Ahead of the Curve

Delivering results for our clients, driving value for our shareholders

PPD®

PPD®

To Our Shareholders:

During the challenging economic and CRO environments in 2009, we continued to believe in the fundamentals of the market for discovery and development services. We brought our financial and operational strengths to bear and took aggressive steps to position the company for long-term growth and success. Despite the tough conditions, we had results that reflect our conservative financial management, including:

- Full year 2009 cash flow from operations of $253.0 million;
- Cash and investments at December 31, 2009, totaled $642.1 million with no long-term debt;
- Net revenue of $1.42 billion;
- Diluted earnings per share of $1.34; and
- Plans implemented to spin off our compound partnering business in 2010.

STRATEGIC AND OPERATIONAL HIGHLIGHTS

We made significant progress on strategic execution in both reporting segments—development services and discovery sciences/compound partnering. Our strategy is based on scientific and innovative leadership, performance excellence and positioning ourselves well in terms of geography and service lines.

LEFT: Fred N. Eshelman, Pharm.D.
Executive Chairman

RIGHT: David L. Grange, BG (R)
Chief Executive Officer

DEVELOPMENT SERVICES

We increased our operational breadth and depth in Central and Eastern Europe and China through our acquisitions of AbC.R.O., Inc., Excel PharmaStudies, Inc., and BioDuro LLC, enhancing our ability to provide a full range of services and capture share in these key emerging markets.

We opened a global central lab in Singapore to serve the Asia Pacific region and opened new clinical trial offices in Japan, India, the Philippines and New Zealand. In the first quarter of 2010, we also expanded our contract research operations in Ireland, which includes an analytical testing lab, and opened a pharmacovigilance and medical communications call center in Bulgaria.

To continue to optimize our laboratory expertise and capabilities in the rapidly growing area of vaccines, we advanced the development of the PPD Vaccines & Biologics Center of Excellence, which we are launching in the first half of 2010.

We strengthened our services in post-approval and nontraditional areas, adding expertise to our government business and enhancing our site and patient recruitment functions.

As evidence of our focus on adapting our business model to meet the changing needs of our clients, we were selected as a strategic outsourcing partner by multiple clients for key service areas, including Phase I, Phase II–IV and biostatistics.

DISCOVERY SCIENCES/COMPOUND PARTNERING

We began a complete restructuring of this business segment in 2009 and expect to complete the overall plan in mid-2010 with the spin-off of the compound partnering business.

In 2009, we divested two business units, namely the biomarker discovery sciences group and the preclinical oncology business known as Piedmont Research Center. In addition, we acquired Magen BioSciences, Inc., gaining access to a pipeline of dermatologic compounds through Magen's exclusive license to develop preclinical compounds discovered by Eli Lilly and Company. Magen will be part of the spin-off.

Priligy®, partnered with Johnson & Johnson for the treatment of premature ejaculation, has now been approved in 10 countries, and additional filings are under review in the Middle East, Asia Pacific, North America and Latin America.

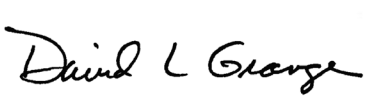
We are collaborating with Janssen Pharmaceutica to develop two Phase II-ready therapeutic compounds, one to treat diarrhea-predominant irritable bowel syndrome and the other to treat complicated skin and skin structure and respiratory infections.

As noted, we announced plans to spin off compound partnering from our core CRO business, which will result in two well-capitalized, highly focused, independent public companies. The new compound partnering company, Furiex Pharmaceuticals, Inc., will develop and commercialize drug candidates and should have access to external capital when and if needed.

LOOKING AHEAD

Although the biopharmaceutical landscape is changing rapidly, we remain enthusiastic about the future of drug research and development and the potential for PPD. Our leadership team is fully engaged and dedicated to combining the company's financial and operational strengths to create value solutions for our clients. Our management and employees will continue to differentiate PPD with their exceptional scientific, medical and operational excellence.

We are looking forward and believe we are well-positioned for sustainable, long-term growth.



David L. Grange, BG (R)
Chief Executive Officer

Fred N. Eshelman, Pharm.D.
Executive Chairman

NET REVENUE

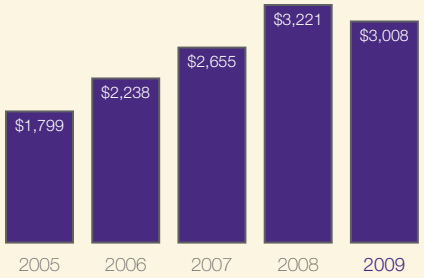
NET INCOME

EARNINGS PER DILUTED SHARE

SHAREHOLDERS' EQUITY

OPERATING CASH FLOW

BACKLOG



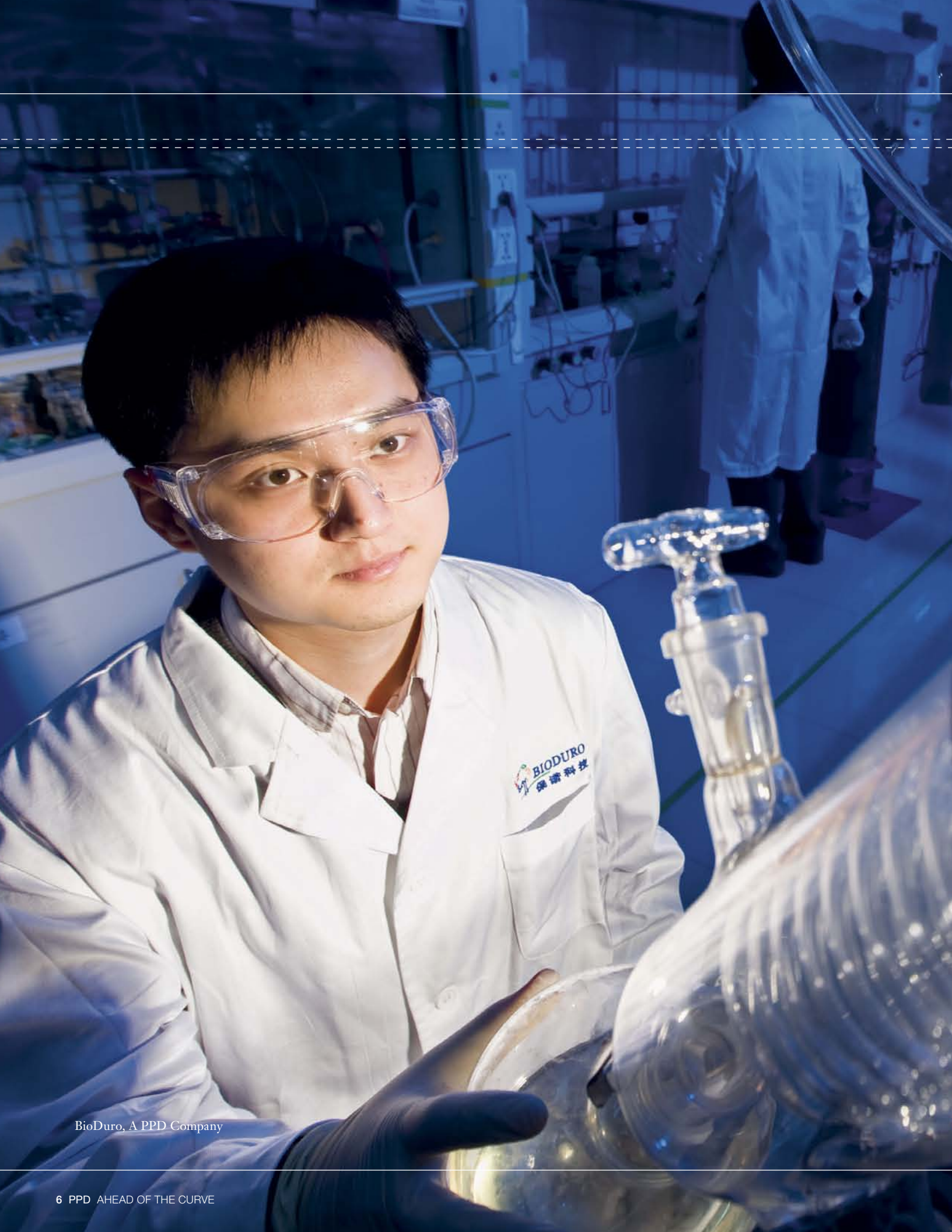
All graphs in millions in U.S. dollars, except per share data, for years ended December 31, 2005, 2006, 2007, 2008 and 2009.
Note: Earnings per diluted share for 2009 includes $0.16 from discontinued operations.

Ahead of the Curve

From the day we began as a one-person consulting firm in 1985, we have been dedicated to delivering exceptional service, consistent quality and innovative ideas that help our clients and partners achieve their research and development goals. Now, 25 years later, through focus on quality and people, continued innovation in science and technology, and global expansion, PPD is positioned ahead of the curve in delivering results for our clients and driving value for our shareholders.

Our Mission: Assist our clients and partners in maximizing returns on their R&D investments.

Our Vision: Be the global leader in our industry based on consistent quality and execution, customer-aligned service and constant innovation.



BioDuro, A PPD Company

Global reach, local knowledge

Increasingly, the clinical research organizations that thrive are those that can open doors for their clients and partners in emerging markets globally. Since 1995, when we established PPD's first international office in Europe, we have steadily expanded our presence, enhanced our services and invested in our global future. Now, through advanced infrastructure and regional employees, we have the experience and ability to conduct clinical trials in more than 100 countries.

Strategic Expansion

AS CLINICAL RESEARCH REACHES FURTHER AND FURTHER AROUND THE GLOBE, SO TOO DOES PPD. WE EXPANDED OUR FOOTPRINT IN 2009 AND STRENGTHENED OUR OPERATIONS TO CONTINUE OFFERING OUR CLIENTS THE SERVICES THEY WANT IN THE GEOGRAPHIC LOCATIONS THEY NEED. THE YEAR 2010 FINDS US WELL-POSITIONED IN RELEVANT GLOBAL MARKETS TO MEET THE CHANGING CLINICAL DEVELOPMENT AND DISCOVERY NEEDS OF OUR CUSTOMERS.

Excel, A PPD Company, Beijing, China

CHINA Our recent acquisitions of Excel and BioDuro—combined with our existing, in-country global central laboratory services—make PPD the largest CRO in the Chinese market providing end-to-end discovery and development services. Excel, A PPD Company, is the market leader and one of the largest CROs in China. This acquisition strengthens our full range of drug development services in the country and should enable us to capitalize on the tremendous growth of the outsourcing market in Asia Pacific. Our acquisition of BioDuro, A PPD Company, brings that company's premier reputation for delivering quality discovery services, as well as an exceptional team of researchers and scientists, to PPD.


PPD Line Managers in Russia and Ukraine

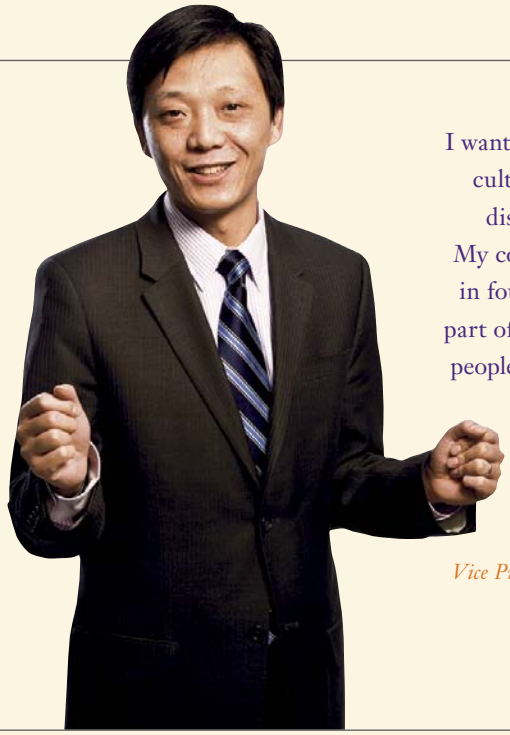
CENTRAL AND EASTERN EUROPE The acquisitions of AbC.R.O. in 2009 and InnoPharm in 2008—two CROs operating in Central and Eastern Europe—strengthened our ability to provide a broad range of clinical development services to our growing client base in the Balkans and surrounding countries. PPD is now one of the largest CROs operating in this high-growth region, having gained more than 500 high-caliber, experienced clinical research professionals with the acquisitions. In early 2010, we opened a new call center in Bulgaria to expand our pharmacovigilance and medical communications services in the region.


Ireland's Prime Minister (left) and PPD's CEO (right) tour PPD's analytical testing facility in Ireland prior to opening.

SINGAPORE AND IRELAND We continue to build laboratories to meet the growing needs of clients in international markets. Our new global central lab facility in Singapore strengthens our ability to provide biopharmaceutical clients an extensive range of customized lab services in Southeast Asia. In early 2010, we expanded our contract research operations in Athlone, Ireland, offering analytical testing services for small and large molecules, including inhaled products for all phases of drug development. We also provide medical communications, safety and clinical supplies services from this location.

“In high-growth emerging regions, pharmaceutical companies increasingly look to a CRO partner that understands drug discovery and development from target identification to new drug approval. PPD offers clients robust global experience, plus a local understanding of clinical research in Asia Pacific, Central and Eastern Europe, and Latin America.”

WILLIAM SHARBAUGH
Chief Operating Officer
PPD



“I want to help create an entrepreneurial and true research culture in China that provides the highest quality of discovery services to the pharmaceutical industry. My colleagues and I are proud of what we have achieved in four years at BioDuro, and I am delighted to now be part of PPD, a company that cherishes a culture based on people, passion and quality. I look forward to helping take our combined companies to the next level.”

TIANJING DENG, PH.D.
Vice President, Emerging Business and Product Development
BioDuro, A PPD Company

Innovative science, advanced technology

Ours is an industry in which success demands innovation. At PPD, extraordinary scientific expertise and sophisticated technology drive innovation and keep us ahead of the curve in ensuring that clients reach the right patients, collect and report the right data, control development costs and move drugs through the regulatory approval process as quickly as possible.

Vaccines and Biologics Laboratory

Pioneering New Approaches

LEVERAGING SCIENTIFIC EXPERTISE AND ADVANCED TECHNOLOGIES, PPD HAS A PROVEN TRACK RECORD OF INTRODUCING EFFECTIVE NEW APPROACHES AND INNOVATIVE SYSTEMS. IN 2009, WE LAID THE GROUNDWORK FOR PIONEERING A NEW NETWORK FOR VACCINES AND BIOLOGICS DEVELOPMENT, ENHANCED OUR ABILITY TO PROCESS AND SHARE DATA WITH CLIENTS AT OPTIMUM SPEED AND EFFICIENCY, AND LAUNCHED A NEW ONLINE APPROACH FOR RECRUITING CLINICAL TRIAL PARTICIPANTS AND INVESTIGATORS.

Vaccines and Biologics Laboratory

VACCINES & BIOLOGICS The PPD Vaccines & Biologics Center of Excellence, which we are launching in the first half of 2010, marries exceptional scientific expertise and broad therapeutic experience with state-of-the-art facilities and instrumentation. Built upon more than 20 years of laboratory experience, the center is a first-in-kind comprehensive network of integrated lab services dedicated specifically to setting the standards of excellence in biologics development. With the industry's largest collection of commercial vaccine assays, PPD has the ability to expedite research and conduct FDA concurrent use testing (also referred to as concomitant use testing) for vaccines.

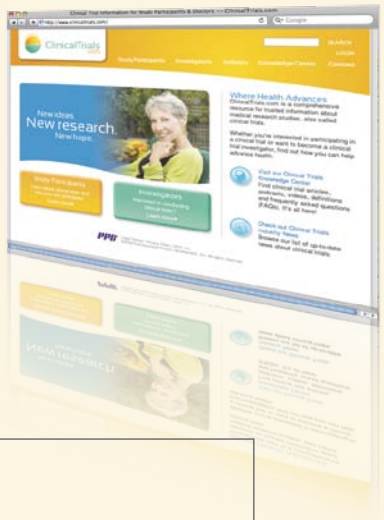
"At the PPD Vaccines & Biologics Center of Excellence, we will use our passion and commitment for fighting disease to partner with physicians and scientists in biotechnology, pharmaceutical and government organizations to bring new, innovative life-saving medicines to those in need."

MARK ESSER, PH.D.
Associate Director, Immunology
Vaccines and Biologics Laboratory
PPD

BIOSTATISTICS TECHNOLOGY INFRASTRUCTURE Our new customized global information technology infrastructure for analyzing and reporting clinical trial data enhances our ability to meet client timelines. This centralized computing platform provides an innovative linkage of our 300 biostatisticians and programmers around the world, giving them simultaneous access to the same data, programs and output. The unified platform reduces bandwidth utilization, increases employee productivity and creates significant time savings. By improving program run times and access to standards, the new virtual environment boosts process speed and enhances our ability to deliver secure, quality reporting and data analysis to clients.

Global biostatistics and programming

CLINICALTRIALS.COM We enhanced our site and patient recruitment capabilities with the launch of a site dedicated to serving as a comprehensive information source for anyone considering becoming a clinical trial participant or investigator. The Internet is increasingly viewed as a first source for medical information, and ClinicalTrials.com provides us a powerful new communications channel to reach potential patients and sites.



"Today, developing innovative, life-changing therapies requires technologies that are equally innovative. My group creates sophisticated technical solutions that enhance PPD's capabilities, increase efficiencies and generate quality data outcomes—all with a goal of helping our clients accelerate the delivery of safe and effective therapeutics to patients."

GEOFF GRIFFITHS
Director, Product Development, Global Technical Operations
PPD

Global Late Stage Research

Quality execution, passionate people

Quality execution is at the core of our approach to superior client service. PPD professionals offer a proven ability to advance a product to market, on time and within budget. Our people bring not only expertise but also passion for doing what's right for our clients, sites and patients.

Delivering Results for Our Clients

DEPLOYING THE RIGHT MIX OF SMART, PASSIONATE PEOPLE ON A VARIETY OF PROJECTS—REGARDLESS OF THE LOCATION—IS AT THE HEART OF PPD'S ABILITY TO DELIVER QUALITY DATA AND RESULTS. WITH EXTENSIVE EXPERTISE SPANNING THE DRUG DEVELOPMENT CONTINUUM, WE EXCEL AT STREAMLINING PROGRAM EXECUTION AND HELPING OUR CLIENTS EXPEDITE THE DELIVERY OF SAFE, EFFECTIVE MEDICINES TO THOSE WHO NEED THEM.

"Across the drug product lifecycle, the safety of patients is PPD's highest priority. Our global medical and safety teams bring therapeutic expertise and guide the development of tools and processes that enable superior medical oversight and support for product development and maintenance."

LISA HORNICK, M.D.
Vice President, Global Pharmacovigilance
PPD

"We are in a unique position to assist our clients in developing and conducting pregnancy registries that are scientifically rigorous and produce meaningful, reproducible results that will ultimately improve patient outcomes."

DEBORAH COVINGTON, DR.P.H.
Global Head, Observational Studies & Pregnancy Registries
PPD

Epidemiology expertise

LATE STAGE RESEARCH With the safety of marketed drugs an increasing concern for our clients and regulatory authorities, we strengthened our late stage expertise in pregnancy registries, epidemiology, risk management, and risk evaluation and mitigation strategies, or REMS. Our expanded centralized site management approach using multiple research coordination centers enables us to provide dedicated multilanguage support for all types of late stage studies and meet growing client demand for these services.

Clinical monitoring

THERAPEUTIC EXPERTISE AND GOVERNMENT/NONTRADITIONAL SERVICES We enhanced our ability to provide therapeutically focused services for complex indications by more closely aligning our operational therapeutic teams with our senior product development physicians. Our alliance with DiabetesAmerica™, a provider of comprehensive diabetes care services, demonstrates our dedication to patient recruitment and expands our ability to recruit for diabetes-related trials. To position ourselves for further growth in the government and nontraditional areas, we expanded our expertise and services for government entities, nonprofit organizations and academic institutions.

Global performance optimization

QUALITY AND PERFORMANCE In 2009, we renewed our commitment to weaving quality and continuous performance improvement seamlessly into everything we do by more closely aligning key disciplines vital to excellent performance. Integrated as a single unit, quality optimization, process improvement, learning and performance, and other key functions support our delivery and execution on behalf of clients.

Scientific and medical expertise

PPD PEOPLE We continued to enhance the depth of our scientific and medical bench strength from discovery through post-approval as we advanced our commitment to recruit and retain top talent. We're proud and honored that our team includes numerous industry experts who are recognized as thought leaders in their disciplines. Unsurpassed scientific and medical expertise and other highly skilled professionals uniquely differentiate PPD and demonstrate our leadership role in the industry.

Operations Across Six Continents

WITH MORE THAN 10,500 PPD PROFESSIONALS AND OPERATIONS IN 45 COUNTRIES, WE LEVERAGE 25 YEARS OF EXPERIENCE AND INDUSTRY BEST PRACTICES TO ASSIST OUR CLIENTS IN SPEEDING THE PROCESS OF DELIVERING NEW MEDICINES TO PATIENTS.

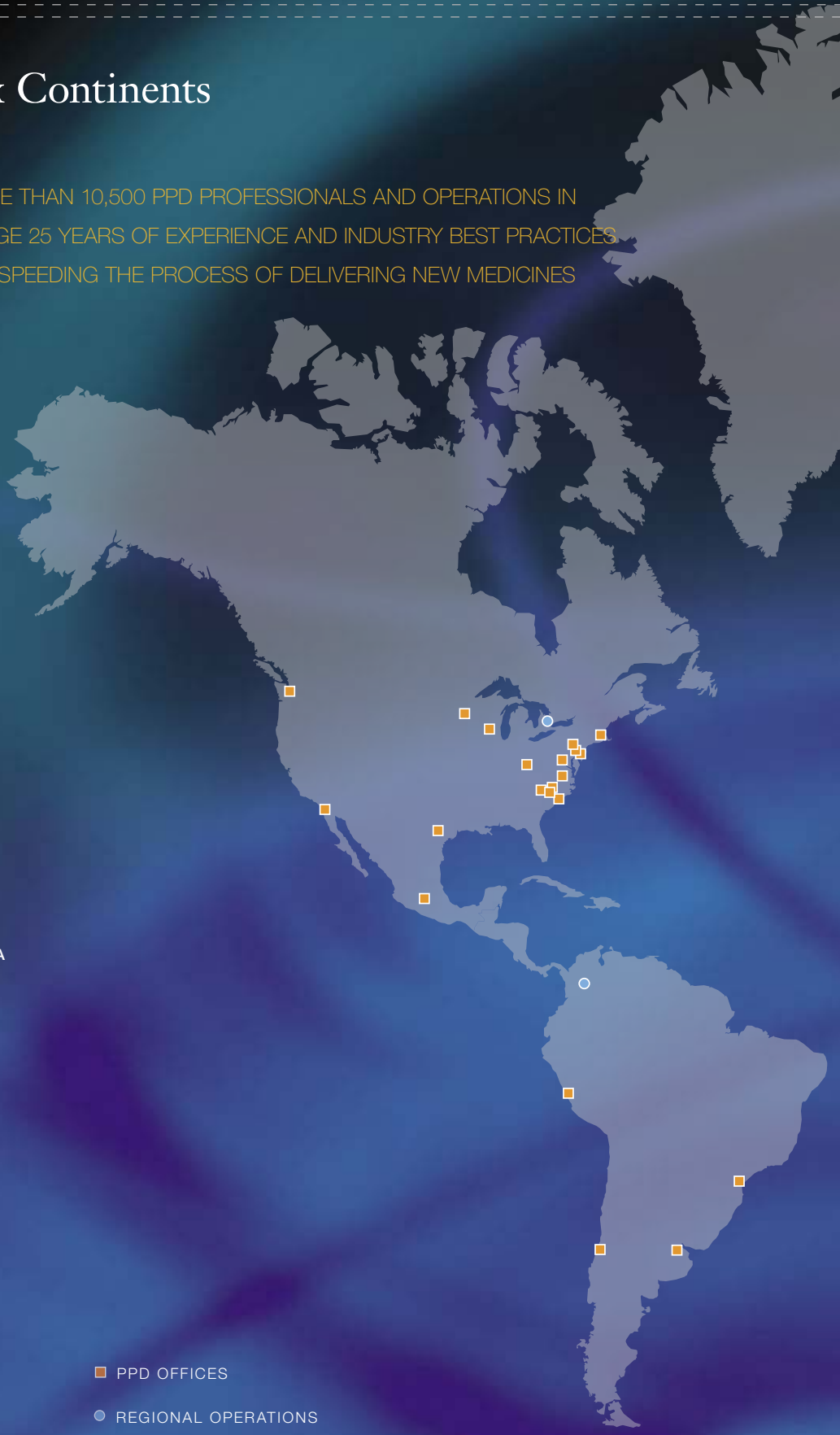
WORLDWIDE HEADQUARTERS
Wilmington, North Carolina

ASIA PACIFIC
Australia
China
India
Japan
Korea
New Zealand
Philippines
Singapore
Taiwan
Thailand

EUROPE, MIDDLE EAST AND AFRICA
Belgium
Bulgaria
Croatia
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Ireland
Israel
Italy
Netherlands
Norway
Poland
Portugal
Romania
Russia
Serbia
Slovakia
South Africa
Spain
Sweden
Turkey
Ukraine
United Kingdom

LATIN AMERICA
Argentina
Brazil
Chile
Colombia
Mexico
Peru

NORTH AMERICA
California
Canada
Kentucky
Maryland
Massachusetts
Minnesota
New Jersey
North Carolina
Pennsylvania
Texas
Virginia
Washington
Wisconsin



Worldwide Headquarters

In 2009, we managed 987 global, regional and country-specific studies for Phase II–IV, including 568 clinical protocols involving more than 323,700 patients at more than 36,200 sites (excluding our work in the government sector, which we track separately).

Celebrating a Quarter Century

PPD MARKS A MAJOR MILESTONE IN 2010 AS WE CELEBRATE 25 YEARS AS ONE OF THE WORLD'S LEADING DRUG DISCOVERY AND DEVELOPMENT ORGANIZATIONS.

"I enjoy my work in clinical research for PPD and the opportunity to contribute in providing innovative products to patients. I work on a team with excellent colleagues and am honored to have played a role in helping establish our company's leading industry position in China."

JUN RUAN
Senior Clinical Manager
PPD—Beijing, China

"Working in clinical research for PPD gives me the exciting opportunity to play a role in developing future drug therapies. It is most rewarding to help our clients develop drugs that may help save or improve the lives of millions."

