completed is significantly affected by the rate at which patients are enrolled. Prior to participating in a clinical trial, patients are required to review information about the study medication and its possible side effects, and sign an informed consent form to record their knowledge and acceptance of potential side effects. Patients also undergo a medical examination by the investigator to determine whether they meet the requirements of the study protocol. Patients then receive the study medication and are examined by the investigator as specified by the study protocol.

- Study Monitoring and Data Collection. Patients are reviewed or "monitored" by specially trained field monitors (also known as clinical research associates). Field monitors visit study sites regularly to ensure that the CRFs are completed correctly and that the data specified in the protocol is obtained. The field monitors send completed CRFs to the data management group within the Company where they are reviewed for consistency and accuracy before the data is entered into a database. An alternative data flow process utilizes remote data entry technology and a fax based system that frequently enhances the timeliness of clinical data collection while achieving cost savings to the Sponsor. We are currently involved in studies using both types of data flow processes.

Data Management Services

We have automated the data management process associated with clinical trial management through our use and customization of industry standard software known as clinical trials management systems. We license Oracle Clinical ® and Datafax™ as our clinical trials management systems, which assists us in the collection, validation and reporting of clinical results to our clients. Our data management professionals provide CRF review and tracking, data entry, integrated clinical/statistical reports, as well as writing manuscripts for publication.

Biostatistics

Typically, biostatisticians assist clients with all phases of drug development, including biostatistical consulting, database design, data analysis and statistical reporting. Our services include the use of professionals that assist in the development and review of protocols, the design of appropriate analysis plans and the design of report formats to specifically address the objectives of the study protocol, as well as the client's individual objectives.

Medical and Regulatory Affairs

Typically, before a drug or biologic can be sold in a particular country, it must be approved by the regulatory agency in that country. We provide comprehensive regulatory product registration services for pharmaceutical and biotechnology products in the United States and Europe. These services include regulatory strategy formulation, New Drug Application ("NDA") and Biologic License Application document preparation and review, quality assurance and liaison with the FDA and other regulatory agencies.

Quality Assurance and Compliance

We conduct field inspections that include investigator audits, pre-submission protocol compliance audits and GCP audits. Our staff also provides training sessions to our personnel, as well as to study site employees. Finally, our Quality Assurance and Compliance group performs audits of study documents as well as data contained in our clinical trials databases.

Report Writing

The statistical analysis findings for data collected during the trial, together with other clinical data, are presented in study form to our clients, or at a client's request, directly to the FDA or other regulatory agencies for purposes of obtaining regulatory approval.

Patient Registries

Patient registries provide an opportunity to rapidly populate databases with real-world, patient-derived information that can be analyzed and disseminated in multiple formats. This has become particularly important considering the recent issues that have come to the forefront regarding long-term patient safety associated with FDA approved and commercially marketed drugs. Data collection, analysis and reporting requirements for patient registries are significantly less stringent than for traditional phase IIIb and IV studies. Their success is independent of investigator experience. Therefore, a patient registry is an ideal tool for reaching out to the primary care population in a clinically meaningful and credible way. In addition, patient registries facilitate and improve relationship building between biopharmaceutical companies and regional/local opinion leaders and high volume providers. They increase access to these important community based physicians while creating a credible, necessary, real-world decision database that provides multiple patient safety, commercialization, communication and education opportunities for stakeholders in the healthcare environment.

Clients and Marketing

We provide a broad range of clinical research and consulting services to the pharmaceutical and biotechnology industries. Our clients consist of some of the largest companies in the pharmaceutical, biotechnology and medical device industries. In 2010, we provided services to 58 different clients covering 145 separate studies. In 2010, our three largest clients accounted for 46% of our net revenues, with the three largest representing 25%, 11% and 10% of our net revenues, respectively. In 2009, our three largest clients accounted for 48% of our net revenues, with the three largest representing 30%, 10% and 8% of our net revenues, respectively. Our largest clients for any one year period may not represent the same customers as in a prior year period.

We are generally awarded contracts based upon our response to requests for proposals received from pharmaceutical and biotechnology companies. Our business development and marketing strategy is based on expanding our relationships with our existing clients as well as gaining new clients. Our senior executives and project team leaders all share responsibility for maintaining and enhancing client relationships and business development activities. Our business development program is supported by a marketing and communications program that includes selective advertising in trade publications, management of the corporate web site, development of marketing materials, and related activities.

Contractual Arrangements

The majority of our contracts are based on a fixed price with the option for additional variable components (i.e. change of scope). Therefore, we generally bear the risk of cost overruns, but we may also benefit if the costs are lower than we anticipated. Contracts may range from a few months to several years depending on the nature of the work performed. In general, for multi-year contracts, a portion of the contract fee, typically 10-20% is paid at the time the trial is started, with the balance of the contract fee payable in installments over the trial duration. In some cases, the installments are tied to meeting specific service criteria, while others have an agreed upon fixed payment plan independent of certain service criteria. For example, installment payments for clinical trial projects may be related to investigator recruitment or patient enrollment. For our fee for service contracts, we are paid on a monthly basis for actual hours worked. As with fixed price contracts, we generally bear the risk of cost overruns until a change of scope is signed. However, the risk of non-payment is minimal since the scope of our services is limited in this type of contractual arrangement. As is typical in the CRO industry, when a client requests a change in the scope of a trial or in the services to be provided by us, we prepare a work order. An executed work order becomes an amendment to the original contract. Work orders resulting from changes of scope often produce additional revenue for us. We are at risk for any work performed outside the scope of the study or in advance of signing a new work order. We attempt to negotiate contract amendments with the client to cover any services provided outside the terms of the original contract. There can be no assurance that the client will agree to the proposed amendments, and we ultimately bear the risk of cost overruns.

Most of our contracts may be terminated by the client at any time for any reason with prior notice. Our contracts frequently entitle us to receive the costs of winding down the terminated project, as well as all fees earned by us up to the time of termination. Contracts may be terminated or delayed for several reasons, including, but not limited to unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug, budget constraints of clients or decisions by the client to de-emphasize or terminate a particular trial.

Backlog

Our backlog consists of anticipated net 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 revenue in our consolidated statements of operations. Once contracted work begins, net revenue is recognized over the life of the contract as services are performed. The recognition of net revenue reduces our backlog while the awarding of new business increases our backlog. In 2010, new business awards, net of contract cancellations of $7.2 million was $8.6 million a decrease of $3.7 million compared to $12.3 million awarded in 2009. Our consolidated backlog was approximately $12.3 million at December 31, 2010, compared to $17.1 million at December 31, 2009, a decrease of $4.8 million. We expect approximately 56.1% of this backlog will be recognized as net revenue in 2011, subject to the risk factors listed herein.

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 subject to early termination by the client or delayed for many reasons, as described above. Also, the scope of a contract can change during the course of a study. For these reasons, we might not be able to fully realize our entire backlog as net revenue. In addition, since our backlog is reported in U.S. Dollars, but the majority of our contracts are denominated in currencies other than the U.S. Dollar, changes in foreign currency exchange rates could reduce the amount of backlog reported. Also, if clients delay projects, the projects will remain in backlog, but will not generate revenue at the rate originally expected.

Competition

The clinical research organization industry is highly fragmented and is comprised of a number of large, full-service CROs with global capabilities as well as many smaller companies with limited service offerings. We primarily compete against full-service and limited service CROs, mid-sized CROs, in-house research and development departments of pharmaceutical and biotechnology companies and, to a lesser extent, universities and teaching hospitals. CROs generally compete on the basis of a number of factors, including the following: expertise and experience in specific therapeutic areas; the ability to design sound protocols or enhance the design; reputation for on-time quality performance; scope of service offerings; price; ability to enroll patients and recruit investigators; data management capabilities; strengths in various geographic markets around the world; technological expertise and efficient drug development processes; the ability to acquire, process, analyze and report data in a timely and accurate manner; the ability to manage large-scale clinical trials both domestically and internationally; and organizational size. Although there can be no assurance that we will continue to do so, we believe that we compete favorably in these areas.

Some of our largest competitors include Quintiles Transnational Corporation, Covance, Inc., Parexel International Corporation, Icon Clinical Research and Kendle International, Inc. These larger CROs have substantially greater financial and operational resources and larger geographic presences than we do. In general, the CRO industry is not capital-intensive and the financial costs of entry into the industry are relatively low. Newer, smaller entities with specialty focuses, such as those aligned to a specific disease or therapeutic area, may compete aggressively against us for clients. Furthermore, clients may also choose to limit the CROs with whom they are willing to work under certain preferred provider relationships. Increased competition might lead to heightened price and other forms of competition that may materially and adversely affect our operating results and financial position.

Government Regulation

The development and clinical research of new drugs is highly regulated by government agencies. The standards for the conduct of clinical research and development studies are embodied in governmental regulations and in standards such as the ICH guideline for GCP. These standards stipulate procedures designed to ensure the quality and integrity of data obtained from clinical testing and to protect the rights and safety of clinical subjects. The FDA and similar regulatory authorities require that test results submitted to such authorities be based on studies conducted in accordance with GCP and regulations providing protections for research participants.

Our obligations under GCP may include, but are not limited to, the following: assuring the selection of investigators who are qualified and have adequate staff and facilities to conduct the trial properly and safely; obtaining specific written commitments from investigators; verifying that adequate informed consent of trial subjects has been obtained; monitoring clinical trials to ensure that the rights and well-being of trial subjects are protected and that the reported trial data are accurate, complete, and verifiable from source documents; ensuring that adverse drug reactions are medically evaluated and reported; verifying drug or device accountability; implementing quality assurance and quality control systems; instructing investigators and study staff to maintain proper records and reports; and permitting appropriate governmental authorities access to source documents for their review. We must also maintain reports for each study for specified periods for auditing by the study sponsor and by the FDA or similar regulatory authorities. Noncompliance with GCP can result in disqualification of the data collected during a clinical trial and we could be required to redo the trial under the terms of our contract at no further cost to our client, but at substantial cost to us. CROs such as Encorium are also typically contractually obligated to comply with GCP and other patient protection regulations. Failure to comply could expose us to contractual liability to our clients.

Intellectual Property

We have developed certain computer software and technically derived procedures that provide separate services and are intended to maximize the quality and effectiveness of our services. Our intellectual property rights are important to us. We also believe that factors such as the technical expertise, knowledge, ability and experience of our professionals are important and provide significant benefits to our clients.

Potential Liability and Insurance

We contract with physicians who serve as investigators in conducting clinical trials to test new drugs on their patients. Drug testing creates a risk of liability for personal injury to or death of the patients, resulting from adverse reactions to the drugs administered. In addition, although the Company does not believe it is legally accountable for the medical care rendered by third party investigators, it is possible that we could be subject to claims and expenses arising from any professional malpractice of the investigators with whom we contract. We also may be held liable for errors and omissions in connection with the services we perform.

We believe that the risk of liability to patients in clinical trials is mitigated by various regulatory requirements, including the role of institutional review boards ("IRBs"). An IRB is an independent committee that includes both medical and non-medical personnel whose role is to protect the interests of patients enrolled in the trial.

In addition, we attempt to reduce our risk through contractual indemnification provisions with clients and investigators. However, contractual indemnifications generally do not protect us against certain of our own actions such as negligence. In addition, the terms and scope of indemnification provisions vary from client to client and from trial to trial and the financial performance of these indemnities is not secured. Therefore, we bear the risk that the indemnity may not be sufficient or that the indemnifying party may not have the financial ability to fulfill its indemnification obligations. We also attempt to reduce our risk by maintaining worldwide professional liability insurance. We believe that our professional liability insurance coverage is adequate; however, there can be no assurance that we will be able to maintain insurance coverage on terms acceptable to us, if at all. Our operating results and financial position could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim outside the scope of or in excess of a contractual indemnification provision or the coverage available under our insurance policies.

Employees

At December 31, 2010, we employed 141 full-time and 5 part-time personnel all of which were located outside of the U.S. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good. In addition, during 2010, we supplemented our employee base with contractors on an as-needed basis.

ITEM 1A. RISK FACTORS

Our independent auditors included an explanatory paragraph regarding our ability to continue as a going concern in the audit report on our consolidated financial statements for the year ended December 31, 2010 and notes to our consolidated financial statements for the year ended December 31, 2010, which may require us to scale back or cease operations.

At December 31, 2010, we had cash and cash equivalents of approximately $267 thousand and working capital deficiency of approximately $(6.4) million. For the year ended December 31, 2010, we incurred a net loss of approximately $9.1 million. Due to such financial position and results of operations as well as the absence of firm commitments for any additional financing, our independent registered public accounting firm included an explanatory paragraph in the audit report on our consolidated financial statements for the year ended December 31, 2010. Additionally, Note 1 to our consolidated financial statements for the year ended December 31, 2010, states that there is substantial doubt about our ability to continue as a going concern.

The going concern explanatory paragraph in the report of our independent auditors and the note to financial statements may cause concern to one or more of our constituencies of debt holders, clients, suppliers, trade creditors or other contractual parties. If any debt holder's, client's, supplier's, trade creditor's or other contractual party's concern results in adverse changes in their respective business relations with us, these changes may materially adversely affect our cash flows and results of operations. In addition, any perception that we may not be able to continue as a going concern may cause potential clients or other contractual parties to choose not to deal with us due to concerns about our ability to meet our contractual obligations, which may materially adversely affect our ability to win new contracts and/or raise additional capital. If we are unable to generate sufficient cash from operations and obtain additional funding, we may not be able to continue operations as proposed, requiring us to scale back various aspects of our operations or cease operations. In such event, you may lose a portion or all of your investment.

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

Our common stock has been delisted from The NASDAQ Capital Market, which negatively impacts the price of our common stock and our ability to access the capital markets.

On October 20, 2010, the Company received notification that the NASDAQ Qualifications Panel (the "Panel") determined to delist the Company's securities from The NASDAQ Stock Market, effective with the open of business on October 22, 2010, as a result of the Company's failure to regain compliance with the minimum $2.5 million stockholders' equity requirement. The Company's common stock is currently quoted on the Pink Sheets. The delisting of our common stock significantly affects the ability of investors to trade our securities and significantly negatively affects the value and liquidity of our common stock. In addition, the delisting of our common stock may adversely affect our ability to raise capital on terms acceptable to us or at all. Delisting from The NASDAQ Capital Market will also have other negative results, including the potential loss of confidence by suppliers and employees, the loss of institutional investor interest and fewer business development opportunities.

Our common stock is subject to the penny stock regulations that impose restrictions on the marketability of our common stock. As a consequence, the ability of our stockholders to sell shares of our common stock could be impaired.

The Securities and Exchange Commission (the "Commission") has adopted regulations that generally define a "penny stock" to be an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share subject to certain exceptions that are not applicable to our Company at present. Our common stock is subject to the penny stock rules that impose additional sales practice requirements on broker-dealers who sell these securities to persons other than established customers and accredited investors. The regulations require that prior to any transaction involving a penny stock, a risk disclosure schedule must be delivered to the buyer explaining the penny stock market and its risks. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase, and must have received the purchaser's written consent to the transaction prior to sale. As such the market liquidity for the common stock will be limited to the ability of broker-dealers to sell it in compliance with the above-mentioned disclosure requirements.

- control of the market for the security by one or a few broker-dealers;
- "boiler room" practices involving high-pressure sales tactics;

- manipulation of prices through prearranged matching of purchases and sales;
- the release of misleading information;
- excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- dumping of securities by broker-dealers after prices have been manipulated to a desired level, which hurts the price of the stock and causes investors to suffer loss.

We are aware of the abuses that have occurred in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, we will strive within the confines of practical limitations to prevent such abuses with respect to our common stock.

Failure to maintain effective internal control over financial reporting and disclosure controls and procedures could negatively impact the market price of our stock.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures, and our management evaluates the effectiveness of our internal control over financial reporting and disclosure controls and procedures. Due to a material weakness in our internal control over financial reporting, management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2010, based on the criteria in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management determined that at December 31, 2010, we had a material weakness because we did not have a sufficient number of personnel with an appropriate level of knowledge and experience of generally accepted accounting principles in the United States of America (U.S. GAAP) that are commensurate with our financial reporting requirements. Contributing to this lack of sufficient resources was the unanticipated voluntary turnover of key personnel. Because of the material weakness, we took certain actions so that our consolidated financial statements as of, and for the quarter and year ended December 31, 2010, are presented in accordance with U.S. GAAP. These actions included (i) supplementing existing resources with technically qualified third party consultants and (ii) performing additional procedures and analyses.

If we fail to maintain effective disclosure controls and procedures and internal control over financial reporting, current stockholders and potential investors could lose confidence in our financial reporting, which would harm our business prospects and the market price of our stock.

Our backlog may not be indicative of future results.

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

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

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

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

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

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

Our stock price may continue to experience fluctuations.

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

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

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

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

The Company follows the provisions of ASC 805, "Business Combinations" (ASC 805) and ASC 350, "Goodwill and Other Intangible Assets" (ASC 350) applicable to business combinations. The Company also follows the provisions of ASC 360, "Accounting for the Impairment or Disposal of Long-lived Assets" (ASC 360). The Company acquired goodwill and intangible assets in business combinations. In accordance with these standards, goodwill is not amortized. Under ASC 350, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The Company's intangible assets are carried at cost and are subject to amortization. In accordance with ASC 360, the Company's intangible assets are subject to impairment testing whenever changes in circumstances indicate that the carrying value may not be fully recoverable.

Due to triggering events, the Company conducted an interim impairment review of goodwill and intangible assets obtained in connection with the acquisition of Encorium Oy as of September 30, 2010. Although management found no impairment related to Encorium Oy's goodwill, they did conclude that Encorium Oy's intangible assets were impaired and as a result, the Company recorded a non-cash impairment loss of approximately $2.8 million.

Due to triggering events occurring in the fourth quarter of 2010, the Company conducted an interim impairment review of goodwill and intangible assets obtained in connection with the acquisition of Progenitor. While management found no impairment related to Progenitor's intangible assets, they did conclude that Progenitor's goodwill was impaired and as a result, the Company recorded a non-cash impairment loss of $798 thousand. See Note 17, "Goodwill and Other Intangibles," to the consolidated financial statements for further information regarding the Company's impairment review of goodwill and intangible assets.

Impairment testing involves various estimates and assumptions, which could vary, and an analysis of relevant market data and market capitalization. If our stock price continues to decline or if economic conditions continue to deteriorate, we may incur additional impairment charges which may adversely impact our results of operations and financial condition.

