FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

PHARMACEUTICAL PRODUCT DEVELOPMENT INC

CIK:**1003124**| IRS No.: **561640186** | State of Incorp.:**NC** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 0-27570

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC.
(Exact name of registrant as specified in its charter)

North Carolina	56-1640186
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3151 South Seventeenth Street Wilmington, North Carolina	28412
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (910) 251-0081

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.10 per share
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No_____

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1.4 billion as of February 15, 2002, based upon the closing price of the Common Stock on that date on the NASDAQ National Market System. Shares of Common Stock held by each executive officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status might not be conclusive for other purposes.

The number of shares outstanding of the registrant's class of Common Stock, par value $0.10 per share, was 52,051,829 as of February 15, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders (certain parts as indicated in Part III).

PART I

Statements in this Report that are not descriptions of historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect management's current view with respect to future events and financial performance, but are subject to risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including those set forth

herein and in our other SEC filings, and including, in particular the factors discussed in Item 1 under the heading "Factors that Might Affect our Business or Stock Price". Because a large percentage of our operating costs are relatively fixed, variations in the timing and progress of large contracts can materially affect results.

Item 1. Business

Overview

We are a leading global provider of drug discovery and development services to pharmaceutical and biotechnology companies. Our corporate mission is to help clients maximize the return on their research and development investments. We offer therapeutic expertise, advanced technologies and comprehensive resources for both drug discovery and drug development.

We have been in the drug development business for more than 15 years. Our development services include preclinical programs through Phase 1 to Phase 4 clinical development. In addition, we also offer post-market support services for drugs receiving approval for market use, such as product launch services, patient compliance programs, and medical communications programs for consumer and healthcare providers on product use and adverse events. We have extensive clinical trial experience across a multitude of therapeutic areas that encompass various geographical areas, including regional, national and global studies.

With more than 4,500 professionals in 20 countries around the world, we provided services to 38 of the top 50 pharmaceutical companies in the world as ranked by 2000 healthcare research and development spending, in addition to our work with leading biotechnology companies. We believe that we are the world's second largest provider of drug development services to pharmaceutical and biotechnology companies in terms of 2001 annual net revenues.

Building on our outsourcing relationship with pharmaceutical and biotechnology clients, we established our discovery services group in 1997. This group focuses on functional genomics, which is the study of gene functions to identify drug targets within the body, as well as biological chemistry research and preclinical biology services for biopharmaceutical clients. In addition, in 2001 we formed a dedicated team to focus on research and development using our functional genomics proprietary platform to internally generate intellectual property.

In addition, we developed an innovative risk-sharing research and development model to help pharmaceutical and biotechnology clients develop compounds. Through these arrangements, we help our clients research and evaluate the development potential for early stage compounds, when their investment is significantly less than the amount at risk at later development phases.

We believe that our integrated drug discovery and development services offer our clients a way to identify and develop successful drugs more quickly and cost effectively. We also use our proprietary informatics technology to support our drug discovery and development services. In addition, because we are positioned globally, we are able to accommodate the multinational drug discovery and development needs of our customers. As a result of having these core areas of expertise in discovery and development, we can provide integrated services across the entire drug development spectrum, from target discovery to market and beyond.

Industry Overview

According to PhRMA and industry research analysts, the pharmaceutical and biotechnology industries spent approximately $58 billion on global research and development in 2001. Of this amount, two-thirds, or $39 billion, was attributable to development. With industry-wide outsourcing penetration estimated at 25% by industry experts, the total market for outsourced development in 2001 approximated $10 billion. Excluding subcontracted investigator fees from this figure, the CRO market in 2001 approached $6 billion. Discovering and developing new drugs is an extremely expensive and time-consuming process. The Tufts Center for the Study of Drug Development estimates the cost to develop a new prescription drug to be $802 million and that it takes between 10 and 15 years to develop a new prescription drug and obtain approval to market it in the United States.