JENNA ORCHARD
Principal Project Assistant
PPD—Cambridge, U.K.

"For a large majority of its 25 years, PPD has held a contract with the National Institute of Allergy and Infectious Diseases, or NIAID, Division of Acquired Immunodeficiency Syndrome, or DAIDS, within the National Institutes of Health. Our company's commitment to excellence and its presence in emerging markets continue to enable us to deliver quality results that meet the high level of scrutiny the NIH expects for its research."

VICTOR MANNING
Principal Clinical Trial Manager, Government/Nontraditional Services
PPD—Wilmington, N.C.

"From day one, our commitment at PPD has been to deliver exceptional service, consistent quality and innovative ideas that help our clients and partners achieve their research and development goals. We take pride in what we have achieved in our first quarter century and salute our employees who consistently bring expertise, dedication and a passion for doing what's right for our clients, patients and sites."

FRED ESHELMAN
Founder and Executive Chairman
PPD

"I take great pride in being part of the PPD family and serving as one of the leaders in global data management. It has been amazing to see the growth we've experienced in just my six years with the company and even more exciting to know how far we have come in 25 years. I look forward to what the future holds as we work diligently to serve our clients."

STEPHANIE GALLAWAY-YOUNG
Associate Director, Clinical Data Management
PPD—Morrisville, N.C.

"I joined PPD 14 years ago when the company first established operations in Latin America and feel immense satisfaction in having helped grow the business to where it is today as one of the largest CROs in this region. My colleagues and I have worked hard to earn the trust and confidence of clients and continue to strive to conduct better, more efficient trials."

ANA ELISA MILLER
Director, Clinical Management
PPD—São Paulo, Brazil

We are committed to being a good corporate citizen in every region of the globe.

With operations worldwide, we have redoubled our commitment to embrace the responsibilities of corporate citizenship in the cities and countries where we do business. We view corporate social responsibility as an imperative in all aspects of our business and understand that we will be measured on our ability to integrate social, economic and environmental concerns into our operations and our culture.


United States


India


Brazil

As we enter our second quarter century, we are fully dedicated to sound social performance. We practice global diversity, foster health and wellness, and provide a supportive, respectful environment for our employees that offers meaningful, challenging work and the opportunity to acquire valuable skills.

Our communities are important to our success, and we are committed to helping them thrive. We promote employee involvement and volunteerism in the neighborhoods in which they live. Throughout our organization, we recognize the importance of building community and education partnerships and of being a good steward of both our own resources and those within the communities in which we operate.

Financial Section

Selected Financial Data

The following table represents selected historical consolidated financial data. The statements of income data for the years ended December 31, 2007, 2008 and 2009 and balance sheet data at December 31, 2008 and 2009 are derived from our audited consolidated financial statements included elsewhere in this report. The statements of income data for the years ended December 31, 2005 and 2006, and the balance sheet data at December 31, 2005, 2006 and 2007 are derived from audited consolidated financial statements not included in this report. The historical results are not necessarily indicative of the operating results to be expected in the future. The selected financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to the financial statements included elsewhere in this report. Consolidated statements of income data has been reclassified in prior periods to reflect discontinued operations.

Consolidated Statements of Income Data

	Year Ended December 31,				
(in thousands, except per share data)	2005[1][2]	2006	2007	2008[2]	**2009[2]**
Net revenue	$1,021,564	$1,230,346	$1,394,928	$1,551,384	**$1,416,770**
Operating expenses	847,724	1,006,928	1,165,166	1,267,380	**1,209,627**
Restructuring charges[3]	—	—	—	—	**3,892**
Impairment of intangible asset[4]	—	—	—	1,607	**10,361**
Total operating expenses	847,724	1,006,928	1,165,166	1,268,987	**1,223,880**
Operating income	173,840	223,418	229,762	282,397	**192,890**
Impairment of investments, net of recoveries[5]	(5,928)	—	(690)	(17,741)	**(2,076)**
Loss from equity method investment[6]	—	—	—	—	**(1,278)**
Other income, net	9,275	15,730	18,674	14,761	**3,547**
Income from continuing operations before provision for income taxes	177,187	239,148	247,746	279,417	**193,083**
Provision for income taxes	58,924	80,014	84,431	91,469	**52,952**
Income from continuing operations	118,263	159,134	163,315	187,948	**140,131**
Discontinued operations, net of provision for income tax[7]	1,634	(2,482)	86	(429)	**19,164**
Net income	$ 119,897	$ 156,652	$ 163,401	$ 187,519	**$ 159,295**
Income per common share from continuing operations:					
Basic	$ 1.03	$ 1.36	$ 1.38	$ 1.58	**$ 1.19**
Diluted	$ 1.01	$ 1.34	$ 1.36	$ 1.56	**$ 1.18**
Basic and diluted income per common share from discontinued operations:	$ 0.02	$ (0.02)	$ —	$ —	**$ 0.16**
Net income per common share:					
Basic	$ 1.05	$ 1.34	$ 1.38	$ 1.58	**$ 1.35**
Diluted	$ 1.03	$ 1.32	$ 1.36	$ 1.56	**$ 1.34**
Dividends declared per common share	$ 0.525	$ 0.105	$ 0.19	$ 0.43	**$ 0.58**
Weighted-average number of common shares outstanding:					
Basic	114,664	116,780	118,459	118,792	**118,007**
Dilutive effect of stock options	1,770	1,755	1,494	1,305	**762**
Diluted	116,434	118,535	119,953	120,097	**118,769**

Consolidated Balance Sheet Data

	As of December 31,				
(in thousands)	2005	2006	2007	2008	2009
Cash, cash equivalents, short-term and long-term investments	$ 319,820	$ 435,671	$ 502,384	$ 608,437	$ 642,106
Working capital[8]	327,638	412,711	599,980	512,855	541,101
Total assets	1,159,600	1,481,565	1,684,375	1,754,428	2,030,203
Long-term debt and capital lease obligations, including current portion[9]	24,302	75,159	—	—	—
Shareholders' equity	750,676	952,900	1,150,096	1,180,996	1,346,127
Cash dividends declared per common share[10]	60,684	12,305	22,590	50,437	67,953

(1) Effective January 1, 2006, we adopted provisions of a new accounting standard using the modified retrospective application method. In accordance with this method, we have adjusted our financial statements for all periods prior to January 1, 2006 to give effect to the fair-value based method of accounting for all awards granted in fiscal years beginning after December 15, 1994.

(2) We acquired companies in 2005, 2008 and 2009. Results of operations for acquisitions are included in our consolidated results of operations as of and since the effective date of the acquisitions. For further details, see Note 2 in the notes to the consolidated financial statements.

(3) For 2009, restructuring charges related to our reduction of the North America workforce in our Development Segment.

(4) For 2008, impairment of intangible asset related to the remaining unamortized value of our royalty interest in SinuNase. In 2009, impairment of intangible asset related to the in-process research and development acquired with the acquisition of Magen. For further detail, see Note 6 in the notes to consolidated financial statements.

(5) For 2005, 2007, 2008 and 2009 impairment of investments, net of recoveries, includes charges to earnings for other-than-temporary declines in the fair market value of our investments. For further details, see Note 3 in notes to consolidated financial statements.

(6) In 2009, we recorded a $1.3 million loss from equity method investment relating to Celtic Therapeutics Holdings, L.P. For further details, see Note 3 in the notes to the consolidated financial statements.

(7) In 2009, we completed dispositions of Piedmont Research Center, LLC and PPD Biomarker Discovery Sciences, LLC. Results of operations for these dispositions are included in discontinued operations, net of provision for income tax. For further details, see Note 2 in the notes to consolidated financial statements.

(8) Working capital equals current assets minus current liabilities.

(9) For 2005 and 2006, long-term debt includes $17.1 million and $74.8 million, respectively, that we borrowed to finance the construction of our new headquarters building and related parking facility in Wilmington, North Carolina.

(10) The board of directors declared a special one-time cash dividend in the amount of $0.50, as adjusted to give effect to our February 2006 two-for-one stock split, on each outstanding share of common stock in the fourth quarter of 2005. The board of directors also adopted an annual dividend policy in the fourth quarter of 2005 and paid the first quarterly cash dividend in that quarter.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

The following discussion and analysis is provided to increase understanding of, and should be read in conjunction with, our consolidated financial statements and accompanying notes. In this discussion, the words "PPD," "we," "our" and "us" refer to Pharmaceutical Product Development, Inc., together with its subsidiaries where appropriate.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These statements relate to future events or our future financial performance. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, expectations, predictions, assumptions and other statements that are not statements of historical facts. In some cases, you can identify forward-looking statements by terminology such as "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential" or "continue," or the negative of these terms, or other comparable terminology. These statements are only predictions. These statements rely on a number of assumptions and estimates that could be inaccurate and that are subject to risks and uncertainties. Actual events or results might differ materially due to a number of factors, including those listed below in "Potential Volatility of Quarterly Operating Results and Stock Price" and above in "Part I, Item 1A. Risk Factors" in our annual report on Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

EXECUTIVE OVERVIEW

Our revenues are dependent on a relatively small number of industries and clients. As a result, we closely monitor the market for our services. For a discussion of the trends affecting the market for our services, see "Item 1. Business—Trends Affecting the Drug Discovery and Development Industry" in our annual report on Form 10-K. In 2009, we experienced lower demand for our services, high cancellation rates and significant project delays. We believe this was primarily due to general economic conditions and the global financial crisis, increased competition and consolidation of several large pharmaceutical and biotechnology companies, which delayed decisions on research and development spending. Despite these conditions and uncertainties about both the level of and delays in R&D spending by pharmaceutical and biotechnology companies, we continue to believe in the fundamentals of the market and that it will rebound in future periods. For 2010, we plan to focus on sales execution, operational performance and building strategic partnerships with pharmaceutical and biotechnology companies. We also expect to continue to pursue strategic acquisitions that would expand our geographic presence or complement and broaden our service offerings.

Despite the current market for CRO services, we continue to expand our operations. During 2009, we opened our global central laboratory in Singapore, strengthening our ability to provide biopharmaceutical clients an extensive range of customized laboratory services around the world. We continue to make progress on our new laboratory in Ireland, expecting it to be operational in the first half of 2010. In November 2009, we acquired Excel PharmaStudies, Inc., one of the largest CROs in China. Excel is headquartered in Beijing, China and has offices in more than 15 cities throughout China. With this acquisition we strengthened our global footprint, significantly expanded our presence and reach within China and improved our ability to offer Phase II-IV clinical, data management, biostatistics, regulatory and quality assurance services. Shortly after acquiring Excel, we completed our acquisition of BioDuro LLC, a drug discovery services company that provides a broad range of integrated drug discovery services to biopharmaceutical companies. BioDuro operates a state-of-the-art, 110,000 square foot facility in Beijing, China and provides fully integrated programs to synthesize and optimize novel compounds to generate drug development candidates. The addition of BioDuro further expands our global footprint. Also, in 2009, we entered into an agreement to invest up to $102.7 million in Celtic Therapeutics Holdings L.P., an investment partnership organized for the purpose of identifying, acquiring and investing in a diversified portfolio of 10 to 15 novel therapeutic product candidates. We hope to provide CRO services to Celtic for these product candidates.

We review various metrics to evaluate our financial performance, including period-to-period changes in backlog, new authorizations, cancellation rates, revenue, margins and earnings. In 2009, we had new authorizations of $1.9 billion, a decrease of 28.9% over 2008. The cancellation rate for 2009 was 7.0% of backlog compared to 5.7% for 2008. In 2009, cancellations were significantly higher than our historical cancellation rate. We cannot accurately predict cancellations and expect them to fluctuate from period to period. Continued high cancellation rates will adversely affect our financial condition. As of December 31, 2009, backlog was $3.0 billion, down 6.4% over December 31, 2008. The average length of our contracts was 35 months as of December 31, 2009, up slightly from 34 months as of December 31, 2008.

Backlog by client type as of December 31, 2009 was 68.8% pharmaceutical, 25.8% biotech and 5.4% government/other, as compared to 60.0% pharmaceutical, 30.6% biotech and 9.4% government/other as of December 31, 2008. The change in the composition of our backlog from 2008 to 2009 was primarily the result of an increase in authorizations from pharmaceutical companies in 2009 and lower levels of authorizations from biotechnology companies, in part, we believe, because of the difficult funding environment in 2009. Net revenue by client type for the year ended December 31, 2009 was 66.3% pharmaceutical, 25.8% biotech and 7.9% government/other, compared to 56.5% pharmaceutical, 30.7% biotech and 12.8% government/other as of December 31, 2008.

For 2009, net revenue contribution by service area was 78.6% for Phase II-IV services, 18.0% for laboratory services, 2.9% for Phase I clinic and 0.5% for Discovery Sciences, compared to net revenue contribution for the year ended December 31, 2008 of 79.3% for Phase II-IV services, 14.5% for laboratory services, 3.6% for Phase I clinic and 2.6% for Discovery Sciences. Our top therapeutic areas by net revenue for the year ended December 31, 2009 were oncology, circulatory/cardiovascular, infectious disease, endocrine/metabolic and central nervous system. For a detailed discussion of our revenue, margins, earnings and other financial results for the year ended December 31, 2009, see "Results of Operations—Year Ended December 31, 2008 versus Year Ended December 31, 2009" below.

In July 2009, we reduced our Development segment workforce in North America by approximately 270 employees due to the lower demand for our services. In the third quarter of 2009, we accrued and paid restructuring costs associated with this reduction in our workforce of $3.9 million.

Capital expenditures for the year ended December 31, 2009 totaled $54.7 million. These capital expenditures were primarily for internally developed software, construction in progress for our new buildings in Ireland and Cambridge, computer hardware and software and scientific equipment for our laboratory units. We made these investments to support our businesses and to improve the efficiencies of our operations. For 2010, we expect to spend between $75 million and $85 million for capital expenditures, primarily for facility expansions and improvements, as well as investments in information technology and new laboratory equipment.

As of December 31, 2009, we had $642.1 million of cash, cash equivalents and short- and long-term investments. In 2009, we generated $253.0 million in cash from operations. The number of days' revenue outstanding in accounts receivable and unbilled services, net of unearned income, also known as DSO, was 31 and 42 days as of December 31, 2009 and 2008, respectively. DSO decreased in 2009 due to improved cash collections, the mix of contracts performed, and their payment terms. We plan to continue to monitor DSO and the various factors that affect it. However, we expect DSO will continue to fluctuate in the future depending on contract terms, the mix of contracts performed and our success in collecting receivables.

In May 2009, we completed the disposition of substantially all of the assets of our wholly owned subsidiary, Piedmont Research Center, LLC for total consideration of $46.0 million. Piedmont Research Center provided preclinical research and evaluation of anticancer agents and therapies. In December 2009, we completed the disposition of our wholly owned subsidiary, PPD Biomarker Discovery Sciences, LLC, for total consideration of $0.1 million and the right to receive a percentage of future revenues received by the purchaser from specified contracts. PPD Biomarker Discovery Sciences provided biomarker discovery services and patient sample analysis. Due to the unique service offerings of these subsidiaries, we felt these business units were not a long-term strategic fit and elected to sell them.

In May 2009, we announced our board of directors increased the annual dividend rate from $0.50 to $0.60 per share, payable quarterly at a rate of $0.15 per share. The new dividend rate was effective beginning in the second quarter 2009.

With regard to our compound partnering business, Johnson & Johnson received approval to market dapoxetine under the name Priligy in Austria, Finland, Germany, Italy, Mexico, New Zealand, Portugal, South Korea, Spain and Sweden. In the first quarter of 2009, we received a $2.5 million milestone payment on each of the first two national approvals, for a total of $5.0 million. We are entitled to royalties on net sales of Priligy and sales-based milestones if requisite sales levels are reached. We recorded the first royalties from sales of Priligy in 2009.

Takeda submitted the new drug application, or NDA, for alogliptin to the Food and Drug Administration, or FDA, in December 2007 and the NDA for a fixed dose combination of alogliptin and ACTOS™ in September 2008. They also submitted an NDA for alogliptin in Japan in September 2008. In June 2009, the FDA issued a complete response to Takeda on its alogliptin NDA, requesting Takeda conduct an additional cardiovascular safety trial that satisfies the FDA's December 2008 guidance on anti-diabetes therapies. In September 2009, the FDA issued a complete response to Takeda on its NDA for the fixed dose combination of alogliptin and ACTOS stating that further review would be dependent on the cardiovascular safety data that would be submitted in support of the alogliptin monotherapy NDA. Takeda is awaiting issuance of EMEA guidance with respect to cardiovascular safety requirements for its Type 2 diabetes drug. If the EMEA guidance is less stringent than that of the FDA, Takeda might file a marketing authorization application in that region. If additional filings and approvals occur for alogliptin, we will receive additional regulatory milestones, royalties on sales and sales-based milestones if specified sales levels are achieved.

With regard to our collaboration on the statin compound, PPD10558, as previously announced, we have completed a high dose comparator study in healthy volunteers. The drug was well-tolerated and the results suggest that it compares favorably to currently marketed statins. We continue to evaluate the future development of this compound.

In April 2009, we acquired Magen BioSciences, Inc., a biotechnology company founded in 2006 to discover dermatologic therapies. Since the acquisition, Magen was renamed PPD Dermatology. As a result of this acquisition, we expanded our compound partnering business into dermatology and gained screening and research capabilities for dermatologic compounds. We have an exclusive license to develop and commercialize Vitamin D receptor modulator compounds for use in topical dermatological indications. We also have an option agreement with Lilly to screen compounds from six additional platforms for utility in dermatology and are investigating compounds from other potential collaborators under material transfer agreements. We filed an IND for the MAG-131 compound in October 2009, but subsequently suspended the program due to efficacy data that was discovered in late 2009. We are currently screening additional Vitamin D receptor modulators from Lilly and compounds that regulate other targets to identify additional drug development candidates for other dermatological indications.

In November 2009, we entered into agreements with Janssen Pharmaceutica N.V. to develop and commercialize two Phase II-ready therapeutic compounds. We plan to study the mu/delta compound as a treatment for diarrhea-predominant irritable bowel syndrome, or IBSd, and the fluoroquinolone compound as a treatment for community-acquired bacterial pneumonia and complicated skin and skin structure infections caused by gram negative or gram positive bacteria, including MRSA. Under the two agreements, we in-licensed the two compounds and will advance the compounds through Phase II development. The compounds related to Janssen Pharmaceutica are still under development and have not generated any regulatory milestone payments yet. As a result of the risks associated with drug development and commercialization, including poor or unexpected clinical trial results, obtaining regulatory approval to sell in any country and changing regulatory requirements, we might not receive any further milestone payments, royalties or other payments with respect to any of its drug development collaborations. At the completion of Phase II, Janssen Pharmaceutica will have the option to continue development and commercialization of each compound.

In October 2009, our board of directors authorized management to proceed with preparations to spin-off our compound partnering business from its core contract research organization business. If completed, the spin-off will result in two independent public companies. The compound partnering company resulting from the spin-off is expected to have the following compounds, rights and investments: Priligy; alogliptin; our statin compound licensed from Ranbaxy; our dermatology business acquired from Magen; our two Phase II-ready therapeutic compounds in-licensed from Janssen Pharmaceutica; and rights to all potential new compounds acquired by us prior to the spin-off. We currently expect to accomplish the spin-off through a tax-free, pro rata dividend distribution of stock to our shareholders. Completion of the proposed spin-off is subject to numerous conditions, including the final approval of our board of directors, receipt of a private letter ruling or independent opinion that the spin-off will be tax-free to the Company and its shareholders, and the filing and effectiveness of a Form 10 with the SEC.

NEW BUSINESS AUTHORIZATIONS AND BACKLOG

We add new business authorizations, which are sales of our services, to backlog when we enter into a contract or letter of intent or receive a verbal commitment. Authorizations can vary significantly from quarter to quarter and contracts generally have terms ranging from several months to several years. We recognize revenue on these authorizations as services are performed. Our new authorizations for the years ended December 31, 2007, 2008 and 2009 were $2.2 billion, $2.7 billion and $1.9 billion, respectively.

Our backlog consists of anticipated net revenue from contracts, letters of intent and verbal commitments that either have not started but are anticipated to begin in the future, or are in process and have not been completed. As of December 31, 2009, the remaining duration of the contracts in our backlog ranged from one to 87 months, with a weighted-average duration of 35 months. We expect the weighted-average duration of the contracts in our backlog to fluctuate from year to year in the future, based on the contracts constituting our backlog at any given time. Amounts included in backlog represent anticipated future net revenue, exclude net revenue that has been recognized previously in our statements of income and have been adjusted for foreign currency fluctuations. Our backlog as of December 31, 2007, 2008 and 2009 was $2.6 billion, $3.2 billion and $3.0 billion, respectively. For various reasons discussed in "Item 1. Business—Backlog" in our annual report on Form 10-K, our backlog might never be fully recognized as net revenue and is not necessarily a meaningful predictor of future performance.

RESULTS OF OPERATIONS

Revenue Recognition

We record revenue from contracts, other than time-and-material contracts, on a proportional performance basis in our Development and Discovery Sciences segments. To measure performance on a given date, we compare direct costs through that date to estimated total direct costs to complete the contract. Direct costs relate primarily to the amount of labor and related overhead costs for the delivery of services. We believe this is the best indicator of the performance of the contractual obligations. Changes in the estimated total direct costs to complete a contract without a corresponding proportional change to the contract value result in a cumulative adjustment to the amount of revenue recognized in the period the change in estimate is determined. For time-and-material contracts in both our Development and Discovery Sciences segments, we recognize revenue as hours are worked, multiplied by the applicable hourly rate. For our Phase I and laboratory businesses, we recognize revenue from unitized contracts as subjects or samples are tested, multiplied by the applicable unit price. We offer volume discounts to our large customers based on annual volume thresholds. We record an estimate of the annual volume rebate as a reduction of revenue throughout the period based on the estimated total rebate to be earned for the period.

In connection with the management of clinical trials, we pay, on behalf of our clients, fees to investigators and test subjects as well as other out-of-pocket costs for items such as travel, printing, meetings and couriers. Our clients reimburse us for these costs. Amounts paid by us as a principal for out-of-pocket costs are included in direct costs as reimbursable

out-of-pocket expenses, and the reimbursements we receive as a principal are reported as reimbursed out-of-pocket revenue. In our statements of income, we combine amounts paid by us as an agent for out-of-pocket costs with the corresponding reimbursements, or revenue, we receive as an agent. During the years ended December 31, 2007, 2008 and 2009, fees paid to investigators and other fees we paid as an agent and the associated reimbursements were approximately $356.8 million, $319.0 million and $330.4 million, respectively.

Most of our contracts can be terminated by our clients either immediately or after a specified period following notice. These contracts typically require the client to pay us the fees earned to date, the fees and expenses to wind down the study and, in some cases, a termination fee or some portion of the fees or profit that we could have earned under the contract if it had not been terminated early. Therefore, revenue recognized prior to cancellation generally does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

The Discovery Sciences segment generates revenue in the form of upfront payments, development and regulatory milestone payments, royalties and sales-based milestone payments in connection with the out-licensing of compounds. All future milestones and royalties will depend on the future success of our collaborators in developing and commercializing the compound. Upfront payments are generally paid within a short period of time following the execution of an out-license and collaboration agreement. Milestone payments are typically one-time payments to us triggered by the collaborator's achievement of specified development and regulatory submission or approval. Royalties are payments received by us based on net product sales of a collaboration. Sales-based milestone payments are typically one-time payments to us triggered when the aggregate net sales of product by a collaborator for a specified period (for example, an annual period) reach an agreed upon threshold amount. We recognize these payments from our collaborators when the event which triggers the obligation of payment has occurred, there are no further obligations on our part in connection with the payment, and collection is reasonably assured.

Recording of Expenses

We generally record our operating expenses among the following categories:

- direct costs;
- research and development;
- selling, general and administrative; and
- depreciation and amortization.

Direct costs consist of amounts necessary to carry out the revenue and earnings process, and include direct labor and related benefit charges, other costs directly related to contracts, an allocation of facility and information technology costs, and reimbursable out-of-pocket expenses. Direct costs, as a percentage of net revenue, tend to and are expected to fluctuate from one period to another as a result of changes in labor utilization and the mix of service offerings involved in the hundreds of studies being conducted during any period of time.

Research and development, or R&D, expenses consist primarily of patent expenses, labor and related benefit charges associated with personnel performing internal research and development work, supplies associated with this work, consulting services and an allocation of facility and information technology costs.

Selling, general and administrative, or SG&A, expenses consist primarily of administrative payroll and related benefit charges, sales, advertising and promotional expenses, recruiting and relocation expenses, training costs, administrative travel, an allocation of facility and information technology costs and costs related to operational employees performing administrative tasks.

We record property and equipment at cost less accumulated depreciation. We record depreciation expense using the straight-line method, based on the following estimated useful lives:

Buildings	20–40 years
Furniture and equipment	5–10 years
Computer equipment and software	2–5 years
Aircraft	30 years

We depreciate leasehold improvements over the shorter of the respective lives of the leases or the useful lives of the improvements. We depreciate property under capital leases over the term of the lease or the service life, whichever is shorter.

YEAR ENDED DECEMBER 31, 2008 VERSUS YEAR ENDED DECEMBER 31, 2009

The following table sets forth amounts from our consolidated financial statements along with the dollar and percentage change for the full year of 2008 compared to the full year of 2009.