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

The market for clinical research services is highly competitive. We primarily compete against in-house departments of pharmaceutical, and biotechnology companies and other clinical research organizations. Competitors in our industry range from small, limited-service providers to full service, global clinical research organizations. Many of our competitors have an established global presence, including Quintiles Transnational Corp., Covance, Inc., Parexel

International Corporation, Icon Clinical Research, and Kendle International, Inc. In addition, many of our competitors have substantially greater financial and other resources than we do. Significant factors in determining whether we will be able to compete successfully include: our consultative and clinical trials design capabilities; our reputation for on-time quality performance; our expertise and experience in specific therapeutic areas; the scope of our service offerings; our ability to recruit investigators and study subjects in a timely manner; our strength in various geographic markets; the price of our services; our ability to acquire, process, analyze and report data in a time-saving and accurate manner; our global data services capabilities; our ability to manage large-scale clinical trials both domestically and internationally; and our size.

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

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

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

Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of our European project work, although the mix of projects is subject to change from year to year. Our net revenues from our three largest clients amounted to 46% of our net revenues, with the three largest clients representing 25%, 11% and 10% of our net revenues, respectively, for the year ended December 31, 2010, as compared to the year ended December 31, 2009 in which net revenues from our three largest clients amounted to 48% of our revenues with the three largest clients representing 30%, 10% and 8% of our net revenues, respectively. The Company expects that a relatively small number of clients will continue to represent a significant percentage of its net revenue. Contracts with these clients generally can be terminated on short notice. The loss of business from any one of these significant clients would have a material and adverse effect on its business and revenues.

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

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

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

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

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

of loss or delay of contracts potentially has greater effect as we pursue larger outsourcing arrangements with global pharmaceutical companies.

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

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

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

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

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

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

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

Any failure on our part to comply with applicable regulations could result in the termination of on-going clinical research or the disqualification of data for submission to regulatory authorities. For example, if we were to fail to verify that patient participants were fully informed and had fully consented to a particular clinical trial, the data collected from that trial could be disqualified. If this were to happen, we could be contractually required to repeat the trial at no further cost to our client, but at a substantial cost to us. The issuance of a notice from the FDA based upon a finding of a material violation by us of GCP requirements could result in contractual liability to our clients and/or the termination of ongoing studies which could materially and adversely affect our results of operations. Similar notices could be issued from the regulatory authorities in other countries where we conduct clinical studies. Furthermore, our reputation and prospects for future work could be materially and adversely diminished.

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

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

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

Governmental agencies throughout the world, but particularly in the U.S., strictly regulate the drug development and approval process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Any changes in drug approval regulatory requirements, such as the introduction of simplified drug approval procedures or an increase in regulatory requirements that we have difficulty satisfying, could eliminate or substantially reduce the need for our services. These and other changes in regulation could have an impact on the

business opportunities available to us. As a result, our business, results of operations and financial condition may be materially and adversely affected.

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

Various governments might adopt healthcare legislation or regulations that are more burdensome than existing regulations. These changes could increase our expenses or limit our ability to offer some of our products or services. For example, the confidentiality of patient specific information and the circumstances under which it may be released for inclusion in our databases or used in other aspects of our business are subject to substantial government regulation. Additional legislation governing the possession, use and dissemination of medical record information and other personal health information has been proposed at both the state and national levels and is likely to be proposed in other countries. Proposed federal regulations governing patient specific health information might require us to implement new security measures that require substantial expenditures or limit our ability to offer some of our products and services. These regulations might also increase our costs by creating new privacy requirements and mandating additional privacy procedures for our business, thereby materially and adversely affecting our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

Contractual indemnification provisions generally do not protect us against liability arising from certain of our own actions, such as negligence. Our financial condition and results of operations could be materially and adversely affected if we were required to pay damages or bear the cost of defending any claim which is not covered by a

contractual indemnification provision, in the event that a party who must indemnify us does not fulfill its indemnification obligations, or if the amount we are required to pay is beyond the level of our insurance coverage. In addition, we may not be able to continue to maintain adequate insurance coverage on terms acceptable to us.

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

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

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

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

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

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

We do not intend to pay dividends.

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

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

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

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

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

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

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

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

- potential negative consequences from changes in tax laws affecting our ability to repatriate profits,
- unfavorable labor regulations,
- greater difficulties in managing and staffing foreign operations,
- the need to ensure compliance with the numerous regulatory and legal requirements applicable to our business in each of these jurisdictions, and to maintain an effective compliance program to ensure compliance,
- changes in trade policies, regulatory requirements and other barriers,

- civil unrest or other catastrophic events, and
- longer payment cycles of foreign customers and difficulty collecting receivables in foreign jurisdictions.

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

We have substantial exposure to currency risks.

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

We depend on the biopharmaceutical industry for our revenue.

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

Our indebtedness could adversely affect its business and financial condition.

As of December 31, 2010, our consolidated indebtedness was $1.5 million. Our level of indebtedness will have several important effects on our future operations. For example, we will be required to use a portion of our cash flow from operations for the payment of principal and interest due on our outstanding indebtedness. In addition, our outstanding indebtedness and leverage could increase the impact of negative changes in general economic and industry conditions, as well as competitive pressures. Finally, the level of our outstanding indebtedness may affect our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes.

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

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

These measures might not be sufficient to enable us to service our indebtedness, in which event an event of default could potentially occur under one of our loan facilities which would materially and adversely affect our financial condition and operations.

We may be exposed to risk from our various counterparties.

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

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

On July 19, 2010, the Company acquired Progenitor Holding. In order to increase profitability and operating efficiencies, we will need to integrate and coordinate certain key elements of Progenitor's business with the business of the Company, including:

- service offerings;
- marketing and business development efforts;
- management and other professional personnel; and
- operational systems of Encorium and Progenitor.

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

- coordinating the efforts and managing the operation, facilities and decision-making process;
- integrating organizations whose personnel have diverse business and cultural backgrounds; and
- combining different corporate cultures.

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

The market price of our common stock may decline as a result of the acquisition of Progenitor Holding.

The market price of our common stock may decline as a result of the acquisition of Progenitor Holding, including if:

- we do not achieve the perceived benefits of the acquisition as rapidly or to the extent anticipated by financial or industry analysts; or
- the effects of the acquisition on the businesses are not consistent with the expectations of financial or industry analysts; or

We could lose clients as a result of uncertainty regarding the acquisition of Progenitor Holding

Uncertainty regarding the acquisition of Progenitor Holding and the ability of Encorium and Progenitor Holding to integrate effectively their operations without significant reduction in quality of service could lead some clients to select other vendors. The loss of business from significant clients could have a negative effect on our business.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company leases all of its facilities. We currently manage the majority of European and Asian clinical trials from Encorium's facility in Espoo, Finland. We lease approximately 13,552 square feet in Espoo, Finland from an independent landlord under a lease expiring on October 31, 2013. The rent in 2010, including parking, was approximately €25 thousand per month (or approximately $34 thousand per month based on an exchange rate of 1.00 EUR~1.3252 USD).

ITEM 3. LEGAL PROCEEDINGS

The Company was not involved in any material litigation as of December 31, 2010.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock was quoted in the NASDAQ Capital Market under the symbol "ENCO" through October 22, 2010, when our common stock was delisted by NASDAQ. As of October 23, 2010, our common stock was quoted on the Pink Sheets under the symbol "ENCO.PK" The following table indicates the high and low sale prices per share for each quarter over the last two fiscal years.

	2010		2009	
Quarter Ended	High*	Low*	High*	Low*
31-Mar	$ 3.27	$ 1.36	$ 2.56	$ 1.36
30-Jun	5.46	2.11	3.04	1.40
30-Sep	2.78	1.70	9.84	.80
31-Dec	1.76	.50	5.12	1.77

*Note: The Company affected a one-for-eight reverse stock split on February 16, 2010. The sales prices of the Company's Common Stock in the above table have been retroactively restated to reflect the effects of the reverse split. See Note 1 for additional information.

Holders

As of August 31, 2011, there were approximately 600 holders of record of our common stock. However, we believe that there are approximately 2,500 additional shareholders in "street name", who beneficially own our common stock in various brokerage accounts.

Dividend Policy

We have never declared a cash dividend on our common stock and do not anticipate paying cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

The Company had no sales of unregistered securities which have not be described in a Current Report on Form 8-K.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers
In October 2008 the Company approved a stock repurchase program in an amount of up to $250,000. There were no repurchases of Common Stock by the Company or by its affiliates for the twelve months ended December 31, 2010. There were 38,765 common shares in treasury as of December 31, 2010. The shares are valued using the cost method of accounting for treasury stock.

ITEM 6. SELECTED FINANCIAL DATA

Not required for registrant

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

Our independent registered public accounting firm included an explanatory paragraph in the audit report on our consolidated financial statements for the year ended December 31, 2010. Additionally, Note 1 to our consolidated financial statements for the year ended December 31, 2010, states that there is substantial doubt about our ability to continue as a going concern. Our cash and cash equivalents as of December 31, 2010 was $267 thousand, as compared to $197 thousand as of December 31, 2009. We anticipate that will meet our cash requirements through May 2012, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2011 and we are able to maintain our current customer contracts. In the event we are unable to do so, in order for the Company to continue as a going concern, we will be required to obtain additional capital from external sources or significantly reduce our operating costs, which may include the cessation of operations in some countries. Our independent registered public accounting firm included an explanatory paragraph in the audit report on our consolidated financial statements for the year ended December 31, 2010. Additionally, Note 1 to our consolidated financial statements for the year ended December 31, 2010, states that there is substantial doubt about our ability to continue as a going concern. See Item 1A. "Risk Factors."

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

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

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the

financial statements and the reported amounts of revenues and expenses during the periods presented. On an ongoing basis, management evaluates its judgments and estimates. Management bases its judgments and estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management considers the following policies to be most critical in understanding the more complex judgments that are involved in preparing our consolidated financial statements and the uncertainties that could affect our results of operations and financial condition.

Revenue Recognition

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

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

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

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

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

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

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

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. 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.

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Statements of Operations fees paid to investigators and the associated reimbursement since we acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were $700 thousand and $1.4 million the years ended December 31, 2010 and 2009, respectively.

Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical, biotechnology and medical device industries. The significant majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of December 31, 2010, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $3.2 million. Of this amount, the exposure to our three largest clients was 41% of the total, with the three largest clients representing 18%, 12% and 11% of total exposure, respectively. As of December 31, 2009, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $5.3 million. Of this amount, the exposure to our two largest clients was 44% of the total, with the two largest clients representing 33% and 11% of total exposure, respectively.

Stock-Based Compensation

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

Income Taxes

The Company estimates its tax liability based on current tax laws in the statutory jurisdictions in which it operates. Because the Company conducts business on a global basis, its effective tax rate has and will continue to depend upon the geographic distribution of its pre-tax earnings (losses) among jurisdictions with varying tax rates. These estimates include judgments about deferred tax assets and liabilities resulting from temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The Company has assessed the realization of deferred tax assets and a valuation allowance has been established against excess net operating losses based on an assessment that it is more likely, than not, that realization cannot be assured. The ultimate realization of this tax benefit is dependent upon the generation of sufficient operating income in the respective tax jurisdictions.

Goodwill and Intangible Assets

Goodwill represents excess cost over the fair value of a company’s net assets acquired in a business combination as of the acquisition date. Goodwill, which is not subject to amortization, is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

The Company obtained goodwill and intangible assets in connection with the acquisitions of Encorium Oy (formerly Remedium Oy) and Progenitor. We test goodwill for impairment on an annual basis for each reporting unit based on the anniversary date on which each entity was acquired: November 1st for Encorium Oy and July 19th for Progenitor. Management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit, including goodwill, with its carrying value. In the event that the carrying amount of the reporting unit exceeds its fair value, goodwill is not recoverable. The second step of the process involves a comparison of the implied fair value of goodwill to its carrying value for the reporting unit to

determine the amount of impairment loss to recognize. The fair value of the Company's reporting unit is determined based upon management's estimate of future discounted cash flows and other factors, including operating results, business plans and anticipated future cash flows. Management's estimates of future cash flows include assumptions concerning future operating performance and economic conditions and may differ from actual future cash flows. Goodwill impairment losses charged against earnings for the years ended December 31, 2010 and 2009 were $789 thousand and $0, respectively.

The Company's intangible assets consist primary of customer relationships. Intangible assets are carried at cost and are subject to amortization. The Company's intangible assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses related to intangible assets and charged against earnings for the years ended December 31, 2010 and 2009 were $2.8 million and $0, respectively.

Results of Operations

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

Percentage of Net Revenue, Excluding Reimbursable Out-of-Pocket Expenses

	Year Ended December 31,	
	2010	2009
Net revenue	100%	100%
Operating expenses		
Direct	86.4%	70.3%
Selling, general and administrative	58.1%	45.2%
Depreciation and amortization	3.6%	2.1%
Impairment losses	27.6%	0.0%
Loss from continuing operations	-75.7%	-17.6%
Net loss from continuing operations	-70.7%	-17.6%
Net loss	-70.3%	-21.7%

Year Ended December 31, 2010 Compared With Year Ended December 31, 2009

Continuing Operations:

Net revenue for 2010 decreased $5.0 million to $12.9 million as compared to $17.9 million for 2009, a 28% decrease. The decline in net revenue for 2010 was due primarily to a decrease in the number of contracts and related contract values of active clinical studies being conducted by the Company along with an $881 thousand unfavorable foreign currency fluctuation. Our consolidated backlog at the end of 2010 decreased $4.8 million to $12.3 million compared to our backlog of $17.1 million at the end of 2009. The $4.8 million decrease was impacted by a favorable foreign currency fluctuation of approximately $500 thousand.

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

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by $1.4 million to $11.2 million for the year ended December 31, 2010 from $12.6 million for the year ended December 31, 2009. The decrease in direct expenses resulted in part from a reduction of staffing and subcontractor costs. In addition to the reduction in staffing and subcontractor costs, we realized a favorable foreign currency fluctuation of $1.0 million. Direct expenses as a percentage of net revenue increased to 86.4% for the year ended December 31, 2010 compared to 70.3% for the year ended December 31, 2009, an increase of 16%. The 16% increase in direct expenses as a percentage of revenues was principally due to revenue reductions that resulted from a combination of decreased utilization of our personnel on clinical study activities and a decrease in the number of active clinical studies.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel and all other support expenses not directly related to specific contracts. Selling, general and administrative expenses decreased by $566 thousand to $7.5 million for the year ended December 31, 2010 from $8.1 million for the year ended December 31, 2009. Of the $566 thousand decrease in SG&A, approximately $353 thousand was attributable to favorable foreign currency fluctuations. Approximately $213 thousand was attributable to staff reductions and reductions in overhead expenses. Selling, general and administrative expenses as a percentage of net revenue increased to 58.1% for the year ended December 31, 2010 from 45.2% for the year ended December 31, 2009, a 12.9% increase. The increase in SG&A expense as a percentage of net revenue was primarily attributable to the lower level of active clinical trials and related contract values which were not offset by reductions in SG&A.

Depreciation and amortization expense increased by $90 thousand to $470 thousand for the year ended December 31, 2010 from $380 thousand for the year ended December 31, 2009, primarily as a result of amortization of intangibles related to the Progenitor acquisition in July 2010.

Impairment losses for the year ended December 31, 2010 totaled $3.6 million compared to $0 for the year ended December 31, 2009. Impairment loss for the year ended December 31, 2010 resulted from the Company's interim impairment testing of goodwill and intangible assets of Encorium Oy as of September 30, 2010 and Progenitor as of December 31, 2010. The Company recorded an impairment loss of $2.8 million related to the intangible assets of Encorium Oy as of December 31, 2010. The Company also recorded an impairment loss of $789 thousand related to goodwill acquired in connection with the acquisition of Progenitor in the fourth quarter of 2010. See Note 17 – Goodwill and Other Intangibles to the consolidated financial statements for further information regarding impairment testing of goodwill and intangible assets conducted by the Company.

Loss from operations for the year ended December 31, 2010 increased by $6.7 million to $ 9.8 million from $3.1 million for the year ended December 31, 2009, primarily for the reasons noted in the preceding paragraphs.

Net interest expense for the year ended December 31, 2010 increased by $159 thousand to $200 thousand from $41 thousand for the year ended December 31, 2009. The $159 thousand increase was due primarily to an increase in the amount of outstanding notes payable and credit facilities utilized during 2010 compared to the same prior year period. Interest expense also included amortization of debt issuance costs of $75 thousand and $0 for the years ended December 31, 2010 and 2009, respectively.

The tax benefit recognized relates primarily to the reversal of a deferred tax liability related to the intangible assets of Encorium Oy. Due to the $2.8 million impairment charge recognized as of December 31, 2010, the Company reversed $726 thousand of the deferred tax liability. The deferred tax liability represents the difference between the assigned value of the intangible assets acquired and the tax basis of these assets. The Company had approximately $11.5 million of federal net operating loss carryforwards available at the end of 2010. The Company recorded a full valuation allowance against the remaining available net operating loss carryforward in the U.S. In addition, the Company has approximately $16.3 million of state loss carryforwards for which the Company recorded a full valuation allowance. The Company also has certain foreign net operating loss carryforwards available which also have been fully reserved.

The net loss from continuing operations for the year ended December 31, 2010 increased to $9.1 million, or $(2.40) per diluted share, as compared to $3.1 million, or $(1.16) per diluted share for the year ended December 31, 2009, primarily for the reasons noted above.

Discontinued Operations, Net of Tax

Net gain from discontinued operations for the year ended December 31, 2010 was $48 thousand, or $.01 per diluted share, as compared to a net loss from discontinued operations of $725 thousand, or $(0.27) per diluted share, for the year ended December 31, 2009. Net loss from discontinued operations for the year ended December 31, 2009 included the results of operations and gain on sale of the U.S. Line of business in July 2009. See Note 3 – Discontinued Operations to the consolidated financial statements for further information regarding the Company’s discontinued operations in the U.S.

The net loss for the year ended December 31, 2010 was $9.1 million, or $(2.39) per diluted share, as compared to $3.9 million, or $(1.43) per diluted share for the year ended December 31, 2009, primarily for the reasons noted above.

Liquidity and Capital Resources

Our independent registered public accounting firm included an explanatory paragraph in the audit report on our consolidated financial statements for the year ended December 31, 2010. Additionally, Note 1 to our consolidated financial statements for the year ended December 31, 2010, states that there is substantial doubt about our ability to continue as a going concern.

As of December 31, 2010 and December 31, 2009, we had cash and cash equivalents of approximately $267 thousand and $197 thousand, respectively, and total liabilities of approximately $11.7 million and $9.8 million, respectively.