The drug development services industry provides independent product development services to the pharmaceutical and biotechnology industries. This industry has evolved from providing limited clinical trial services in the 1970s to a full-service industry today that encompasses broader relationships with customers, covering the entire drug development process, including preclinical evaluations, study design, clinical trial management, data collection, biostatistical analysis and product registration support.

Over the past 20 years, technological advances have dramatically

changed the drug discovery process. New and improved technologies have evolved such as combinatorial chemistry, ultra high-throughput screening, new in vitro and in vivo preclinical profiling techniques, and the revolution in genetic-based drug research commonly referred to as genomics. The objective of these innovations is to find more drug targets and to screen against targets much more quickly with literally millions of chemical compounds. This process should produce many more molecules having the ability to affect biological activity. These molecules need to be tested quickly and economically.

The Drug Discovery and Development Process

Drug discovery and development is the process of creating drugs for the treatment of human disease. The drug discovery process aims to generate safe and effective drug candidates, while the drug development process involves the testing of these drug candidates for safety and efficacy in animals and humans.

The Drug Discovery Process

Targets. Historically, scientists have used classical cellular and molecular biology techniques to map biological pathways in cells to provide a cellular basis for understanding disease processes. Based on this information, scientists are now using a new set of technologies called genomics to pinpoint genes responsible for cellular disease functions. These genes encode proteins that act as drug targets that can be used in functional screens to provide a causal link between cellular function and occurrence of disease.

Screening. After identifying a potential drug target, researchers develop tests, or assays, in which chemicals are screened for their ability to alter the functional activity of the target. Thousands of chemicals can be quickly screened when these assays are incorporated into high throughput screening processes. Assays can produce chemicals that interact with a drug target known as "hits". Hits that have good potency and selectivity are called "leads" which are then tested for their potential as drug candidates.

Lead Generation. Scientists now design compound libraries to provide a starting point to identify leads in the drug discovery process and to better understand the biochemistry and therapeutic relevance of targets. High quality libraries will contain compounds of known purity, structure and weight, and will also have diverse structural variations. Once a hit is identified in a functional assay, the compound is profiled for drug characteristics such as solubility, metabolism, stability and feasibility for commercial production.

Lead Optimization. The process of "lead optimization" involves refining the chemical structure of a lead to improve its drug characteristics, with the goal of producing a preclinical drug candidate. Lead optimization typically combines empirical lead optimization and rational drug design. In empirical lead optimization procedures, large numbers of related compounds are screened for selected chemical characteristics. In rational drug design, chemicals

are optimized based on the three-dimensional structure of the target. A lead that has been optimized to meet particular drug candidate criteria and is ready for toxicity testing is called a preclinical candidate.

Process Research and Development. Compounds created for screening in lead generation and lead optimization are made in relatively small, milligram quantities. Before a drug candidate can be taken into preclinical and clinical trials, larger quantities must be produced. The goal of process research is to improve the ease with which compounds can be produced in these larger quantities, typically by minimizing the number of production steps, and to determine how to reduce the time and cost of production. Process development refers to the production scale-up and further refinement required for clinical trials and commercial manufacturing.

The Drug Development Process

The drug development process consists of two stages: preclinical and clinical. The first stage is preclinical research, in which the new drug is tested in vitro, or in a test tube, and in vivo, or in animals, generally over a one- to three-year period. The following discussion describes the role of the Food and Drug Administration, or FDA, in the drug development process in the United States. Similar regulatory processes exist in other countries.

Prior to commencing human clinical trials in the United States, a company must file an Investigational New Drug, or IND, application with the FDA which contains details for at least one study protocol and outlines of other planned studies. The company must provide available manufacturing data, preclinical data, information about any use of the drug in humans for other purposes and a detailed plan for the proposed clinical trials. The design of these trials, also referred to as the study protocols, is essential to the success of the drug development effort. The protocols must correctly anticipate

the nature of the data to be generated and results that the FDA will require before approving the drug. If the FDA does not comment within 30 days after an IND filing, human clinical trials may begin.