	Year Ended December 31,			
(in thousands, except per share data)	2008	2009	$ Inc (Dec)	% Inc (Dec)
Net revenue:				
Development	$1,415,829	$1,309,454	$(106,375)	(7.5)%
Discovery Sciences	18,423	6,313	(12,110)	(65.7)
Reimbursed out-of-pockets	117,132	101,003	(16,129)	(13.8)
Total net revenue	1,551,384	1,416,770	(134,614)	(8.7)
Direct costs:				
Development	689,424	630,122	(59,302)	(8.6)
Discovery Sciences	614	630	16	2.6
Reimbursable out-of-pocket expenses	117,132	101,003	(16,129)	(13.8)
Total direct costs	807,170	731,755	(75,415)	(9.3)
Research and development expenses	7,621	23,630	16,009	210.1
Selling, general and administrative expenses	393,439	390,229	(3,210)	(0.8)
Depreciation and amortization	59,150	64,013	4,863	8.2
Restructuring costs	—	3,892	3,892	100.0
Impairment of intangible asset	1,607	10,361	8,754	544.7
Operating income	282,397	192,890	(89,507)	(31.7)
Impairment of investments, net	(17,741)	(2,076)	15,665	88.3
Loss from equity method investment	—	(1,278)	(1,278)	(100.0)
Interest and other income, net	14,761	3,547	(11,214)	(76.0)
Income from continuing operations before provision for income taxes	279,417	193,083	(86,334)	(30.9)
Provision for income taxes	91,469	52,952	(38,517)	(42.1)
Income from continuing operations	187,948	140,131	(47,817)	(25.4)
Discontinued operations, net of provision for income taxes	(429)	19,164	19,593	4567.1
Net income	$ 187,519	$ 159,295	$ (28,224)	(15.1)
Income per diluted share from continuing operations	$ 1.56	$ 1.18	$ (0.38)	(24.4)
Income per diluted share from discontinued operations	$ —	$ 0.16	$ 0.16	100.0
Net income per diluted share	$ 1.56	$ 1.34	$ (0.22)	(14.1)

Total net revenue decreased $134.6 million to $1.4 billion in 2009. The decrease in total net revenue resulted primarily from a decrease in our Development segment revenue. The Development segment generated net revenue of $1.3 billion, which accounted for 92.4% of total net revenue for 2009. The $106.4 million decrease in Development net revenue was primarily attributable to a $105.9 million decrease in net revenue from our Phase II-IV services, of which $15.0 million of the decrease was due to the strengthening of the U.S. dollar relative to foreign currency. Overall net revenue from Phase II-IV services decreased from 2008 mainly due to a 43.0% decrease in net authorizations. Our Phase I clinic also had a $14.5 million decrease in net revenue in 2009 as compared to 2008, which was offset by a $25.2 million increase in net revenue from our laboratory units primarily due to revenue generated from the laboratories we acquired in late 2008 and late 2009.

The Discovery Sciences segment generated net revenue of $6.3 million in 2009, a decrease of $12.1 million from 2008. The higher 2008 Discovery Sciences net revenue was mainly attributable to the $15.0 million milestone payment we earned in 2008 as a result of the FDA's acceptance of the alogliptin NDA and a $3.0 million milestone payment we earned in 2008 as a result of Takeda's submission of the alogliptin NDA in Japan, while in 2009 we received $5.0 million in milestone payments as a result of regulatory approvals of Priligy.

Total direct costs decreased $75.4 million to $731.8 million in 2009 primarily as the result of a decrease in the Development segment direct costs. Development segment direct costs decreased $59.3 million to $630.1 million in 2009 due to the decrease in net revenue mentioned above. This decrease was mainly attributable to a decrease in personnel costs of $39.9 million and a decrease in contract labor and subcontractor costs of $17.4 million. Also contributing to the reduction in Development segment direct costs was a decrease of $2.9 million related to losses on our foreign currency hedging position. Of the $59.3 million decrease in Development segment direct costs, $19.8 million was due to the strengthening of the U.S. dollar relative to foreign currency and $9.1 million of the decrease was attributable to a research credit recognized in 2009 associated with a foreign research incentive program. Of that $9.1 million, $4.9 million was related to qualifying foreign research credits on expenses incurred during 2008.

R&D expenses increased $16.0 million to $23.6 million in 2009. The increase in R&D expense was primarily due to development costs associated with our dermatology program acquired in April 2009 and the two therapeutic compounds acquired from Janssen Pharmaceutica in November 2009. We plan to continue evaluating other compound partnering opportunities, which could result in additional R&D expenses and earnings dilution in future periods until we complete the proposed spin-off of the compound partnering business.

SG&A expenses decreased $3.2 million to $390.2 million in 2009. The decrease in SG&A expenses was primarily related to a $5.6 million decrease in recruitment and relocation costs, a $2.9 million decrease in non-billable travel costs and a $1.4 million decrease in bad debt expense, partially offset by a $6.0 million increase in investment banking, legal and accounting expenses, primarily related to our acquisitions and proposed spin-off.

Depreciation and amortization expense increased $4.9 million to $64.0 million in 2009. The increase was related to property and equipment we acquired to accommodate future growth.

Restructuring costs were $3.9 million in 2009. In July 2009, we reduced our Development segment workforce in North America by approximately 270 employees.

Impairment of intangible asset increased $8.8 million to $10.4 million in 2009. During 2009, we acquired in-process research and development of $10.4 million through the acquisition of Magen, which was related to the MAG-131 compound. At the time of acquisition, this program was in the pre-IND phase of research. We estimated that it would take approximately four to five years to complete research and development. We filed an IND for MAG-131 in October 2009 but subsequently suspended the program for that compound due to efficacy data that was discovered in late 2009. As a result, we evaluated the asset for impairment. We reassessed the fair value of the program using a discounted cash flow model based on Level 3 inputs such as the estimated remaining costs to develop the acquired technology into commercially viable products, estimated net cash flows from the program, and a discount rate commensurate with the stage of development of the program. Based on this analysis, we determined that the acquired in-process research and development asset was impaired and recorded a charge of $10.4 million as of December 31, 2009. In 2008, Accentia announced its Phase III clinical trial in SinuNase failed to meet its goal in treating chronic sinusitis participants, discontinued the sales of antifungal products on which we received royalties and declared bankruptcy. As a result, we wrote off the $1.6 million of remaining unamortized value of our royalty interest in the antifungal products of Accentia.

Impairment of investments, net decreased $15.7 million to $2.1 million in 2009. Impairment of investments, net in 2009 consisted of impairments of various investments in our short-term investment portfolio of $2.1 million. Impairment of investments, net in 2008 consisted of a net impairment of an investment in our short-term investment portfolio of $3.7 million and a $14.0 million write-down for an other-than-temporary decline in the fair market value of our marketable investment in Accentia. The write-down on Accentia was based on a decrease in the publicly quoted market price of Accentia's common stock and Accentia's bankruptcy filing in November 2008.

Interest and other income, net decreased $11.2 million to $3.5 million in 2009. This decrease was due primarily to an $11.5 decrease in interest income as a result of lower interest rates earned on cash balances. Changes in exchange rates from the time we recognize revenue until the client pays also resulted in a net loss on foreign currency transactions of $3.0 million for 2009, down from a net loss of $3.8 million in 2008.

Our provision for income taxes from continuing operations decreased $38.5 million to $53.0 million in 2009. Our effective income tax rate for 2008 was 32.7% compared to 27.4% for 2009. The effective tax rate for 2009 was positively impacted by a shift in the geographical mix of our pre-tax earnings to the European and Asian tax jurisdictions, the receipt of nontaxable foreign research credits and the reduction in liabilities for uncertain tax position in 2009.

Results of operations from discontinued operations, net of provision for income taxes was $19.2 million in 2009. In May 2009, we completed the disposition of substantially all of the assets of Piedmont Research Center. Piedmont Research Center provided preclinical research and evaluation of anticancer agents and therapies. In December 2009, we completed the disposition of our wholly owned subsidiary, PPD Biomarker Discovery Sciences, LLC. PPD Biomarker Discovery Sciences provided biomarker discovery services and participant sample analysis. As a result, these business units have been shown as discontinued operations for 2008 and 2009. We recognized a net gain from the sale of business of $21.5 million, net of provision for income taxes of $5.2 million in 2009 related to these dispositions.

Net income of $159.3 million in 2009 represents a decrease of 15.1% from $187.5 million in 2008. Net income per diluted share of $1.34 in 2009 represents a 14.1% decrease from $1.56 net income per diluted share in 2008. Net income per diluted share for 2009 included $5.0 million in milestone payments in connection with the regulatory approvals of Priligy and the $21.5 million gain, net of tax, from the sale of Piedmont Research Center and PPD Biomarker Discovery Sciences. Net income per diluted share in 2008 included $18.0 million in milestones from Takeda under our DPP-4 collaboration agreement, a $1.6 million impairment of an intangible asset and a $17.7 million impairment of investments, net of recoveries.

YEAR ENDED DECEMBER 31, 2007 VERSUS YEAR ENDED DECEMBER 31, 2008

The following table sets forth amounts from our consolidated financial statements along with the dollar and percentage change for the full year of 2007 compared to the full year of 2008. The information below has been reclassified to reflect discontinued operations.

	Year Ended December 31,			
(in thousands, except per share data)	2007	2008	$ Inc (Dec)	% Inc (Dec)
Net revenue:				
Development	$1,275,399	$1,415,829	$140,430	11.0%
Discovery Sciences	442	18,423	17,981	4068.1
Reimbursed out-of-pockets	119,087	117,132	(1,955)	(1.6)
Total net revenue	1,394,928	1,551,384	156,456	11.2
Direct costs:				
Development	641,902	689,424	47,522	7.4
Discovery Sciences	501	614	113	22.6
Reimbursable out-of-pocket expenses	119,087	117,132	(1,955)	(1.6)
Total direct costs	761,490	807,170	45,680	6.0
Research and development expenses	17,113	7,621	(9,492)	(55.5)
Selling, general and administrative expenses	332,640	393,439	60,799	18.3
Depreciation and amortization	53,923	59,150	5,227	9.7
Impairment of intangible asset	—	1,607	1,607	100.0
Operating income	229,762	282,397	52,635	22.9
Impairment of investments, net of recoveries	(690)	(17,741)	(17,051)	2471.2
Interest and other income, net	18,674	14,761	(3,913)	(21.0)
Income from continuing operations before provision for income taxes	247,746	279,417	31,671	12.8
Provision for income taxes	84,431	91,469	7,038	8.3
Income from continuing operations	163,315	187,948	24,633	15.1
Discontinued operations, net of provision for income taxes	86	(429)	(515)	(598.8)
Net income	$ 163,401	$ 187,519	$ 24,118	14.8
Income per diluted share from continuing operations	$ 1.36	$ 1.56	$ 0.20	14.7
Income per diluted share from discontinued operations	$ —	$ —	$ —	—
Net income per diluted share	$ 1.36	$ 1.56	$ 0.20	14.7

Total net revenue increased $156.5 million to $1.6 billion in 2008. The increase in total net revenue resulted primarily from an increase in our Development segment revenue. The Development segment generated net revenue of $1.4 billion, which accounted for 91.3% of total net revenue for 2008. The 11.0% increase in Development net revenue was primarily attributable to an increase of $103.8 million in the level of Phase II-IV services we provided in 2008 as compared to 2007. Net revenue from our laboratory units increased $28.0 million in 2008 compared to 2007 and contributed to the overall increase in net revenue in the Development segment.

The Discovery Sciences segment generated net revenue of $18.4 million in 2008, an increase of $18.0 million from 2007. The higher 2008 Discovery Sciences net revenue was mainly attributable to the $15.0 million we earned in the first quarter of 2008 as a result of the FDA's acceptance of the alogliptin NDA and a $3.0 million milestone payment we earned from Takeda's submission of the alogliptin NDA in Japan.

Total direct costs increased $45.7 million to $807.2 million in 2008 primarily as the result of an increase in the Development segment direct costs. Development segment direct costs increased $47.5 million to $689.4 million in 2008. The primary reason for this was an increase in personnel costs of $34.4 million due to an average of approximately 400 new employees during 2008 in our global Phase II-IV division. The remaining increase in Development segment direct costs was primarily due to increased facility costs of $11.6 million as a result of our headcount growth and an increase of $8.2 million related to losses on our hedging positions, partially offset by a decrease in consulting, temporary labor and contract labor of $9.5 million.

R&D expenses decreased $9.5 million to $7.6 million in 2008. The decrease in R&D expense was primarily due to a decrease in development costs associated with the statin compound we licensed from Ranbaxy and are developing as a potential treatment for dyslipidemia. We continue to conduct limited development activities with respect to the statin compound. We plan to continue evaluating other compound partnering strategies and opportunities, which could result in additional R&D expenses in future periods.

SG&A expenses increased $60.8 million to $393.4 million in 2008. As a percentage of total net revenue, SG&A expenses increased to 25.4% in 2008 as compared to 23.8% in 2007. The increase in SG&A expenses in absolute terms was primarily related to additional personnel costs of $51.1 million, higher bad debt costs of $7.3 million and increased facility and information technology costs of $3.2 million, partially offset by a $4.3 million decrease in recruitment and relocation costs. A majority of our bad debt for 2008 related to Accentia Biopharmaceuticals, Inc., which filed for bankruptcy protection in November 2008.

Depreciation and amortization expense increased $5.2 million to $59.2 million in 2008. The increase was related to property and equipment we acquired to accommodate our growth. Capital expenditures were $66.9 million in 2008. Our capital expenditures included $26.4 million for computer software and hardware, $19.5 million for our new building in Scotland and various other leasehold improvements and $14.5 million for additional scientific equipment for our laboratory units.

In 2008, Accentia announced its Phase III clinical trial in SinuNase failed to meet its goal in treating chronic sinusitis participants, discontinued the sales of antifungal products on which we received royalties and declared bankruptcy. As a result, we wrote off the $1.6 million of remaining unamortized value of our royalty interest in the antifungal products of Accentia.

Impairment of investments, net of recoveries, of $17.7 million in 2008 consisted of a net impairment of an investment in our short-term investment portfolio of $3.7 million and a $14.0 million write-down for an other-than-temporary decline in the fair market value of our marketable investment in Accentia. The write-down on Accentia was based on a decrease in the publicly quoted market price of Accentia's common stock and Accentia's bankruptcy filing in November 2008. As of December 31, 2008, we had completely written off our investment in Accentia. The net impairment of investments consisted of an impairment on a AAA-rated tax-advantaged investment fund of $3.7 million, net of a reimbursement of $3.6 million by the investment fund manager.

Interest and other income, net decreased $3.9 million to $14.8 million in 2008. This decrease was due primarily to a decrease in interest income of $1.7 million as a result of lower interest rates paid on investments and a net foreign currency transaction loss of $3.6 million, partially offset by an increase on the gain on the sale of investments of $1.0 million as well as the sale of our institutional review board unit for $1.0 million.

Our provision for income taxes increased $7.0 million to $91.5 million in 2008. Our effective income tax rate for 2007 was 34.1% compared to 32.7% for 2008. The effective tax rate for 2008 was positively impacted by 0.7% due to a tax benefit realized from the disposal of assets during the first quarter of 2008 as well as a decrease in unrecognized tax benefits. The effective tax rate for 2007 was positively impacted by the settlement of tax audits and closing of statutory limitations. The remaining difference in our effective tax rates for 2008 compared to 2007 was due to the change in geographic distribution of our pretax earnings among locations with varying tax rates.

Net income of $187.5 million in 2008 represents an increase of 14.8% from $163.4 million in 2007. Net income per diluted share of $1.56 in 2008 represents a 14.7% increase from $1.36 net income per diluted share in 2007. Net income per diluted share for 2008 included $18.0 million in milestone payments from Takeda under our DPP-4 collaboration agreement, a $1.6 million impairment of an intangible asset and a $17.7 million impairment of investments, net of recoveries, all discussed above.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, we had $408.9 million of cash and cash equivalents and $144.6 million of short-term investments. We invest our cash and cash equivalents and short-term investments in financial instruments that are issued or guaranteed by the U.S. government and municipal debt obligations. Our expected primary cash needs are for capital expenditures, expansion of services, possible acquisitions, investments, geographic expansion, dividends, working capital and other general corporate purposes. We have historically funded our operations, dividends and growth, including acquisitions, primarily with cash flow from operations.

We held $89.6 million and $88.6 million, net of unrealized loss, in auction rate securities at December 31, 2008 and 2009, respectively. Our portfolio of investments in auction rate securities consists of interests in government-guaranteed student loans, insured municipal debt obligations and municipal preferred auction rate securities. Even though we liquidated $10.2 million of our auction rate securities portfolio at par value in 2009, we classified our entire balance of auction rate securities as long-term assets at December 31, 2009 due to uncertainties about the liquidity in the auction rate securities market. We also recorded an unrealized loss on these investments of $30.5 million and $21.3 million as of December 31, 2008 and 2009, respectively. We recorded this unrealized loss based on a Level 3 valuation, including assumptions about appropriate maturity periods of the instruments by utilizing a five to seven year workout period based on industry expectations, market interest rates for comparable securities and the underlying credit-worthiness of the issuers. We concluded that this was a temporary impairment because of our ability to hold the auction rate securities until the fair value recovers. We will continue to seek to liquidate these investments at par value and will review the classification and valuation of these securities quarterly.

In 2009, our operating activities provided $253.0 million in cash as compared to $380.5 million for the same period last year. The change in cash flow was due primarily to (1) a $35.0 million decrease in noncash items relating to investing or financing activities, including a gain on sale of business of $21.5 million, impairment of investments of $15.7 million, a decrease in the provision for doubtful accounts of $6.1 million, a decrease in stock compensation expense of $5.4 million, offset by an increase in depreciation and amortization of $4.7 million and an increase in impairment of intangibles of $8.8 million and (2) deferrals of past operating cash receipts and payments totaling $64.3 million. The change in adjustments for accruals of expected future operating cash receipts and payments includes accounts payable, other accrued expenses and deferred rent of $14.0 million and payables to investigators of $25.3 million. The change in adjustments for deferrals of past operating cash receipts and payments includes accrued and deferred income taxes of ($25.6) million, accounts receivable and unbilled services of ($51.2) million, prepaid expenses and investigator advances of ($4.1) million and unearned income of ($21.7) million. Fluctuations in receivables and unearned income occur on a regular basis as we perform services, achieve milestones or other billing criteria, send invoices to clients and collect outstanding accounts receivable. This activity varies by individual client and contract. We attempt to negotiate payment terms that provide for payment of services prior to or soon after the provision of services, but the levels of unbilled services and unearned revenue can vary significantly from period to period.

In 2009, our investing activities used $299.2 million in cash. We used cash of $185.1 million to purchase investments, $54.7 million for capital expenditures, $119.9 million for acquisitions and $22.0 million for escrow deposits. These amounts were partially offset by proceeds from the sale of business of $40.3 million and the maturity and sale of investments of $42.2 million. Our capital expenditures in 2009 primarily consisted of $24.7 million for computer software

and hardware, $18.8 million for various leasehold improvements and $7.1 million for additional scientific equipment for our laboratory units. We expect our capital expenditures in 2010 will be approximately $75 million to $85 million, primarily for facility expansions and improvements, as well as investments in information technology and new laboratory equipment.

In 2009, our financing activities used $55.4 million of cash. We used $67.9 million of cash to pay dividends, which was partially offset by proceeds of $12.3 million from stock option exercises and purchases under our employee stock purchase plan.

The following table sets forth amounts from our consolidated balance sheet affecting our working capital along with the dollar amount of the change from 2008 to 2009.

	December 31,		
(in thousands)	2008	2009	$ Inc (Dec)
Current assets			
Cash and cash equivalents	$ 491,755	$ 408,903	$ (82,852)
Short-term investments	27,064	144,645	117,581
Accounts receivable and unbilled services, net	401,303	429,670	28,367
Income tax receivable	922	16,887	15,965
Investigator advances	16,901	13,980	(2,921)
Prepaid expenses	19,977	24,458	4,481
Deferred tax assets	27,972	26,068	(1,904)
Cash held in escrow	—	12,415	12,415
Other current assets	33,316	55,115	21,799
Total current assets	$1,019,210	$1,132,141	$112,931
Current liabilities			
Accounts payable	$ 23,022	$ 34,005	$ 10,983
Payables to investigators	39,370	54,428	15,058
Accrued income taxes	18,388	4,043	(14,345)
Other accrued expenses	178,926	200,720	21,794
Unearned income	246,649	297,844	51,195
Total current liabilities	$ 506,355	$ 591,040	$ 84,685
Working capital	$ 512,855	$ 541,101	$ 28,246

Working capital as of December 31, 2009 was $541.1 million, compared to $512.9 million at December 31, 2008. The increase in working capital was due primarily to an increase in short-term investments, an increase in accounts receivable and unbilled services, net, and an increase in other current assets partially offset by decreases in cash and cash equivalents and an increase in unearned income.

For the year ended December 31, 2009, DSO was 31 days, compared to 42 days for the year ended December 31, 2008. We calculate DSO by dividing accounts receivable and unbilled services less unearned income by average daily gross revenue for the applicable period. We expect DSO will continue to fluctuate in the future depending on contract terms, the mix of contracts performed within a quarter, the levels of investigator advances and unearned income, and our success in collecting receivables.

We maintain a defined benefit pension plan for certain employees and former employees in the United Kingdom, or U.K. This pension plan was closed to new participants as of December 31, 2002. In December 2009, we announced the closure of our pension plan to future additional accruals for existing members effective January 1, 2010. Participants are entitled to receive benefits previously accrued which are based on the expected pay at retirement and number of years of service through January 1, 2010. The projected benefit obligation for the benefit plan at December 31, 2008 and December 31, 2009, was $41.6 million and $58.3 million, respectively, and the value of the plan assets was $29.2 million and $42.8 million, respectively. As a result, the plan was under-funded by $12.4 million in 2008 and by $15.4 million in 2009. The amount of contributions to the plan for the years ended December 31, 2008 and 2009 were $4.1 million and $3.4 million, respectively. It is likely that the amount of our contributions to the plan could increase in future years. We expect the pension cost to be recognized in our financial statements to decrease from the $2.8 million in 2009 to approximately $1.8 million in 2010. The expense to be recognized in future periods could increase or decrease depending upon the change in the fair market value of the plan assets and changes in the projected benefit obligation.

A decrease in the market value of plan assets and/or declines in interest rates, both of which seem possible in light of general economic conditions, are likely to cause the amount of the under-funded status to increase. After completion of the actuarial valuations in 2010, we could be required to record an additional reduction to shareholders' equity. In connection with the plan, we recorded a decrease to shareholders' equity in 2008 and 2009 of $4.8 million and $1.7 million, respectively. Given the impact that the discount rate and stock market performance have on the projected benefit obligation and market value of plan assets, future changes in either one of these factors could significantly reduce or increase the amount of our pension plan under-funding.

Effective August 1, 2009, we renewed our $25.0 million revolving credit facility with Bank of America, N.A. Indebtedness under the facility is unsecured and subject to covenants relating to financial ratios and restrictions on certain types of transactions. This credit facility does not restrict or limit the payment of dividends. We were in compliance with all loan covenants as of December 31, 2009. Outstanding borrowings under the facility bear interest at an annual fluctuating rate equal to the one-month London Interbank Offered Rate, or LIBOR, plus a margin of 0.75%. We can use borrowings under this credit facility for working capital and general corporate purposes. This credit facility is currently scheduled to expire in June 2010, at which time any outstanding balance will be due. As of December 31, 2009, no borrowings were outstanding under this credit facility, although the aggregate amount available for borrowing had been reduced by $1.8 million due to outstanding letters of credit issued under this facility.

In May 2009, our board of directors increased the annual dividend rate from $0.50 to $0.60 per share per year, payable quarterly at a rate of $0.15 per share effective beginning in the second quarter of 2009. The annual cash dividend policy and the payment of future quarterly cash dividends under that policy are not guaranteed and are subject to the discretion of and continuing determination by our board of directors that the policy remains in the best interests of our shareholders and in compliance with applicable laws and agreements.

In 2008, we announced that our board of directors approved a stock repurchase program authorizing us to repurchase up to $350.0 million of our common stock from time to time in the open market. We adopted a share repurchase program in view of the price at which our stock was trading at the time of the adoption of the program, the strength of our balance sheet and our ability to generate cash, and in order to minimize earnings dilution from future equity compensation awards. During the year ended December 31, 2008, we repurchased approximately 2,435,000 shares of our common stock for an aggregate purchase price, including broker commissions, of $89.3 million at an average price per share of $36.68. During 2009, we did not repurchase any shares of our common stock. As of December 31, 2009, $260.7 million remained available for share repurchases under the stock repurchase program. Although we do not presently intend to repurchase additional shares in the near term under our existing repurchase program, if we do, we expect to finance any such potential stock repurchases from existing cash and cash flows from operations.

In October 2009, we committed to invest up to $102.7 million in Celtic Therapeutics Holdings, L.P., or Celtic. Celtic is an investment partnership organized for the purpose of identifying, acquiring and investing in a diversified portfolio of novel therapeutic product candidates, with a focus on mid-stage compounds that have progressed through human proof of concept studies that are targeted to address unmet medical needs. As of December 31, 2009, we had invested a total of $32.7 million of the aggregate commitment and had an investment balance of $31.4 million after taking into account our percentage of Celtic's losses in the fourth quarter. We expect to invest the remainder of our commitment over a period of four years following the completion of Celtic's funding.

As of December 31, 2009, we had commitments to invest up to an aggregate additional $14.5 million in four venture capital funds. We had also committed to invest up to an aggregate additional $2.8 million in other investments. For further details, see Note 3 in the notes to consolidated financial statements.

We had gross unrecognized tax benefits of approximately $16.9 million as of December 31, 2008. Of this total, $9.9 million, net of the federal benefit on state taxes, is the amount that, if recognized, would result in a reduction of our effective tax rate. As of December 31, 2009, the total gross unrecognized tax benefits were $31.9 million and of this total, $14.9 million is the amount that, if recognized, would reduce our effective tax rate. We believe that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by up to $4.7 million within the next 12 months due to the settlement of audits and the expiration of the statutes of limitations.

Our policy for recording interest and penalties associated with tax audits is to record them as a component of provision for income taxes. During 2008, we recorded $2.0 million of interest and $0.1 million of penalties as expenses to the statement of income. As of December 31, 2008, we had accrued $6.0 million of interest and $1.0 million of penalties. During

2009, the amount of interest and penalties recorded as an expense to the statement of income was $1.6 million and $0.1 million, respectively. As of December 31, 2009, $5.4 million of interest and $1.1 million of penalties were accrued. To the extent interest and penalties are not assessed with respect to uncertain tax positions, we will reduce amounts accrued and reflect them as a reduction of the overall income tax provision.

We analyzed filing positions in all of the significant federal, state and foreign jurisdictions where we are required to file income tax returns, as well as open tax years in these jurisdictions. The only periods subject to examination by the major tax jurisdictions where we do business are the 2006 through 2009 tax years. Various foreign and state income tax returns are under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial condition or results of operations.