We anticipate that we will meet our cash requirements through May 2012, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2011 and we are able to maintain our current customer contracts. In the event we are unable to do so, in order for the Company to continue as a going concern we will be required to obtain additional capital from external sources or significantly reduce our operating costs, which may include the cessation of operations in some countries.

Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results; and those factors may affect our efforts to arrange additional financing on terms that are satisfactory to us or at all. Given the current levels of the trading price of the Company's common stock, if the Company were to raise additional capital by issuing equity securities, existing stockholders' percentage ownership would be reduced and they would experience substantial dilution. If we were to raise additional funds by issuing debt securities, these debt securities would have rights, preferences, and privileges senior to those of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations. See Item 1A. "Risk Factors."

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

Net revenue is recognized on a proportional performance basis. We typically receive a low volume of large-dollar receipts. As a result, the number of days net revenue outstanding in accounts receivable, costs and estimated earnings in excess of related billings, customer advances, and billings in excess of related costs will fluctuate due to the timing and size of billings and cash receipts. At December 31, 2010, the net days revenue outstanding was 19 days compared to 56 days at December 31, 2009. Compared to December 31, 2009, accounts receivable on a consolidated basis decreased $918 thousand to $2.5 million at December 31, 2010. Of the accounts receivable balance at December 31, 2010, approximately 34% of the total was over 60 days past the due date.

Compared to December 31, 2009, costs and estimated earnings in excess of related billings on uncompleted contracts decreased by $1.2 million to $621 thousand at December 31, 2010. The balance at December 31, 2010 primarily consisted of 3 clinical trials, which individually constituted 55%, 15% and 10% of the balance. These amounts are expected to be billed during 2011 as billing targets are met. The liability account billings in excess of related costs and estimated earnings on uncompleted contracts increased $138 thousand to $1.3 million as of December 31, 2010 from $1.2 million as of December 31, 2009. As of December 31, 2010, customer advances were $1.9 million compared to $1.4 million as of December 31, 2009, an increase of $563 thousand.

Our net cash used by operating activities decreased by $7.0 million to $936 thousand for the year ended December 31, 2010 from net cash used by operating activities of $7.9 million for the year ended December 31, 2009. This change primarily resulted from a larger net operating loss, decrease in cost and estimated earnings in excess of related billings, and increases in accounts payable, billings in excess of related costs and estimated earnings on uncompleted contracts and customer advances as of December 31, 2010, as compared to the same prior year period.

Net cash used in investing activities increased $1.3 million to $1.4 million for the year ended December 31, 2010 from $74 thousand for the year ended December 31, 2009. The increase was primarily due to net cash paid to the former shareholders of Progenitor Holdings AG, in connection with the acquisition of Progenitor. Cash used for purchases of property and equipment increase by $91 thousand to $165 thousand for the year ended December 31, 2010, compared to the same prior year period.

Net cash provided by financing activities increased by $400 thousand to $3.2 million for the year ended December 31, 2010 compared to $2.8 million for the year ended December 31, 2009. The increase in cash provided by financing activities resulted from the combination of proceeds from $1.8 million of notes payable due to a significant stockholder of the Company and $1.1 million received from the stock rights offering as of December 31, 2010 compared to the same prior year period. The proceeds received from the notes payable were used to fund the Progenitor acquisition. Proceeds from the stock rights offering were used to fund continuing operations.

As a result of these cash flows, our cash and cash equivalents balance at December 31, 2010 was $267 thousand as compared to $197 thousand at December 31, 2009, an increase of $70 thousand.

The Company had four significant lines of credit for its European operations as of December 31, 2010. The first credit facility amounting to $663 thousand is with Svenska Handelsbanken AB with interest charged at Handlesbanken Avista +2.35%, which at year-end was approximately 2.7%. The second significant line of credit amounting to $398 thousand is with Sampo Pankki Oyj with interest charged at 1 month euribor +3.5%, which at year end was approximately 5.0%. The third credit facility amounting to $74 thousand is with Svenska Handelsbanken AB with interest charged at Handlesbanken's base rate, which at year-end was approximately 6.35%. The fourth credit facility amounting to $89 thousand is with Svenska Handelsbanken AB with interest charged at Handlesbanken's base rate, which at year-end was approximately 6.15%. As of December 31, 2010, $477 thousand was outstanding under these credit facilities. The lines of credit are collateralized by substantially all assets of the Company and a personal guarantee of our Chief Executive Officer in the amount of $136 thousand. On January 12, 2011, Svenska Handelsbanken AB notified Encorium Oy that it was terminating its line of credit (the "Handelsbanken Line") with Encorium Oy. See Note 20 - Subsequent Events to the consolidated financial statements for further information regarding the description, terms and conditions related to the line of credit with Svenska Handelsbanken AB. (Amounts were converted based on an exchange rate of 1.00 EUR ~ 1.3252 USD)

Off Balance Sheet Financing Arrangements

As of December 31, 2010, 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.

Contractual Obligations and Commitments

In October 2008, we entered into a financing agreement for application software to be used in our European operations. This financing agreement is being accounted for as a capital lease obligation. The present value of the capital lease obligation and the corresponding asset value of the software acquired was $142 thousand. In December of 2009 we entered into a financing agreement for a server back up system. This financing agreement is being accounted for as a capital lease obligation. The present value of the capital lease obligation and the corresponding asset value of the system was $20 thousand. During 2010, we entered into two financing agreements for application software for our European operations. These financing agreements are being accounted for as capital lease obligations. The present value of the capital lease obligation and the corresponding asset value of the software acquired was $81 thousand.

We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment. In 2011, we anticipate capital expenditures of approximately $100,000—$200,000 for leasehold improvements, software applications, workstations, personal computer equipment and related assets. A significant portion of our service agreement commitments, which are primarily comprised of investigator payments, are expected to be reimbursed under agreements with clients.

Recently Issued Accounting Standards

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

In December 2009, the FASB issued ASU No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (ASU 2009-17), which amends ASC 810, “Consolidation” to address the elimination of the concept of a qualifying special purpose entity. The standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE whereas previous accounting guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The standard provides more timely and useful information about an enterprise's involvement with a variable interest entity and became effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company adopted the standard on January 1, 2010 and the adoption did not have a material impact on its consolidated financial statements.

The FASB updated ASC Topic No. 810,“Consolidations” (ASC Topic 810), and ASC Topic 860,“Transfers and Servicing,” (ASC Topic 860), which significantly changed the accounting for transfers of financial assets and the criteria for determining whether to consolidate a variable interest entity (VIE). The update to ASC Topic 860 eliminates the qualifying special purpose entity (QSPE) concept, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the financial asset de-recognition criteria, revises how interests retained by the transferor in a sale of financial assets initially are measured, and removes the guaranteed mortgage securitization re-characterization provisions. The update to ASC Topic 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE's primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. The Company adopted the provisions of these staff positions effective January 1, 2010. The adoption of these staff positions could impact future transactions entered into by the Company.

In October 2009, the FASB issued ASU No. 2009-13,“Multiple-Deliverable Revenue Arrangements” (amendments to ASC Topic 605, “Revenue Recognition”), (ASU 2009-13) and ASU 2009-14, “Certain Arrangements that Include Software Elements”, (amendments to ASC Topic 985, “Software”) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company has evaluated the impact of the adoption of these ASUs on its consolidated results of operations or financial condition, and the adoption

did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-13, Topic 718, “Compensation—Stock Compensation” (ASU 2010-13), which addresses the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASU 2010-13 specifies that a share-based payment awarded that contains a condition that is not a market, performance, or service condition is required to be classified as a liability unless it otherwise qualifies as equity. The amendment is effective for fiscal years, and interim period beginning on or after December 15, 2010. The Company has evaluated the impact of the adoption of this ASU on its consolidated results of operations or financial condition, and the adoption did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, “Revenue Recognition — Milestone Method (Topic 605): Milestone Method of Revenue Recognition” (ASU 2010-17). ASU 2010-17 allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. ASU 2010-17 provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. ASU 2010-17 is limited to transactions involving milestones relating to research and development deliverables. ASU 2010-17 also includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company has evaluated the impact of the adoption of this ASU on its consolidated results of operations or financial condition, and the adoption did not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, “Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)” (ASU 2010-28). ASU 2010-28 provides guidance on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is not permitted. The Company adopted ASU 2010-28 on January 1, 2011. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, “Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)” (ASU 2010-29). ASU 2010-09 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The Company adopted ASU 2010-29 on January 1, 2011 and will apply ASU 2010-29 to its future acquisitions, if any.

Recently Issued Accounting Standards Not Yet Adopted

In May 2011, the FASB issued ASU No. 2011-04, ASU 2011-04 provides guidance regarding fair value measurements in order to have a common fair value measurement and disclosure requirement for purposes of both GAAP and International Financial Reporting Standards. This guidance further elaborates upon techniques used in measuring fair value. It does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is not permitted. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (ASU 2011-05). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity and requires that all changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or the calculation or presentation of earnings per share. This guidance is effective retrospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with early adoption permitted. Because the new guidance affects financial statement presentation only, it will have no impact on the Company’s consolidated financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not required for registrant

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements listed below are contained herein beginning at page F-1:

(a) Financial Statements

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Operations	F-3
Consolidated Balance Sheets	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

The Company's principal executive officer and principal accounting officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report (the "Evaluation Date") Based on this evaluation and the identification of the material weakness in internal control over financial reporting described below, the Chief Executive and Principal Accounting Officers, have concluded that the Company's disclosure controls and procedures were not effective.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of management, including our principal executive officer and principal accounting officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, management concluded that our internal control over financial reporting was not effective as of December 31, 2010.

Management determined that at December 31, 2010 the Company had a material weakness in internal control over financial reporting because it did not have a sufficient number of personnel with an appropriate level of knowledge and experience of generally accepted accounting principles in the United States of America (U.S. GAAP) that are commensurate with the Company's financial reporting requirements. Contributing to this lack of sufficient resources was the unanticipated voluntary turnover of key personnel. Because of the material weakness, the Company took certain actions so that its consolidated financial statements as of, and for the quarter and year ended December 31, 2010, are presented in accordance with U.S. GAAP. These actions included (i) supplementing existing resources with technically qualified third party consultants and (ii) performing additional procedures and analyses.

Changes in Internal Control Over Financial Reporting

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPRATE GOVERNANCE

Executive Officers

Executive officers serve at the discretion of the Board of Directors and serve until their successors have been duly elected and qualified or until their earlier resignation or removal. The executive officers of the Company are:

Name	Age	Position(s) Held With Company
Kai Lindevall, M.D., Ph.D.	60	Chief Executive Officer President, Corporate and Business Development of Encorium Germany
Renee E. Moore, Ph.D.	42	GmbH
Eeva-Kaarina Koskelo, Ph.D.	53	Vice President, Clinical Operations
Niklas Tevajärvi	47	Chief Financial Officer, Encorium Oy

Kai Lindevall, M.D., Ph.D. has been Chief Executive Officer of the Company since January 8, 2010. From September 2008 until January 8, 2010, Dr. Lindevall served as President of European and Asian Operations of the Company. From February 2008 to September 2008 Dr. Lindevall served as Chief Executive Officer and prior to that served as President, European and Asian operations of the Company from the Company's acquisition of Encorium Oy (formerly Remedium Oy) on November 1, 2006. Dr. Lindevall is the co-founder of Encorium Oy and, since 2002, Dr. Lindevall has served as President and Chief Executive Officer of Encorium Oy. He has also been Medical Director of Encorium Oy since its inception. Since October 2004, Dr. Lindevall has also served as Chairman of the Board of Encorium Oy. Dr. Lindevall previously served as Managing Director of Encorium Oy from its inception to 2002. Dr. Lindevall is also Co-Founder of Ipsat Therapies Oy/Ltd., a Finnish biotechnology company developing its proprietary IPSATTM ("Intestinal Protection System in Antibiotic Treatment") family of products for the prevention of hospital infections and antibiotic resistance. From October 2002 until February 2005, Dr. Lindevall served as Chairman of the Board of Ipsat Therapies and from March 2005 until March 2006 served as member of its board of directors. Dr. Lindevall has a Ph.D. in Pharmacology and an M.D. from the University of Tampere in Finland.

Renee E. Moore, Ph.D. has served as President, Corporate and Business Development of Encorium Germany GmbH since the Company's acquisition of Progenitor in July, 2010. Ms. Moore was the founder of Progenitor where she served as the Chief Executive Officer since 2005. From March 2002 until June 2004, Ms. Moore served as a Director at CNS Therapeutics, an international clinical research organization. From 1998 to 2002 Ms. Moore served in various positions in the clinical research industry. Ms. Moore received her P.h.D. in neuroscience from the University of Texas at San Antonio in 1996.

Eeva-Kaarina Koskelo, Ph.D. has served as Vice President, Clinical Operations, Europe and Asia of Encorium Oy since joining Encorium Oy in August 2008. Dr. Koskelo has over 20 years of experience in related clinical research in academic, biotechnology and pharmaceutical fields with a rich multicultural background with residencies held in Finland, U.S. and South Africa. Prior to joining Encorium Oy from 1997 to 2008 Dr. Koskelo worked at Quintiles, most recently in the position of Director, Project Management. Dr. Koskelo received her Ph.D. and M.S. in Nutrition from the University of Helsinki, and her Executive MBA from the School of Economics in Helsinki, Helsinki, Finland in 1991.

Niklas Tevajarvi joined Encorium Oy, the Company's wholly-owned subsidiary, as its Chief Financial Officer in July 2010, where he managed and coordinated the finance and administrative functions of the Company's European operations. From March 2004 until June 2010, Mr. Tevajarvi served as Chief Financial Officer of Flagmore Group, a manufacturer and seller of advertising banners and corporate flags and a supplier of glass fiber flagpoles. At Flagmore Group, Mr. Tevajarvi established a centrally controlled finance and control function, implemented guidelines and solutions for information technology infrastructure and system platforms, and played a key role in the company's turnaround project. Prior to joining Flagmore Group, Mr. Tevajarvi served as Finance Manager at Amboss Oy, Managing Director of Volvo Truck Finance Oy, and Country Manager of Agfa-Gevaert Oy. Mr. Tevajarvi has a Master of Arts in Accounting, Management and Commercial Law from Hanken School of Economics, Finland.

Directors

Set forth below is information about the Company's directors:

Name	Age	Director since	Principal Occupation
Kai Lindevall, M.D., Ph.D.	60	2006	Chief Executive Officer
Shahab Fatheazam	60	2008	Managing Director and Head of the U.S. healthcare practice of Lincoln International LLC
David Morra	56	2008	Managing Director of Union Partners, LLC

- Kai Lindevall, M.D., Ph.D. Dr. Lindevall's biographical information appears above under the caption "Executive Officers."
- Shahab Fatheazam has served as a director of the Company since November 2008 and was appointed Chairman of the Board in November 2009. Since January 2010 Mr. Fatheazam has served as Managing Director and Head of Healthcare Practice of Lincoln International LLC, a leading international investment banking advisory firm. Prior to January 2010, Mr. Fatheazam served as Managing Director and head of the U.S. healthcare practice of GCA Savvian. Mr. Fatheazam joined GCA Savvian in 2004 from Vector Securities, a premier healthcare specialty firm, where he was a partner. Prior to helping to form Vector Securities, he was co-head of Paine Webber's Lifescience Division. He began his career on Wall Street with Kidder, Peabody & Co, where, in 1980, he became a partner and senior executive in Kidder's international corporate finance unit. Mr. Fatheazam holds a BA and MA from Cambridge University in England and an MBA from Columbia University. Mr. Fatheazam sits on the boards of two non-public biotechnology companies and is a Trustee at Chicago University's Harris School. He is a member of the Economics Club in Chicago.
- David Morra has been as a director of the Company since September 2008. Mr. Morra is a Managing Director of Union Partners, LLC, a private equity and performance acceleration firm. In this capacity, he provides executive oversight for consulting engagements and acquisition activities for targeted companies. Previously, Mr. Morra served as Chief Executive Officer of Omnicare Clinical Research, Inc. During his five and one half year tenure at Omnicare, the Company grew to 1300 employees operating in 30 countries, including its first ventures in India and China. Mr. Morra was also an officer of Omnicare Clinical Research's parent company, Omnicare, Inc., a NYSE fortune 500 company which is the leading provider of pharmaceutical care for seniors in the United States. Prior to Omnicare, Mr. Morra spent 22 years in the pharmaceutical and medical imaging industries in sales, marketing and general management positions. Mr. Morra earned a B.S. Degree from Providence College in 1977 and a Management Certificate from Wharton in 1991.

We believe that our board of directors represents a desirable mix of backgrounds, skills, and experiences. Below are some of the specific experiences, qualifications, attributes or skills in addition to the biographical information provided above that led to the conclusion that each person should serve as one of our directors in light of our business and structure:

Dr. Kai Lindevall is the founder of Encorium Oy and Chief Executive Officer of the Company. Dr. Lindevall has over 30 years of experience in the pharmaceutical industry and has a deep understanding of all aspects of our business.

Shahab Fatheazam is Chairman of the Board. Mr. Fatheazam has substantial experience with advising on the strategic development of healthcare related companies through his substantial experience as an investment banker focusing on the healthcare industry. In addition he has sufficient financial background to qualify as our audit committee financial expert.

Mr. Morra has over 30 years experience in the pharmaceutical industry. Mr. Morra brings his previous experience as a senior executive of another clinical research organization and has a deep understanding of all aspects of our business. He also has significant corporate governance experience having previously served as an executive of a fortune 500 company.

Audit Committee

The Board of Directors has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee operates under a charter which was adopted by the Board of Directors. This charter is posted in the Investor Relations section of the Company’s website at www.encorium.com.

The Audit Committee oversees the Company's accounting, financial reporting process, internal controls over financial reporting and audits, and consults with management and the Company's registered public accounting firm on, among other items, matters related to the annual audit, published financial statements and accounting principles applied. As part of its duties, the Audit Committee appoints, evaluates and retains the Company's independent registered public accounting firm. It also maintains direct responsibility for the compensation, termination and oversight of the Company's independent registered public accounting firm and evaluates the registered public accounting firm's qualifications, performance and independence. The Audit Committee approves all services provided to the Company by the independent registered public accounting firm. The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by the Company, regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

The current members of the Audit Committee are Shahab Fatheazam (Chairman) and David Morra. Sari Laitinen was also a member of the audit committee until her resignation from the Board of Directors on October 15, 2010. The Board had determined that Mr. Fatheazam is an "audit committee financial expert" as defined in applicable rules of the SEC under the Sarbanes-Oxley Act of 2002.