The clinical stage is the most time-consuming and expensive part of the drug development process. The drug undergoes a series of tests in humans, including healthy volunteers as well as patients with the targeted disease or condition.

Human trials usually start on a small scale to assess safety and then expand to larger trials to test efficacy. These trials are usually grouped into the following three phases, with multiple trials generally conducted within each phase:

- Phase 1 trials involve testing the drug on a limited number of healthy individuals, typically 20 to 80 persons, to determine the drug's basic safety data, including tolerance, absorption, metabolism and excretion. This phase lasts an average of six months to one year.

- Phase 2 trials involve testing a small number of volunteer patients, typically 100 to 200 persons, who suffer from the targeted disease or condition, to determine the drug's effectiveness and how different doses work. This phase lasts an average of one to two years.

- Phase 3 trials involve testing large numbers of patients, typically several hundred to several thousand persons, to verify efficacy on a large scale, as well as long-term safety. These trials involve numerous sites and generally last two to three years.

After the successful completion of all three clinical phases, a company submits a New Drug Application, or NDA, or a Product License Application, or PLA, to the FDA requesting that the drug be approved for marketing. The NDA or PLA is a comprehensive, multi-volume filing that includes, among other things, the results of all preclinical and clinical studies. The FDA's review can last from a few months to several years, depending on the drug and the disease state that is being treated. Drugs that successfully complete this review may be marketed in the United States. As a condition to its approval of a drug, the FDA might require additional clinical trials following receipt of approval, in order to monitor long-term risks and benefits, to study different dosage levels or to evaluate different safety and efficacy parameters in target populations. In recent years, the FDA has increased its reliance on these trials, known as Phase 3b and Phase 4 trials, which allow new drugs that show early promise to reach patients without the delay typically associated with the conventional review process.

Trends Affecting the Drug Discovery and Development Industry

The drug discovery and development services industry has been and will continue to be affected by the following trends:

Rapid Technological Change and Increased Data. Scientific and technological advancements are rapidly changing the drug discovery and development processes. The technology to understand gene function, known as functional genomics, is widely expected to result in a dramatic increase in the number of potential drug targets within the human body. All of the human therapeutic drugs on the market today are directed at approximately 500 targets. The genomics revolution is projected to expand the number of potential targets to between 5,000 and 10,000. This proliferation of potential targets increases the need for companies to use state-of-the-art technologies to rapidly and effectively analyze large numbers of compounds to identify and optimize promising lead drug candidates. This technology and the human expertise necessary to manage and keep up with it are costly. Companies can reduce their fixed costs by outsourcing this technology.

Increase in Potential New Drug Candidates. The increase in potential new drug candidates resulting from the genomics revolution has caused a bottleneck in the drug development industry. While the number of drug candidates is expected to rapidly increase, the time to develop a new drug candidate has not been reduced and in fact has increased in the last 30 years. Pharmaceutical and biotechnology companies do not have the internal resources to pursue development of all of these new drug candidates on their own. Consequently, these companies are looking to the drug development services industry for cost-effective and rapid means of developing new drugs.

Biotechnology Industry Growth. The United States biotechnology industry has grown rapidly over the last ten years. This industry is generating significant numbers of new drug candidates that will require development and regulatory approval. Many of these new drug candidates are now moving into clinical development while many biotechnology companies do not have the necessary staff, operating procedures, experience or expertise to conduct clinical trials on their own. Because of the time and fixed cost involved, these

companies do not have the inclination to develop their own staff in this area. Moreover, the United States biotechnology industry is expanding into and within Europe, providing additional growth opportunities for drug discovery and development services companies with global capabilities.