Since 1998, we have been involved in compound development and commercialization collaborations, and we have developed a risk-sharing research and development model to help pharmaceutical and biotechnology clients develop compounds. Through collaborative arrangements based on this model, we assist our clients by sharing the risks and potential rewards associated with the development and commercialization of drugs at various stages of development. We plan to spin this business off in mid-2010. As of December 31, 2009, our four main collaborations were with ALZA, an affiliate of Johnson & Johnson, Takeda Pharmaceuticals Company Limited, Janssen Pharmaceutica N.V., an affiliate of Johnson & Johnson and Eli Lilly and Co., or Lilly. These collaborations related respectively to, the product Priligy, the late stage candidate alogliptin, two Phase II-ready therapeutic compounds, and a series of early stage candidates including Vitamin D receptor modulators as well as up to six other programs for topical dermatological indications. They involve the potential future receipt of one or more of the following forms of revenue: payments upon the achievement of specified regulatory and sales-based milestones; and royalty payments if the compound is approved for sale. To date, Austria, Finland, Germany, Italy, Mexico, New Zealand, Portugal, South Korea, Spain and Sweden have approved Priligy for marketing. We received a $2.5 million milestone on each of the first two of these national approvals, for a total of $5.0 million, in the first quarter of 2009. We are entitled to royalties on net sales of Priligy and sales-based milestones if requisite sales levels are reached. We recorded the first royalties from the sales of Priligy in the second quarter of 2009. With regard to alogliptin, in June 2009, the FDA issued a complete response to Takeda on its alogliptin NDA, requesting Takeda conduct an additional cardiovascular safety trial that satisfies the FDA's December 2008 guidance on anti-diabetes therapies. In September 2009, the FDA issued a complete response to Takeda on its NDA for the fixed dose combination of alogliptin and ACTOS stating that further review would be dependent on the cardiovascular safety data that would be submitted in support of the alogliptin monotherapy NDA. The compounds related to Janssen and Lilly are still in discovery and development and have not generated any regulatory milestone payments yet. As a result of the risks associated with drug development and commercialization, including poor or unexpected preclinical and clinical trial results, obtaining regulatory approval to sell in any country and changing regulatory requirements, we might not receive any further milestone payments, royalties or other payments with respect to any of our drug development collaborations.

As of December 31, 2009, we had four collaborations that involve potential future expenditures. The first was our collaboration with ALZA for Priligy. In connection with this collaboration, we have an obligation to pay a royalty to Lilly of 5% on annual net sales of the compound in excess of $800 million.

The second collaboration involving future expenditures is with Ranbaxy. In February 2007, we exercised an option to license from Ranbaxy a statin compound that we are developing as a potential treatment for dyslipidemia, a metabolic disorder characterized by high cholesterol levels. Under the agreement, we have an exclusive license to make, use, sell, import and sublicense the compound and any licensed product anywhere in the world for any human use. We are solely responsible, and will bear all costs and expenses, for the development, manufacture, marketing and commercialization of the compound and licensed products. We are obligated to pay Ranbaxy milestone payments upon the occurrence of specified clinical development events. If a licensed product is approved for sale, we must also pay Ranbaxy royalties based on sales of the product, as well as commercial milestone payments based on the achievement of specified worldwide sales targets. If all criteria are met, the total amount of potential clinical and sales-based milestones that we are obligated to pay Ranbaxy would be $44.0 million. We completed a high dose comparator study in healthy volunteers. The drug was well-tolerated and a preliminary review of results suggests the statin compound compares favorably to currently marketed statins. We continue to conduct limited development activities with respect to the Ranbaxy statin compound while we evaluate alternatives for future development and commercialization.

The third collaboration involving future expenditures is with Lilly. In April 2009, we acquired Magen, a biotechnology company founded in 2006 to discover dermatologic therapies. As a result, we expanded the compound partnering business into dermatology and gained screening and research capabilities for dermatologic compounds. We have an exclusive license to develop and commercialize Vitamin D receptor modulator compounds for use as topical treatments in dermatological indications. We also have an option agreement with Lilly to screen compounds from six additional platforms for utility in dermatology and are investigating compounds from other potential collaborators under material transfer agreements. Through the acquisition of Magen, we acquired in-process research and development of $10.4 million. At acquisition, the acquired in-process research and development was related to the MAG-131 compound which was in the pre-IND phase of research. We filed an IND for MAG-131 in October 2009, but subsequently suspended the program due to efficacy data that was discovered in late 2009. We are currently screening additional Vitamin D receptor modulators from Lilly and compounds that regulate other targets to identify additional drug development candidates for other dermatological indications. Under the license arrangements with Lilly, we are obligated to pay clinical development milestones as well as royalties based on the sales of the product. If all criteria are met, the total potential clinical development milestones that we are obligated to pay would be $21.4 million per compound developed.

The fourth collaboration involving future expenditures is with Janssen Pharmaceutica. In November 2009, we entered into agreements with Janssen Pharmaceutica to develop and commercialize two Phase II-ready therapeutic compounds. We plan to study the mu delta compound as a treatment for diarrhea-predominant irritable bowel syndrome, or IBSd, and the fluoroquinolone compound as a treatment for community-acquired bacterial pneumonia and complicated skin and skin structure infections caused by gram negative or gram positive bacteria, including MRSA. Under the two agreements, we in-licensed the two compounds and will advance the compounds through Phase II development. At the completion of Phase II, Janssen Pharmaceutica will have the option to continue development and commercialization of each compound. In exchange, we may receive, for each compound, up to $90.0 million in regulatory milestone payments and up to $75.0 million in sales-based milestone payments, as well as royalties on sales of each compound if approved for marketing. In the event Janssen Pharmaceutica elects not to continue a program, we have the option to continue developing and commercializing the compound for that program and Janssen Pharmaceutica may receive, for each compound, up to $50.0 million in regulatory milestone payments and up to $75.0 million in sales-based milestone payments, as well as royalties on sales of each compound if approved for marketing. During 2009, we expensed $7.0 million of upfront payments related to two therapeutic compounds in-licensed as part of the agreement with Janssen Pharmaceutica.

Under most of our agreements for Development services, we typically agree to indemnify and defend the sponsor against third-party claims based on our negligence or willful misconduct. Any successful claims could have a material adverse effect on our financial statements.

We expect to continue expanding our operations through internal growth, strategic acquisitions and investments. We expect to fund these activities, the payment of future cash dividends and potential repurchases of stock, if any, from existing cash, cash flows from operations and, if necessary or appropriate, borrowings under our existing or future credit facilities. We believe that these sources of liquidity will be sufficient to fund our operations, dividends and stock repurchases, if any, for the foreseeable future. From time to time, we evaluate potential acquisitions, investments and other growth and strategic opportunities that might require additional external financing, and we might seek funds from public or private issuances of equity or debt securities. While we believe we have sufficient liquidity to fund our operations for the foreseeable future, our sources of liquidity and ability to pay dividends or repurchase our stock could be affected by current and anticipated difficult economic conditions; our dependence on a small number of industries and clients; compliance with regulations; reliance on key personnel; breach of contract, personal injury or other tort claims; international risks; environmental or intellectual property claims; or other factors described under “Item 1A. Risk Factors” in our annual report on Form 10-K, under the subheadings “Contractual Obligations,” “Critical Accounting Policies and Estimates,” “Potential Liability and Insurance,” “Potential Volatility of Quarterly Operating Results and Stock Price” and under “Quantitative and Qualitative Disclosures about Market Risk.”

CONTRACTUAL OBLIGATIONS

As of December 31, 2009, future minimum payments on all our contractual obligations for years subsequent to December 31, 2009 were as follows:

	Payments Due by Period				
(in thousands)	2010	2011–2012	2013–2014	2015 and thereafter	Total
Operating leases	$53,636	$83,190	$56,762	$105,462	$299,050
Less: sublease income	(791)	(240)	—	—	(1,031)
Total	$52,845	$82,950	$56,762	$105,462	$298,019

As of December 31, 2009, we were contingently obligated under collaborative arrangements. For more information, see "Liquidity and Capital Resources." Other contractual obligations as of December 31, 2009 without a specified maturity date were as follows:

Venture capital funds	$ 14,489
Celtic	70,000
Other investments	2,835
U.K. pension	15,434
Unrecognized tax benefits	31,924
Total	$134,682

OFF-BALANCE SHEET ARRANGEMENTS

From time to time, we cause letters of credit to be issued to provide credit support for guarantees, contractual commitments and insurance policies. The fair values of the letters of credit reflect the amount of the underlying obligation and are subject to fees competitively determined in the marketplace. As of December 31, 2009, we had four letters of credit outstanding for a total of $1.8 million. We have no other off-balance sheet arrangements except for operating leases entered into in the normal course of business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. We believe that the following are the primary areas in which management must make significant judgments in applying our accounting policies to determine our financial condition and results of operations. We have discussed the application of these critical accounting policies with the Finance and Audit Committee of our board of directors.

Revenue Recognition

The majority of our Development segment revenues are recorded on a proportional performance basis. To measure performance on a given date, we compare direct costs through that date to estimated total direct costs to complete the contract. Direct costs relate primarily to the amount of labor and related overhead costs for the delivery of services. We believe this is the best indicator of the performance of the contractual obligations.

Our contracts are generally based on a fixed fee or unitized pricing model and have a duration of a few months to ten years. The contract value for a fixed fee contract equals the agreed-upon aggregate amount of the fixed fees. We measure the contract value for unitized pricing models using the estimated units (number of patients to be dosed or study sites to be initiated, for example) to be completed and the agreed-upon unit prices. As part of the client proposal and contract negotiation process, we develop a detailed project budget for the direct costs to be expended based on the scope of the work, the complexity of the study, the geographic locations involved and our historical experience. We then establish the individual contract pricing based on our internal pricing guidelines, discount agreements, if any, and negotiations with the client.

Contracts with the same customer generally are not linked, although some large customers enter into annual or multi-year pricing agreements, which generally provide for specified discounts with periodic rate increases or other price adjustment

mechanisms. We negotiate pricing for each project individually, based on the scope of the work, and any discounts and rate increases are reflected within the contract for the project. Other large customers negotiate rebates based on the volume of services purchased. These agreements are generally negotiated at the beginning of each year and require a one-time rebate in the following year based upon the volume of services purchased or recognized during the relevant year. We record an estimate of the annual volume rebate as a reduction of revenues throughout the period based on the estimated total rebate to be earned for the period.

Generally, payment terms are based on the passage of time, the monthly completion of units or non-contingent project milestones that represent progression of the project plan, such as contract signing, site initiation and database lock. The timing of payments can vary significantly. We attempt to negotiate payment terms which provide for payment of services prior to or within close proximity to the provision of services, but the levels of unbilled services and unearned revenue can vary significantly.

Most of our contracts can be terminated by the client either immediately or after a specified period following notice. These contracts require the client to pay us the fees earned to date, the fees and expenses to wind down the study, and, in some cases, a termination fee or some portion of the fees or profit that we could have earned under the contract if it had not been terminated early. Therefore, revenue recognized prior to cancellation generally does not require a significant adjustment upon cancellation.

Each month we accumulate direct costs on each project and compare them to the total current estimated direct costs to complete the project in order to determine the percentage-of-completion. We then multiply this percentage by the contract value to determine the amount of revenue that can be recognized. This process includes a review of, among other things:

- a comparison of direct costs incurred in the current month against the budgeted direct costs for the month;
- detailed discussions with the operational project teams relating to the status of the project, including the rate of enrollment, the ability to complete individual tasks in the time-frame allotted, the anticipated total units to be achieved and potential changes to the project scope;
- a comparison of the fees invoiced and collected compared to revenue recognized;
- experience on projects recently completed or currently running; and
- specific client and industry changes.

As a result of this review, we might determine that our previous estimates of contract value or direct costs need to be revised based upon the new information. A change in the scope of work generally results in the negotiation of contract modifications to increase or decrease the contract value along with an associated increase or decrease in the estimated total direct costs to complete. If a contract modification is not agreed to, we could bear the risk of cost overruns. Contract values and modifications to contract values are only included in the calculation of revenue when we believe that realization is reasonably assured and we have appropriate evidence of arrangement.

If we determine that a loss will result from the performance of a contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made. The payment terms for our contracts do not necessarily coincide with the recognition of revenue. We record unbilled services for revenue recognized to date that are not then billable under the relevant customer agreement. Conversely, we record unearned income for cash received from customers for which revenue has not been recognized at the balance sheet date.

In 2009 and some prior years, we had to commit unanticipated resources to complete projects, resulting in lower gross margins on those projects. We might experience similar situations in the future. Increases in the estimated total direct costs to complete a contract without a corresponding proportional increase to the contract value result in a cumulative adjustment to the amount of revenue recognized in the period the change in estimate is determined. Should our estimated direct costs to complete a fixed price contract prove to be low, gross margins could be materially adversely affected, absent our ability to negotiate a contract modification. Historically, the majority of our estimates and assumptions have been materially correct, but these estimates might not continue to be accurate in the future. A hypothetical increase of 1% in the total estimated remaining project direct costs to complete, without a corresponding proportional increase in the contract value, for open projects accounted for under the proportional performance method as of December 31, 2007, 2008 and 2009 would have resulted in a cumulative reduction in revenue and gross margin of approximately $3.5 million, $4.2 million, and $6.6 million, respectively.

The Discovery Sciences segment generates revenue in the form of upfront payments, development and regulatory milestone payments, royalties and sales-based milestone payments in connection with the out-licensing of compounds. All future milestones and royalties will depend on the future success of our collaborators in developing and commercializing the compound. Upfront payments are generally paid within a short period of time following the execution of an out-license and collaboration agreement. Milestone payments are typically one-time payments to us triggered by the collaborator's achievement of specified development and regulatory submission or approval. Royalties are payments received by us based on net product sales of a collaboration. Sales-based milestone payments are typically one-time payments to us triggered when the aggregate net sales of product by a collaborator for a specified period (for example, an annual period) reach an agreed upon threshold amount. We recognize these payments from our collaborators when the event which triggers the obligation of payment has occurred, there are no further obligations on our part in connection with the payment, and collection is reasonably assured.

Allowance for Doubtful Accounts

Included in "Accounts receivable and unbilled services, net" on our consolidated balance sheets is an allowance for doubtful accounts. Generally, before we do business with a new client, we perform a credit check. We also review our accounts receivable aging on a monthly basis to determine if any receivables will potentially be uncollectible. The allowance for doubtful accounts includes specific accounts and an estimate of other losses based on historical loss experience. After all attempts to collect the receivable have failed, we write the receivable off against the allowance. Based on the information available to us, we believe our allowance for doubtful accounts as of December 31, 2009 is adequate to cover uncollectible balances. However, actual invoice write-offs might exceed the recorded reserve.

Investments

Our investments consist of marketable and debt investments in publicly traded and privately held entities. We classify our investments in publicly traded securities as available-for-sale securities and measure them at market value. Our investments in privately held entities do not have readily determinable fair values and, therefore, we record them using the cost method of accounting. Most of our investments are in relatively early-stage life sciences and biotechnology companies or investment funds that invest in similar companies. These early-stage life sciences and biotechnology companies generally do not have established products or proven technologies or material revenue, if any. The fair value of these investments might from time to time be less than their recorded value. We assess our investment portfolio on a quarterly basis for other-than-temporary impairments. For our investments in privately held entities, we look for events or circumstances that would likely have a significant adverse effect on the fair value of the investment. In addition, we evaluate any decline in the fair value of publicly traded or privately held investments to determine the potential extent and timing of recovery, if any. If we deem the impairment to be other-than-temporary, we record the impairment of the investment in our statement of income. This quarterly review includes an evaluation of the entity, including, among other things, the market condition of the overall industry, historical and projected financial performance, expected cash needs and recent funding events, as well as our expected holding period and the length of time and the extent to which the estimated fair value of the investment has been less than cost. This analysis of the estimated fair values and the extent and timing of recoveries of decreases in fair value requires significant judgment.

Tax Valuation Allowances and Tax Liabilities

We adopted a new accounting standard as it relates to accounting for uncertainty in income taxes as of January 1, 2007. This standard requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of our effective tax rate and, consequently, our operating results. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and may not accurately anticipate actual outcomes.

We have to use estimates and judgments in calculating certain tax liabilities and determining the recoverability of certain deferred tax assets, which arise from net operating losses, tax credit carryforwards and temporary differences between the tax and financial statement recognition of revenue and expense. This Topic also requires that we reduce our deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence, including our past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction-by-jurisdiction basis. In determining future taxable income, assumptions

include the amount of state, federal and international pretax operating income, international transfer pricing policies, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. Based on our analysis of the above factors, we determined that a valuation allowance of $3.0 million was required as of December 31, 2009 for carryforwards of foreign and state tax losses and credits. Changes in our assumptions could result in an adjustment to the valuation allowance, up or down, in the future.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. We determine our liability for uncertain tax positions globally under the provisions in this standard. As of December 31, 2009, we had recorded a gross liability for uncertain tax position of $31.9 million. If events occur such that payment of these amounts ultimately proves to be unnecessary, the reversal of liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our calculation of liability related to uncertain tax positions proves to be more or less than the ultimate assessment, a tax expense or benefit to expense, respectively, would result. The total liability reversal that could affect the tax rate is $14.9 million.

Long-Lived Assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. If indicators of impairment are present, we evaluate the carrying value of property and equipment in relation to estimates of future undiscounted cash flows, based on judgments and assumptions.

Goodwill

The fair value of goodwill could be impacted by future adverse changes such as future declines in our operating results, a decline in the valuation of pharmaceutical and biotechnology company stocks, including the valuation of our common stock, a further significant slowdown in the worldwide economy or the pharmaceutical and biotechnology industry, failure to meet the performance projections included in our forecasts of future operating results or the delay or abandonment of any of our in-process research and development programs.

We review goodwill for impairment annually on October 1 and whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. This analysis utilizes a discounted cash flow analysis utilizing the expected future in-flow and out-flows of our business and an appropriate discount rate. On October 1, 2009, we reviewed goodwill for impairment and our analysis indicated a significant fair value in excess of book value.

Intangible Assets

The value of our intangible assets could be impacted by future adverse changes such as changes in regulatory conditions, the introduction of competing products, changes in medical reimbursement rates, the discovery of manufacturing or safety concerns of products being marketed or developed, significant slowdowns in the worldwide economy or the pharmaceutical and biotechnology industry, or the delay or abandonment of any of our in-process research and development programs.

We evaluate intangible assets, which consist of royalty rights and acquired in-process research and development, at any time we believe indicators of impairment exist. We initially record these intangible assets at fair value and use fair value measurements to evaluate impairment. The fair value of our intangible assets is determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the programs, and discounting the net cash flows to present value. Additionally, our estimates take into account the relevant market size and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. The resulting net cash flows from such programs are based on management's estimates of cost of sales, operating expenses, and income taxes from such programs. The rates utilized to discount the net cash flows to their present value were commensurate with the stage of development of the program and uncertainties in the economic estimates used in the projections described above. During 2008, we reported an impairment of $1.6 million related to the royalty rights purchased from Accentia as a result of Accentia's discontinuation of the sale of antifungal products and subsequent bankruptcy. In 2009, we suspended the MAG-131 program for that compound due to efficacy data that was discovered and recorded an impairment of our acquired in-process research and development asset recorded of $10.4 million as of December 31, 2009.

Share-Based Compensation

We measure share-based compensation cost at grant date, based on the fair value of the award, and recognize it as expense over the employee's requisite service period. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model. The model requires the use of the following assumptions: an expected dividend yield; expected volatility; risk-free interest rate; and expected term. Based on our assumptions for these factors, the weighted-average fair value of options granted during the year ended December 31, 2009 was $6.28 per option. A change in these assumptions could have a significant impact on the weighted-average fair value of options. For example, if the expected term increased by six months, the weighted-average fair value of options granted during 2009 would have increased by $0.27 or 4.3% from $6.28 to $6.55, and the resulting share-based employee compensation expense determined under the fair-value based method for stock option awards, net of related tax effect, would have increased by $1.5 million. Diluted earnings per share would have decreased by $0.01. See Note 10 in the notes to our consolidated financial statements for details regarding the assumptions used in estimating fair value for the years ended December 31, 2007, 2008 and 2009 regarding our equity compensation plan and our employee stock purchase plan.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board, or FASB, issued revised guidance on the accounting for business combinations. The revised guidance expands the definitions of a business and a business combination and requires that: the purchase price of an acquisition, including the issuance of equity securities to be determined on the acquisition date, be recorded at fair value at the acquisition date; all assets, liabilities, contingent consideration, contingencies and in-process research and development costs of an acquired business be recorded at fair value at the acquisition date; acquisition costs generally be expensed as incurred; restructuring costs generally be expensed in periods subsequent to the acquisition date; and changes be made in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period to impact income tax expense. In April 2009, the FASB issued additional guidance on the accounting for business combinations which requires an acquirer to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if its acquisition-date fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria in the accounting for contingencies guidance to determine whether the contingency should be recognized as of the acquisition date or thereafter. This revised guidance applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Except for the accounting for in-process research and development discussed in Note 6 and the disallowance of capitalization of acquisition costs, this pronouncement did not have a material impact on reporting of acquisitions in the financial statements.

In May 2009, the FASB issued a new accounting standard on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued ("subsequent events"). The standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's financial statements.

INCOME TAXES

Because we conduct operations on a global basis, our effective tax rate has and will continue to depend upon the geographic distribution of our pretax earnings among locations with varying tax rates. Our profits are also impacted by changes in the tax rates and tax laws of the various tax jurisdictions as applied to certain items of income and loss recognized for GAAP purposes. In particular, as the geographic mix of our pretax earnings among various tax jurisdictions changes, our effective tax rate might vary from period to period. The effective rate will also change due to the discrete recognition of tax benefits when tax positions are effectively settled or as a result of specific transactions, such as the receipt of nontaxable research benefits in 2009.

INFLATION

Our long-term contracts, those in excess of one year, generally include an inflation or cost of living adjustment for the portion of the services to be performed beyond one year from the contract date. In the event that actual inflation rates are greater than our contractual inflation rates or cost of living adjustments, inflation could have a material adverse effect on our operations or financial condition.

POTENTIAL LIABILITY AND INSURANCE

Drug development services involve the testing of potential drug candidates on human volunteers pursuant to a study protocol. This testing exposes us to the risk of liability for personal injury or death to study volunteers and patients resulting from, among other things, possible unforeseen adverse side effects, improper administration of the study drug or use of the drug following regulatory approval. For example, we have been named as a defendant in a number of lawsuits relating to the antibiotic Ketek, as described below in "Part I, Item 3. Legal Proceedings" in our annual report on Form 10-K. We attempt to manage our risk of liability for personal injury or death to study volunteers and patients through standard operating procedures, patient informed consent and contractual indemnification provisions with clients and insurance. We monitor clinical trials in compliance with government regulations and guidelines. We have established global standard operating procedures intended to satisfy regulatory requirements in all countries in which we have operations and to serve as a tool for controlling and enhancing the quality of drug development services. The contractual indemnifications generally do not protect us against all our own actions, such as gross negligence. We currently maintain professional liability insurance coverage with limits we believe are adequate and appropriate.

POTENTIAL VOLATILITY OF QUARTERLY OPERATING RESULTS AND STOCK PRICE

Our quarterly and annual operating results have fluctuated in the past, and we expect that they will continue to fluctuate in the future. Factors that could cause these fluctuations to occur include:

- the timing and level of new business authorizations;
- the timing of the initiation, progress or cancellation of significant projects;
- our dependence on a small number of industries and clients;
- our ability to properly manage growth or contraction in our business;
- the timing and amount of costs associated with integrating acquisitions;
- the timing of our Discovery Sciences segment milestone payments or other revenue, if any;
- the timing and amount of costs associated with R&D and compound partnering collaborations;
- our ability to recruit and retain experienced personnel;
- the timing and extent of new government regulations;
- impairment of investments or intangible assets;
- litigation costs;
- the timing of the opening of new offices;
- the timing of other internal expansion costs;
- exchange rate fluctuations between periods;
- the mix of products and services sold in a particular period;
- pricing pressure in the market for our services;
- rapid technological change;
- the timing and amount of start-up costs incurred in connection with the introduction of new products and services; and
- intellectual property risks.

Delays and terminations of trials are often the result of actions taken by our clients or regulatory authorities, and are not typically controllable by us. Because a large percentage of our operating costs are relatively fixed while revenue is subject to fluctuation, variations in the timing and progress of large contracts can materially affect our quarterly operating results. For these reasons, we believe that comparisons of our quarterly financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Fluctuations in quarterly results, actual or anticipated changes in our dividend policy or stock repurchase plan or other factors, including recent general economic and financial market conditions, could affect the market price of our common stock. These factors include ones beyond our control, such as changes in revenue and earnings estimates by analysts, market conditions in our industry, disclosures by product development partners and actions by regulatory authorities with respect to potential drug candidates, changes in pharmaceutical, biotechnology and medical device industries and the government sponsored clinical research sector and general economic conditions. Any effect on our common stock could be unrelated to our longer-term operating performance. For further details, see "Item 1A. Risk Factors" in our annual report on Form 10-K.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to foreign currency risk by virtue of our international operations. We derived approximately 36.5%, 39.1% and 40.4% of our net revenue for the years ended December 31, 2007, 2008 and 2009, respectively, from operations outside the United States. Our operations in the United Kingdom generated 28.0%, 27.8% and 27.8% of our net revenue from international operations for the years ended December 31, 2007, 2008 and 2009. We generally reinvest funds generated by each subsidiary in the country where they are earned. Accordingly, we are exposed to adverse movements in foreign currencies, predominately in the pound sterling, euro and Brazilian real.

The vast majority of our contracts are entered into by our U.S. or U.K. subsidiaries. The contracts entered into by the U.S. subsidiaries are almost always denominated in U.S. dollars. Contracts entered into by our U.K. subsidiaries are generally denominated in U.S. dollars, pounds sterling or euros, with the majority in U.S. dollars. Although an increase in exchange rates for the pound sterling or euro relative to the U.S. dollar increases net revenue from contracts denominated in these currencies, operating income is negatively affected due to an increase in operating expenses that occurs when we convert our expenses from local currencies into the U.S. dollar equivalent.

We also have currency risk resulting from the passage of time between the recognition of revenue, invoicing of clients under contracts and the collection of client payments against those invoices. If a contract is denominated in a currency other than the subsidiary's local currency, we recognize an unbilled receivable at the time of revenue recognition and a receivable at the time of invoicing for the local currency equivalent of the foreign currency invoice amount. Changes in exchange rates from the time we recognize revenue until the time the client pays will result in our receiving either more or less in local currency than the amount that was originally invoiced. We recognize this difference as a foreign currency transaction gain or loss, as applicable, and report it in other income, net. If the exchange rate on accounts receivable balances denominated in pounds sterling and euros had increased by 10%, our foreign currency transaction loss would have increased by $4.2 million in the year ended December 31, 2009.