The Board of Directors has determined that each current member of the Audit Committee is "independent" as defined in the Securities Exchange Act of 1934, as amended and the SEC rules and regulations. The Audit Committee met 4 (four) times in 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors to file initial reports of ownership and reports of change of ownership with the SEC. Executive officers and directors are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely upon a review of copies of reports furnished to the Company during the fiscal year ended December 31, 2010, all executive officers and directors were in compliance except that the following reports were untimely filed: Forms 4 filed by Dr. Kai Lindevall on March 19, 2010 and January 13, 2010, Form 4 filed by Dr. Eeva-Kaarina Koskelo on March 19, 2010 and Form 4 filed by Dr. Renee Moore on October 6, 2010.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of its directors, officers and employees. Additionally, it has adopted a Financial Code of Conduct for the Chief Executive Officer and the Chief Financial Officer and any persons who provide similar functions. Both documents are available for review on the Company's website at www.encorium.com, under the Corporate Governance section. The Company intends to satisfy the applicable disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of its Codes of Conduct on its website

ITEM 11. EXECUTIVE COMPENSATION

Information concerning Executive Compensation is incorporated herein by reference to the similarly titled section in our definitive proxy materials for our 2009 Annual Meeting of Stockholders.

Name and Principal Position	Year	Salary ($)	Bonus	Option Awards ($)	All Other Compensation ($)	Total

Dr. Kai Lindevall,	2010	280,634(1)	—	40,438 (3)		24,859(2)(4)	345,931
Chief Executive Officer	2009	336,355 (1)	—	—		36,270(2)(4)	372,625
Dr. Eeva-Kaarina Koskelo	2010	127,147(1)	—	22,645 (3)		10,407(2)(5)	160,199
Vice President, Clinical Operations	2009	142,197(1)	—	—		13,247(2)(5)	155,444
Dr. Renee Moore(6)	2010	97,729 (1)	—	—	7,663	(2)(7)	105,392
President, Corporate and Business Development	2009	—	—	—	—		—

(1) Payable in Euros. The payments have been translated into U.S. dollars at the average exchange rate for 2010 of 1.00 EUR ~ 1.33USD and for 2009 of 1.00 EUR ~ 1.39 USD.

(2) Does not include perquisites and other personal benefits which involved an aggregate incremental cost to the Company during 2010 and 2009, as applicable, of less than $10,000.

(3) Represents the aggregate grant date fair market value of options granted to Dr. Lindevall and Dr. Koskelo in 2010, computed in accordance with ASC 718, based on assumptions set forth in Note 11 to the consolidated financial statements included in this Annual Report on Form 10-K and without giving effect to estimate of forfeitures related to service-based vesting conditions. Dr. Lindevall and Dr. Koskelo were granted options to purchase 31,250 and 17,500 shares of the Company's common stock, respectively, on March 15, 2010.

(4) Includes $24,859 and $24,620 which represents automobile lease payments for 2010 and 2009, respectively, reimbursed to Dr. Lindevall by the Company. The lease payments were payable in Euros and have been translated into U.S. dollars at the average exchange rate for 2010 of 1.00 EUR ~ 1.33 USD and for 2009 of 1.00 EUR ~ 1.39 USD.

(5) Represents automobile lease payments reimbursed to Dr. Koskelo by the Company. The lease payments were payable in Euros and have been translated into U.S. dollars at the average exchange rate for 2010 of 1.00 EUR 1.33USD and for 2009 of 1.00 EUR ~ 1.39 USD.
(6) Dr. Moore was appointed President, Corporate and Business Development of Encorium Germany GmbH upon the Company's acquisition of Progenitor in July, 2010.
(7) Represents automobile lease payments reimbursed to Dr. Moore by the Company. The lease payments were payable in Euros and have been translated into U.S. dollars at the average exchange rate for 2010 of 1.00 EUR 1.33USD.

Employment Agreements

2010 Employment Agreement with Dr. Lindevall

On January 8, 2010 the Board of Directors of the Company, upon recommendation from the Compensation Committee of the Board of Directors, approved the execution by the Company of an Employment Agreement with Dr. Kai Lindevall (the "2010 Lindevall Employment Agreement"). Pursuant to the 2010 Lindevall Employment Agreement, Dr. Lindevall will serve as Chief Executive Officer of the Company and its wholly-owned Finnish subsidiary, Encorium Oy, for a term of 18 months and will receive an initial base salary at an annual rate of EURO 196,000. The Board of Directors may adjust the salary after consultation with Dr. Lindevall following the completion of the audit for each fiscal year.

In addition, for fiscal year 2010, Dr. Lindevall was eligible to receive a bonus upon the achievement of specified corporate financial performance goals, as follows: For 2010 EBITDA of 500,000, no bonus; for 2010 EBITDA of 750,000, a bonus of EURO 18,000; for EBITDA of 1,000,000, EURO 36,000; for 2010 EBITDA of 1,250,000, a bonus of EURO 54,000; for 2010 EBITDA of 1,500,000, a bonus of EURO 72,000; for 2010 EBITDA 1,550,000, a bonus of EURO 75,600; and for 2010 EBITDA 1,550,000, a bonus of EURO 75,600. The maximum bonus payable is EURO 75,600. No bonus was paid for fiscal year 2010.

For subsequent fiscal years, the Board of Directors of the Company shall determine the bonus, if any, to be paid to Dr. Lindevall and the performance objectives pertaining thereto.

Pursuant to the 2010 Lindevall Employment Agreement, in the event of the termination of Dr. Lindevall's employment by the Company without Cause (as defined in the 2010 Lindevall Employment Agreement) or by Dr. Lindevall for Good Reason (as defined in the 2010 Lindevall Employment Agreement) Dr. Lindevall will be entitled to (i) the payment of any earned but unpaid base salary and benefits through the date of such termination; (ii) the payment of any accrued but unpaid bonus payable under the agreement with respect to a fiscal year of the Company ending prior to such termination; (iii) monthly severance payments equal to one-twelfth of his base salary as of the date of such termination continuing until the lesser of nine months or the time period remaining on the 18-month term; and (iv) vesting of all of Dr. Lindevall's stock options, to the extent not already vested.

If Dr. Lindevall's employment with the Company is terminated during the term for Cause (as defined in the 2010 Lindevall Employment Agreement) or as a result of his death or disability, then the Company's obligation to Dr. Lindevall will be limited solely to the payment of (i) all accrued but unpaid base salary and benefits through the date of such termination, and (ii) the payment of any earned but unpaid bonus payable under the agreement with respect to a fiscal year of the Company ending prior to such termination.

The 2010 Lindevall Employment Agreement contains certain restrictive covenants that prohibit Dr. Lindevall from disclosing information that is confidential to the Company and will generally prohibit him, during the term of the 2010 Lindevall Employment Agreement and for one year thereafter, from: (i) engaging or participating in any Competing Business (as defined in the Employment Agreement); (ii) becoming interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent or consultant) any person, firm, corporation, association or other entity engaged in any Competing Business; (iii) soliciting or calling on any customer with whom the Company shall have dealt or any prospective customer that the Company shall have identified and solicited at any time during Dr. Lindevall's employment by the Company; (iv) influencing or attempting to influence any supplier, customer or potential customer of the Company to terminate or modify any written or oral agreement or course of dealing with the Company; and (v) soliciting or hiring the employees, consultants, agents or distributors of the Company.

2006 Employment Agreement with Dr. Lindevall

Dr. Lindevall’s salary for 2009 was paid pursuant to an Employment Agreement between the Company and Dr. Lindevall dated November 1, 2006 (the “2006 Lindevall Employment Agreement”). The 2006 Employment Agreement terminated on November 1, 2009. Under the terms of the 2006 Lindevall Employment Agreement, Dr. Lindevall was to serve as Encorium’s and Encorium Oy’s President, European and Asian Operations, for a term of three years. Pursuant to the 2006 Lindevall Employment Agreement, Dr. Lindevall was to receive an initial base salary at an annual rate of $275,000; provided, however, that the annual rate of base salary for each 12-month period beginning on or after the first anniversary of the 2006 Lindevall Employment Agreement was to increase, from the annual rate of base salary in effect for the immediately preceding twelve month period, by an amount equal to the annual percentage increase in the CPI (as defined in the 2006 Lindevall Employment Agreement) for the immediately preceding calendar year. In addition, Dr. Lindevall was (i) eligible to receive an annual bonus, not to exceed $200,000 per annum, upon the achievement of corporate financial goals related to the European and Asian operating results of the Company, as specified in the 2006 Lindevall Employment Agreement, before interest and taxes, (ii) entitled to participate in any benefit plans or arrangements sponsored or maintained by the Company, subject to the terms and conditions of such plans, arrangements and mandatory Finnish law, and (iii) entitled to equity-based compensation as determined in the sole discretion of Encorium’s Board of Directors.

Employment Agreement with Dr. Eeva-Kaarina Koskelo

On June 9, 2008 the Company entered into an Employment Agreement pursuant to which Dr. Eeva-Kaarina Koskelo is to serve as Vice President, Clinical Operations of Encorium Oy (the "Koskelo Employment Agreement"). Pursuant to the Koskelo Employment Agreement, Dr. Koskelo's compensation is comprised of a salary, mobile phone and company leasing car. Dr. Koskelo is entitled to a base salary of EURO 8000 per month and received a sign-on bonus of EURO 16,000.

Employment Agreement with Dr. Renee E. Moore

In connection with the acquisition of Progenitor, on July 19, 2010 the Company's subsidiary, Encorium Germany GmbH, entered into an employment agreement with Dr. Renee E. Moore (referred to herein as the "Moore Employment Agreement"). Pursuant to the Moore Employment Agreement, Dr. Moore will serve as the President, Corporate and Business Development of Encorium Germany GmbH for a base salary of EURO 153,040 gross per annum. In addition, the Company will provide a full car lease and will pay for car expenses, including insurance, repair and maintenance in a maximum amount of EURO 1,000 per month.

The Moore Employment Agreement is for a term of 18 months commencing on July19, 2010. In the event Dr. Moore is terminated prior to the end of the term without Cause (as defined in the Moore Employment Agreement) she shall be entitled to her salary for the remaining portion of the term to be paid in accordance with normal payroll practices.

Equity Incentive Plans

Our 2002 Equity Incentive Plan, which we refer to as the 2002 Plan, provides for accelerated vesting of options and restricted stock awarded to employees, including the NEOs, if there is a change of control in which the plan is not continued by a successor corporation or substantially equivalent options or restricted shares, as the case may be, in a successor corporation are not provided to participants. In addition, the 2002 Plan provides for accelerated vesting with respect to options or restricted shares held by a participant who is an employee of the Company or who is providing service to the Company in the event there is a change of control if the participant is not offered substantially equivalent employment or service with the successor corporation or the participant's employment or service with the successor corporation is terminated during the six month period following the change of control. Under our 2006 Stock Incentive Plan (which we refer to as the 2006 Plan), the Board of Directors, in its sole discretion, may cause all previously unvested options and/or restricted stock awards to become vested and/or exercisable or unrestricted, as the case may be, upon a change of control.

For purposes of our equity incentive plans, a Change in Control is generally deemed to have occurred in any of the following circumstances: (i) subject to certain exceptions, a person is or becomes the beneficial owner of securities representing 25% or more of the combined voting power of the Company's then outstanding voting securities; (ii) the Company stockholders approve a merger, reorganization or consolidation involving the Company if the stockholders of the Company immediately before such merger, reorganization or consolidation do not or will not own directly or indirectly immediately following such merger, reorganization or consolidation, more than 50% of the combined voting power of the surviving or resulting entity in substantially the same proportions as their ownership immediately before the transaction; (iii) the Company's stockholders approve a plan of complete liquidation or dissolution of the Company; (iv) the Company's stockholders approve an agreement for the sale or other disposition of all or substantially all of the assets of the Company; or (v) the Company's stockholders accept shares in a shares exchange if the stockholders do not or will not own directly or indirectly immediately following the share exchange more than 50% of the combined voting power of the surviving or resulting entity in substantially the same proportions as their ownership before immediately before the share exchange.

Generally under our equity incentive plans, when a participant's service with the Company is terminated his or her stock options are terminated immediately, except that the options may be exercised for a period after termination (not to exceed the original option termination date) to the extent then exercisable in the following circumstances:

- Disability—within one year after termination
- Death—within one year after the date of death
- Termination other than for cause-within 90 days from the date of termination

Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options(#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Kai Lindevall, M.D. Ph.D., Chief Executive Officer	31,250	—	1.45	03/15/2020
Eeva-Karrina Koskelo, Vice President,	17,500	—	1.45	03/15/2020
Clinical Operations, Europe and Asia	1,250	625(1)	1.92	12/03/2018
Renee E. Moore, Ph.D., President, Corporate and Business Development Europe and Asia	—	—	—	—

(1) 625 options are exercisable on December 3, 2011.

Director Compensation

On January 8, 2010 the Board of Directors of the Company, upon recommendation from the Compensation Committee of the Board of Directors, approved the annual compensation to be paid to members of the Board of Directors effective January 1, 2010. Such payments are payable on a quarterly basis in U.S Dollars for U.S. directors and EUROS for non-U.S. directors: (i) an annual cash retainer for non-employee directors of $15,000 or EURO 10,000; (ii) a fee of $1,500 or EURO 1,000 per scheduled board meeting (6 total); (iii) a fee of $750 or EURO 500 per committee meeting (1-2 meetings per year total); (iv) an annual cash retainer of 5,000 or EURO 3,300 for the Chair of a Committee; and (v) an annual cash retainer of $7,500 or EURO 5,000 for the Chairman of the Board. Although generally no meeting fees are payable for general consultative board calls or for additional board of director or committee meetings or calls other than those described above, additional compensation for individual members of the Board of Directors may be recommended to the Compensation Committee and subject to approval by the full Board of Directors when extraordinary time is required for specific assignments.

The following table presents the compensation earned by each person who served as a director during 2010, except for Dr. Kai Lindevall. Dr. Lindevall' s compensation is set forth in the Summary Compensation Table. Dr. Lindevall did not receive any additional consideration for his service on the Board of Directors:

Name	Fees earned or paid in cash ($)(3)	Option Awards ($) (1)	All other compensation ($) (2)	Total ($)
Shahab Fatheazam	31,500	----	----	31,500
Sari Laitinen (4)	21,740	----	----	21,740
David Morra	29,000	----	----	29,000

Petri Manninen (5)	15,290	----	----	15,290

(1) At fiscal year end the aggregate number of options outstanding for each director was as follows: Shahab Fatheazam—11,875; Sari Laitinen— 3,125; David Morra—12,500; and Petri Manninen- 9,375. Ms. Laitinen and Mr. Manninen resigned from the Board of Directors on October 15, 2010. All of their outstanding options forfeited on January 15, 2011.
(2) Does not include perquisites and personal benefits which, in the case of each of our directors, involved an aggregate incremental cost to the Company during 2010 of less than $10,000.
(3) Payable in Euros. The payments have been translated into U.S. dollars at the average exchange rate for 2010 of 1.00 EUR – 1.39 USD.
(4) Ms. Laitinen resigned from the Board of Directors on October 15, 2010.
(5) Mr. Manninen resigned from the Board of Directors on October 15, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of June 1, 2011, certain information with regard to beneficial ownership of outstanding shares of the Company's common stock by (i) each director and named executive officer individually. (ii) all executive officers and directors of the Company as a group, and (iii) each person known by the Company to beneficially own five percent or more of the outstanding shares of the Company's common stock:

Name of Beneficial Owner (1)(2)	Amount and Nature of Beneficial Ownership (3)	Percentage of Outstanding Shares
Dr. Kai Lindevall	282,940(4)	[5.3]%
Dr. Eeva-Kaarina Koskelo	18,750	*
Shahab Fatheazam	5,835	*
David Morra	5,210	*
Dr. Renee Moore	135,660	[2.5]%
Niklas Tevajärvi	----	----
All executive officers and directors as a group (six) persons)	448,395	[8.4]%
Ilari Koskelo c/o Navdata Oy Eskolante 100720 Helsinki, Finland	1,884,656(5)	[35.5]%

* Less than 1% of the outstanding Common Stock.

(1) Unless otherwise noted, we believe that all persons have sole voting and investment power with respect to all shares beneficially owned by them.

(2) Unless otherwise noted, the address of such persons is: c/o Encorium Oy, Keilaranta 10 FI-02150 Espoo Finland

(3) The amounts shown include shares which may be acquired currently or within 60 days of June 1, 2011 through the exercise of stock options, as follows: Dr. Lindevall—31,250; Ms. Koskelo—18,750; Mr. Fatheazam—5,835; Mr. Morra—5,210; and all current executive officers and directors as a group— 61,045 shares.

(4) Includes 23,486 shares held by Dr. Lindevall's spouse, as to which Dr. Lindevall disclaims beneficial ownership.

(5) As per the Schedule 13D/A filed by Mr. Koskelo on February 22, 2011.

The following table details information regarding the Company's existing equity compensation plans as of December 31, 2010:

	Equity Compensation Plan Information		
Plan Category	(a) Number of securities to be issued upon exercise of outstanding	(b) Weighted-average exercise price of outstanding	(c) Number of securities remaining available for future issuance

	options, warrants and rights*		options, warrants and rights*	under equity compensation plans (excluding securities reflected in column (a))*
Equity compensation plans approved by security holders	75,417	$	5.93	158,535
Equity compensation plans not approved by security holders	—		—	—
Total	75,417	$	5.93	158,535

* Note: The Company affected a one-for-eight reverse stock split on February 16, 2010. The sales prices of the Company's Common Stock in the above table have been retroactively restated to reflect the effects of the reverse split. See Note 1 for additional information.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONSAND DIRECTOR INDEPENDENCE

Related Party Transactions

2010 Employment Agreement with Dr. Lindevall

Dr. Lindevall entered into an employment agreement with the Company on January 8, 2010. The terms of the Employment Agreement are summarized above under the heading “Employment Agreements with Dr. Lindevall”

Employment and Severance Agreement with Dr. Ginsberg

On December 3, 2008 Encorium Group, Inc. entered into an employment agreement with Dr. David Ginsberg, the former Chief Executive Officer of the Company (the “Ginsberg Employment Agreement”). Under the terms of the Ginsberg Employment Agreement, Dr. Ginsberg was to serve as Encorium’s Chief Executive Officer for a term of three years. Pursuant to the Ginsberg Employment Agreement, Dr. Ginsberg was to receive an initial base salary at an annual rate of $316,000. In addition, Dr. Ginsberg was (i) entitled to participate in any benefit plans or arrangements sponsored or maintained by Encorium, subject to the terms and conditions of such plans, and (ii) entitled to bonus and equity-based compensation, as determined in the sole discretion of Encorium’s Board of Directors. The Ginsberg Employment Agreement was terminated in connection with the sale of the Company’s U.S. line of business in July 16, 2009.