Need for Large Scale Global Support. More pharmaceutical and biotechnology companies currently are filing drug registration packages in several major jurisdictions simultaneously, rather than following the past practice of filing sequentially. The studies to support these registration packages frequently include a combination of multinational and domestic trials. This trend puts an emphasis on global experience and significant process coordination throughout the development process, including the collection, analysis, integration and reporting of clinical trial data.

Cost Pressures of Introducing New Drugs. Market forces and governmental initiatives place significant pressure on pharmaceutical and biotechnology companies to reduce drug prices. Pressures on profit margins have arisen primarily from increases in the cost of the drug discovery and development process. In addition, increased competition as a result of patent expiration, market acceptance of generic drugs, and governmental and private managed care organization efforts to reduce healthcare costs have added to the pressures of introducing a new drug. The industry is responding by consolidating, downsizing operations, decentralizing the internal discovery and development process, and minimizing fixed costs. In addition, increased pressure to differentiate products and justify drug pricing are resulting in growth in healthcare economics services with respect to drugs under development and those already on the market. Consequently, pharmaceutical and biotechnology companies are attempting to increase the speed of new drug discovery and development. By identifying possible lead compounds and eliminating others from the discovery process as early as possible, companies can focus their research and development efforts more efficiently. Turning drug discovery and development processes over to third parties also minimizes these companies' fixed costs.

The PPD Solution

We address the needs of the pharmaceutical and biotechnology industries for drug discovery and development by providing integrated services to help our clients maximize the return on their research and development investments. We believe that our application of innovative technologies, therapeutic expertise and commitment to quality throughout our integrated drug discovery and development services offer our clients a way to identify and develop successful drugs more quickly and cost effectively. We have developed significant drug development expertise from over 15 years of operation. Over the past four years, we have expanded our services to include drug discovery services to help our clients identify potential new drug candidates, reduce drug discovery time and minimize unproductive compound development. We also use our proprietary informatics technology to support our drug discovery and development services and offer alternative models for virtual drug development. Lastly, because we are positioned globally, we are able to accommodate the multinational drug discovery and development needs of our customers.

Our Strategy

Our corporate mission is to help clients maximize the return on their research and development investments. The key parts of our strategy to accomplish this mission include the following:

- Continue to build upon our core competencies. We are an established company led by executives with significant discovery and development experience in major pharmaceutical companies bringing successful drugs to market throughout the world. This experience and expertise constitute our core operational strengths. Our effective performance in drug development services has made us, we believe, the second largest provider of those services in the world. We are continually leveraging this expertise as we expand our drug discovery services, informatics and collaborations to develop new drugs, such as our risk-sharing partnership for development of early stage compounds.

- Continue to provide a broad range of integrated drug discovery and development products and services. We offer a broad range of integrated products and services that are designed to address our clients' needs throughout the entire drug discovery, development and post-market spectrum. We believe that our range of drug development services is one of the most comprehensive available from a single company. By combining our drug discovery technology with our comprehensive development services, we believe we can more effectively serve our existing clients and attract new ones.

- Further develop intellectual property rights. We believe that one of the keys to our long-term performance is the development of our intellectual property rights in a variety of areas, including genomics, chemistry and software. We expect to invest more in developing our functional genomics technology, the GSX/TM/ system, including the development of databases of functional information on genes. In the future we might, internally or through a partner, develop screening assays for our targets. We also plan to synthesize additional chemical libraries, both for sale and directed at specific targets. We expect to continue to develop associated software, such as our SAR System/TM/ for chemical library design and First Pass/TM/ for preclinical development program planning.

- Continue to master and incorporate advanced technologies into our service offerings. We believe that optimizing the use of advanced technologies can accelerate the drug development process and yield valuable marketing information. We have broad experience in the use of technology in drug discovery and development services, and offer a wide range of technology-based products and services. We use a mixture of commercially available third-party systems and selected internally developed software to offer our clients advanced technology for expediting the drug discovery and development processes. As new technologies develop, we equip and train our employees to make use of technological innovations. We also plan to continue to leverage and build strategic technology relationships, such as those with Oracle Corp and PhaseForward.