Our strategy for managing foreign currency risk relies primarily on receiving payment in the same currency used to pay expenses and other non-derivative hedging strategies. From time to time, we also enter into foreign currency hedging activities in an effort to manage our potential foreign exchange exposure. If the U.S. dollar had weakened an additional 10% relative to the pound sterling, euro and Brazilian real in 2009, income from continuing operations, including the impact of hedging, would have been approximately $0.6 million lower for the year based on revenues and the costs related to our foreign operations. From time to time, we also enter into foreign currency hedging activities in an effort to manage our potential foreign exchange exposure. We have hedged a significant portion of our foreign currency exposure for 2010.

Changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of foreign subsidiaries' financial results into U.S. dollars for purposes of reporting our consolidated financial results. The process by which we translate each foreign subsidiary's financial results to U.S. dollars is as follows:

- we translate statement of income accounts at average exchange rates for the period;
- we translate balance sheet assets and liability accounts at end of period exchange rates; and
- we translate equity accounts at historical exchange rates.

Translation of the balance sheet in this manner affects shareholders' equity through the cumulative translation adjustment account. This account exists only in the foreign subsidiary's U.S. dollar balance sheet and is necessary to keep the foreign balance sheet, stated in U.S. dollars, in balance. We report translation adjustments with accumulated other comprehensive income (loss) as a separate component of shareholders' equity. Toward the end of 2008, several foreign currencies had a large decrease in value relative to the U.S. dollar. This resulted in a larger than normal change in translation adjustment. To date, cumulative translation adjustments have not been material to our consolidated financial position. However, future translation adjustments could materially and adversely affect us.

Currently, there are no material exchange controls on the payment of dividends or otherwise prohibiting the transfer of funds out of any country in which we conduct operations. Although we perform services for clients located in a number of jurisdictions, we have not experienced any material difficulties in receiving funds remitted from foreign countries. However, new or modified exchange control restrictions could have an adverse effect on our financial condition. If we were to repatriate dividends from the cumulative amount of undistributed earnings in foreign entities, we would incur a tax liability not currently provided for in our balance sheet.

We are exposed to changes in interest rates on our cash, cash equivalents and investments and amounts outstanding under notes payable and lines of credit. We invest our cash and investments in financial instruments with interest rates based on market conditions. If the interest rates on cash, cash equivalents and investments decreased by 10%, our interest income would have decreased by approximately $0.1 million in the year ended December 31, 2009.

We are also exposed to market risk related to our investments in auction rate securities. For further details, see under the subheadings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Liquidity and Capital Resources."

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are designed only to provide reasonable assurance that information to be disclosed in our Exchange Act Reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide the reasonable assurance discussed above.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No change to our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met and must reflect the fact that there are resource constraints that require management to consider the benefits of internal controls relative to their costs. Because of these inherent limitations, management does not expect that our internal controls over financial reporting will prevent all errors and all fraud. Also, internal controls might become inadequate because of changes in business conditions or a decline in the degree of compliance with our policies or procedures.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2009, our internal control over financial reporting was effective based on those criteria.

Deloitte & Touche, LLP, the registered public accounting firm that audited the financial statements included in this annual report, has issued an attestation report on our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES
Wilmington, North Carolina

We have audited the internal control over financial reporting of Pharmaceutical Product Development, Inc. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated February 26, 2010 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Charlotte, North Carolina
February 26, 2010

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES
Wilmington, North Carolina

We have audited the accompanying consolidated balance sheets of Pharmaceutical Product Development, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of Pharmaceutical Product Development, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Charlotte, North Carolina
February 26, 2010

Consolidated Statements of Income

(in thousands, except per share data)	For the Years Ended December 31, 2007	2008	2009
Net revenue:			
Development	$1,275,399	$1,415,829	$1,309,454
Discovery Sciences	442	18,423	6,313
Reimbursed out-of-pockets	119,087	117,132	101,003
Total net revenue	1,394,928	1,551,384	1,416,770
Direct costs:			
Development	641,902	689,424	630,122
Discovery Sciences	501	614	630
Reimbursable out-of-pocket expenses	119,087	117,132	101,003
Total direct costs	761,490	807,170	731,755
Research and development expenses	17,113	7,621	23,630
Selling, general and administrative expenses	332,640	393,439	390,229
Depreciation and amortization	53,923	59,150	64,013
Restructuring costs	—	—	3,892
Impairment of intangible asset	—	1,607	10,361
Total operating expenses	1,165,166	1,268,987	1,223,880
Operating income	229,762	282,397	192,890
Interest income, net:			
Interest income	18,330	16,660	5,187
Interest expense	(318)	(537)	(676)
Interest income, net	18,012	16,123	4,511
Impairment of investments, net of recoveries	(690)	(17,741)	(2,076)
Loss from equity method investment	—	—	(1,278)
Other income (expense), net	662	(1,362)	(964)
Income from continuing operations before provision for income taxes	247,746	279,417	193,083
Provision for income taxes	84,431	91,469	52,952
Income from continuing operations	163,315	187,948	140,131
Discontinued operations, net of provision for income taxes	86	(429)	19,164
Net income	$ 163,401	$ 187,519	$ 159,295
Income per common share from continuing operations:			
Basic	$ 1.38	$ 1.58	$ 1.19
Diluted	$ 1.36	$ 1.56	$ 1.18
Basic and diluted income per common share from discontinued operations	$ —	$ —	$ 0.16
Net income per common share:			
Basic	$ 1.38	$ 1.58	$ 1.35
Diluted	$ 1.36	$ 1.56	$ 1.34
Dividends declared per common share	$ 0.19	$ 0.43	$ 0.58
Weighted-average number of common shares outstanding:			
Basic	118,459	118,792	118,007
Dilutive effect of stock options and restricted stock	1,494	1,305	762
Diluted	119,953	120,097	118,769

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

Consolidated Balance Sheets

(in thousands, except share data)	As of December 31, 2008	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 491,755	$ 408,903
Short-term investments	27,064	144,645
Accounts receivable and unbilled services, net	401,303	429,670
Income tax receivable	922	16,887
Investigator advances	16,901	13,980
Prepaid expenses	19,977	24,458
Deferred tax assets	27,972	26,068
Cash held in escrow	—	12,415
Other current assets	33,316	55,115
Total current assets	1,019,210	1,132,141
Property and equipment, net	385,788	388,459
Goodwill	221,054	323,383
Long-term investments	89,618	88,558
Other investments	12,032	44,641
Intangible assets	5,761	24,315
Deferred tax assets	18,330	11,959
Other assets	2,635	16,747
Total assets	$ 1,754,428	$ 2,030,203
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,022	$ 34,005
Payables to investigators	39,370	54,428
Accrued income taxes	18,388	4,043
Other accrued expenses	178,926	200,720
Unearned income	246,649	297,844
Total current liabilities	506,355	591,040
Accrued income taxes	22,256	34,268
Accrued additional pension liability	12,355	15,434
Deferred rent	15,873	14,334
Other long-term liabilities	16,593	29,000
Total liabilities	573,432	684,076
Commitments and contingencies (Notes 3, 8 and 13)		
Shareholders' equity:		
Common stock, $0.05 par value, 190,000,000 shares authorized; 117,631,151 and 118,256,209 shares issued and outstanding, respectively	5,881	5,913
Paid-in capital	544,891	576,069
Retained earnings	684,768	776,110
Accumulated other comprehensive loss	(54,544)	(11,965)
Total shareholders' equity	1,180,996	1,346,127
Total liabilities and shareholders' equity	$ 1,754,428	$ 2,030,203

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

Consolidated Statements of Shareholders' Equity

For the Years Ended December 31, 2007, 2008 and 2009

(in thousands, except per share data)	Common Shares	Par Value	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehensive Income
BALANCE JANUARY 1, 2007	117,624	$5,881	$449,173	$490,764	$ 7,082	$ 952,900	
Net income				163,401		163,401	$163,401
Other comprehensive income (loss):							
Translation adjustments					10,001	10,001	10,001
Minimum pension liability adjustment, net of tax of ($205)					526	526	526
Change in fair value on hedging transactions, net of tax of $368					(911)	(911)	(911)
Reclassification of hedging results included in direct costs, net of tax of $71					(184)	(184)	(184)
Unrealized loss on investments, net of tax of $669					(1,135)	(1,135)	(1,135)
Reclassification to net income of unrealized gain on investment, net of tax of $88					(161)	(161)	(161)
Comprehensive income							$171,537
Adjustment to initially apply new accounting standard				(5,550)		(5,550)	
Stock compensation expense			21,418			21,418	
Issuance of common shares under various stock compensation plans	1,471	74	27,624			27,698	
Income tax benefits from exercise of stock options and disqualified dispositions of stock, net			4,683			4,683	
Dividends ($0.19 per share)				(22,590)		(22,590)	
BALANCE DECEMBER 31, 2007	119,095	5,955	502,898	626,025	15,218	1,150,096	
Net income				187,519		187,519	$187,519
Other comprehensive income (loss):							
Translation adjustments					(34,849)	(34,849)	(34,849)
Minimum pension liability adjustment, net of tax of $1,883					(4,843)	(4,843)	(4,843)
Change in fair value on hedging transactions, net of tax of $7,391					(16,760)	(16,760)	(16,760)
Reclassification of hedging results included in direct costs, net of tax of ($2,146)					5,484	5,484	5,484
Unrealized loss on investments, net of tax of $10,245					(18,794)	(18,794)	(18,794)
Comprehensive income							$117,757
Adjustment to apply measurement date component of new accounting standard, net of tax of $36				(94)		(94)	
Stock compensation expense			24,596			24,596	
Issuance of common shares under various stock compensation plans	971	48	25,366			25,414	
Income tax benefits from exercise of stock options and disqualified dispositions of stock, net			2,966			2,966	
Repurchases of common stock	(2,435)	(122)	(10,935)	(78,245)		(89,302)	
Dividends ($0.43 per share)				(50,437)		(50,437)	
BALANCE DECEMBER 31, 2008	117,631	5,881	544,891	684,768	(54,544)	1,180,996	
Net income				**159,295**		**159,295**	**$159,295**
Other comprehensive income (loss):							
Translation adjustments					**20,313**	**20,313**	**20,313**
Minimum pension liability adjustment, net of tax of $661					**(1,700)**	**(1,700)**	**(1,700)**
Change in fair value on hedging transactions, net of tax of $7,026					**14,498**	**14,498**	**14,498**
Reclassification of hedging results included in direct costs, net of tax of $957					**3,426**	**3,426**	**3,426**
Unrealized gain on investments, net of tax of $3,327					**6,042**	**6,042**	**6,042**
Comprehensive income							**$201,874**
Stock compensation expense			**19,219**			**19,219**	
Issuance of common shares under various stock compensation plans	**625**	**32**	**12,263**			**12,295**	
Income tax benefits from exercise of stock options and disqualified dispositions of stock, net			**(304)**			**(304)**	
Dividends ($0.58 per share)				**(67,953)**		**(67,953)**	
BALANCE DECEMBER 31, 2009	**118,256**	**$5,913**	**$576,069**	**$776,110**	**$(11,965)**	**$1,346,127**	

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

Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
(in thousands)	2007	2008	2009
Cash flows from operating activities:			
Net income	$ 163,401	$ 187,519	$ 159,295
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	55,592	60,426	65,092
Impairments of investments, net of recoveries	690	17,741	2,076
Impairment of intangible	—	1,607	10,361
Stock compensation expense	21,418	24,596	19,219
Provision for doubtful accounts	2,181	9,471	3,386
Gain on sale of business	—	—	(21,460)
Provision for deferred income taxes	487	1,667	4,095
Other	32	(685)	(484)
Change in operating assets and liabilities, net of acquisitions:			
Accounts receivable and unbilled services, net	(69,739)	38,977	(12,246)
Prepaid expenses and investigator advances	(11,450)	(5,293)	(9,378)
Accrued income taxes	10,276	(167)	(28,175)
Other assets	399	(435)	(1,424)
Accounts payable, other accrued expenses and deferred rent	29,129	(7,619)	6,384
Payables to investigators	14,946	(13,129)	12,204
Unearned income	9,381	65,801	44,053
Net cash provided by operating activities	226,743	380,477	252,998
Cash flows from investing activities:			
Purchases of property and equipment	(94,951)	(66,884)	(54,677)
Proceeds from sale of property and equipment	1,599	190	463
Net proceeds from sale of business	—	—	40,267
Purchase of intangibles	—	(1,500)	(500)
Purchases of investments	(549,967)	(198,216)	(148,734)
Maturities and sales of investments	473,270	376,390	41,060
Net cash paid for acquisitions	—	(32,208)	(119,918)
Changes in restricted cash	—	—	(21,975)
Purchases of other investments	(2,837)	(4,068)	(36,325)
Proceeds from sale of other investments	979	1,920	1,179
Net cash (used in) provided by investing activities	(171,907)	75,624	(299,160)
Cash flows from financing activities:			
Proceeds from revolving credit facility	24,986	—	—
Repayment of revolving credit facility	(24,986)	—	—
Repayment of construction loan	(74,833)	—	—
Repayment of capital lease obligations	(325)	—	—
Repurchases of common stock	—	(89,302)	—
Proceeds from exercise of stock options and employee stock purchase plan	27,905	25,414	12,295
Income tax benefit from exercise of stock options and disqualifying dispositions of stock	4,887	3,224	247
Cash dividends paid	(22,578)	(50,441)	(67,931)
Net cash used in financing activities	(64,944)	(111,105)	(55,389)
Effect of exchange rate changes on cash and cash equivalents	1,740	(24,668)	18,699
Net (decrease) increase in cash and cash equivalents	(8,368)	320,328	(82,852)
Cash and cash equivalents, beginning of the year	179,795	171,427	491,755
Cash and cash equivalents, end of the year	$ 171,427	$ 491,755	$ 408,903

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

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2007, 2008 and 2009

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(dollars in tables in thousands, except per share data)

Nature of Business

Pharmaceutical Product Development, Inc. together with its subsidiaries (collectively the "Company") provides a broad range of research and development and consulting services through its Development and Discovery Sciences segments. In the Development segment, the Company provides a broad range of development services, which include preclinical programs and Phase I to IV clinical development services, as well as bioanalytical product testing and clinical laboratory services. In addition, for marketed drugs, biologics and devices, the Company offers support such as product launch services, medical information, patient compliance programs, patient and disease registry programs, product safety and pharmacovigilance, Phase IV monitored studies and prescription-to-over-the-counter programs. Discovery Sciences services include compound development and commercialization collaborations. The Company sold both its preclinical evaluators of anti-cancer therapies and biomarker discovery business units during 2009. The Company has also announced plans to spin-off the compound development and commercialization collaboration business in 2010. The Company provides services to clients and partners in the pharmaceutical, biotechnology and medical device industries and to academic and government organizations. The Company markets its Development services primarily in the United States and Europe. The Company's Discovery Sciences revenues have all been generated in the United States.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and results of operations of the Company. All intercompany balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or FASB, issued revised guidance on the accounting for business combinations. The revised guidance expands the definitions of a business and a business combination and requires that: the purchase price of an acquisition, including the issuance of equity securities to be determined on the acquisition date, be recorded at fair value at the acquisition date; all assets, liabilities, contingent consideration, contingencies and in-process research and development costs of an acquired business be recorded at fair value at the acquisition date; acquisition costs generally be expensed as incurred; restructuring costs generally be expensed in periods subsequent to the acquisition date; and changes be made in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period to impact income tax expense. In April 2009, the FASB issued additional guidance on the accounting for business combinations which requires an acquirer to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if its acquisition-date fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria in the accounting for contingencies guidance to determine whether the contingency should be recognized as of the acquisition date or thereafter. This revised guidance applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Except for the accounting for in-process research and development discussed in Note 6 and the disallowance of capitalization of acquisition costs, this pronouncement did not have a material impact on reporting of acquisitions in the financial statements.

In May 2009, the FASB issued a new accounting standard on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued ("subsequent events"). The standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's financial statements.

Revenue Recognition

The Company records revenue from contracts, other than time-and-material contracts, on a proportional performance basis in its Development and Discovery Sciences segments. To measure performance on a given date, the Company compares direct costs through that date to estimated total direct costs to complete the contract. Direct costs relate primarily to the amount of labor and related overhead costs for the delivery of services. The Company believes this is the best indicator of the performance of the contractual obligations. Changes in the estimated total direct costs to complete a contract without a corresponding proportional change to the contract value result in a cumulative adjustment to the amount of revenue recognized in the period the change in estimate is determined. For time-and-material contracts in both its Development and Discovery Sciences segments, the Company recognizes revenue as hours are worked, multiplied by the applicable hourly rate. For the Company's Phase I, laboratory and biomarker businesses, the Company recognizes revenue from unitized contracts as subjects or samples are tested, multiplied by the applicable unit price. The Company offers volume discounts to its large customers based on annual volume thresholds. The Company records an estimate of the annual volume rebate as a reduction of revenue throughout the period based on the estimated total rebate to be earned for the period.

In connection with the management of clinical trials, the Company pays, on behalf of its clients, fees to investigators and test subjects as well as other out-of-pocket costs for items such as travel, printing, meetings and couriers. The Company's clients reimburse the Company for these costs. Amounts paid by the Company as a principal for out-of-pocket costs are included in direct costs as reimbursable out-of-pocket expenses, and the reimbursements the Company receives as a principal are reported as reimbursed out-of-pocket revenue. In the statements of income, the Company combines amounts paid by the Company as an agent for out-of-pocket costs with the corresponding reimbursements, or revenue, the Company receives as an agent. During the years ended December 31, 2007, 2008 and 2009, fees paid to investigators and other fees the Company paid as an agent and the associated reimbursements were approximately $356.8 million, $319.0 million and $330.4 million, respectively.

Most of the Company's contracts can be terminated by the client either immediately or after a specified period following notice. These contracts require the client to pay the Company the fees earned to date, the fees and expenses to wind down the study, and, in some cases, a termination fee or some portion of the fees or profit that the Company could have earned under the contract if it had not been terminated early. Therefore, revenue recognized prior to cancellation generally does not require a significant adjustment upon cancellation. If the Company determines that a loss will result from the performance of a contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

The Discovery Sciences segment generates revenue in the form of upfront payments, development and regulatory milestone payments, royalties and sales-based milestone payments in connection with the out-licensing of compounds. All future milestones and royalties will depend on the future success of the Company's collaborators in developing and commercializing the compound. Upfront payments are generally paid within a short period of time following the execution of an out-license and collaboration agreement. Milestone payments are typically one-time payments to the Company triggered by the collaborator's achievement of specified development and regulatory submission or approval. Royalties are payments received by the Company based on net product sales of a collaboration. Sales-based milestone payments are typically one-time payments to the Company triggered when the aggregate net sales of product by a collaborator for a specified period (for example, an annual period) reach an agreed upon threshold amount. The Company recognizes these payments from our collaborators when the event which triggers the obligation of payment has occurred, there are no further obligations on our part in connection with the payment, and collection is reasonably assured.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash accounts that are not subject to withdrawal restrictions or penalties, and all highly liquid investments that have a maturity of three months or less at the date of purchase.

Supplemental cash flow information consisted of the following:

	Year Ended December 31,		
	2007	2008	2009
Cash paid for interest, net of amounts capitalized	$ 120	$ 176	$ 189
Cash paid for income taxes, net of refunds	$65,902	$84,230	$75,968
Increase (decrease) in accrued property and equipment purchases	$ (7,436)	$ 5,545	$ 5,161

See Note 2 for non-cash investing and financing activities related to the acquisitions that occurred in 2009.

Payables to Investigators and Investigator Advances

Billings and payments to investigators are based on contractual agreements that can differ from the accrual of the related costs. The Company generally recognizes investigator costs based upon the status of the work completed as a percentage of the total procedures required under the contract or based on patient enrollment over the term of the contract. The Company classifies payments made in excess of the accrued costs as investigator advances and accrued costs in excess of amounts paid as payables to investigators in its consolidated balance sheets.

Inventory

The Company values inventories, which consist principally of laboratory supplies, at the lower of cost (first-in, first-out method) or market. As of December 31, 2008 and 2009, other current assets included inventories totaling $2.8 million and $4.1 million, respectively.

Property and Equipment

The Company records property and equipment at cost less accumulated depreciation. The Company records depreciation using the straight-line method, based on the following estimated useful lives:

Buildings	20–40 years
Furniture and equipment	5–10 years
Computer equipment and software	2–5 years
Aircraft	30 years

The Company depreciates leasehold improvements over the shorter of the respective lives of the leases or the useful lives of the improvements. The Company depreciates property under capital leases over the term of the lease or the service life, whichever is shorter.

Internal Use Software

The Company accounts for internal use software in accordance with the provisions of accounting standards, which require certain direct costs and interest costs incurred during the application stage of development to be capitalized and amortized over the useful life of the software.

Operating Leases

The Company records rent expense for operating leases, some of which have escalating rentals over the term of the lease, on a straight-line basis over the initial effective lease term. The Company begins amortization on the date of initial possession, which is generally when the Company enters the space and begins to make improvements in preparation of intended use. The Company accounts for the difference between rent expense and rent paid as deferred rent. For tenant improvement allowances, rent holidays and other lease incentives, the Company records a deferred rent liability at the inception of the lease term and amortizes the deferred rent over the term of the lease as a reduction to rent expense.

Goodwill

The Company assigns to goodwill the excess of the purchase price of a business acquired over the fair value of net tangible assets, identifiable intangible assets and acquired in-process research and development costs at the date of the acquisition. The Company evaluates goodwill for impairment on an annual basis at October 1 or more frequently if events or changes in circumstances indicate that goodwill might be impaired. Any impairment could have a material adverse effect on the Company's financial condition and results of operations.

Acquired In-Process Research and Development (IPR&D)

Acquired IPR&D represents the fair value assigned to research and development programs that the Company acquires that have not been completed at the date of acquisition and have no future alternative use. The value assigned to acquired IPR&D is determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to present value. Additionally, Company's estimates take into account the relevant market size and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such programs are based on management's estimates of cost of sales, operating expenses, and income taxes from such programs. The rates utilized to discount the net cash flows to their present value are commensurate with the stage of development of the program and uncertainties in the economic estimates used in the projections described above. Acquired IPR&D assets are amortized once the related project has been successfully developed and regulatory

approval for a product launch obtained, over their estimated useful lives. In 2009, the Company recorded a $10.4 million impairment of intangible asset for IPR&D acquired in relation to the acquisition of Magen. See Note 6 for additional information on this impairment.

Realizability of Carrying Value of Long-Lived Assets

The Company reviews the recoverability of long-lived and finite-lived intangible assets when circumstances indicate that the carrying amount of assets might not be recoverable. This evaluation is based on various analyses, including undiscounted cash flow projections. In the event undiscounted cash flow projections indicate impairment, the Company would record an impairment based on the fair value of the assets at the date of the impairment. In 2008, the Company recorded a $1.6 million impairment of intangible asset for the unamortized value of our royalty interest in the antifungal products of Accentia.

Short-Term and Long-Term Investments

The Company's short-term and long-term investments are classified as available-for-sale securities. The Company determines realized and unrealized gains and losses on short-term and long-term investments on a specific identification basis.

Other Investments

From time to time, the Company has marketable investments in publicly traded entities. The Company classifies these investments as available-for-sale and measures them at market value. The Company determines realized and unrealized gains and losses on marketable investments in publicly traded entities on a specific identification basis. The Company records net unrealized gains or losses associated with investments in publicly traded entities as a component of shareholders' equity until they are realized or until an other-than-temporary decline in market value has occurred. Upon realization or recognition of an other-than-temporary decline in the fair market value of an investment, the Company records an impairment of that investment. The market value of the Company's marketable investments in publicly traded entities is based on the closing price as quoted by the applicable stock exchange or market on the last trading day of the reporting period. The Company classifies its marketable investments as long-term assets due to the Company's ability and intent to hold its investments long-term, the strategic nature of the investments and the lack of liquidity in the public markets for these securities.

The Company also has investments in privately held entities in the form of equity and convertible debt instruments that are not publicly traded and for which fair values are not readily determinable. The Company records these investments based on its percentage ownership and its ability to exert significant influence over, but not control of, the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate shares of earnings or losses and distributions. The Company records its share of the investee's earnings or losses in earnings (losses) from equity method investment, net of income taxes in the consolidated statements of income. The Company evaluates its equity method investment for impairment when events or changes in circumstances indicate, in its judgment, that the carrying value of such investment might have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, the Company compares the estimated fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and the Company considers the decline in value to be other-than-temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment. Under the cost basis, the Company determines realized and unrealized losses on a specific identification basis. The Company assesses the net realizable value of these entities on a quarterly basis to determine if there has been a decline in the estimated fair value of these entities below cost basis, and if so, if the decline is other-than-temporary. This quarterly review includes an evaluation of the entity, including, among other things, the market condition of its overall industry, historical and projected financial performance, expected cash needs and recent funding events, as well as the Company's expected holding period and the length of time and the extent to which the estimated fair value of the investment has been less than cost. Upon realization or recognition of an other-than-temporary decline in the value of an investment, the Company records an impairment in that investment.

Fair Value

The Company adopted the provisions of the required accounting standards related to fair value effective January 1, 2008 and January 1, 2009. These accounting standards define fair value, establish a consistent framework for measuring fair value and expand the disclosure requirements about fair value measurements.

These accounting standards also establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the inputs as follows:

- Level 1—Valuations based on quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

These accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. Therefore, even when market assumptions are not readily available the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Many financial instruments have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that buyers are willing to pay for an asset. Ask prices represent the lowest price that sellers are willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company's policy is to set fair value at the average of the bid and ask prices.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Transfers between valuation levels are reported at their fair value as of the end of the month in which such changes in the fair value inputs occurs.

Derivatives—The Company's derivative portfolio consists solely of foreign currency forwards and foreign currency structured derivatives. The Company's derivative positions are valued using generally accepted developed models that use as their basis readily observable market parameters that can be validated to external sources, including industry pricing services. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, forward rates, currency exchange rates and the credit quality of the counterparty, and do not require significant judgment. These instruments are classified within Level 2 of the valuation hierarchy.

Investments and cash equivalents—Where quoted prices are available in an active market, securities are classified in Level 1 of the valuation hierarchy. Level 1 securities include highly liquid debt obligations for which there are quoted prices in active markets, money market funds that trade daily based on net asset values or quoted prices in active markets, and exchange-traded equities. If quoted market prices are not available for the specific security, then the Company estimates fair values by using pricing models or quoted prices of securities with similar characteristics. Examples of such instruments are commercial paper, municipal debt obligations (including auction rate securities, variable rate demand notes and fixed maturity obligations), which would generally be classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies securities within Level 3 of the valuation hierarchy. The Company has classified their entire balance of auction rate securities as Level 3.