In addition, on December 3, 2008, the Company entered into a severance agreement with Dr. Ginsberg (the “Ginsberg Severance Agreement”) applicable in the event Dr. Ginsberg’s employment with Encorium was terminated in connection with a change of control as set forth in the Ginsberg Severance Agreement. The Ginsberg Severance Agreement provided, generally, that in the event Dr. Ginsberg’s employment with Encorium was terminated in connection with a change of control (as defined in the Ginsberg Severance Agreement), Dr. Ginsberg would be entitled to (i) an amount equal to between 18 months and 24 months base salary, depending on the date of such termination as set forth in the severance agreement, (ii) the continuation of all benefits pursuant to any and all welfare plans under which he or his family was eligible to receive benefits or coverage during the period which severance payments are made pursuant to section (i), above, (iii) reasonable Encorium paid outplacement assistance for a period of up to twelve months or for a longer period as agreed to by Encorium, and (iv) the immediate vesting and exercisability of all stock options or other equity incentives grated to Dr. Ginsberg that were not otherwise vested or exercisable. The Severance Agreement was terminated in connection with the sale of the Company’s U.S. line of business on July 16, 2009.

Option Repricing

On November 4, 2008, the Compensation Committee and the Board of Directors of the Company acted to reprice 250,000 stock options previously granted to Dr. Ginsberg to have an exercise price equal to the closing price of the Company’s common stock on November 4, 2008, which was $.36 per share. The 250,000 stock options were originally granted to Dr. Ginsberg on September 8, 2008 in connection with his appointment as President and Chief Executive Officer of the Company and had an exercise price of $1.70 per share, which price reflected the then current market price of the Company’s stock on the date of grant. As a result of Dr. Ginsberg’s resignation in connection with the sale of the Company’s U.S. line of business on July 16, 2009, all stock options of the Company held by Dr. Ginsberg expired on November 16, 2009.

Separation and Mutual Release with Dr. Ginsberg

In connection with the sale of the Company's U.S. line of business on July 16, 2009 the Company entered into a Separation and Mutual Release Agreement with Dr. Ginsberg pursuant to which, in connection with Dr. Ginsberg's resignation, and in settlement of any amounts that may otherwise be due pursuant to the Ginsberg Employment Agreement and/or the Ginsberg Severance Agreement, the Company agreed to pay Dr. Ginsberg $250,000, payable in installments (the "Separation Agreement"). The Separation Agreement was subsequently amended on January 13, 2010 reducing the amount payable thereunder to $211,500. The revised severance amount was paid in full as of January 13, 2010.

Services Agreements with Candor Partner and Philip L. Calamia

In connection with the appointment of Philip L. Calamia as the Company's Interim Chief Financial Officer, on May 8, 2008 the Company entered into a Services Agreement with Candor Partners (formerly known as the Penn Valley Management Group, LLC), of which Mr. Calamia was a principal (the "Services Agreement"). Pursuant to the Services Agreement, the Company was to pay compensation of $2,500 per day for Mr. Calamia's services. On January 8, 2010 the Company entered into an amended Services Agreement with Mr. Calamia pursuant to which Mr. Calamia was to provide services to the Company from January 1, 2010 through December 31, 2010 for aggregate fees of $93,000.

Subscription Agreement with Dr. Eeva-Kaarina Koskelo's brother, Ilari Koskelo

On October 16, 2009 the Company entered into a Subscription Agreement with Ilari Koskelo, brother of the Company's Vice President of Clinical Operations, Dr. Eeva-Kaarina Koskelo, pursuant to which the Company issued and sold in a private placement 492,188 shares of its Common Stock, $0.001 par value, at a price of $2.40 per share.

Promissory Notes with Ilari Koskelo

On May 17, 2010 Encorium Oy borrowed 200,000 EURO from Mr. Koskelo (the "May Promissory Note'). The May Promissory Note bears interest at the rate of five per cent (5.0 %) per annum on the unpaid principal until August 31, 2010 and seven per cent (7.0%) per annum on the unpaid principal from September 1, 2010 onwards. The principal amount is payable on demand after September 1,2 010 in one installment or according to a separately agreed payment schedule. Interest is payable quarterly beginning September 1, 2010.

On July 18, 2010 Encorium Oy entered into a Promissory Note with Mr. Koskelo pursuant to which Encorium Oy borrowed 1,100,000 EURO from Mr. Koskelo (the "July Promissory Note", together with the May Promissory Note, the "1,300,000 EURO Notes").

On October 14, 2010 Encorium Oy assigned all of the obligations and liabilities under the 1,300,000 EURO Notes to the Company. In connection with the Company's Rights Offering which closed on October 15, 2010, Mr. Koskelo exercised rights to purchase 1,015,000 shares of the Company's common stock. In lieu of cash consideration for the exercise, Mr. Koskelo agreed to cancel the outstanding aggregate 1,300,000 EURO principal amount of the 1,300,000 EURO Notes due from the Company to Mr. Koskelo pursuant to a Loan Conversion Agreement dated as of October 15, 2010.

The amount of accrued interest under the 1,300,000 EURO Notes as of October 15, 2010 was 16,235.83 EURO (the "Outstanding Interest"). As of October 15, 2010 Mr. Koskelo agreed to accept in full satisfaction of the Outstanding Interest 13,071 shares of unregistered stock of the Company pursuant to the Loan Conversion Agreement.

On October 15, 2010 the Company entered into a Promissory Note in the principal amount of $184,845 (the "October Promissory Note") with Mr. Koskelo. As of October 15, 2010, Mr. Koskelo agreed to accept in full satisfaction of the $184,845 outstanding principal amount due under the October Promissory Note, 105,625 shares of unregistered stock of the Company pursuant to the Loan Conversion Agreement.

Collateral Issued for Personal Guarantees

On December 16, 2009 Encorium Oy entered into a three year term loan facility in the amount of EURO 700,000 (the "Loan Facility") with Finnvera plc, a specialized financing company owned by the Finnish state. As collateral for the Loan Facility Mr. Koskelo, beneficial owner of greater than 10% of the Company's common stock and brother of the Company's Vice President of Clinical Operations, Dr. Eeva-Kaarina Koskelo, pledged personal property with a value of EURO 350,000 and Dr. Kai Lindevall, Chief Executive Officer, gave a personal guarantee of EURO 30,000. Dr. Kai Lindevall also executed a personal guarantee of EURO 100,000 to Svenska Handelsbanken AB as replacement collateral for the assets subject to the business mortgage that was transferred to Finnvera. On December 30, 2009 the Board of Directors granted Mr. Koskelo and Dr. Lindevall 71,094 and 26,406 shares of Common Stock of the Company, respectively, as consideration for their personal guarantees. The grant to Mr. Koskelo was reversed on August 9, 2010.

Director Independence

The Board of Directors affirmatively determines the independence of each director in accordance with guidelines it has adopted, which guidelines mirror the elements of independence set forth in the Securities Exchange Act rules. Based on these standards the Board of Directors determined that each of the following non-employee directors is independent and has no relationship with the Company, except as a director and/or stockholder of the Company: Shahab Fatheazam and David Morra.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Effective July 31, 2009, the Company named Asher & Company, LTD as its principal accountant.

Asher & Company, LTD (“Asher”)

The following table presents the fees billed for services rendered by Asher for the fiscal years ended December 31, 2010 and December 31, 2009:

	2010	2009
Audit Fees	$ 213,000	$ 227,500
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total Fees	$ 213,000	$ 227,500

Audit fees consisted of fees for the audit of Encorium's annual financial statements and review of quarterly financial statements as well as services normally provided in connection with statutory and regulatory filings or engagements, consents and assistance with and review of Encorium's documents filed with the SEC. Except as set forth above, Encorium made no other payments to Asher for services rendered during fiscal 2010 or 2009.

Deloitte & Touce LLP ("Deloitte")

The following table presents the fees billed for services rendered by Deloitte for the fiscal years ended December 31, 2010 and December 31, 2009:

	2010	2009
Audit Fees	$ -$	25,000
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total Fees	$ - $	25,000

Audit fees consisted of fees for the audit of Encorium's annual financial statements and review of quarterly financial statements as well as services normally provided in connection with statutory and regulatory filings or engagements, consents and assistance with and review of Encorium's documents filed with the SEC. Except as set forth above, Encorium made no other payments to Deloitte for services rendered during fiscal 2010 or fiscal 2009.

Policy for Pre-Approval of Audit and Non-Audit Services

The Audit Committee's Charter includes a formal policy concerning the pre-approval of audit and non-audit services to be provided by the independent accountants to the Company. The policy requires that all services to be performed by the Company's independent registered public accountant, including audit services, audit-related services and permitted non-audit services, be pre-approved by the Audit Committee. The Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee. All services rendered by Asher or Deloitte, as applicable are permissible under applicable laws and regulations, and the Audit Committee pre-approved all audit, audit-related and non-audit services performed by each firm during fiscal 2010 and 2009, as applicable. The Audit Committee considered whether the provision of services other than the audit services (as specified above) was compatible with maintaining Asher's or Deloitte's, as the case may be, independence and determined that provision of such services has not adversely affected Asher or Deloitte's, as the case may be, independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statement Schedules. - None

(b) Exhibits

2.1	-	Combination Agreement by and among Covalent Group, Inc., Kai Lindevall, Jan Lilja, Sven-Erik Nilsson, Vesa Manninen, Seppo Oksanen, Heikki Vapaatalo, Riitta Korpela, Agneta Lindevall, and NTGLT PHARMA BVBA incorporated by reference to Exhibit 2.1 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2006.
2.2	-	Amended and Restated Combination Agreement dated as of July 6, 2006 by and among Covalent Group, Inc., Kai Lindevall, Jan Lilja, Sven-Erik Nilsson, Vesa Manninen, Seppo Oksanen, Heikki Vapaatalo, Riitta Korpela, Agneta Lindevall, and NTGLT PHARMA BVBA incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 7, 2006.
2.3	-	Asset Purchase Agreement between Encorium Group, Inc. and Pierrel Research USA Inc. dated July 16, 2009 incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2009.
3.1	-	Certificate of Incorporation of Covalent Group, Inc., filed with the Secretary of State of the State of Delaware on April 16, 2002 incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2002.
3.2	-	Certificate of Amendment of Certificate of Incorporation of Covalent Group, Inc. incorporated by reference to Exhibit 3.2 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 2, 2007.
3.3	-	Certificate of Amendment of Certificate of Amendment of Certificate of Incorporation of Encorium Group, Inc. incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 18, 2010.
3.4	-	Second Amended and Restated Bylaws of Encorium Group, Inc. incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 16, 2008.
4.1	-	Option Exchange Agreement incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 6, 2006.
4.2*	-	Form of Non-Qualified Stock Option Award Agreement incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2006.
4.3*	-	Form of Incentive Stock Option Award Agreement incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2006.
10.1*	-	Covalent Group, Inc. 2002 Equity Incentive Plan incorporated by reference to Appendix E to our Definitive Proxy Statement filed with the Securities and Exchange Commission on April 30, 2002.
10.2*	-	Amended and Restated Covalent Group, Inc. 1996 Stock Incentive Plan incorporated by reference to Annex A of our Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2000.
10.3*	-	1995 Stock Option Plan incorporated by reference to Annex A of our Definitive Proxy Statement filed with the Securities and Exchange Commission on May 10, 2000.
10.4*	-	

		Covalent Group, Inc. 2006 Equity Incentive Plan incorporated by reference to Appendix D of our Definitive Proxy Statement filed with the Securities and Exchange Commission on September 15, 2006.
10.5	-	Second Amendment to Lease between Dean Witter Realty Income Partnership II, L.P. and Covalent Group, Inc. dated November 14, 1996 incorporated by reference to Exhibit 10.3 to our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 1998.
10.6	-	Fourth Amendment to Lease between FV Office Partners, L.P. (successor to Dean Witter Realty Income Partnership III, L.P.) and Covalent Group, Inc. dated November 27, 2001 incorporated by reference to Exhibit 10.13 to our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on April 1, 2002.
10.7	-	Fifth Amendment to Lease between FV Office Partners, L.P. and Covalent Group, Inc. dated December 13, 2002 incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2003.
10.8	-	Sixth Amendment to Lease between Glenhardie Partner, LP , successor in interest to FV Office Partners, L.P and Encorium Group, Inc. dated July 2, 2008 incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 8, 2008.
10.9	-	Seventh Amendment to Lease between Glenhardie Partner, LP , successor in interest to FV Office Partners, L.P and Encorium Group, Inc. incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 26, 2008.

10.10	-	Eighth Amendment to Lease by and among Glenhardie Partners, LP, Encorium Group, Inc. and Pierrel Research USA Inc. dated July 16, 2009 incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 22, 2009.
10.11*	-	Form of Indemnification Agreement between Covalent Group, Inc., a Delaware Corporation, and its officers and directors incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on August 13, 2002.
10.18*	-	Employment Agreement among Encorium Group, Inc., Encorium Oy and Kai Lindevall effective January 1, 2010 incorporated by reference to our Current Report on From 8-K filed with the Securities and Exchange Commission on January 14, 2010.
10.19	-	Securities Purchase Agreement dated as of May 8, 2007 by and among Encorium Group, Inc., Capital Ventures International and Enable Growth Partners, LP incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 14, 2007.
10.20	-	Form of Warrant issued May 9, 2007 incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on May 14, 2007.
10.21	-	Form of Exchange Agreement incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2009.
10.22	-	Form of Exchange Warrant incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2009.
10.24	-	Lease between Encorium Oy and Mutual Pension Insurance Company effective October 1, 2008 incorporated by reference to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 27, 2009.
10.27	-	Pledge Agreement between Encorium Group, Inc. and Pierrel Research USA Inc. dated July 16, 2009 incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2009.
10.28	-	Subscription Agreement dated October 16, 2009 incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2009.
10.20*	-	Employment Agreement between Encorium Oy and Eeva-Kaarina Koskelo dated June 9, 2008 incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 14, 2010.
21	-	Subsidiaries of the Registrant. Filed herewith.
23.1	-	Consent of Asher & Company, Ltd. Filed herewith.
31.1	-	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
31.2	-	Certification of Principal Accounting Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.1	-	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
32.2	-	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

* This exhibit is a management contract or arrangement required to be filed as an exhibit to this report.

ENCORIUM GROUP, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010, and 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of:
Encorium Group, Inc.
Wayne, Pennsylvania

We have audited the accompanying consolidated balance sheets of Encorium Group, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Encorium Group, Inc. and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations, current available cash, and anticipated level of capital requirements necessary to fund its current operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Asher & Company, LTD

Philadelphia, Pennsylvania
September 30, 2011

ENCORIUM GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2010	2009
Revenue		
Net revenue	$12,923,582	$17,857,117
Reimbursement revenue	2,447,152	3,309,558
Total revenue	15,370,734	21,166,675
Operating Expenses		
Direct	11,161,441	12,556,650
Reimbursement out-of-pocket expenses	2,447,152	3,309,558
Selling, general and administrative	7,502,982	8,068,683
Depreciation and amortization	470,438	380,130
Impairment loss – intangible assets	2,779,288	-
Impairment loss – goodwill	788,927	-
Total operating expenses	25,150,228	24,315,021
Loss from continuing operations before interest expense, gain on warrants and income taxes	(9,779,494)	(3,148,346)
Interest income	4,233	9,315
Interest expense	(204,403)	(50,532)
Net interest expense	(200,170)	(41,217)
Gain on warrants	107,301	-
Net loss from continuing operations before income taxes	(9,872,363)	(3,189,563)
Income tax benefit	(735,922)	(45,136)
Net loss from continuing operations	$(9,136,441)	$(3,144,427)
Net gain (loss) from discontinued operations	48,403	(725,266)
Net loss	$(9,088,038)	$(3,869,693)
Weighted Average Common and Common Equivalent Shares Outstanding Basic and diluted	3,806,148	2,709,904
Net Loss per Common Share		
Continuing Operations	$(2.40)	$(1.16)
Discontinued Operations	0.01	(0.27)
Net Loss per Common Share	$(2.39)	$ (1.43)

See accompanying notes to the consolidated financial statements.

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ENCORIUM GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	2009
Assets		
Current assets		
Cash and cash equivalents	$266,943	$196,583
Investigator advances	-	19,232
Accounts receivable, less allowance of $316,576 at December 31, 2010 and 412,973 at December 31, 2009	2,536,567	3,454,173
Prepaid expenses and other	855,591	872,722
Cost and estimated earnings in excess of related billings on uncompleted contracts	621,195	1,794,134
Debt issuance costs, current	75,400	75,400
Current assets of discontinued operations	-	28,832
Total current assets	4,355,696	6,441,076
Property and equipment, net	289,293	307,552
Goodwill	1,627,167	1,389,045
Other intangible, net	1,168,820	3,508,310
Debt issuance costs, long-term, net	75,400	150,800
Other assets	456,761	313,524
Total assets	$7,973,137	$12,110,307
Liabilities and Stockholder's Equity (Deficit)		
Current liabilities		
Accounts payable	$2,459,084	$1,756,678
Notes payable	309,213	334,413
Credit lines	476,926	300,697
Accrued expenses	3,688,722	2,333,099
Deferred taxes payable	121,276	248,117
Obligations under capital leases	81,897	54,510
Billings in excess of related costs and estimated earnings on uncompleted contracts	1,318,150	1,179,779
Customer advances	1,924,116	1,361,496
Current liabilities of discontinued operations	349,739	607,552
Total current liabilities	10,729,123	8,176,341
Long-term liabilities		
Notes payable	618,427	668,826
Obligations under capital leases	33,954	52,541
Deferred taxes	113,857	837,424
Other liabilities	226,629	104,624
Liability for warrants to purchase common stock	17,000	-
Total long-term liabilities	1,009,867	1,663,415
Total liabilities	11,738,990	9,839,756
Commitments and contingencies		

Stockholder's equity (deficit)		
Common stock, $.001 par value 35,000,000 shares authorized, 5,308,749 and 3,426,938 shares issued as of December 31, 2010 and 2009 and 5,269,984 and 3,388,173 shares outstanding as of December 31, 2010 and 2009, respectively	5,309	3,427
Additional paid in capital	38,782,774	35,442,460
Accumulated deficit	(42,695,161)	(33,607,123)
Accumulated other comprehensive income	867,914	1,158,476
Less:	(3,039,164)	2,997,240
Treasury stock, at cost, 38,765 shares	(726,689)	(726,689)
Total Stockholder's equity (deficit)	(3,765,853)	2,270,551
Total liabilities and stockholder's equity (deficit)	$7,973,137	$12,110,307

See accompanying notes to the consolidated financial statements.

ENCORIUM GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Number of Common shares	Par Value	Additional Paid-In Capital	Retained Earnings (Accum. Deficit)	Accum. Other Comprehensive Income	Treasury Stock at Cost	T Stock E
Balance at December 31, 2008 (as restated for 8:1 reverse stock split)	2,604,250	$2,604	$33,341,179	$(29,737,430)	$1,298,109	$(726,689)	$4,1
Net loss				(3,869,693)			(3,8
Other comprehensive loss							
Pension adjustment, net of tax					77,394		77,
Foreign currency translation adjustment					(217,027)		(21
Total comprehensive loss							(4,(
Share based compensation			300,904				300
Issuance of common shares:							
Sales to investors	492,188	492	1,574,508				1,5
Debt issuance	97,500	98	226,102				226
Warrant exchange agreement	233,000	233	(233)				-
Balance at December 31, 2009 (as restated for 8:1 reverse stock split)	3,426,938	$3,427	$35,442,460	$(33,607,123)	$1,158,476	$(726,689)	$2,2
Net loss				(9,088,038)			(9,(
Other comprehensive loss							
Pension adjustment, net of tax					23,568		23,
Foreign currency translation adjustment					(314,130)		(31
Total comprehensive loss							(9,3
Share based compensation			102,006				102
Warranty liability reclassification			(218,000)				(21
Issuance of common shares:							
Stock rights offering	641,002	641	1,124,268				1,1
Exchange for debt	1,026,945	1,027	1,847,754				1,8
Warrant exchange agreement	20,064	20	(20)				-
Progenitor acquisition	193,800	194	484,306				484
Balance at December 31, 2010 (as restated for 8:1 reverse stock split)	5,308,749	$5,309	$38,782,774	$(42,695,161)	$867,914	$(726,689)	$(3,7

See accompanying notes to the consolidated financial statements.

ENCORIUM GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2010	2009
Operating Activities:		
Net Loss	$ (9,088,038)	$ (3,869,693)
Adjustments to reconcile net loss to net cash used by operating activities:		
Bad debt expense	-	315,973
Depreciation and amortization	470,438	579,995
Impairment losses	3,568,215	-
Gain on sale of U.S. operations	-	(775,387)
Gain on warranty liability	(107,301)	-
Share-based compensation expense	102,006	300,904
Changes in assets and liabilities		
Investigator advances	17,818	(6,871)
Accounts receivable	972,722	883,360
Prepaid expenses and other	(60,006)	243,240
Prepaid taxes	26,763	36,694
Cost and estimated earnings in excess of related billings on uncompleted contracts	1,039,776	(308,905)
Other assets	57,050	384,249
Accounts payable	600,204	(1,403,357)
Accrued expenses	779,491	(649,587)
Other liabilities	627,950	(155,122)
Deferred taxes	(773,719)	(35,253)
Billings in excess of related costs and estimated earnings on uncompleted contracts	174,352	(2,092,452)
Customer advances	656,055	(1,407,998)
Net cash used by operating activities	(936,224)	(7,960,211)
Investing activities:		
Progenitor acquisition, net of cash received	(1,269,949)	-
Purchases of property and equipment	(165,324)	(74,190)
Net cash used by investing activities	(1,435,273)	(74,190)
Financing activities:		
Payments under capital leases	(65,577)	(52,758)
Net Proceeds from stock issuance	1,124,909	1,575,000
Borrowings on notes payable	-	1,003,239
Borrowings on notes payable - stockholder	1,879,756	-
Net proceeds from short-term borrowings	264,856	265,605
Net cash provided by financing activities	3,203,944	2,791,086
Effect of exchange rates changes on cash and cash equivalents	(762,087)	(265,920)
Net increase (decrease) in cash and cash equivalents	70,360	(5,509,235)

Cash and cash equivalents, beginning of period		196,583		5,705,818
Cash and cash equivalents, end of period	$	266,943	$	196,583

See accompanying notes to the consolidated financial statements.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION:

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

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

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

The accompanying consolidated financial statements have been prepared on the basis of the company continuing as a going concern. We anticipate that will meet our cash requirements through May of 2012, assuming we are able to fully implement our current costs cutting initiatives, we are able to win additional contracts during fiscal 2011 and we are able to maintain our current customer contracts. We are actively exploring opportunities for strategic and financial partnerships to improve our financial position and expand our operations. In the event we are unable to do so, in order for the Company to continue as a going concern, we will be required to obtain additional capital from external sources or significantly reduce our operating costs, which may include the cessation of operations in some countries.

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

We were initially incorporated in August 1998 in Nevada. In June 2002, we changed our state of incorporation to Delaware. In November 2006, we changed our name from Covalent Group, Inc. to Encorium Group, Inc. Prior to November 2006, the Company conducted the majority of its operations in the U.S. while utilizing strategic partnerships with foreign CROs for the provision of services internationally. On November 1, 2006, the Company acquired its wholly-owned subsidiary, Encorium Oy, a CRO founded in 1996 in Finland with offices in offices in Espoo, Turku, Tampere, Oulu and Seinäjoki (Finland), Copenhagen (Denmark), Tallinn (Estonia), Vilnius

(Lithuania), Stockholm (Sweden), Bucharest (Romania), Warsaw (Poland), and Ankara (Turkey). Subsequent to the acquisition of Encorium Oy in 2006 the Company managed all of its North American and South American clinical trial studies from its headquarters in Wayne, Pennsylvania and its European and Asian clinical trial studies from Encorium Oy's facilities in Espoo, Finland. As a result of declining revenues and increased expenses with respect to the Company's U.S. line of business, on July 16, 2009 the Company sold substantially all of the assets relating to the Company's US line of business to Pierrel Research USA, Inc., as a result of which the Company no longer has any employees or significant operations in the United States.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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

On July 19, 2010, the Company acquired Progenitor Holding AG, a corporation organized in Switzerland (“Progenitor Holding”) and its operating subsidiaries organized in Mexico, Panama, Argentina, Chile, Switzerland, India and Hong Kong (collectively referred to herein as “Progenitor”). Progenitor is a European headquartered emerging market clinical research organization providing international drug development services in emerging market regions. Pursuant to the terms of a Stock Purchase Agreement on July 19, 2010, the Company purchased from the shareholders of Progenitor Holding all of issued and outstanding shares of Progenitor Holding. The consideration for the acquisition was a combination of cash and stock valued at $2.57 million, plus earn-out consideration of up to $1.8 million. The earn-out is subject to the achievement of certain targets as set forth in the purchase agreement and if achieved. As of December 31, 2010, the Company’s management has determined that none of the earn-out targets set forth in the purchase agreement will be achieved; therefore, no further purchase price adjustments were necessary.

The Company financed the cash component of the purchase consideration by issuing an unsecured note in the amount of $1.4 million to Ilari Koskelo, a significant stockholder of the Company. In connection with the Company’s rights offering which was completed on October 15, 2010, the Company exchanged the outstanding note payable to stockholder for shares of common stock of the Company.

On October 15, 2010 the Company completed a rights offering of its common stock. The rights offering entitled each stockholder of record on August 20, 2010 to purchase one share of common stock at $1.75 per share. Upon completion of the rights offering, the company issued 641,002 shares of its common stock in exchange for $1.1 million. Additionally, the Company exchanged notes payable of $1.8 million due to a significant stockholder for 1,015,000 shares of common stock.

On October 20, 2010, the Company received notification that the NASDAQ Qualifications Panel (the "Panel") determined to delist the Company's securities from The NASDAQ Stock Market, effective with the open of business on October 22, 2010, as a result of the Company's failure to regain compliance with the minimum $2.5 million stockholders' equity requirement. The Company’s common stock is currently quoted on the Pink Sheets, trade symbol ENCO.PK. Investors can now view real time stock quotes for ENCO.PK at http://www.otcmarkets.com.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

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

Consolidation

The consolidated financial statements for 2010 and 2009 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

We maintain cash accounts at several institutions in Europe and one in the U.S. Deposits in Europe are generally insured by individual states up to € 50,000 for each account (approximately $66,260 as of December 31, 2010). Accounts in the U.S. are generally insured up to $250,000 for each account. As of December 31, 2010, our cash and cash equivalents were based primarily in Europe with two or more institutions. To date, the Company has not experienced any loss or lack of access to its invested cash or cash equivalents, however, there can be no assurance that access to these invested balances will not be impacted by adverse conditions in the financial and credit markets.

Investigator Advances
We received advance payments from a small number of our clients as part of long-term contracts, which includes a separate cash account to be utilized for payment of investigator fees. As of December 31, 2010 and 2009, this cash amount was $0 and $19 thousand, respectively. This amount is also included in customer advances within current liabilities in the accompanying balance sheets.

Revenue Recognition

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

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

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

There are no standard billing and payment provisions which are present in each contract. Each contract has separate and distinct billing and payment terms which are the result of negotiation between us and the client. Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. The payment schedule in the contract reflects the value of services to be performed by us at the initiation of the contract. The payment schedule may include the value of certain interim service components as well as periodic payments which are reasonably assured at the start of the contract and which we expect to receive during the duration of the contract. Accordingly, cash receipts, including the receipt of upfront payments, periodic payments and payments related to the achievement of certain

billing mechanisms, do not necessarily correspond to cost incurred and revenue recognized on contracts. A contract's payment structure typically requires an upfront payment of 10% to 20% of the contract value at or shortly after the initiation of the contract, a series of periodic payments over the life of the contract and payments based upon the achievement of certain billing mechanisms. The upfront payments are deferred and recognized as revenues and services are performed under the proportional performance method. Periodic payments, including payments related to the achievement of certain billing mechanisms in the contract, are invoiced pursuant to the terms of the contract once the agreed upon services criteria have been achieved. Payments based upon interim billing mechanisms are included in the value of the contract because we expect to receive them during the term of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain service components separately but as an integrated, full service arrangement in connection with the development of the drug.

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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

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

Reimbursable Out-of-Pocket Expenses

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

As is customary in the industry, we will continue to exclude from revenue and expense in the Consolidated Statements of Operations fees paid to investigators and the associated reimbursement since we acts as an agent on behalf of the pharmaceutical company sponsors with regard to investigator payments. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were $700 thousand and $1.4 million the years ended December 31, 2010 and 2009, respectively.

Accounts Receivable

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

Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical and biotechnology. The significant majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of December 31, 2010, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $3.2 million. Of this amount, the exposure to our three largest clients was 41% of the total, with the three largest clients representing 18%, 12% and 11% of total exposure, respectively. As of December 31, 2009, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $5.2 million. Of this amount, the exposure to our two largest clients was 44% of the total, with the two largest clients representing 33% and 11% of total exposure, respectively.

Several client contracts contain provisions that allow us to bill and receive advance payments to be utilized for investigator fees and reimbursable expenses. In some instances, the client requires that we maintain separate cash

accounts to be utilized for investigator fees, which are included as Investigator Advances. Funds received as customer advances, excluding investigator advances for which separate cash accounts are required as part of our contract with the client, are included as part of Cash and Cash Equivalents. The balance of customer advances, including investigator advances of $0, was $1.9 million as of December 31, 2010. The balance of customer advances, including investigator advances of $19 thousand, was $1.4 million as of December 31, 2009. For the years ended December 31, 2010 and 2009, there were no customer advances billed, but not received.

Financial Instruments

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

As of December 31, 2010 and 2009, the Company was not a counter party to any forward foreign exchange contracts.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 8 years for equipment and furniture and fixtures and the remaining lease term for leasehold improvements and assets under capital lease. Depreciation and amortization, excluding the amortization of intangible assets, for the years ended December 31, 2010 and 2009 was $164 thousand and $101 thousand, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or fully depreciated the cost and accumulated depreciation are removed from the accounts, and any gain or loss on the sale of property and equipment is included in operations.

Stock-Based Compensation

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

Goodwill and Intangible Assets

Goodwill represents excess cost over the fair value of a company's net assets acquired in a business combination as of the acquisition date. Goodwill, which is not subject to amortization, is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

The Company obtained goodwill and intangible assets in connection with the acquisitions of Encorium Oy (formerly Remedium Oy) and Progenitor. We test goodwill for impairment on an annual basis for each reporting unit based on the anniversary date on which each entity was acquired: November 1st for Encorium Oy and July 19th for Progenitor. Management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit, including goodwill, with its carrying value. In the event that the carrying amount of the reporting unit exceeds its fair value, goodwill is not recoverable. The second step of the process involves a comparison of the implied fair value of goodwill to its carrying value for the reporting unit to determine the amount of impairment loss to recognize. The fair value of the Company's reporting unit is determined based upon management's estimate of future discounted cash flows and other factors, including operating results, business plans and anticipated future cash flows. Management's estimates of future cash flows include assumptions concerning future operating performance and economic conditions and may differ from actual future cash flows. Goodwill impairment losses charged against earnings for the years ended December 31, 2010 and 2009 were $789 thousand and $0, respectively.

The Company's intangible assets consist primary of customer relationships. Intangible assets are carried at cost and are subject to amortization. The Company's intangible assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses related to intangible assets and charged against earnings for the years ended December 31, 2010 and 2009 were $2.8 million and $0, respectively.

Foreign Currency Translation

Assets and liabilities of the Company's international operations are translated into U.S. dollars at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The cumulative translation adjustment decreased other comprehensive income by $314 thousand for the year ended December 31, 2010 compared to a decrease in other comprehensive income of $217 thousand for the year ended December 31, 2009.

Income Taxes

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

As of December 31, 2010, the Company has unrecognized U.S. federal and state net operating loss carryforwards of approximately $11.5 million and $16.3 million, respectively. These unrecognized U. S. federal and state net operating loss carryforwards have significantly increased due to the losses incurred to date during 2010. In addition, future changes in the unrecognized tax benefit, will have no impact on the effective tax rate due to the existence of the valuation allowance.

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

Earnings (Loss) Per Share

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

Supplemental Cash Flow Information

Cash paid for income taxes net of refunds for the years ended December 31, 2010 and 2009 was $0 and $85 thousand. Cash paid for interest for the years ended December 31, 2010 and 2009 was $37 thousand and $51 thousand, respectively.

In May 2010, Encorium Oy borrowed $280 thousand from Ilari Koskelo, a significant stockholder. In July 2010, the Encorium Oy borrowed an additional $1.5 million from Mr. Koskelo to finance the cash component of the purchase consideration for the Progenitor acquisition. In connection with the Company's rights offering, which was completed on October 15, 2010, the Company exchanged $1.8 million notes payable to Mr. Koskelo for 1,015,000 shares of the Company's common stock.

The amount of accrued interest on the $1.5 million notes payable as of October 15, 2010 was $22,851, which Mr. Koskelo agreed to exchange for 13,071 unregistered shares of the Company. Additionally, on October 15, 2010, the Company borrowed $185 thousand from Mr. Koskelo, who agreed to accept 105,625 unregistered shares of the Company in full satisfaction of the loan. Included in accrued expenses is $187 thousand for 106,751 shares that the Company did not transfer to Mr. Koskelo as of December 31, 2010.

Recently Issued Accounting Standards

In January 2010, the FASB issued ASU No. 2010-6, "Improving Disclosures About Fair Value Measurements", which provides amendments to ASC 820, "Fair Value Measurements and Disclosures" , including requiring reporting entities to make more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements including information on purchases, sales, issuances, and settlements on a gross basis and (4) the transfers between Levels 1, 2, and 3. The standard is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures, which are effective for annual periods beginning after December 15, 2010. The Company adopted the

standard for Levels 1 and 2 on January 1, 2010, and does not expect the adoption of the standard for Level 3, on January 1, 2011, to have a material impact on its consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities”, which amends ASC 810, “Consolidation” to address the elimination of the concept of a qualifying special purpose entity. The standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE whereas previous accounting guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The standard provides more timely and useful information about an enterprise's involvement with a variable interest entity and became effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company adopted the standard on January 1, 2010 and the adoption did not have a material impact on its consolidated financial statements.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The FASB updated ASC Topic No. 810, “Consolidations” (“ASC Topic 810”), and ASC Topic 860, “Transfers and Servicing,” (ASC Topic 860), which significantly changed the accounting for transfers of financial assets and the criteria for determining whether to consolidate a variable interest entity (VIE). The update to ASC Topic 860 eliminates the qualifying special purpose entity (QSPE) concept, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the financial asset de-recognition criteria, revises how interests retained by the transferor in a sale of financial assets initially are measured, and removes the guaranteed mortgage securitization re-characterization provisions. The update to ASC Topic 810 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE's primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. The Company adopted the provisions of these staff positions effective January 1, 2010. The adoption of these staff positions could impact future transactions entered into by the Company.

In October 2009, the FASB issued ASU No. 2009-13, “Multiple-Deliverable Revenue Arrangements” (amendments to ASC Topic 605, “Revenue Recognition”), (“ASU 2009-13”) and ASU No. 2009-14, “Certain Arrangements that Include Software Elements”, (amendments to ASC Topic 985, “Software”) (“ASU 2009-14”). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company has evaluated the impact of the adoption of these ASUs on its consolidated results of operations or financial condition, and the adoption did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-13, Topic 718, “Compensation—Stock Compensation” (“ASU 2010-13”), which addresses the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASU 2010-13 specifies that a share-based payment awarded that contains a condition that is not a market, performance, or service condition is required to be classified as a liability unless it otherwise qualifies as equity. The amendment is effective for fiscal years, and interim period beginning on or after December 15, 2010. The Company has evaluated the impact of the adoption of this ASU on its consolidated results of operations or financial condition, and the adoption did not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, “Revenue Recognition — Milestone Method (Topic 605): Milestone Method of Revenue Recognition” (ASU 2010-17). ASU 2010-17 allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. ASU 2010-17 provides a definition of substantive milestone and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. ASU 2010-17 is limited to transactions involving milestones relating to research and development deliverables. ASU 2010-17 also includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones and factors considered in the determination. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company has evaluated the impact of the adoption of this ASU on its consolidated results of operations or financial condition, and the adoption did not have a material impact on its consolidated financial

statements.