Unbilled Services and Unearned Income

In general, prerequisites for billings are established by contractual provisions, including predetermined payment schedules, the achievement of contract milestones or submission of appropriate billing detail. Unbilled services represent revenue recognized to date for which amounts are currently unbillable to the customer pursuant to contractual terms. Conversely, the Company records unearned income for amounts billed to customers for which revenue has not been recognized at the balance sheet date.

Income Taxes

The Company computes income taxes using the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactment of changes in tax law or rates. If it is more likely than not that some or all of a deferred tax asset will not be realized, the Company records a valuation allowance.

Concentration of Credit Risk

Accounting standards require disclosure of information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk. Financial instruments that subject the Company to concentrations of credit risk consist principally of accounts receivable and unbilled services, cash equivalents and short-term investments.

The Company's clients are primarily pharmaceutical and biotechnology companies and academic and government organizations. No single client accounted for more than 10% of the Company's net revenue in 2007, 2008 or 2009. Concentrations of credit risk with respect to accounts receivable and unbilled services, net are limited to a degree due to the large number of Company clients. No single client accounted for more than 10% of the Company's accounts receivable and unbilled services, net balance at December 31, 2008 or 2009. The Company performs ongoing credit evaluations of clients' financial condition and, generally, does not require collateral. The Company maintains allowances for potential credit losses.

As of December 31, 2009, the Company's cash equivalents consist principally of cash and U.S. Treasury money market funds. Bank deposits exceed the FDIC insurance limit. Based on the nature of the financial instruments and/or historical realization of these financial instruments, the Company believes they bear minimal credit risk. At December 31, 2009, short-term investments were generally municipal debt securities, U.S. Treasury securities and corporate FDIC insured debt securities. At December 31, 2009, long-term investments consisted of auction rate securities.

Comprehensive Income (Loss)

The Company has elected to present comprehensive income (loss) and its components in the statements of shareholders' equity. The components of comprehensive income (loss) are net income and all other non-owner changes in equity.

The balances in accumulated other comprehensive income (loss) were as follows:

	December 31,	
	2008	2009
Translation adjustment	$(10,362)	$ 9,951
Pension liability, net of tax benefit of $4,683 and $5,876	(12,078)	(13,778)
Fair value of hedging transactions, net of tax benefit (expense) of $5,092 and ($2,792)	(12,371)	5,554
Net unrealized loss on investments, net of tax benefit of $10,761 and $7,434	(19,733)	(13,692)
Total	$(54,544)	$(11,965)

Foreign Currency Translations and Transactions

The Company translates assets and liabilities of foreign operations, where the functional currency is the local currency, into U.S. dollars at the rate of exchange at each reporting date. The Company translates income and expenses at the average rates of exchange prevailing during the month in which a transaction occurs. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The increase or decrease in cumulative translation adjustment included in other comprehensive income for the years ended December 31, 2007, 2008 and 2009 totaled $10.0 million, ($34.8) million and $20.3 million, respectively. Foreign currency transaction gains and losses are included in other income, net. Foreign currency transaction gains during 2007, 2008 and 2009 were $6.2 million, $41.1 million and $24.8 million, respectively. Foreign currency transaction losses during 2007, 2008 and 2009 were $6.4 million, $44.8 million and $27.8 million, respectively.

Earnings per Share

The Company computes basic income per share information based on the weighted-average number of common shares outstanding during the year. The Company computes diluted income per share information based on the weighted-average number of common shares outstanding during the year plus the effects of any dilutive common stock equivalents. The

Company excluded 244,257 shares, 1,403,982 shares and 661,809 shares from the calculation of earnings per diluted share during 2007, 2008 and 2009, respectively, because they were antidilutive.

Pension Plans

During 2006, the FASB amended accounting standards related to accounting for defined benefit pension and other postretirement plans. This amendment required employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The Company used a measurement date of November 30 until 2008, at which time it was required to change the measurement date to December 31. The change in measurement date required a one-time adjustment of $0.1 million during 2008 to accumulated other comprehensive income for the year ended December 31, 2008.

The market-related value of plan assets is the asset value used in the calculation of pension expense. The market value of the plan assets is based on the net asset value reported by the investment fund trustee, based on the market prices of the underlying securities. This value is binding for purposes of liquidation requests.

Share-Based Compensation

The Company measures share-based compensation cost at grant date, based on the fair value of the award, and recognizes it as expense over the employee's requisite service period.

Advertising Costs

The Company charges advertising costs to operations as incurred. Advertising costs were approximately $1.8 million, $2.0 million and $2.7 million for the years ended December 31, 2007, 2008 and 2009, respectively.

Research and Development Costs

Research and development costs consist primarily of costs associated with preclinical studies and the clinical trials of the Company's product candidates, development materials, patent costs, labor and related benefit charges associated with personnel performing research and development work, supplies associated with this work, consulting services, and an allocation of facility and information technology costs. The Company charges research and development costs to operations as incurred, and discloses them on the consolidated statements of income. These costs include clinical research services, preclinical testing and clinical drug manufacturing provided by third parties, the direct costs of the Company personnel managing the programs and upfront and milestone payments to the Company's collaborators. All research and development costs for the Company's drug candidates and external collaborations are expensed as incurred.

Other Income (Expense), Net

Other income (expense), net is recorded in the statement of income as non-operating income. Other income (expense), net for the years ended December 31, 2007, 2008 and 2009 totaled $0.7 million, ($1.4) million and ($1.0) million, respectively. Other income during 2007, 2008 and 2009 was $1.9 million, $3.5 million and $3.0 million, respectively. Other expense during 2007, 2008 and 2009 was ($1.2) million, ($4.9) million and ($4.0) million, respectively.

Use of Estimates in Preparation of the Financial Statements

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

Restructuring

In July 2009, the Company reduced its Development segment workforce in North America by approximately 270 employees due to the lower demand for its services. In the third quarter of 2009, the Company accrued and paid restructuring costs associated with this reduction in its workforce of $3.9 million.

2. ACQUISITIONS AND DISPOSITIONS

(dollars in tables in thousands, except per share data)

Acquisitions

In October 2008, the Company completed its acquisition of InnoPharm, an independent contract research organization, for total consideration of $9.0 million. The Company paid $7.3 million at closing and is obligated to pay an additional $1.7 million,

less any indemnification claims, in October 2010, which is recorded as a component of other accrued expenses as of December 31, 2009. The Company believes the acquisition of InnoPharm strengthens its presence in Eastern Europe by adding offices in Russia and Ukraine and allows for continued growth in this region while enhancing its ability to conduct global studies for clients. This acquisition is included in the Company's Development segment.

In December 2008, the Company entered into a strategic collaboration with Merck & Co., Inc., involving vaccine testing and assay development. Under the agreements, the Company purchased Merck's 130,000 square-foot vaccine testing laboratory and related equipment, for total consideration of $25.2 million. As part of the collaboration, the Company will provide Merck with assay development and immunogenicity testing services to support Merck's vaccine portfolio over a period of five years. The acquisition of Merck's vaccine testing facility significantly expands the Company's overall global central laboratory business, adding vaccine and biologic testing, assay development and sample storage capabilities to its current suite of laboratory services. This acquisition is included in the Company's Development segment.

On April 2, 2009, the Company acquired 100 percent of the outstanding equity interests of Magen BioSciences, Inc., a biotechnology company focused on the development of dermatologic therapies, for total consideration of $14.9 million. Of this amount, the Company paid $13.1 million in connection with the closing and is obligated to pay the remaining $1.8 million, less any indemnification claims, in the second quarter of 2010, which is recorded as a component of other accrued expenses as of December 31, 2009. Through the acquisition, the Company expanded its compound partnering program into dermatology and gained screening capability for dermatologic compounds. This acquisition is included in the Company's Discovery Sciences segment, and is intended to be a part of the compound partnering spin-off.

On April 21, 2009, the Company acquired 100 percent of outstanding equity interests of AbC.R.O., Inc., a contract research organization operating in Central and Eastern Europe, for total consideration of $40.0 million. Of this amount, the Company paid $36.4 million and is obligated to pay the remaining $3.6 million in the second quarter of 2011, which is recorded as a component of other long-term liabilities as of December 31, 2009. The remaining $3.6 million is being held in escrow. Through the acquisition, the Company is expanding its infrastructure in this region for clinical research by adding offices in Romania, Bulgaria, Serbia and Croatia, as well as strengthening its operations in other countries in the region. This acquisition is included in the Company's Development segment. The fair value of the financial assets acquired includes accounts receivable of $3.9 million and unbilled receivables of $2.4 million.

On November 6, 2009, the Company acquired 100 percent of the outstanding equity interests of Excel PharmaStudies, Inc., a contract research organization operating in China. Total consideration will be calculated on the final 2009 services revenue for the entity. The Company has estimated the total purchase price to be $21.7 million. Of this amount, the Company paid $15.7 million at closing and of the remaining $6.0 million, is obligated to pay $2.2 million in 2010, which is recorded as a component of other accrued expenses, and $3.8 million in the second quarter of 2011, which is recorded as a component of other long-term liabilities as of December 31, 2009. The Company has $4.5 million that is being held in escrow. Through the acquisition, the Company is expanding its operations in China and believes it should improve its ability to offer various services. This acquisition is included in the Company's Development segment. The fair value of the financial assets acquired includes accounts receivable of $1.6 million, which is expected to be collected in the normal course of business.

On November 30, 2009, the Company acquired 100 percent of the outstanding equity interests of BioDuro LLC, a drug discovery services company focused on integrated drug discovery programs and services in China, for total consideration of $78.5 million. Of this amount, the Company paid $61.4 million at closing and of the remaining $17.1 million, is obligated to pay $15.0 million in 2010, which is recorded as a component of other accrued expenses and $2.1 million in 2011 and 2012, which is recorded as a component of other long-term liabilities, respectively, as of December 31, 2009. The Company has $12.0 million that is being held in escrow. Through the acquisition, the Company is expanding its drug development capabilities within the region. This acquisition is included in the Company's Development segment. The fair value of the financial assets acquired includes accounts receivables, net of $3.2 million and unbilled receivables of $1.6 million, which are expected to be collected in the normal course of business.

Acquisition costs related to Magen, AbC.R.O., Excel and BioDuro were not significant and are included in selling, general and administrative costs in the consolidated statements of income.

The Company is holding in escrow $21.9 million related to payments to be made for the Magen, AbC.R.O., Excel and BioDuro acquisitions, of which $12.4 million is cash held in escrow and $9.6 million is a component of other assets.

These escrows secure the standard indemnification provisions of the purchase agreements relating to representations such as undisclosed liabilities and the accuracy of the working capital calculations. These balances are classified as current or long-term based on the expected date of the release of the funds to the seller.

The Company accounted for these acquisitions under the purchase method of accounting, using appropriate fair value techniques. Accordingly, the Company allocated the total purchase price for these acquisitions to the estimated fair value of assets acquired and liabilities assumed which are set forth in the following table:

	Innopharm	Vaccine Lab	AbC.R.O.	Magen	Excel	BioDuro
Current assets	$ 400	$ —	$ 9,935	$ 3,625	$ 4,145	$ 7,122
Property and equipment	662	21,666	1,025	609	531	6,251
Other long-term assets	—	—	90	—	—	1,298
Current liabilities	(564)	(255)	(4,780)	(1,246)	(3,266)	(5,497)
Long-term liabilities	—	—	—	—	—	(2,551)
Value of identifiable intangible assets:						
Backlog and customer relationships	308	3,200	7,920	—	3,112	9,810
In-process research and development	—	—	—	10,361	—	—
Goodwill	8,194	584	25,843	1,517	17,222	62,023
Total	$9,000	$25,195	$40,033	$14,866	$21,744	$78,456

Pro forma results of operations prior to the dates of acquisition have not been presented because the financial results are immaterial.

The Company expects to be able to deduct the goodwill related to the Innopharm and Vaccine Lab acquisitions for tax purposes, but not that of Magen, AbC.R.O., Excel or BioDuro.

Dispositions

In May 2009, the Company completed its disposition of substantially all of the assets of its wholly owned subsidiary Piedmont Research Center, LLC for total consideration of $46.0 million. The purchaser has an indemnification holdback of $3.4 million which the Company has included as a component of other current assets. The Company should receive this in the second quarter of 2010. Piedmont Research Center provided preclinical research and evaluation of anticancer agents and therapies and was included in the Company's Discovery Sciences segment.

In December 2009, the Company completed its disposition of its wholly owned subsidiary PPD Biomarker Discovery Sciences, LLC for total consideration of $0.1 million and the right to receive a percentage of future revenues received by the purchaser from specified contracts. Contingent consideration will be recognized when and if received in the future. PPD Biomarker Discovery Sciences provided biomarker discovery services and participant sample analysis and was included in the Company's Discovery Sciences segment.

Due to the unique service offerings of these subsidiaries, the Company determined these business units were no longer a long-term strategic fit and elected to sell them.

The results of Piedmont Research Center and PPD Biomarker Discovery Sciences are reported as discontinued operations within the consolidated condensed statements of income as set forth in the following table:

	Twelve Months Ended December 31,		
	2007	2008	2009
Net revenue	$19,537	$18,517	$ 7,058
Income (loss) from discontinued operations	207	(578)	(4,062)
Net gain on sale of businesses before provision for income taxes	—	—	26,707
Provision for income taxes	(121)	149	(3,481)
Discontinued operations, net of provision for income taxes	86	(429)	19,164

3. CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS, LONG-TERM INVESTMENTS AND OTHER INVESTMENTS

(dollars in tables in thousands, except per share data)

Cash and cash equivalents, short-term investments, long-term investments and other investments were composed of the following as of the dates set forth below:

	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Other Investments	Unrealized Gains	Unrealized Losses
As of December 31, 2008						
Cash	$188,632					
Time deposits	4,191	$ 10,000				
Money market funds	298,932					
Auction rate securities			$89,618			$30,457
Municipal debt securities		17,064			$ 79	117
Cost basis investments:						
Bay City Capital Funds				$ 7,504		
A.M. Pappas Funds				2,620		
Other investments				1,908		
Total	$491,755	$ 27,064	$89,618	$12,032	$ 79	$30,574
As of December 31, 2009						
Cash	$228,482					
Money market funds	180,421					
Auction rate securities			$88,558			$21,317
Municipal debt securities		$ 36,000			$153	36
Corporate debt securities—FDIC insured		12,713			48	3
Treasury securities		95,932			36	7
Equity method investment:						
Celtic Therapeutics Holdings, L.P.				$31,426		
Cost basis investments:						
Bay City Capital Funds				9,181		
A.M. Pappas Funds				3,593		
Other investments				441		
Total	$408,903	$144,645	$88,558	$44,641	$237	$21,363

Short-Term and Long-Term Investments

For the twelve months ended December 31, 2007, 2008 and 2009, the Company had the following gross realized gains and losses on investments:

	Twelve Months Ended December 31,		
	2007	2008	2009
Gross realized gains on other investments	$—	$ —	$ 1,179
Gross realized gains on municipal debt securities	—	694	—
Gross realized losses on other investments	—	(3,734)	(2,076)
Gross realized losses on municipal debt securities	—	(117)	—

In 2008, one of the investments in the Company's short-term investment portfolio incurred a loss of $7.3 million. The Company elected to liquidate the balance of this investment during 2008 and was reimbursed by an investment fund manager for $3.6 million of its loss.

The Company held $89.6 million and $88.6 million, net of unrealized loss, in auction rate securities at December 31, 2008 and 2009, respectively. The Company's portfolio of investments in auction rate securities consists principally of interests in government-guaranteed student loans, insured municipal debt obligations and municipal preferred auction rate securities. Even though the Company liquidated $10.2 million of its auction rate securities portfolio at par value

in 2009, the Company classified its entire balance of auction rate securities as long-term assets at December 31, 2009 due to continuing uncertainties about the liquidity in the auction rate securities market. The Company also recorded an unrealized loss on these investments of $30.5 million and $21.3 million as of December 31, 2008 and 2009, respectively. The Company recorded this unrealized loss based on a Level 3 valuation, including assumptions about appropriate maturity periods of the instruments by utilizing a 5- to 7-year workout period based on industry expectations, market interest rates for comparable securities and the underlying credit-worthiness of the issuers. The Company concluded that this impairment was temporary because of its ability and intent to hold the auction rate securities until the fair value recovers. The Company will continue to seek to liquidate these investments at par value and will review the classification and valuation of these securities on a quarterly basis.

The estimated fair value of short-term and long-term investment securities at December 31, 2009, by contractual maturity, was as follows:

Due in 1 year or less	$100,672
Due in 1–5 years	43,148
Due in 5–10 years	—
Due after 10 years	89,383
	$233,203

Equity Method Investment

In October 2009, the Company committed to invest up to $102.7 million in Celtic Therapeutics Holdings, L.P., or Celtic. Celtic is an investment partnership organized for the purpose of identifying, acquiring and investing in a diversified portfolio of novel therapeutic product candidates, with a focus on mid-stage compounds that have progressed through human proof of concept studies that are targeted to address unmet medical needs. As of December 31, 2009, the Company had invested a total of $32.7 million of the aggregate commitment and had an investment balance of $31.4 million after taking into account a $1.3 million loss, our percentage of Celtic's losses in the fourth quarter. The Company expects to invest the remainder of our commitment over a period of four years following the completion of Celtic's funding.

Other Investments

The Company has long-term investments in marketable and cost basis investments as of December 31, 2008 and 2009. During the twelve months ended December 31, 2009, the Company recorded a charge to earnings of $0.7 million related to an other-than-temporary decline in several of its cost-method investments.

During the twelve months ended December 31, 2008, the Company recorded a charge to earnings of $14.0 million for an other-than-temporary decline in the fair market value of its marketable investment in Accentia Biopharmaceuticals, Inc. The write-down was based on a decrease in the publicly quoted market price. In March 2008, Accentia achieved less than favorable results from its Phase III clinical trial for SinuNase, as discussed in Note 6. Accentia filed for bankruptcy in November 2008. As of December 31, 2008, the Company had completely written off its investment in Accentia. During the twelve months ended December 31, 2009, the Company sold all of its shares of stock in Accentia at various prices for total proceeds of $1.2 million, resulting in a realized gain in the same amount.

In November 2008, the Company invested a total of $1.2 million in Accelerator III Corporation and its incubator companies. The Company has committed to invest a total of up to $4.6 million. Aggregate investments through December 31, 2009 were $1.8 million. The Company owns approximately 19.9% of Accelerator III and its ownership in incubator companies will vary, but should not exceed 19.9%. In December 2009, the Company realized an other-than-temporary loss of $1.4 million related to Accelerator III and its incubator companies. The write-down was based on the financial performance of the companies. At December 31, 2009, the investment balance was $0.4 million.

The Company is a limited partner in several venture capital funds established for the purpose of investing in life sciences and healthcare companies. These funds require the Company to commit to make investments in the funds over a period of time. Although the funding commitment has expired for new investments for A.M. Pappas Life Science Ventures, III, L.P., the Company is still required to fund additional investments in existing fund investments and the ongoing operation of the fund. These funds are accounted for as cost basis investments and the Company determines realized and unrealized losses on a specific identification method.

The Company's capital commitments in these funds at December 31, 2009 are as follows:

Fund	Ownership	Total Capital Commitment	Remaining Commitment	Commitment Expiration
Bay City Capital Fund IV, L.P.	2.9%	$10,000	$2,740	September 2010
Bay City Capital Fund V, L.P.	2.0%	10,000	8,054	October 2012
A.M. Pappas Life Science Ventures III, L.P.	4.7%	4,750	1,259	December 2009
A.M. Pappas Life Science Ventures IV, L.P.	3.0%	2,935	2,436	February 2014

In June 2002, the Company purchased approximately 0.7 million units of BioDelivery Sciences International, Inc. Each unit consisted of one share of common stock and one warrant for common stock. In June 2007, the Company sold all of its outstanding warrants at various prices for total proceeds of $0.1 million, resulting in a loss of $0.2 million and 125,924 shares of common stock for total proceeds of $0.5 million, resulting in a gain of $0.2 million. In September 2008, the Company sold the remaining 564,076 common shares at various prices for total proceeds of $1.9 million, resulting in a gain of $0.5 million.

4. ACCOUNTS RECEIVABLE AND UNBILLED SERVICES

(dollars in tables in thousands, except per share data)

Accounts receivable and unbilled services consisted of the following amounts on the dates set forth below:

	December 31,	
	2008	2009
Billed	$257,386	$273,994
Unbilled	154,588	161,600
Allowance for doubtful accounts	(10,671)	(5,924)
Total accounts receivable and unbilled services, net	$401,303	$429,670

The Company derived 29.0% and 38.9% of its accounts receivable and unbilled services from operations outside the United States as of December 31, 2008 and 2009, respectively. Of these amounts, the Company derived 56.5% and 63.1% from operations in the United Kingdom as of December 31, 2008 and 2009, respectively.

Change in provision for doubtful accounts consisted of the following:

	Year Ended December 31,		
	2007	2008	2009
Balance at beginning of year	$ 6,447	$ 7,064	$10,671
Additions charged to costs and expenses	2,181	9,471	3,386
Invoice write-offs	(1,564)	(5,864)	(8,133)
Balance at end of year	$ 7,064	$10,671	$ 5,924

5. PROPERTY AND EQUIPMENT

(dollars in tables in thousands, except per share data)

Property and equipment, stated at cost, consisted of the following amounts on the dates set forth below:

	December 31,	
	2008	2009
Land	$ 8,197	$ 8,299
Buildings and leasehold improvements	248,582	259,186
Fixed assets not placed in service	19,514	24,086
Information technology systems under development	12,135	10,102
Furniture and equipment	209,474	222,649
Computer equipment and software	175,870	203,447
Total property and equipment	673,772	727,769
Less accumulated depreciation	(287,984)	(339,310)
Total property and equipment, net	$ 385,788	$ 388,459

Fixed assets not placed in service as of December 31, 2009 included software licenses purchased from a third-party vendor with annual payment terms as follows:

June 1, 2010	$ 4,212
June 1, 2011	4,212
June 1, 2012	4,212
Total future remaining payments	$12,636
Present value discount	(541)
Present value of remaining payments	$12,095

The Company classified its liability related to these licenses as $4.2 million in other accrued expense and $7.9 million in other long-term liabilities on its consolidated balance sheet as of December 31, 2009.

6. GOODWILL AND INTANGIBLE ASSETS

(dollars in tables in thousands, except per share data)

Changes in the carrying amount of goodwill for the twelve months ended December 31, 2008 and 2009, by operating segment, were as follows:

	Development	Discovery Sciences	Total
Balance as of January 1, 2008	$162,004	$53,616	$215,620
Goodwill recorded during the period for acquisitions	8,449	—	8,449
Translation adjustments	(3,015)	—	(3,015)
Balance as of December 31, 2008	167,438	53,616	221,054
Goodwill recorded during the period for acquisitions	**105,285**	**1,517**	**106,802**
Goodwill written off related to sale of business unit	**—**	**(8,487)**	**(8,487)**
Translation adjustments	**4,014**	**—**	**4,014**
Balance as of December 31, 2009	**$276,737**	**$46,646**	**$323,383**

In May 2009, the Company completed its disposition of substantially all of the assets of Piedmont Research Center, LLC, resulting in the write-off of $8.5 million in goodwill. For further details, see Note 2.

During the twelve months ended December 31, 2009, the Company made various acquisitions, resulting in the recognition of $106.8 million in additional goodwill. For further details, see Note 2.

The Company's intangible assets were composed of the following as of the dates set forth below:

	December 31, 2008			**December 31, 2009**		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Backlog and customer relationships	$4,116	$(355)	$3,761	**$24,657**	**$(2,342)**	**$22,315**
Other intangible asset	2,000	—	2,000	**2,000**	**—**	**2,000**
Total	$6,116	$(355)	$5,761	**$26,657**	**$(2,342)**	**$24,315**

Intangible assets consist of backlog and customer relationships and an other intangible asset. The Company amortizes backlog and customer relationships on a straight-line basis, based on an estimated useful life of two to ten years. The weighted-average amortization period for remaining amortization is 6.2 years for backlog and customer relationships. The other intangible asset has an indefinite life, and therefore the Company does not amortize this asset.

During the twelve months ended December 31, 2009, the Company purchased an other intangible asset for $2.0 million. During 2009, the Company also acquired in-process research and development of $10.4 million through the acquisition of Magen, which was related to the MAG-131 compound. At the time of acquisition, this program was in the pre-investigational new drug, or IND, application phase of research. The Company estimated that it would take approximately four to five years to complete research and development. The fair value of the in-process research and development was determined using the discounted cash flow method. The discounted cash flow was determined based upon projected revenue, expenses and contributory assets related to the specific project and discount rates based upon the overall weighted-average cost of capital for the asset and the additional risk related to the uncertainty of the project. The Company also

assessed the current status of development, nature and timing of efforts to complete such development, uncertainties, and other factors when estimating the fair value.

The Company filed an IND for MAG-131 in October 2009 but subsequently suspended the program due to efficacy data that was discovered in late 2009. As a result, the Company evaluated the asset for impairment. The Company reassessed the fair value of the program using a discounted cash flow model based on Level 3 inputs such as the estimated remaining costs to develop the acquired technology into commercially viable products, estimated net cash flows from the program, and a discount rate commensurate with the stage of development of the program. Based on this analysis, the Company determined that the acquired in-process research and development asset was impaired and recorded a charge of $10.4 million as of December 31, 2009. Because the intangible asset was an indefinite-lived asset, the Company did not amortize this asset during 2009..

In September 2004, the Company entered into a royalty stream purchase agreement with Accentia Biopharmaceuticals, Inc. under which it paid $2.5 million to Accentia in exchange for the right to receive royalties on sales of specified antifungal products, including SinuNase. The Company carried this agreement as an intangible asset in the Discovery Sciences segment. During 2008, Accentia reported that SinuNase did not meet its goal in treating chronic sinusitis patients in its Phase III clinical trial, discontinued the sale of antifungal products, and filed for bankruptcy. As a result, the Company determined that the right under its agreement with Accentia to receive royalties on future sales of SinuNase was impaired, and recorded an impairment of $1.6 million for the remaining unamortized value of its royalty interest in SinuNase.