In December 2010, the FASB issued ASU No. 2010-28, “Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force)” (ASU 2010-28). ASU 2010-28 provides guidance on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is not permitted. The Company adopted ASU 2010-28 on January 1, 2011. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

In December 2010, the FASB issued ASU No. 2010-29, "Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)" (ASU 2010-29). ASU 2010-09 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The Company adopted ASU 2010-29 on January 1, 2011 and will apply ASU 2010-29 to its future acquisitions, if any.

Recently Issued Accounting Standards Not Yet Adopted

In May 2011, the FASB issued ASU No. 2011-04, ASU 2011-04 provides guidance regarding fair value measurements in order to have a common fair value measurement and disclosure requirement for purposes of both GAAP and International Financial Reporting Standards. This guidance further elaborates upon techniques used in measuring fair value. It does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is not permitted. The Company has not yet determined the impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" (ASU 2011-05). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires that all changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or the calculation or presentation of earnings per share. This guidance is effective retrospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with early adoption permitted. Because the new guidance affects financial statement presentation only, it will have no impact on the Company's consolidated financial position or results of operations.

3. DISCONTINUED OPERATIONS:

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

In accordance with ASC 360, the operational results and cash flows of the US line of business are presented as discontinued operations. Net Revenues from discontinued operations for the years ended December 31, 2010 and 2009 were $0 and $3.9 million, respectively. Gain from discontinued operations before taxes for the year ended December 31, 2010 was $48 compared to a loss from discontinued operations before taxes of $725 thousand as of December 31, 2009. The operating results related to the U.S. line of business are included in discontinued operations. Gain on sale of discontinued operations for the year ended December 31, 2009 was $775 thousand, and is included in the loss of discontinued operations.

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

	December 31, 2010	2009
Accounts receivable, net	$ -	$ 28,832
Current assets of discontinued operations	$ -	$ 28,832
Accounts payable	$ 307,330	$ 485,203
Accrued expenses	42,409	58,514
Billings in excess of related costs and estimated earnings on uncompleted contracts	-	53,368
Customer advances	-	10,467
Current liabilities of discontinued operations	$ 349,739	$ 607,552

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

4. ACQUISITION:

On July 19, 2010, the Company acquired 100% of the outstanding shares of common stock of Progenitor Holding AG ("Progenitor") in a transaction accounted for using the acquisition method of accounting. Accordingly, the results of operations are included in the Company's consolidated financial statements from that date forward. Progenitor is a European headquartered emerging market clinical research organization providing drug development services in emerging market regions. The purchase price was $2.57 million including $1.42 million paid in cash at closing and 193,800 shares of common stock valued at $2.50 per share, or $485 thousand, plus working capital adjustment estimated to be $36 thousand and salary guarantees for key employees of Progenitor of $625 thousand. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The excess purchase price over those fair values was recorded as goodwill. The fair value assigned to assets acquired and liabilities assumed are based on valuations using management's estimates and assumptions as of July 19, 2010, the effective date of the acquisition. Transaction costs incurred by the Company in connection with acquisition consisted of consulting and legal fees totaling $54 thousand. All transaction costs associated with the acquisition were expensed as incurred.

Unaudited pro forma results of operations resulting from the acquisition of Progenitor that would have been for the twelve months ended December 31, 2010 as if the combination had occurred on January 1, 2010:

	Year Ended December 31, 2010 (Unaudited)
Net Revenue (1)	$ 13,321,027
Net Loss	(8,830,438)
Earnings (loss) per share – basic and diluted	$ (2.32)

(1) Excludes reimbursement revenue

Comparative data regarding the pro forma results of Progenitor for the twelve months ended December 31, 2009 were not included in the table above due to the lack of data available for the period.

Total consideration provided by the Company to acquire Progenitor is summarized as below:

Cash	$1,421,200
Common stock	484,500
Working capital adjustment	36,378
Salary guarantees	625,470
Total Consideration	$2,567,548

The allocation of the purchase price is as follows:

Current assets	$447,230
Property, plant and equipment	70,973
Other assets	125,682
Goodwill	1,131,722
Customer relationships	1,057,543
Current liabilities	(130,911)
Non-current liabilities (1)	(134,691)
Total Consideration	$2,567,548

(1) Included in non-current liabilities is a related party note payable between Progenitor Holding AG, Switzerland and Progenitor Germany AG. Progenitor Germany AG, is a separate legal entity of Progenitor Research International that was not included as part of the Progenitor acquisition. However, the former shareholders of Progenitor Holding AG, who are also employees of the Company, remain the majority shareholders of Progenitor Germany AG.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

5. PROPERTY & EQUIPMENT:

	December 31, 2010	2009
Property & equipment consists of the following:		
Equipment	$ 791,593	$ 736,362
Furniture & fixtures	181,072	192,489
Equipment under capital leases	242,839	162,439
Total Property and Equipment	$ 1,215,504	$ 1,091,290
Accumulated depreciation	(926,211)	(783,738)
Property & equipment, net	$ 289,293	$ 307,552

The Company purchased $165 thousand of additional equipment in 2010. There was a decrease in net book value of European assets due to foreign exchange rate differences totaling $19 thousand.

6. INCOME TAXES:

	Year ended December 31, 2010	2009
Net loss before taxes:		
U.S.	$ (1,369,049)	$ (2,232,836)
Foreign	(8,454,911)	(1,681,993)
	$ (9,823,960)	$ (3,914,829)

The components of the income tax provision (benefit) are as follows:

	Year ended December 31, 2010	2009
Current		
U.S.	$ -	$ -
Foreign	41,049	31,578
State	-	-
	$ 41,049	$ 31,578
Deferred		
U.S.	$ -	$ -
Foreign	(776,971)	(76,714)
State	-	-
Total company	$ (735,922)	$ (45,136)

The federal statutory income tax rate is reconciled to the effective income tax rate as follows:

	Year ended December 31,	
	2010	2009
Federal statutory rate	(34.0%)	(34.0%)
Changes in valuation allowance	34.0%	34.0%
Other	7.5%	1.4%
	7.5%	1.4%

The components of the net current and long-term deferred tax assets and liabilities, measured under ASC 740, are as follows:

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

	Year ended December 31, 2010	2009
Deferred Tax Asset		
Net operating loss carryforwards	$ 4,340,095	$ 3,953,416
Depreciation	-	-
Accrual	-	28,888
	$ 4,340,095	$ 3,982,304
Valuation allowance	(4,340,095)	(3,953,416)
	$ -	$ 28,888
Deferred tax liabilities		
Amortization of intangibles	$ 70,577	$ 912,160
Accrual	106,921	124,026
Other	57,635	49,355
	$ 235,133	$ 1,085,541
Net deferred tax liability	$ 235,133	$ 1,056,653

A deferred tax liability was recognized related to the acquisition of Encorium Oy for the difference between the assigned value of the intangible assets acquired and the tax basis of the intangible assets acquired. A tax rate of 26% was utilized to establish the deferred tax liability which is the current prevailing corporate income tax rate in Finland.

At December 31, 2010, the Company had federal net operating loss (NOL) carryforwards of approximately $11.5 million, the majority of which will expire, if not utilized, between fiscal 2025 and 2028. The Company had state NOL carryforwards of approximately $16.3 million, the majority of which will expire between 2015 and 2018. As of December 31, 2010, the Company had $1.1 million of foreign net operating loss carryforwards. These net operating loss carryforwards have begun to expire and will continue to expire through 2015.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Due to the Company’s recent loss history, and uncertainty regarding the realization of deferred tax assets, a full valuation allowance has been provided against deferred tax assets directly related to net loss carryforwards as of December 31, 2010. The utilization of federal net operating loss carryforwards is subject to annual limitations in accordance with Section 382 of the Internal Revenue code. Certain state carryforward net operating losses are also subject to annual limitations. The Company also has certain net operating loss carryforwards in foreign jurisdictions which also have been fully reserved. As of December 31, 2010, the Company believes that there are no significant uncertain tax positions, and no amounts have been recorded as interest and penalties. The Company does not anticipate any events that would require it to record a liability related to any uncertain tax position as prescribed by ASC 740.

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

7. LINES OF CREDIT:

As of December 31, 2010, the Company had four lines of credit for its European operations totaling $1.22 million with interest and outstanding amounts as per the following table:

Lender	Credit Line	Interest Rate	Effective rate at December 31, 2010	Amount outstanding at December 31, 2010	Amount outstanding at December 31, 2009
Svenska Handelsbanken AB	$662,600	Handelsbanken Avista plus 2.35%	2.70%	$ 187,836	$ 459
Sampo Pankki Oyj	397,560	Sampo viitepaivaluottokorko plus 3.5%	5.00%	181,558	300,238
Svenska Handelsbanken AB	73,906	Handelsbanken's base rate	6.35%	64,900	-
Svenska Handelsbanken AB	88,898	Handelsbanken's base rate	6.15%	42,632	-
Total	$1,222,964			$ 476,926	$ 300,697

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(Amounts were converted based on an exchange rate of 1.00 EUR ~ 1.3252 USD and 1.00 EUR ~ 1.4332 USD for December 31, 2010 and December 31, 2009, respectively) The lines of credit are collateralized by substantially all assets of the Company and a personal guarantee of our Chief Executive Officer in the amount of $133 thousand. On January 12, 2011, Svenska Handelsbanken AB notified Encorium Oy that it would terminate its line of credit (the "Handelsbanken Line") with Encorium Oy. See Subsequent Events Note for further information regarding the description, terms and conditions related to the line of credit with Svenska Handelsbanken AB.

8. NOTES PAYABLE:

Notes payable consist of the following:

	December 31,	
	2010	2009
$927,640 Promissory note ("Note") is collateralized by substantially all assets of Encorium Oy and includes assets of related parties. The Note is payable in semi-annual installments of $154,607 plus interest. On April 8, 2011 the terms of the Note were modified to extend the maturity date to December 16, 2013 and defer the initial semi-annual installment to December of 2011. The Promissory note bears interest at the six month euribor plus 4.00% (5.224% at December 31, 2010)	$ 927,640	$ 1,003,239
Less current portion	(309,213)	(334,413)
Total notes payable, net of current portion	$ 618,427	$ 668,826

(Amounts were converted based on an exchange rate of 1.00 EUR ~ 1.3252 USD and 1.00 EUR ~ 1.4332 USD for December 31, 2010 and December 31, 2009, respectively). In connection with this Note, the investor in the 2009 Offering and the Company's Chief Executive Officer (the "Guarantors") issued personal guarantees as collateral with an aggregate value of $503 thousand. In consideration for the personal guarantees, the Company issued 97,500 shares of its common stock, par value $0.001 on a pro-rata basis to the Guarantors. The value of the shares has been recorded as debt issuance costs and will be amortized over the life of the Note. As of December 31, 2010 the total debt issuance costs, net of accumulated amortization, was $151 thousand.

9. EARNINGS (LOSS) PER SHARE:

Earnings (loss) per share is calculated in accordance with ASC 260. Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of outstanding stock options under the Company's equity incentive plans and warrants. For 2010 and 2009 diluted net loss per common share is the same as basic net loss per share, since the effects of potentially dilutive securities are anti-dilutive. Stock options outstanding that are not included in the table below because of their anti-dilutive effect for the year ended December 31, 2010 were 133,125 and for the year ended December 31, 2009 were 75,417. Also excluded from the table because of their anti-dilutive effect are 54,633 and 109,266 outstanding warrants as of December 31, 2010 and 2009, respectively.

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

	Twelve months ended December 31,	
	2010	2009
Net loss	$ 9,088,038	$ 3,869,693
Weighted average number of common shares outstanding used in computing basic and diluted earnings per share	3,806,148	2,709,904
Basic and diluted earnings (loss) per share	$ (2.39)	$ (1.43)

10. STOCKHOLDERS' EQUITY:

Treasury Stock

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

11. STOCK-BASED COMPENSATION:

Employee Equity Incentive Plans

2006 Equity Incentive Plan

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

2002 Equity Incentive Plan

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

General Option Information

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

	Year Ended December 31,	
	2010	2009
Risk-free interest rate	3.15%	2.20% - 2.97%
Expected dividend yield	—	—
Expected life	7 years	7 years
Weighted average volatility	117.5%	84%
Expected volatility	117.5%	72% - 91%

Based upon the above assumptions, the weighted average fair value of the stock options granted for the years ended December 31, 2010 and 2009 was $1.45 and $2.24, respectively.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

A summary of award activity under the stock option plans as of December 31, 2010 and changes during the two prior years are presented below:

	Number of Shares	Range of Exercise Prices per Share	Weighted Average Exercise Price per Share	Intrinsic value (1)
Options outstanding at December 31, 2008	119,260	$1.92 - $48.64	$18.32	
Granted	34,719	1.52 - 3.28	2.88	
Exercised	-	-	-	
Cancelled	(78,562)	1.52 - $48.64	7.92	
Options outstanding at December 31, 2009	75,417	$1.92 - $48.64	$5.93	
Granted	81,250	1.45	1.45	
Exercised	-	-	-	
Cancelled	(23,542)	1.92 - 48.64	21.69	
Options outstanding at December 31, 2010	133,125	$1.45 - $12.80	$2.03	$0
Vested options outstanding at				
December 31, 2010	34,374	$1.92 - $12.80	$3.02	$0
Non-vested options outstanding at				
December 31, 2010	98,751	$1.45 - $12.80	$1.68	$0

(1) Intrinsic values are not presented due to the fact that the intrinsic value calculations resulted in negative values as of December 31, 2010.

Approximately 78,625 options, net of forfeitures, of the 98,751 non-vested options outstanding as of December 31, 2010 will vest within the next year.

As of December 31, 2010, there was $44 thousand of total unrecognized compensation cost related to unvested share-based compensation awards granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 1.0 years. The Company has a policy of issuing new shares to satisfy share option exercises.

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

	Options Outstanding		
Range of Exercise	Number	Weighted Average	Weighted Average

Prices per Share	Outstanding at December 31, 2010	Remaining Contractual Life in Years	Exercise Price per Share
$1.00 - $1.50	81,250	9.21	$ 1.45
1.51 - 2.00	25,000	7.93	1.94
2.01 - 2.50	6,250	8.09	2.32
2.51 - 3.00	5,625	7.85	2.88
3.01 - 3.50	12,500	8.87	3.28
12.51 - 13.00	2,500	7.41	12.80
	133,125	8.79	$ 2.03

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The following table summarizes information regarding stock options vested as of December 31, 2010:

	Options Exercisable		
Range of Exercise Prices per Share	Number of Exercisable Options at December 31, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price per Share
$1.51 - $2.00	21,874	7.93	$ 1.94
2.01 - 2.50	2,083	8.09	2.32
2.51 - 3.00	3,750	7.85	2.88
3.01 - 3.50	4,167	8.87	3.28
12.51 - 13.00	2,500	7.41	12.80
	34,374	8.01	$ 3.02

As of December 31, 2010, there were 133,125 stock options available for grant under our stock option plans. A summary of stock options expected to vest in the next twelve months, net of forfeitures, are as follows:

	Options Expected to Vest		
Range of Exercise Prices per Share	Number of Exercisable Options at December 31, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price per Share
$1.00 - $1.50	69,062	9.21	$ 1.45
1.51 - 2.00	2,656	7.93	1.92
2.01 - 2.50	1,771	8.09	2.32
2.51 - 3.00	1,594	7.85	2.88
3.01 - 3.50	3,542	8.87	3.28
	78,625	9.10	$ 1.60

Valuation and Expense Information under ASC 718

Under the Modified Prospective Approach, the amount of compensation expense recognized includes compensation expense for all share-based payments granted prior to, but not yet fully vested as of January 1, 2006, based on the grant date fair value estimated in accordance with ASC 718 and compensation expense for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with ASC 718. In accordance with ASC 718, the amount of compensation expense recognized shall be reduced by the amount of pre-vested forfeitures the Company expects to occur over the remaining requisite service period. The Company determined that the appropriate rate of pre-vested forfeitures to be 15% of the total amount of compensation expense to be recognized for those share-based payments granted prior to, but not fully vested as of January 1, 2006 and those granted subsequent to January 1, 2006. The pre-vested forfeiture rate was determined based on the amount of pre-vested forfeitures experienced by the Company for the past 5 years.

For the years ended December 31, 2010 and 2009, the adoption of ASC 718 resulted in incremental stock-based compensation expense of $102 thousand and $301 thousand, or $0.01 and $0.01 on a basic and diluted earnings per share basis, respectively. The adoption of ASC 718 did not have a net impact on cash flows from operating, investing or financing activities. A deduction is not allowed for income tax purposes until the options are exercised. The amount of the income tax deduction will be the difference between the fair value of the Company's common stock and the exercise price at the date of exercise. The tax effect of the income tax deduction in excess of the financial statement expense will be recorded as an increase in additional paid-in-capital. Accordingly, ASC 718 requires the recognition of a deferred tax asset for the tax effect of the financial statement expense recorded. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, deferred tax assets have been fully reserved as of December 31, 2010. The net operating losses incurred to date by the Company are being carried forward and may be applied against future taxable income subject to certain limitations set forth in Section 382 of the Internal Revenue Code.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

12. EMPLOYEE BENEFIT PLAN:

The Company contributes to state sponsored pension plans for its internationally based employees. The majority of these state sponsored pension plans are defined contribution plans. The amount of pension expense related to these plans as of December 31, 2010 and 2009 were $1.1 million and $1.6 million, respectively.

The Company also maintains a defined benefit plan for certain employees as mandated by foreign state authorities. Financial information related to this plan for the years ended December 31, 2010 and 2009 are summarized as follows:

	Year ended December 31,	
	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 105,164	$ 204,565
Service costs	19,878	47,540
Interest costs	5,301	8,644
Net actuarial gain/(loss)	(53,008)	(108,045)
Foreign currency adjustment	(8,425)	-
Benefits paid	(21,203)	(33,134)
Settlements	-	(14,604)
Benefit obligation at end of year	$ 47,707	$ 105,164
Accrued pension liability included in long-term liabilities	$ (47,707)	$ (105,164)
Actuarial losses included in Accumulated other comprehensive income	$ 218,658	$ 187,752
Projected benefit obligation	$ (47,707)	$ (105,164)
Fair value of plan assets	-	-
Excess of benefit obligation over fair value of plan assets	$ (47,707)	$ (105,164)
Pension costs for the plan include the following components:		
Service cost benefits earned during the year	$ 19,878	$ 47,540
Interest cost on projected benefit obligation	5,301	8,644
Return on assets	(7,951)	(4,322)
Effect of settlement	-	(40,337)
Net Pension costs	$ 17,228	$ 11,525
The weighted average assumptions are as follows:		
Discount rate at year end	3.75 %	4.50 %

Rate of salary increase	3.00	%	5.00	%
Rate of inflation	2.00	%	2.00	%
Employee turnover	12.00	%	12.00	%

13. SEGMENT DISCLOSURES:

The Company follows the provisions of FASB ASC 280, “Segment Reporting,” which establishes standards for reporting business segment information. The Company operates in one segment predominantly in the clinical research industry providing a broad range of clinical research services on a global basis to the pharmaceutical, biotechnology and medical device industries.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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

	Year Ended December 31,			
	2010		2009	
	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts
Client A	25%	14	30%	13
Client B	11%	3	-	-
Client C	10%	4	10%	4
Client D	-	-	8%	12
Top Clients	46%	21	48%	29

14. CAPITAL AND OPERATING LEASE COMMITMENTS:

In October 2008, we entered into a financing agreement for application software to be used in our European operations. This financing agreement is being accounted for as a capital lease obligation. The present value of the capital lease obligation and the corresponding asset value of the software acquired was $142 thousand. In December of 2009 we entered into a financing agreement for a server back up system. This financing agreement is being accounted for as a capital lease obligation. The present value of the capital lease obligation and the corresponding asset value of the system was $20 thousand. During 2010, we entered into two financing agreements for application software for our European operations. These financing agreements are being accounted for as capital lease obligations. The present value of the capital lease obligation and the corresponding asset value of the software acquired was $81 thousand.

Future minimum lease payments on capital lease obligations at December 31, 2010 are as follows:

For the year ended December 31:	
2011	$ 73,662
2012	34,850
2013	14,334
Total	$ 122,846
Less amount representing interest	(6,995)
Present value of capital lease payments	$ 115,851

We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment. Total lease expense for the years ended December 31, 2010 and 2009 were $1.6 million and $1.0 million, respectively.

Future minimum lease payments on operating lease obligations at December 31, 2010, are as follows:

Total	2011	2012	2013	2014	2015

Operating leases	$2,653,000	$1,395,242	$748,082	$475,248	$29,778	$4,650

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

15. QUARTERLY FINANCIAL DATA (UNAUDITED):

	2010 For the Quarter Ended				
	31 Mar	30-Jun	30-Sep	31-Dec	Total
Net Revenue	$ 3,001,360	$3,775,262	$2,793,625	$3,353,335	$12,923,582
Loss from continuing operations	(1,900,478)	(775,260)	(4,577,386)	(2,526,370)	(9,779,494)
Net loss from continuing operations	(1,908,174)	(805,157)	(3,863,433)	(2,559,677)	(9,136,441)
Net income (Loss) from discontinued operations	(15,431)	-	-	63,834	48,403
Net loss	$ (1,923,605)	$(805,157)	$(3,863,433)	$(2,495,843)	$(9,088,038)
Weighted Average Common and Common Equivalent Shares Outstanding					
Basic and diluted	3,388,173	3,404,048	3,420,876	4,998,036	3,806,148
Net Income (Loss) per Common Share					
Continuing Operations	$ (0.56)	$(0.24)	$(1.13)	$(0.51)	$(2.40)
Discontinued Operations	(0.01)	-	-	0.01	0.01
Net Loss per Common Share	$ (0.57)	$(0.24)	$(1.13)	$(0.50)	$(2.39)

	2009 For the Quarter Ended				
	31 Mar	30-Jun	30-Sep	31-Dec	Total
Net Revenue	$ 4,538,173	$4,483,263	$4,446,606	$4,389,075	$17,857,117
Loss from continuing operations	(578,533)	(1,269,249)	(616,713)	(683,851)	(3,148,346)
Net loss from continuing operations	(574,056)	(1,270,255)	(742,215)	(557,901)	(3,144,427)
Net income (Loss) from discontinued operations	378,836	(674,416)	(258,436)	(171,250)	(725,266)
Net loss	$ (195,220)	$(1,944,671)	$(1,000,651)	$(729,151)	$(3,869,693)
Weighted Average Common and Common Equivalent Shares Outstanding					
Basic and diluted	2,565,485	2,565,485	2,565,485	3,138,703	2,709,904
Net Income (Loss) per Common Share					
Continuing Operations	$ (0.22)	$(0.50)	$(0.29)	$(0.18)	$(1.16)
Discontinued Operations	0.15	(0.26)	(0.10)	(0.05)	(0.27)

Net Loss per Common Share	$ (0.07)	$(0.76)	$(0.39)	$(0.23)	$(1.43)

16. COMMITMENTS AND CONTINGENCIES:

In January 2010, we entered into an employment agreement with our Chief Executive Officer for a term of eighteen months. The employment agreement calls for specified minimum annual compensation of € 196,000 per year (approximately $260,000 as of December 31, 2010) and includes provisions for continuation of salary upon termination as defined in the agreement. (Amounts were converted based on an exchange rate at December 31, 2010 of 1.00 EUR ~ 1.3252 USD)

In July 2010, in connection with the acquisition of Progenitor, we entered into employment agreements with the former shareholders of Progenitor that calls for specified minimum compensation totaling $625,470 over an eighteen month period.

The contract research organization industry is subject to legislation and regulations that are revised or amended on an on-going basis. The impact of complying with such legislation and regulations could materially affect our business.

17. GOODWILL AND OTHER INTANGIBLES

The Company obtained goodwill and intangible assets in connection with the acquisitions of Encorium Oy and Progenitor. We test goodwill for impairment on an annual basis for each reporting unit based on the anniversary date on which each entity was acquired: Encorium Oy on November 1st and Progenitor on July 19th. Company management uses its judgment in assessing whether goodwill has become impaired between annual impairment tests.

Due to impairment triggers, the Company conducted an interim goodwill impairment test on Encorium Oy's goodwill as of September 30, 2010. The Company also conducted an annual goodwill impairment test on Encorium Oy's goodwill as of November 1, 2010. Using a discounted cash flow model, Management concluded that Encorium Oy's goodwill as of September 30, 2010 and November 1, 2010 was not impaired and no adjustment to the carrying value of goodwill was necessary.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Due to impairment triggers occurring in the fourth quarter, the Company conducted an interim impairment test of Progenitor's goodwill as of December 31, 2010. Using a discounted cash flow model, Management concluded that the carrying value of Progenitor's goodwill was not recoverable. Management then compared the implied value of Progenitor's goodwill to its carrying value to determine the amount of impairment loss to recognize. As a result, the Company recorded a non-cash impairment charge of approximately $789 thousand in the fourth quarter of 2010. Determining the fair value of a reporting unit is a matter of judgment and involves the use of significant estimates and assumptions. The use of different assumptions could change the results of an impairment test. An erosion of future business could result in an impairment charge in future periods.

The following table summarizes the changes in the Company's goodwill for the years ended December 31, 2010 and 2009:

	Progenitor	Encorium Oy	Total
Goodwill at December 31, 2008	$-	$ 1,366,269	$1,366,269
Translation adjustment	-	22,776	22,776
Goodwill at December 31, 2009	$-	$ 1,389,045	$1,389,045
Progenitor Acquisition	1,131,722	-	1,131,722
Impairment of goodwill	(788,927)	-	(788,927)
Translation adjustment	-	(104,673)	(104,673)
Goodwill at December 31, 2010	$342,795	$ 1,284,372	$1,627,167

The Company's intangible assets are carried at cost and are subject to amortization. As of December 31, 2010, the Company's intangible assets consisted solely of customer relationships. In connection with the interim impairment test of Encorium Oy's goodwill as of September 30, 2010, the Company also performed an impairment review of Encorium Oy's intangible assets. Management compared the carrying value of Encorium Oy's customer relationships to the undiscounted cash flows resulting from those assets and concluded that the carrying value was not recoverable. Management then used the discounted future cash flows related to Encorium Oy's customer relationships to determine the amount of impairment loss. As a result, the Company recognized a non-cash impairment loss of approximately $2.8 million in the third quarter of 2010. In addition, the Company reduced the carrying values of Encorium Oy's intangible assets, and related deferred income tax liability.

In connection with the Company's interim impairment test of Progenitor's goodwill as of December 31, 2010, the Company also performed an impairment review of Progenitor's intangible assets. Management concluded that Progenitor's intangible assets were not impaired and no changes to the carrying value necessary.

Gross carrying amounts, accumulated amortization, and net carrying value the periods ended December 31, 2010 and December 31, 2009 for intangible assets are as follows:

	Weighted Average Amortization Period in	Gross Carrying Amount	Accumulated Amortization	Impairment Losses	Net Carrying Value

	Years				
December 31, 2009					
Customer relationships	10.1	$7,353,749	$ 3,845,439	$-	$ 3,508,310
December 31, 2010					
Customer relationships	5.0	$7,857,144	$ 3,909,036	$2,779,288	$ 1,168,820

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Amortization expense for the years ended December 31, 2010 and 2009 was $306 thousand and $279 thousand, respectively. As of December 31, 2010, estimated amortization of intangibles for the five fiscal years subsequent to December 31, 2010 are as follows:

2011	$253,858
2012	253,858
2013	253,858
2014	253,858
2015	153,388
Total	$1,168,820

18. COMMON STOCK AND WARRANTS

In May 2007, the Company sold 218,532 shares of its common stock, $0.001 par value in a private placement (the "Offering") at a price of $22.88 per share and warrants to purchase an aggregate of 109,266 shares of the Company's common stock, $0.001 par value, at an exercise price of $4.12 per share for a period of five years commencing six months from the date of issuance to certain investors (the "Investors").

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

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

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

As of December 31, 2010, the fair value of the liability for warrants to purchase common stock was $17 thousand. The assumptions used to value the liability at December 31, 2010 were: weighted average exercise price of $3.20, weighted average life of 4.0 years, volatility 117%, and risk free interest rate of 1.52%.

On April 19, 2010, 54,633 warrants were exercised in a cashless exercise resulting in 20,064 shares being issued to the exercising warrant holder.

Gain on warrants was $107 thousand for the year ended December 31, 2010.

At December 31, 2010, the Company had 54,633 warrants outstanding to purchase its common stock at an exercise price of $3.20 and an expiration date of October 16, 2014.

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

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

In December 2009, the Company issued a Note to Finnvera plc. The current value of the note at December 31, 2010 was $927,640 (see Note 5). In connection with this Note, the investor in the 2009 Offering and the Company's Chief Executive Officer (the "Guarantors") issued personal guarantees as collateral with an aggregate value of $503 thousand. In consideration for the personal guarantees, the Company issued 97,500 shares of its common stock, par value $0.001 on a pro-rata basis to the Guarantors. The value of the shares has been recorded as debt issuance costs and will be amortized over the life of the Note. As of December 31, 2010 the total debt issuance costs, net of accumulated amortization, was $151 thousand.

(Amounts were converted based on an exchange rate at December 31, 2010 of 1.00 EUR ~ 1.3252 USD)

In July 2010, the Company issued 193,800 shares of its common stock to the former shareholders of Progenitor Holding AG in connection with the acquisition of Progenitor.

In October 2010 the Company completed a rights offering of its common stock. The rights offering entitled each stockholder of record on August 20, 2010 to purchase one share of common stock at $1.75 per share. Upon completion of the rights offering, the company issued 641,002 shares of its common stock in exchange for $1.1 million. Additionally, the Company exchanged notes payable of $1.8 million due to Ilari Koskelo, a significant stockholder, for 1,015,000 shares of common stock.

In October 2010, the Company issued 11,945 of 118,696 unregistered shares to Ilari Koskelo who agreed to accept in full satisfaction of a $187 thousand note payable plus $22,851 of accrued interest due to him by the Company. Included in accrued expenses is $187 thousand for 106,751 unregistered shares that the Company did not transfer to Mr. Koskelo as of December 31, 2010 in connection with the settlement agreement.

19. RELATED PARTY TRANACTIONS

Included in Other liabilities non-current as of December 31, 2010, is an unsecured related party note payable between Progenitor Holding AG, Switzerland and Progenitor Germany AG in the amount of $133 thousand. The note is payable on demand and accrues interest at annual rate of 3.5%. Progenitor Germany AG, is a separate legal entity of Progenitor Research International that was not included as part of the Progenitor acquisition. The owners of Progenitor Germany AG are also employees of the Company.

In May 2010, Encorium Oy borrowed €200 thousand from Ilari Koskelo, a significant stockholder. In July 2010, the Encorium Oy borrowed an additional €1.1 million from Mr. Koskelo to finance the cash component of the purchase consideration for the Progenitor acquisition. In connection with the Company's rights offering, which was completed on October 15, 2010, the Company exchanged €1.3 million ($1,829,620 based on an exchange rate of 1.00 EUR ~ 1.4074 USD) notes payable to Mr. Koskelo for 1,015,000 shares of the Company's common stock.

The amount of accrued interest on the €1.3 million notes payable as of October 15, 2010 was €16, 236 ($22,851 based on an exchange rate of 1.00 EUR ~ 1.4074 USD), which Mr. Koskelo agreed to exchange for 13,071 unregistered shares of the Company. Additionally, on October 15, 2010, the Company borrowed $185 thousand from Mr. Koskelo, who agreed to accept 105,625 unregistered shares of the Company in full satisfaction of the loan. Included in accrued expenses is $187 thousand for 106,751 shares that the Company did not transfer to Mr. Koskelo as of December 31, 2010.

20. FAIR VALUE MEASUREMENTS

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

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The Company utilizes the following hierarchy in fair value measurements:

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

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

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

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

	Quoted Prices in Active Markets for identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
Liability for warrants to purchase common stock	$ —	$17,000	$ —	$ 17,000

Non-Recurring Fair Value Measurements: There were no non-recurring fair value measurements of assets at December 31, 2009. Assets measured at fair value on a non-recurring basis at December 31, 2010 are as follows:

Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010	Total Loss for the Period Ended December 31, 2010

	(Level 1)				
Goodwill	$ —	$ —	$ 342,796	$ 342,796	$ 788,927
Intangible assets	$ —	$ —	$ 208,218	$ 208,218	$ 2,779,288

In accordance with the provisions of ASC 350, goodwill with a carrying value of $1.1 million was written down to its fair value of $343 thousand, resulting in a non-cash impairment charge of $789 thousand, which was included in the results of operations for the year ended December 31, 2010. In accordance with the provisions of ASC 360, intangible assets with a carrying amount of $3.0 million were written down to their fair value of $0.2 million, resulting in a non-cash impairment charge of $2.8 million, which was included in the results of operations for the year ended December 31, 2010.

See the Goodwill and Other Intangibles note for a discussion of the valuation techniques and a description of the information used to determine fair value.

ENCORIUM GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

21. SUBSEQUENT EVENTS

On January 12, 2011 Svenska Handelsbanken AB notified Encorium Oy, the Company's wholly-owned subsidiary, that it was terminating its line of credit (the "Handelsbanken Line") with Encorium Oy. The Handlesbanken Line was entered into on February 9, 2005 between Encorium Oy and Svenska Handelsbanken AB and provided for up to EUR 500,000 of borrowings at a 1.25% interest rate. On February 15, 2011, Encorium Oy repaid $203 thousand under the Handelsbanken Line and on March 15, 2011 repaid the remaining outstanding principal balance of $490 thousand. The Company replaced the Handelsbanken Line with a line from its significant stockholder, as described below.

(Amounts were converted based on an exchange rate at February 15, 2011 of 1.00 EUR ~ 1.35 USD and an exchange rate at March 15, 2011 of 1.00 EUR ~ 1.40 USD)

On April 1, 2011, Encorium Oy repaid EUR 350,000 of a note payable of EUR 700,000 or $987 thousand from Finnvera Plc. which was raised on December 16, 2009 with a five year biannual repayment plan and carried an interest of 3.35% (Euribor 6 months + 2.35% margin). All repayments up till now have been waived and the outstanding loan amount was EUR 700,000. A new repayment plan was set up for repayment of the remaining loan amount of EUR 350,000 or $494 thousand in biannual installments of EUR 70,000 ($99 thousand) starting December 16, 2011. The note payable now carries an interest margin of 4% on top of Euribor 6 month reference rate.

(Amounts were converted based on an exchange rate at April 1, 2011 of 1.00 EUR ~ 1.41 USD)

Effective February 11, 2011, Encorium Oy entered into a EUR 1,000,000 Line of Credit Promissory Note with Ilari Koskelo, a current stockholder of the Company, to replace the Handelsbanken Line, as described above (the "Ilari Line"). Encorium Oy borrowed $685 thousand (EUR 500,000) under the Ilari Line to repay the outstanding amounts on the Handelsbanken Line. Additionally, on April 1, 2011, Encorium Oy borrowed EUR 350,000 under Ilari Line to repay part of the outstanding amount of the loan from Finnvera, and on September 19, 2011, borrowed EUR 100, 000 ($136 thousand at September 19, 2011) under the Ilari Line to cover working capital needs. The unpaid principal under the Ilari Line accrues and compounds interest monthly at the rate of ten percent (10.0%) per annum. Any principal amount borrowed under the Ilari Line is payable on demand on the twelve month anniversary of the date such principal amount was received by Encorium Oy or according to a separately agreed payment schedule. The interest on any principal amount borrowed under the Ilari Line is payable quarterly beginning on the sixth month anniversary of the date such principal amount was received by Encorium Oy. On the occurrence of any Event of Default (as defined in the Ilari Line), and upon five days written notice and cure period, all principal and other amounts owed under Ilari Line shall become immediately due and payable. In addition, upon a Change of Control (as defined in the Ilari Line) of the Company or Encorium Oy, a change in control fee equal to twenty percent of the then outstanding principal amount will be payable.

(Amounts were converted based on an exchange rate at February 11, 2011 of 1.00 EUR ~ 1.37 USD)

On March 25, 2011, Philip L. Calamia resigned from his position as Interim Chief Financial Officer of the Company to pursue other interests. The Company is in the process of finding a replacement for the vacant position of Chief Financial Officer. Until the position is filled, Niklas Tevajärvi, Chief Financial Officer of the Company's Europe and Asia Operations, has assumed the role of Principle Accounting Officer, effective May 5, 2011.

ENCORIUM GROUP, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENCORIUM GROUP, INC.

Dated: October 3, 2011

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: October 3, 2011

By: /s/ Niklas Tevajari
Niklas Tevajari
(Principal Accounting Officer)

Dated: October 3, 2011

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

Dated: October 3, 2011

By: /s/ David Morra
David Morra
Director

Dated: October 3, 2011

By: /s/ Shahab Fatheazam
Shahab Fatheazam
Director

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ENCORIUM GROUP, INC.

EXHIBIT INDEX

Exhibit	Description
21	Subsidiaries of the Registrant.
23.1	Consent of Asher & Company, Ltd.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.