Amortization expense for the twelve months ended December 31, 2007, 2008 and 2009 was $0.3 million, $0.1 million and $2.0 million, respectively. As of December 31, 2009, estimated amortization expense for each of the next five years is as follows:

2010	$3,937
2011	3,736
2012	2,917
2013	2,740
2014	2,062

7. OTHER ACCRUED EXPENSES

(dollars in tables in thousands, except per share data)

Other accrued expenses consisted of the following amounts on the dates set forth below:

	December 31,	
	2008	2009
Accrued salaries, wages, benefits and related costs	$100,917	$106,466
Funds held in escrow relating to acquisitions	—	12,415
Other	78,009	81,839
	$178,926	$200,720

8. DEBT INSTRUMENTS AND LEASE OBLIGATIONS

(dollars in tables in thousands, except per share data)

Revolving Credit Facility

Effective August 1, 2009, the Company renewed its $25.0 million revolving line of credit facility with Bank of America, N.A. Indebtedness under the facility is unsecured and subject to covenants relating to financial ratios and restrictions on certain types of transactions. This revolving credit facility does not expressly restrict or limit the payment of dividends. The Company was in compliance with all loan covenants as of December 31, 2009. Outstanding borrowings under the facility bear interest at an annual fluctuating rate equal to the one-month London Interbank Offered Rate, or LIBOR, plus a margin of 0.75%. Borrowings under this credit facility are available to provide working capital and for general corporate purposes. This credit facility is currently scheduled to expire in June 2010, at which time any outstanding balance will be due. As of December 31, 2009, no borrowings were outstanding under this credit facility, although the aggregate amount available for borrowing had been reduced by $1.8 million due to outstanding letters of credit issued under this facility.

Lease Obligations

The Company is obligated under noncancellable operating leases expiring at various dates through 2040 relating to its buildings and certain equipment. Rental expense for operating leases for continuing operations, net of sublease income of $1.8 million, $2.1 million and $1.1 million, was $46.1 million, $52.1 million and $54.0 million for the years ended December 31, 2007, 2008 and 2009, respectively. Rent expense for discontinued operations was $2.0 million, $1.6 million and $1.5 million for the years ended December 31, 2007, 2008 and 2009, respectively.

On December 31, 2009, the Company sold PPD Biomarker Discovery Sciences and the lease obligation for the PPD Biomarker Discovery Sciences facility was retained by the Company. Because the Company no longer has employees utilizing the facility and has no future plans to utilize the facility, the Company recorded a lease restructuring expense of $4.6 million as a component of discontinued operations. As of December 31, 2009, no cash payments related to the lease restructuring accrual had been made.

Some of our facility leases provide for concessions by the landlords, including payments for leasehold improvements and free rent periods. The Company reflects these concessions as deferred rent in the accompanying consolidated financial statements. The Company is recording rent expense on a straight-line basis for these leases.

As of December 31, 2009, future minimum payments for lease obligations for subsequent years were as follows:

2010	$ 53,636
2011	46,394
2012	36,796
2013	30,470
2014 and thereafter	131,754
	299,050
Less: sublease income	(1,031)
	$298,019

9. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

(dollars in tables in thousands, except per share data)

The Company has significant international revenues and expenses, and related receivables and payables, denominated in non-functional currencies in the Company's foreign subsidiaries. As a result, the Company's operating results can be affected by movements in foreign currency exchange rates. In an effort to minimize this risk, the Company from time to time purchases currency option and forward contracts as cash flow hedges against anticipated and recorded transactions, and the related receivables and payables denominated in non-functional currencies. The Company only uses currency option and forward contracts as hedges to minimize the variability in the Company's operating results arising from foreign currency exchange rate movements and not for speculative or trading purposes.

The Company enters into foreign exchange derivatives that are designated and qualify as cash flow hedges. The Company recognizes changes in the fair value of the effective portion of these outstanding contracts in accumulated other comprehensive income, or OCI. The Company reclassifies these amounts from OCI and recognizes them in earnings when either the forecasted transaction occurs or it becomes probable that the forecasted transaction will not occur. The Company's hedging contracts are intended to protect against the impact of changes in the value of the U.S. dollar against other currencies and their impact on operating results. Accordingly, for forecasted transactions, subsidiaries incurring expenses in foreign currencies seek to hedge U.S. dollar revenue contracts. The Company reclassifies OCI associated with hedges of foreign currency revenue into direct costs upon recognition of the forecasted transaction in the statement of income.

The Company recognizes changes in the ineffective portion of a derivative instrument in earnings in the current period as a component of direct costs. The Company measures effectiveness for forward cash flow hedge contracts by comparing the fair value of the forward contract to the change in the forward value of the anticipated transaction. The Company's hedging portfolio ineffectiveness during 2007, 2008 and 2009 was $0.3 million, $0.2 million and approximately $47,000, respectively.

The Company also manages its exposures on receivables and payables denominated in currencies other than the entity's functional currency through the use of natural hedges and foreign currency options and forwards, if necessary. The foreign currency derivatives are recorded at fair value, with fluctuations in the fair value being included in the statements of income. There were no outstanding foreign currency options and forwards related to receivables and payables hedging outstanding as of December 31, 2009 and the gains and losses reported in the statements of income were not significant.

As of December 31, 2009, the Company's existing hedging contracts will expire over the next 12 months. The Company expects to reclassify the current gain positions of $5.6 million, net of tax, within the next 12 months from OCI into the statement of income. At December 31, 2008 and 2009, the Company's foreign currency derivative portfolio resulted in the Company recognizing an asset of $3.1 million and $9.0 million, respectively, as a component of other current assets and a liability of $20.5 million and $0.6 million, respectively, as a component of other accrued expenses.

10. SHAREHOLDERS' EQUITY

(dollars in tables in thousands, except per share data)

Stock Repurchase Program

In February 2008, the Company's board of directors approved a stock repurchase program authorizing the Company to repurchase up to $350.0 million of its common stock from time to time in the open market. The timing and amount of any share repurchases will be determined by the Company's management based on its evaluation of the market conditions and other factors. The stock repurchase program was and will continue to be funded from existing cash and future cash flows from operations and may be discontinued at any time.

During the twelve months ended December 31, 2008, the Company repurchased approximately 2,435,000 shares of its common stock for an aggregate purchase price, including broker commissions, of $89.3 million at an average price per share of $36.68. During the twelve months ended December 31, 2009, the Company did not repurchase any shares of its common stock.

Equity Compensation Plan

The Company has an equity compensation plan under which the Company may grant stock options, restricted stock and other types of stock-based awards to its employees and directors. Total shares authorized for grant under this plan are 29.6 million. The exercise price of each option granted is equal to the market price of the Company's common stock on the date of grant and the maximum exercise term of each option granted does not exceed ten years. Options are granted upon approval of the Compensation Committee of the board of directors. The majority of the Company's options vest ratably over a period of three years. The options expire on the earlier of ten years from the date of grant or within specified time limits following termination of employment, retirement or death. Shares are issued from the Company's authorized but unissued stock. The Company does not pay dividends on unexercised options. As of December 31, 2009, there were 9.5 million shares of common stock remaining available for grant under the plan.

For the years ended December 31, 2007, 2008 and 2009, stock-based compensation cost totaled $18.9 million, $21.7 million and $16.2 million, respectively. The associated future income tax benefit recognized was $6.9 million, $7.8 million and $5.8 million for the years ended December 31, 2007, 2008 and 2009, respectively.

For the years ended December 31, 2007, 2008 and 2009, the amount of cash received from the exercise of stock options was $20.2 million, $16.2 million and $2.3 million, respectively. In connection with these exercises, the actual excess tax benefit realized for the tax deductions by the Company for the years ended December 31, 2007, 2008 and 2009 were $4.8 million, $3.1 million and $0.2 million, respectively.

A summary of the option activity under the plan as of December 31, 2007, 2008 and 2009, and changes during the years, is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2007	6,486	$22.46		
Granted	1,672	34.54		
Exercised	(1,202)	17.23		
Forfeited	(896)	27.95		
Expired	(36)	27.28		
Outstanding at December 31, 2007	6,024	$26.01		
Exercisable at December 31, 2007	3,054	$20.78		
Outstanding at January 1, 2008	6,024	$26.01		
Granted	2,744	37.14		
Exercised	(724)	22.53		
Forfeited	(207)	32.79		
Expired	(41)	25.26		
Outstanding at December 31, 2008	7,796	$30.03		
Exercisable at December 31, 2008	3,889	$23.94		
Outstanding at January 1, 2009	7,796	$30.03		
Granted	1,935	25.47		
Exercised	(184)	12.04		
Forfeited	(226)	32.97		
Expired	(135)	29.84		
Outstanding at December 31, 2009	9,186	$29.36	7.2 years	$12,665
Exercisable at December 31, 2009	5,328	$27.80	6.0 years	$11,097
Vested or expected to vest at December 31, 2009	8,752	$29.36	7.1 years	$12,421

The following table summarizes information about the Plan's stock options as of December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/09	Weighted-Average Exercise Price
$ 4.50–21.00	1,522	6.0 years	$17.45	1,076	$16.14
$21.01–24.00	1,957	5.9 years	$21.64	1,565	$21.39
$24.01–33.00	1,676	8.7 years	$27.46	313	$30.79
$33.01–36.00	1,885	6.8 years	$34.28	1,536	$34.36
$36.01–46.83	2,146	8.3 years	$42.02	838	$41.64
	9,186	7.2 years	$29.36	5,328	$27.80

All options granted during the years ended December 31, 2007, 2008 and 2009 were granted with an exercise price equal to the fair value of the Company's common stock on the grant date. The fair value of the Company's common stock on the grant date is equal to the Nasdaq closing price of the Company's stock on the date of grant. The weighted-average grant date fair value per share of options granted during the years ended December 31, 2007, 2008 and 2009 was $10.93, $9.16 and $6.28, respectively. The aggregate fair value of options granted during the years ended December 31, 2007, 2008 and 2009 was $18.3 million, $25.1 million and $12.1 million, respectively. The total intrinsic value (the amount by which the market value of the Company's common stock exceeded the exercise price of the options on the date of exercise) of options exercised during the years ended December 31, 2007, 2008 and 2009 was $23.0 million, $15.4 million and $2.0 million, respectively.

A summary of the status of unvested options as of December 31, 2009, and changes during the year then ended, is presented below:

Unvested Options	Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2009	3,907	$10.18
Granted	1,935	6.28
Vested	(1,758)	10.77
Forfeited	(226)	8.65
Unvested at December 31, 2009	3,858	$ 8.04

As of December 31, 2009, the total unrecognized compensation cost related to unvested stock options was approximately $22.6 million. The Company expects to recognize this cost over a weighted-average period of 1.6 years in accordance with the vesting periods of the options. The total fair value of shares vested during the years ended December 31, 2007, 2008 and 2009 was $21.4 million, $4.9 million and $19.0 million, respectively.

The Company estimates fair value of each option award on the grant date using the Black-Scholes option-pricing model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2007, 2008 and 2009.

	2007	2008	2009
Expected term (years)	4.00	3.75	3.50
Dividend yield (%)	0.31–0.37	0.93–1.21	1.72–2.74
Risk-free interest rate (%)	4.13–4.91	2.05–3.22	1.14–1.87
Expected volatility (%)	30.67–33.00	29.88–30.94	36.58–39.27

The expected term represents an estimate of the period of time options are expected to remain outstanding and is based on historical exercise and termination data. The dividend yield is based on the most recent dividend payment over the market price of the stock at the beginning of the period. The risk-free interest rate is based on the rate at the date of grant for a zero-coupon U.S. Treasury bond with a term that approximates the expected term of the option. Expected volatilities are based on the historical volatility of the Company's stock price over the expected term of the options.

Restricted Stock

The Company also awards shares of restricted stock to members of senior management and the Company's non-employee directors under the plan. The shares awarded to members of senior management are generally subject to a three-year linear vesting schedule with one third of the grant vesting on each of the first, second and third anniversaries of the grant date. The Company determines compensation cost based on the market value of shares on the date of grant, and records compensation expense on these shares on a straight-line basis over the vesting period. The restricted stock shares granted to the Company's non-employee directors vest over a three-year period, with ninety percent of the shares vesting on the first anniversary of the grant and five percent vesting on each of the second and third anniversary dates. The Company records compensation expense on these shares according to this vesting schedule.

During the years ended December 31, 2007, 2008 and 2009, the Company awarded 35,928, 11,116 and 65,694 shares of restricted stock, respectively, with a fair value of $1.2 million, $0.5 million and $1.6 million, respectively. The weighted-average grant date fair value of each share was $34.47, $40.92 and $24.24 for the years ended December 31, 2007, 2008 and 2009, respectively. Total compensation expense recorded during the years ended December 31, 2007, 2008 and 2009 for restricted stock shares granted was $1.1 million, $0.8 million and $0.8 million, respectively. The associated future income tax benefit recognized was $0.4 million, $0.3 million and $0.3 million for the years ended December 31, 2007, 2008 and 2009, respectively. As of December 31, 2009, the total unrecognized compensation cost related to the 74,170 shares of unvested restricted stock was approximately $1.2 million. The Company expects to recognize this cost over a weighted-average period of 2.3 years in accordance with the vesting periods of the restricted stock. The total fair value of restricted stock shares vested during the year ended December 31, 2009 was $0.7 million.

In May 2007, shares of restricted stock held by a member of the senior management team vested, and the employee elected to surrender to the Company a portion of their vested shares to pay the income taxes due as a result of the vesting in 2007. As a result, 5,943 shares were forfeited to satisfy tax obligations in this year. In connection with this vesting, the tax benefit realized by the Company for the year ended December 31, 2007 was $1.8 million. In addition, the Company's previous Chief Financial Officer and a Board member resigned in 2007 and 2008, respectively, resulting in the Company canceling 14,000 and 304 shares of unvested restricted stock that had previously been granted.

Employee Stock Purchase Plan

The board of directors and shareholders have reserved 4.5 million shares of the Company's common stock for issuance under the Employee Stock Purchase Plan (the "ESPP"). The ESPP has two six-month offering periods (each an "Offering Period") each year, beginning January 1 and July 1, respectively. Eligible employees can elect to make payroll deductions from 1% to 15% of their base pay during each payroll period of an Offering Period. In September 2007, the board of directors approved new limitations on the dollar amount of shares purchased under the ESPP for the calendar years 2008, 2009 and 2010 as $13.0 million, $15.0 million and $17.5 million, respectively. None of the contributions made by eligible employees to purchase the Company's common stock under the ESPP are tax-deductible to the employees. The purchase price is 90% of the lesser of (a) the reported closing price of the Company's common stock for the first day of the Offering Period or (b) the reported closing price of the common stock for the last day of the Offering Period. As of December 31, 2009, there were 1.2 million shares of common stock available for purchase by ESPP participants, after giving effect to shares purchased for the second Offering Period of 2009 that were issued in January 2010.

Employees eligible to participate in the ESPP include employees of the Company and most of its operating subsidiaries, except employees who customarily work less than 20 hours per week or five months in a year. Because the eligible employee criteria determine both participation in and contributions to the ESPP, it is not possible to determine the benefits and amounts that would be received by an eligible participant or group of participants in the future.

The fair value of each ESPP share is estimated using the Black-Scholes option-pricing model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2007, 2008 and 2009.

	2007	2008	2009
Expected term (years)	0.50	0.50	0.50
Dividend yield (%)	0.31–0.37	0.93–0.99	1.72–2.58
Risk-free interest rate (%).	4.74–4.90	2.12–3.37	0.27–0.35
Expected volatility (%)	21.20–28.44	31.47–31.99	31.32–36.68

The compensation costs for the ESPP, as determined based on the fair value of the discount and option feature of the underlying ESPP grant were $1.4 million, $2.1 million and $2.1 million for years ended December 31, 2007, 2008 and 2009, respectively. The income tax benefit recognized was $0.1 million for the years ended December 31, 2007, 2008 and 2009. The weighted-average grant date fair value per share during the years ended December 31, 2007, 2008 and 2009 was $5.89, $6.37 and $4.73, respectively. As of December 31, 2009, there was no unrecognized compensation cost related to ESPP shares.

For the years ended December 31, 2007, 2008 and 2009, the value of stock issued for ESPP purchases was $7.7 million, $9.2 million and $9.9 million, respectively. In connection with disqualifying dispositions, the tax benefits realized by the Company for the years ended December 31, 2007, 2008 and 2009 were $0.1 million, $0.1 million and approximately $17,000.

During the years ended December 31, 2007, 2008 and 2009, employees contributed $7.6 million, $10.0 million and $9.3 million, respectively, to the ESPP for the purchase of approximately 241,000, 330,000 and 449,000 shares, respectively. The aggregate fair value of shares purchased during the years ended December 31, 2007, 2008 and 2009 was $8.5 million, $13.8 million and $11.7 million, respectively. Contributions for the second Offering Period of 2009 were not used to purchase shares until January 2010.

11. INCOME TAXES

(dollars in tables in thousands, except per share data)

On January 1, 2007, the Company adopted a new accounting standard as it relates to accounting for uncertainty in income taxes. As of December 31, 2006, the Company had recorded a contingent tax liability of $9.1 million. As a result of the implementation of this accounting standard, the Company reclassified $8.2 million of this liability to non-current liabilities and recognized an increase in this non-current liability of $22.7 million. This increase was accounted for as a $5.5 million decrease in retained earnings, a $15.9 million increase in deferred tax assets, and a $1.3 million increase in long-term assets as of January 1, 2007. The Company includes the non-current assets in other long-term assets on the Company's consolidated balance sheet.

The Company had gross unrecognized tax benefits of approximately $16.9 million as of December 31, 2008. Of this total, $9.9 million, net of the federal benefit on state taxes, was the amount that, if recognized, would result in a reduction of the Company's effective tax rate. As of December 31, 2009, the Company had total gross unrecognized tax benefits of $31.9 million and of this total, $14.9 million was the amount that, if recognized, would reduce the Company's effective tax rate. The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits could decrease by up to $4.7 million within the next 12 months due to the settlement of audits and the expiration of the statutes of limitations.

The Company's policy for recording interest and penalties associated with tax audits is to record them as a component of provision for income taxes. During 2008, the amount of interest and penalties recorded as an expense to the statement of income was $2.0 million and $0.1 million, respectively. As of December 31, 2008, $6.0 million of interest and $1.0 million of penalties were accrued. During 2009, the amount of interest and penalties recorded as an expense to the statement of income was $1.6 million and $0.1 million, respectively. As of December 31, 2009, $5.4 million of interest and $1.1 million of penalties were accrued. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. The only periods subject to examination by the major tax jurisdictions where the Company does business are the 2006 through 2009 tax years. Various foreign and state income tax returns are under examination by taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its financial condition, results of operations or cash flows.

Roll-forward of gross unrecognized tax positions:

Gross tax liability at January 1, 2007	$ 27,980
Additions for tax positions of the current year	11,742
Reductions for tax positions of the prior years:	
Foreign exchange movements	229
Changes in judgment	(1,516)
Settlements during the current year	(560)
Statute closures	(14,083)
Gross tax liability at December 31, 2007	$ 23,792
Additions for tax positions of the current year	4,419
Reductions for tax positions of the prior years:	
Foreign exchange movements	(1,415)
Changes in judgment	(7,526)
Statute closures	(2,412)
Gross tax liability at December 31, 2008	$ 16,858
Additions for tax positions of the current year	16,732
Additions for tax positions of prior years	1,660
Increases related to acquisitions	2,499
Reductions for tax positions of the prior years:	
Foreign exchange movements	374
Settlements	(594)
Changes in judgment	(1,625)
Statute closures	(3,980)
Gross tax liability at December 31, 2009	$31,924

The components of income before provision for income taxes were as follows:

	Year Ended December 31,		
	2007	2008	2009
Domestic	$187,577	$179,385	$ 90,239
Foreign	60,169	100,032	102,844
Income before provision for income taxes	$247,746	$279,417	$193,083

The components of the provision for income taxes were as follows:

	Year Ended December 31,		
	2007	2008	2009
State income taxes:			
Current	$10,617	$ 6,671	$ 4,861
Deferred	(1,451)	(86)	667
Federal income taxes:			
Current	63,713	60,483	21,985
Deferred	(3,998)	(4,829)	3,138
Foreign income taxes:			
Current	13,107	29,948	13,397
Deferred	2,443	(718)	8,904
Provision for income taxes	$84,431	$91,469	$52,952

Taxes computed at the statutory U.S. federal income tax rate of 35% are reconciled to the provision for income taxes as follows:

	Year Ended December 31,		
	2007	2008	2009
Effective tax rate	34.1%	32.7%	27.4%
Statutory rate of 35%	$86,711	$97,796	$67,579
State taxes, net of federal benefit	6,022	5,801	4,707
Nontaxable income net of nondeductible expenses	(6,472)	(5,218)	(6,972)
Change in valuation allowance	375	(1,222)	(1,855)
Impact of international operations	(1,518)	(4,944)	(6,683)
Other	(687)	(744)	(3,824)
Provision for income taxes	$84,431	$91,469	$52,952

Components of the current deferred tax assets were as follows:

	December 31,	
	2008	2009
Future benefit of carryforward losses	$ 3,126	$ 830
Reserve for doubtful accounts	4,033	2,209
Accrued expenses	15,689	18,258
Unearned income	6,134	6,957
Valuation allowance	(2,492)	(1,802)
Other	1,482	(384)
Total current deferred tax asset	$27,972	$26,068

The current deferred tax liabilities, which are included in other accrued expenses, of $0.3 million and $0.8 million at December 31, 2008 and 2009, respectively, relate to various expenses deducted for tax purposes, not book purposes.

Components of the long-term deferred tax assets were as follows:

	December 31,	
	2008	2009
Other depreciation and amortization	$(33,832)	$(37,732)
Patent depreciation	2,886	—
Deferred rent	6,956	5,675
Stock options	18,115	22,494
Deferred compensation	2,330	2,646
Investment basis differences	14,091	8,602
Valuation allowance	(2,330)	(1,212)
Future benefit of carryforward losses	4,183	5,782
Other	5,931	5,704
Total long-term deferred tax asset	$ 18,330	$ 11,959

Components of the long-term deferred tax liabilities, which are included in other long-term liabilities, were as follows:

	December 31,	
	2008	2009
Other depreciation and amortization	$ 7,642	$14,219
Stock options	(779)	(1,450)
Pension	(4,543)	(4,568)
Other	(340)	(7)
Total long-term deferred tax liability	$ 1,980	$ 8,194

The Company has recorded a deferred tax asset for foreign and state net operating losses and credits that are subject to either five-year, 15-year, 20-year or indefinite carryforward periods. The Company has recorded a valuation allowance of $2.5 million against the net operating loss for amounts that it does not believe are more likely than not to be utilized.

The Company also recorded a deferred tax asset related to U.S. net operating losses received in acquisitions in 2003 and 2009. Although the net operating losses are subject to annual limitation under IRC Section 382, management expects all losses to be utilized during the 20-year carryforward period that is available.

The Company has also established a deferred tax asset for federal, state and foreign tax related to unrealized investment losses and state tax on realized capital losses. The Company has recorded a valuation allowance of $0.5 million for the tax benefit that it does not believe is more likely than not to be realized. The federal valuation allowance for unrealized and realized investment losses has been fully released.

In 2009, the total valuation allowance decreased by $1.8 million primarily due to a decrease in allowance for tax credit assets and foreign net operating losses.

The Company records current and deferred income tax expense related to its foreign operations to the extent those earnings are taxable. Historically, the Company has made no provision for the additional taxes that would result from the distribution of earnings of foreign subsidiaries because the Company expected to invest them permanently. Although the Company repatriated certain foreign earnings in 2005 under the American Jobs Creation Act of 2004, the Company considers that the remainder of its foreign earnings will remain permanently invested overseas. The cumulative amount of undistributed earnings for which no U.S. tax liability has been recorded was $191.6 million and $267.0 million for December 31, 2008 and 2009, respectively.

12. EMPLOYEE SAVINGS AND PENSION PLANS

(dollars in tables in thousands, except per share data)

Savings Plan

The Company provides a 401(k) Retirement Savings Plan to its U.S. employees. The Company matches 50% of an employee's savings up to 6% of pay and these contributions vest ratably over a four-year period. Company matching contributions, net of forfeitures, for all employees for the years ended December 31, 2007, 2008 and 2009 were $7.7 million, $8.3 million and $8.6 million, respectively.

Non-Qualified Deferred Compensation Plans

The Company maintains non-qualified, unfunded deferred compensation plans that permit members of the board of directors and certain highly paid executive employees who are employed in the United States to defer current income for future financial and retirement needs. An eligible employee participant may defer up to 25% of their base salary and/or a portion of their annual bonus on a pretax basis. Directors may defer up to 100% of their annual retainer and meeting fees on a pretax basis. Participants also have the opportunity to defer receipt of restricted stock. There are no Company contributions to these plans, and other than accruals for interest or dividend equivalents, all amounts credited to these plans are derived from elective deferrals of compensation otherwise payable to participants.

Cash amounts deferred each quarter will accrue interest based upon the three-month LIBOR plus 1.5%. Shares of restricted stock that are deferred are held as restricted stock units, payable as shares of common stock if and when the units become distributable. The restricted stock units remain subject to the same vesting conditions as applicable to the shares of restricted stock. In addition, restricted stock units provide for cash dividend equivalents that are payable as cash at the time the units become vested or when the units become distributable, depending on the participant's election.

The plans offer a number of account distribution options providing flexibility for financial and retirement planning. Employee participants elect with each set of annual deferrals to have the deferrals payable on a date specified by the employee that is at least two years after the deferral election is made, but not later than age 65 or the date of separation from service. The amount deferred will be payable either in a lump sum or installments over 10, 20 or 30 semi-annual installments as elected by the participant at the time of deferral. Separate payment elections are made for each year's cash and restricted stock deferrals, as applicable. Changes to payment elections are permitted in limited circumstances. However, these changes only become effective if the employee participant retires after age 55 with 10 years of service. Otherwise, the deferrals are payable in a lump sum following termination of employment, although participants may request unplanned in-service distributions in limited emergency situations. The board of directors may elect to pay out employee participants in the event of a change of control of the Company.

Director participants may elect to have the deferrals payable on a date specified by the director that is at least two years after the deferral election is made, but not more than 10 years after termination of services as a director. Alternatively, the director may elect to have the deferrals payable on a specified date or the date of termination of service of the director if earlier. Board of director participants may choose to have deferrals payable either in a lump sum or installments over a period of five years. Separate payment elections are made for each year's cash and restricted stock deferrals, as applicable. Changes to payment elections are permitted in limited circumstances. Directors may request unplanned in-service distributions in limited emergency situations. The board of directors may elect to pay out director participants in the event of a change of control of the Company.

As of December 31, 2008 and 2009, 146,135 and 209,243 shares of restricted stock granted to members of management and the board of directors were deferred under this plan and had not been issued. At December 31, 2008 and 2009, the Company recorded a deferred compensation liability under this plan of $2.6 million and $3.0 million in the consolidated balance sheets as a component of other accrued expenses.

Pension Plans

The Company has a separate contributory defined benefit plan for its qualifying United Kingdom, or U.K., employees employed by the Company's U.K. subsidiaries. This pension plan was closed to new participants as of December 31, 2002. In December 2009, the Company announced the closure of its pension plan to future additional accruals for existing members effective January 1, 2010. Participants are entitled to receive benefits previously accrued which are based on the expected pay at retirement and number of years of service through January 1, 2010. Plan assets consist principally of equities, bonds and cash managed in a mixed fund.

Following closure of the above plan to new participants, the Company set up a new defined contribution plan for qualifying U.K. employees employed by the Company's U.K. subsidiaries. The employees can contribute between 3% and 6% of their annual compensation and the Company matches those contributions with 5% to 8% of the employees' annual compensation. Company contributions for the years ended December 31, 2008 and 2009 were $2.2 million and $3.0 million, respectively.

Pension costs and other amounts recognized in other comprehensive income for the U.K. Plan included the following components:

	Year Ended December 31,		
	2007	2008	2009
Net periodic pension cost:			
Service cost benefits earned during the year	$ 1,586	$ 1,445	$ 1,082
Interest cost on projected benefit obligation	2,609	3,042	2,567
Expected return on plan assets	(2,712)	(2,988)	(1,879)
Amortization of actuarial gains and losses	550	439	986
Net periodic pension cost	2,033	1,938	2,756
Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss:			
Net (gain) loss arising during period	(197)	9,026	3,273
Amortization of actuarial loss	(550)	(439)	(986)
Foreign currency translation adjustment	16	(1,861)	(587)
Total other comprehensive (income) loss	(731)	6,726	1,700
Total recognized in net periodic pension cost and other comprehensive loss	$ 1,302	$ 8,664	$ 4,456

Weighted-average assumptions used to determine net periodic pension cost for years ending December 31 were as follows:

	2007	2008	2009
Discount rate	5.0%	5.8%	5.8%
Rate of compensation increase	4.5%	4.9%	4.5%
Long-term rate of return on plan assets	6.4%	6.6%	6.0%

The discount rate is determined using a yield curve based on an index of AA corporate bonds for the appropriate maturity of the cash-flow being discounted.

To develop the expected long-term rate of return on assets assumption, the Company considered future expectations for yields on investments weighted in accordance with the asset allocation of the pension plan's invested funds.

The change in benefit obligation, change in plan assets, funded status and amounts recognized for the defined benefit plan were as follows:

	Year Ended December 31,	
	2008	2009
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 57,149	$ 41,571
Service and interest cost during gap period	374	—
Service cost	1,445	1,082
Interest cost	3,042	2,567
Plan participants' contributions	513	427
Curtailments	—	(900)
Net actuarial (gain) loss	(5,121)	9,030
Benefits paid	(763)	(374)
Foreign currency translation adjustment	(15,068)	4,858
Projected benefit obligation at end of year	$ 41,571	$ 58,261
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 47,324	$ 29,216
Actual return on plan assets	(10,910)	6,735
Employer contributions between measurement date and prior year end	69	—
Employer contributions	4,057	3,350
Plan participants' contributions	513	427
Benefits paid	(763)	(374)
Foreign currency translation adjustment	(11,074)	3,473
Fair value of plan assets at end of year	$ 29,216	$ 42,827
Funded status:		
Funded status	$(12,355)	$(15,434)
Net amount recognized	$(12,355)	$(15,434)

Amounts recognized in statement of financial position were as follows:

	Year Ended December 31,	
	2008	2009
Accrued pension liability	$(12,355)	$(15,434)
Net amount recognized	$(12,355)	$(15,434)

All amounts recognized in accumulated other comprehensive income are related to accumulated gains.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets were as follows:

	Year Ended December 31,	
	2008	2009
Projected benefit obligation	$41,571	$58,261
Accumulated benefit obligation	$39,190	$55,044
Fair value of plan assets	$29,216	$42,827

The plan assets are valued using the net asset value that is reported by the investment funds used by the pension plan and is deemed to be a Level 2 input.

Weighted-average assumptions used to determine benefit obligations at end of plan year were as follows:

	2008	2009
Discount rate	5.8%	5.7%
Rate of compensation increase	4.5%	5.1%

Plan Assets

The Company's pension plan weighted-average allocations by asset category are as follows:

	December 31,	
Asset Category	2008	2009
Equity securities	76.7%	75.8%
Debt securities	18.5%	18.2%
Cash and net current assets	4.8%	6.0%
Total	100.0%	100.0%

An independent third party manages the plan assets and tracks the return on a benchmark portfolio matching the above strategic asset allocation. Based on advice from the Company's financial advisors, the trustees of the plan have selected the above mix of asset types in order to meet the investment objectives of the pension plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Expected benefit payments for fiscal year ending:

2010	$ 398
2011	406
2012	417
2013	427
2014	438
Next 5 years	2,361

13. COMMITMENTS AND CONTINGENCIES

(dollars in tables in thousands, except per share data)

The Company currently maintains insurance for risks, among others, associated with the operation of its business, provision of professional services and ownership of property. These policies provide coverage for a variety of potential losses, including loss or damage to property, bodily injury, general commercial liability, professional errors and omissions and medical malpractice. The Company's retentions and deductibles associated with these insurance policies range in amounts from $0 to $5.0 million.

The Company is self-insured for health insurance for the majority of its employees located within the United States, but maintains stop-loss insurance on a "claims made" basis for expenses in excess of $0.28 million per member per year. As of December 31, 2008 and 2009, the Company maintained a reserve of approximately $3.4 million and $2.9 million, respectively, included in other accrued expenses on the consolidated balance sheets, to cover open claims and estimated claims incurred but not reported.

As of December 31, 2009, the Company had commitments to invest up to an aggregate additional $14.5 million in four venture capital funds. The Company had also committed to invest up to an aggregate additional $2.8 million in other investments and $70.0 million in an equity method investment. For further details, see Note 3.

Since 1998, the Company has been involved in compound development and commercialization collaborations, and the Company has developed a risk-sharing research and development model to help pharmaceutical and biotechnology clients develop compounds. Through collaborative arrangements based on this model, the Company assists its clients by sharing the risks and potential rewards associated with the development and commercialization of drugs at various stages of development. The Company plans to spin this business off in mid-2010. As of December 31, 2009, the Company's four main collaborations were with ALZA, an affiliate of Johnson & Johnson, Takeda Pharmaceuticals Company Limited, or Takeda, Janssen Pharmaceutica N.V., an affiliate of Johnson & Johnson and Eli Lilly and Co., or Lilly. These collaborations related respectively to the product Priligy®, the late stage candidate alogliptin, two Phase II-ready therapeutic compounds and a series of early stage candidates including Vitamin D receptor modulators as well as up to six other programs for topical dermatological indications. They involve the potential future receipt of one or more of the following forms of revenue: payments upon the achievement of specified regulatory and sales-based milestones; and royalty payments if the compound is approved for sale. To date, Austria, Finland, Germany, Italy, Mexico, New Zealand, Portugal, South Korea, Spain and Sweden have approved Priligy for marketing. The Company received a $2.5 million milestone on each of the first two of these national approvals, for a total of $5.0 million, in the first quarter of 2009. It is entitled to royalties on net sales of Priligy and sales-based milestones if requisite sales levels are reached. The Company recorded the first royalties from the sales of Priligy in the second quarter of 2009. With regard to alogliptin, in June 2009, the FDA issued a complete response to Takeda on its alogliptin new drug application, or NDA, requesting Takeda conduct an additional cardiovascular safety trial that satisfies the FDA's December 2008 guidance on anti-diabetes therapies. In September 2009, the FDA issued a complete response to Takeda on its NDA for the fixed dose combination of alogliptin and ACTOS™ stating that further review would be dependent on the cardiovascular safety data that would be submitted in support of the alogliptin monotherapy NDA. The compounds related to Lilly and Janssen Pharmaceutica are still in discovery and development, respectively, and have not generated any regulatory milestone payments yet. Due to the risks associated with drug development and commercialization, including poor or unexpected preclinical and clinical trial results, obtaining regulatory approval to sell in any country and changing regulatory requirements, the Company might not receive any further milestone payments, royalties or other payments with respect to any of the Company's drug development collaborations.

As of December 31, 2009, the Company had four collaborations that involve potential future expenditures. The first is the Company's collaboration with ALZA for Priligy. In connection with this collaboration, the Company has an obligation to pay a royalty to Lilly of 5% on annual net sales of the compound in excess of $800 million.

The second collaboration involving future expenditures is with Ranbaxy Laboratories Ltd. In February 2007, the Company exercised an option to license from Ranbaxy a statin compound that the Company is developing as a potential treatment for dyslipidemia, a metabolic disorder characterized by high cholesterol levels. Under the agreement, the Company has an exclusive license to make, use, sell, import and sublicense the compound and any licensed product anywhere in the world for any human use. The Company is solely responsible, and will bear all costs and expenses, for the development, manufacture, marketing and commercialization of the compound and licensed products. It is obligated to pay Ranbaxy milestone payments upon the occurrence of specified clinical development events. If a licensed product is approved for sale, the Company must also pay Ranbaxy royalties based on sales of the product, as well as commercial milestone payments based on the achievement of specified worldwide sales targets. If all criteria are met, the total amount of potential clinical and sales-based milestones that the Company is obligated to pay Ranbaxy would be $44.0 million. The Company completed a high dose comparator study in healthy volunteers. The drug was well-tolerated and a preliminary review of results suggests the statin compound compares favorably to currently marketed statins. The Company continues to conduct limited development activities with respect to the Ranbaxy statin compound while it evaluates alternatives for future development and commercialization.

The third collaboration involving future expenditures is with Lilly. In April 2009, the Company acquired Magen, a biotechnology company founded in 2006 to discover dermatologic therapies. As a result, the Company expanded its compound partnering business into dermatology and gained screening and research capabilities for dermatologic compounds. The Company has an exclusive license to develop and commercialize Vitamin D receptor modulator compounds for use as topical treatments in dermatological indications. It also has an option agreement with Lilly to screen compounds from six additional platforms for utility in dermatology and is investigating compounds from other potential collaborators under material transfer agreements. Through the acquisition of Magen, the Company acquired in-process research and development of $10.4 million. At acquisition, the acquired in-process research and development was related to the MAG-131 compound which was in the pre-IND phase of research. The Company filed an IND for this compound in October 2009, but subsequently suspended the program for that compound due to efficacy data that was discovered in late 2009. The Company is currently screening additional Vitamin D receptor modulators from Lilly and compounds that regulate other targets to identify additional drug development candidates for other dermatological indications. Under the license arrangements with Lilly, the Company is obligated to pay clinical development milestones as well as royalties based on the sales of the product. If all criteria are met, the total potential clinical development milestones that the Company is obligated to pay would be $21.4 million per compound developed.

The fourth collaboration involving future expenditures is with Janssen Pharmaceutica. In November 2009, the Company entered into agreements with Janssen Pharmaceutica to develop and commercialize two Phase II-ready therapeutic compounds. The Company plans to study the mu delta compound as a treatment for diarrhea-predominant irritable bowel syndrome, or IBSd, and the fluoroquinolone compound as a treatment for community-acquired bacterial pneumonia and complicated skin and skin structure infections caused by gram negative or gram positive bacteria, including MRSA. Under the two agreements, the Company in-licensed the two compounds and will advance the compounds through Phase II development. At the completion of Phase II, Janssen Pharmaceutica will have the option to continue development and commercialization of each compound. In exchange, the Company may receive, for each compound, up to $90.0 million in regulatory milestone payments and up to $75.0 million in sales-based milestone payments, as well as royalties on sales of each compound if approved for marketing. In the event Janssen Pharmaceutica elects not to continue a program, the Company has the option to continue developing and commercializing the compound for that program and Janssen Pharmaceutica may receive, for each compound, up to $50.0 million in regulatory milestone payments and up to $75.0 million in sales-based milestone payments, as well as royalties on sales of each compound if approved for marketing. During 2009, the Company expensed $7.0 million of upfront payments related to the two therapeutic compounds in-licensed as part of the agreement with Janssen Pharmaceutica.

Under most of the agreements for Development services, the Company typically agrees to indemnify and defend the sponsor against third-party claims based on the Company's negligence or willful misconduct. Any successful claims could have a material adverse effect on the Company's financial statements.

In the normal course of business, the Company is a party to various claims and legal proceedings. The Company records a reserve for pending and threatened litigation matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable. Although the ultimate outcome of pending and threatened litigation is currently not determinable and litigation costs can be material, management of the Company, after consultation with legal counsel, does not believe that the resolution of these matters will have a material effect upon the Company's financial condition, results of operations or cash flows.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

(dollars in tables in thousands, except per share data)

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the accounting standards. See "Fair Value" under Note 1 for a discussion of the Company's policies regarding this hierarchy.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	$180,421	$ —	$ —	$180,421
Short-term investments:				
Treasury securities	95,932	—	—	95,932
Municipal debt securities	—	36,000	—	36,000
Corporate debt securities	9,165	3,548	—	12,713
Long-term investments	—	—	88,558	88,558
Derivative contracts	—	9,004	—	9,004
Total assets	$285,518	$48,552	$88,558	$422,628
LIABILITIES				
Derivative contracts	$ —	$ 611	$ —	$ 611
Total liabilities	$ —	$ 611	$ —	$ 611

The following table provides a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2009:

	Long-Term Investments
Balance as of December 31, 2008	$ 89,618
Adjustment to previously recognized unrealized loss on investments included in other comprehensive income	9,140
Liquidation of investments	(10,200)
Balance as of December 31, 2009	$ 88,558

Accounts Receivable, Accounts Payable and Accrued Liabilities

The carrying amount approximates fair value because of the short maturity of these items.

Letters of Credit

From time to time, the Company causes letters of credit to be issued to provide credit support for guarantees, contractual commitments and insurance policies. The fair values of the letters of credit reflect the amount of the underlying obligation and are subject to fees competitively determined in the marketplace. As of December 31, 2009, the Company had four letters of credit outstanding for a total of $1.8 million.

15. BUSINESS SEGMENT DATA

(dollars in tables in thousands, except per share data)

The Company has two reportable segments: Development and Discovery Sciences. In the Development segment, the Company provides a broad range of development services, which include preclinical programs and Phase I to IV clinical development services, as well as bioanalytical product testing and clinical laboratory services. In addition, for marketed drugs, biologics and devices, the Company offers support such as product launch services, medical information, patient compliance programs, patient and disease registry programs, product safety and pharmacovigilance, Phase IV monitored studies and prescription-to-over-the-counter programs. The Discovery Sciences segment provides services that include compound development and commercialization collaborations. The Company has announced plans to spin-off the compound development and commercialization collaboration business in 2010.

The accounting policies of the segments are described in Note 1. The Company evaluates its segment performance and allocates resources based on service revenue, gross profit and income from operations.

Revenue by principal business segment is separately stated in the consolidated financial statements. Income (loss) from operations, depreciation and amortization, identifiable assets and capital expenditures by principal business segment were as follows:

	Year Ended December 31,		
	2007	2008	2009
Operating income (loss):			
Development	$ 246,085	$ 272,541	$ 223,165
Discovery Sciences	(16,323)	9,856	(30,275)
Total	$ 229,762	$ 282,397	$ 192,890
Depreciation and amortization:			
Development	$ 53,653	$ 59,056	$ 63,830
Discovery Sciences	270	94	183
Total	$ 53,923	$ 59,150	$ 64,013
Identifiable assets:			
Development	$1,620,003	$1,692,349	$1,969,103
Discovery Sciences	64,372	62,079	61,100
Total	$1,684,375	$1,754,428	$2,030,203
Capital expenditures:			
Development	$ 93,899	$ 65,068	$ 54,166
Discovery Sciences	1,052	1,816	511
Total	$ 94,951	$ 66,884	$ 54,677

The Company reclassified its cost-method investments from the Discovery Sciences segment to the Development segment effective July 1, 2009 because of a change in management's assessment of the strategic value of those investments which are now evaluated in the financial results of the Development segment by the Company's chief operating decision maker.

16. OPERATIONS BY GEOGRAPHIC AREA

(dollars in tables in thousands, except per share data)

Geographic information for net revenue and income from operations by country is determined by the location where the services are provided for the client. Geographic information for identifiable assets by country is determined by the physical location of the assets.

The following table presents information about the Company's operations by geographic area:

	Year Ended December 31,		
	2007	2008	2009
Net revenue:			
United States	$ 878,857	$ 937,230	$ 829,812
United Kingdom	144,479	170,581	162,964
Belgium	67,406	88,529	70,046
Other[a]	304,186	355,044	353,948
Total	$1,394,928	$1,551,384	$1,416,770
Operating income:			
United States	$ 145,010	$ 160,780	$ 78,655
United Kingdom	18,553	32,302	35,731
Belgium	11,961	21,099	13,497
Other[a]	54,238	68,216	65,007
Total	$ 229,762	$ 282,397	$ 192,890
Identifiable assets:			
United States	$1,302,541	$1,298,477	$1,400,417
United Kingdom	211,138	250,905	250,290
Belgium	67,044	67,856	80,072
Other[a]	103,652	137,190	299,424
Total	$1,684,375	$1,754,428	$2,030,203

(a) Principally consists of operations in 43 countries, 23 of which are located in Europe, none of which comprises more than 5% of net revenue, income from operations or identifiable assets.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

(dollars in tables in thousands, except per share data)

2008	First	Second	Third	Fourth	Total
Net revenue	$391,672	$402,840	$393,733	$363,139	$1,551,384
Operating income	68,137	71,315	71,235	71,710	282,397
Net income	40,129	49,006	51,184	47,200	187,519
Net income per common share:					
Basic	$ 0.34	$ 0.41	$ 0.43	$ 0.40	$ 1.58
Diluted	$ 0.33	$ 0.41	$ 0.43	$ 0.40	$ 1.56
2009					
Net revenue	$364,370	$354,598	$340,400	$357,402	$1,416,770
Operating income	66,588	54,476	47,919	23,907	192,890
Net income[a]	44,569	58,061	37,674	18,991	159,295
Net income per common share:					
Basic	$ 0.38	$ 0.49	$ 0.32	$ 0.16	$ 1.35
Diluted	$ 0.38	$ 0.49	$ 0.32	$ 0.16	$ 1.34

(a) The second quarter of 2009 includes a gain on the sale of Piedmont Research Center of $19.5 million, net of tax. The fourth quarter of 2009 includes a gain on the sale of Biomarker of $2.0 million, net of tax and an impairment of intangible of $10.4 million relating to in-process R&D acquired in the Magen acquisition.

Amounts above vary from amounts originally reported due to the reclassification of discontinued operations.

Shareholder Information

ANNUAL MEETING

The 2010 annual meeting of shareholders will be held at 10 a.m. ET on Thursday, 20 May 2010, at our worldwide headquarters located at 929 North Front Street, Wilmington, North Carolina.

NASDAQ GLOBAL SELECT MARKET SYMBOL

PPDI

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Raleigh, NC

FINANCIAL REPORTS

Copies of the PPD annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with the Securities and Exchange Commission, as well as other investor materials, are available without charge through the PPD Web site at www.ppdi.com or upon request from:

Luke Heagle
Investor Relations
PPD
929 North Front Street
Wilmington, NC 28401-3331
Telephone: +910 558 7585
Fax: +910 558 7056
E-mail: info@wilm.ppdi.com

Common Stock Information

Our common stock is traded under the symbol "PPDI" and is quoted on the Nasdaq Global Select Market. The following table sets forth the high and low sales prices for shares of our common stock, as reported by Nasdaq for the periods indicated.

	2008		2009	
	High	Low	High	Low
First Quarter	$49.39	$39.22	$29.53	$20.00
Second Quarter	$45.00	$38.71	$24.24	$17.97
Third Quarter	$45.72	$36.54	$23.46	$18.77
Fourth Quarter	$41.11	$20.60	$23.80	$20.27

HOLDERS

As of February 18, 2010, there were approximately 67,300 holders of our common stock.

DIVIDENDS

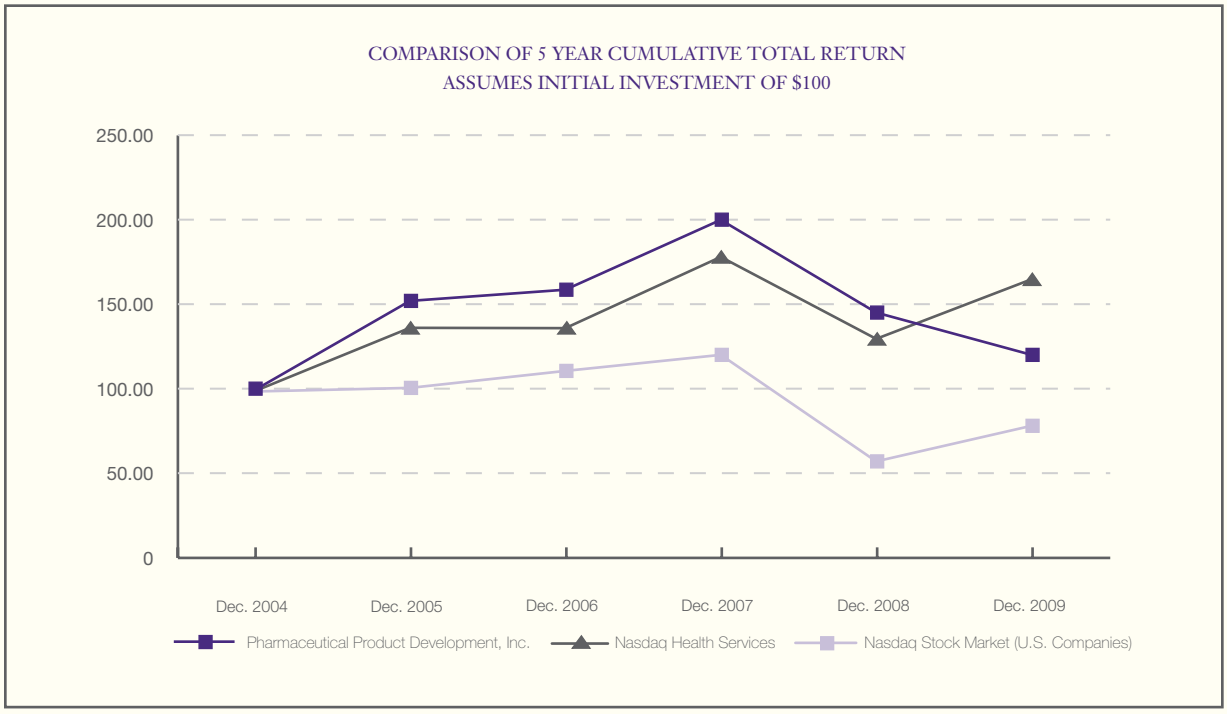
In October 2005, our board of directors adopted an annual cash dividend policy. In May 2009, our board of directors increased the annual dividend from $0.50 to $0.60 per year, payable quarterly at a rate of $0.15 per share. The annual cash dividend policy and the payment of future quarterly cash dividends under that policy are not guaranteed and are subject to the discretion of and continuing determination by our board of directors that the policy remains in the best interests of our shareholders and in compliance with applicable laws and agreements.

STOCK REPURCHASE PLAN

In February 2008, we announced our board of directors approved a stock repurchase program authorizing us to repurchase up to $350.0 million of our common stock from time to time in the open market. The timing and amount of any share repurchases, if any, will be determined by our management based on its evaluation of the market conditions and other factors. During 2009, there were no share repurchases made and the maximum dollar value of shares that may yet be purchased under the share repurchase program remains at $260.7 million.

Performance Graph

Below is a graph that compares the cumulative total shareholder return on the company's common stock from December 31, 2004, through December 31, 2009, against the cumulative total return for the same period on the Nasdaq Health Services Index and the Nasdaq Stock Market (U.S. Companies) Index. The results are based on an assumed $100 invested on December 31, 2004, and reinvestment of dividends.



Comparison of Cumulative Total Return Among Pharmaceutical Product Development, Inc. (PPDI), Nasdaq Health Services and Nasdaq Stock Market (U.S. Companies) Indices.

Zacks Total Returns Index for:	12/31/04	12/30/05	12/29/06	12/31/07	12/31/08	12/31/09
PPDI	100.00	152.79	159.41	200.74	145.88	120.85
Nasdaq Health Services	100.00	137.50	137.31	179.46	130.97	166.23
Nasdaq Stock Market (U.S. Companies)	100.00	102.13	112.18	121.67	58.64	79.70

Board of Directors and Officers

BOARD OF DIRECTORS

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Emeritus Dean and Emeritus Professor
School of Medicine
University of North Carolina at Chapel Hill

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Executive Chairman, PPD

Frederick Frank
Vice Chairman
Peter J. Solomon Company

David L. Grange, BG (R)
Chief Executive Officer, PPD

Catherine M. Klema
President
Nettleton Advisors, LLC
Formerly Managing Director,
Healthcare Investment Banking
SG Cowen Securities

Terry Magnuson, Ph.D.
Sarah Graham Kenan Professor and Chair,
Department of Genetics
Director, Carolina Center for Genome Sciences
Director, Program in Cancer Genetics,
Lineberger Comprehensive Cancer Center
University of North Carolina at Chapel Hill

Ernest Mario, Ph.D.
Lead Independent Director, PPD
Chairman and Chief Executive Officer, Capnia, Inc.

John A. McNeill, Jr.
Chief Executive Officer
Liberty Healthcare Services, LLC

Left to right, John McNeill, Terry Magnuson, David Grange, Fred Eshelman, Catherine Klema, Stuart Bondurant, Ernest Mario and Frederick Frank.

PRINCIPAL OFFICERS

Daniel G. Darazsdi
Chief Financial Officer,
Treasurer and Assistant Secretary

Christine A. Dingivan, M.D.
Executive Vice President and
Chief Medical Officer

Fred N. Eshelman, Pharm.D.
Executive Chairman

David L. Grange, BG (R)
Chief Executive Officer

B. Judd Hartman
General Counsel and Secretary

William W. Richardson
Senior Vice President,
Global Business Development

William J. Sharbaugh
Chief Operating Officer

Michael O. Wilkinson, Ph.D.
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