- Continue to pursue collaborative drug candidate licensing relationships. We plan to continue to selectively seek opportunities for risk sharing arrangements on early stage compound discovery and development. These in-licensing arrangements could provide us with opportunities, after further development, to license compounds back to the originating company or to others in exchange for up-front, milestone and royalty payments. We also periodically evaluate in-licensing opportunities from companies and from academic institutions seeking outlets for the continued development of their discoveries. We also intend to selectively pursue out-licensing arrangements where we would own discoveries made by us while providing drug discovery services to a customer, which we would be able to license or sell for commercial development.

- Continue strategic global expansion to meet client needs. We currently have operations in the Americas, Europe, South Africa, Asia, the Middle East and the Pacific Rim, which we believe, positions us to meet our clients' multinational needs. We intend to further expand globally, as we deem appropriate to meet our existing and prospective clients' demands.

- Continue to pursue strategic acquisitions and investments. We will continue to actively seek strategic acquisitions and investments, both within and complementary to our current products and services. Our criteria for acquisitions and investments include complementary client lists, ability to increase market share within and across clients, complementary therapeutic area and service segment strengths, strategic geographic capabilities, particular process expertise, and complementary services, products or technologies.

Our Services

We have been providing our core drug development services for over 15 years. Over the past few years, we have expanded our service portfolio to include discovery and post-market support services. We provide services designed to increase efficiency, reduce timelines and save costs through our global infrastructure, integrated research and development technologies and experience, and customer-focused communications.

Our Discovery Sciences Group

Our Discovery Sciences Group was established in 1997 and focuses on the discovery research segment of the pharmaceutical research and development outsourcing market. We have acquired or developed proprietary genetic and chemical technologies to improve the productivity of biopharmaceutical research and development. These technologies cover a number of discovery techniques, including our patented GSX system, a functional genomics platform technology to

find and confirm drug targets, biochemistry to optimize the targets and preclinical biology to validate and prioritize these potential drug targets.

Functional Genomics. Genomics is revolutionizing the process of drug discovery through the sequencing of the human genome and the identification of genes associated with disease. It is estimated that there are approximately 35,000-40,000 genes in the human genome. Genes are comprised of chemical structures called nucleotides and it is the order of these nucleotides that make up a gene sequence. Through a complex sequence of events, genes specify, or encode, proteins that have specific functions in cells. Neither a gene sequence nor gene disease association data alone provide sufficient information to identify cellular proteins that make effective drug targets. Our proprietary functional genomics technology provides the means to link gene sequences with cellular mechanisms known or believed to be involved in disease to develop effective screens for drug discovery.

The basis for and the advantage of our proprietary GSX system are that it identifies essential genes in a disease pathway based on function. A change in biological function observed by our scientists enables them to identify a gene that has a causal link to a particular disease. In the GSX system, we start with a set of genes that we want to test as potential drug targets. These genes are then broken up to generate a collection of small, random strings of nucleotides, referred to as gene fragments. These gene fragments are then put into test cells where the fragments will be converted into protein, or "expressed." Our scientists observe the test cells to detect any change in a particular function. We expect that some of the gene fragments will alter the activity of a component of the test cells causing a desired change in a cellular property, or "phenotype." Thus, it is essential to have cells that display a

desired biological property that is known or believed to be part of a disease pathway. For example, a malignant cell is useful for identifying a gene fragment that alters the growth pattern of the cell and therefore potentially has anti-tumor activity.

Our scientists look for cells in which a particular function has been inhibited by the gene fragment introduced into the cell, such as loss of malignant growth. The functional inhibition results from expression of certain gene fragments in the cells that can effectively inhibit the function of the whole, or full-length, gene corresponding to the fragment. In general terms, the gene fragments are said to be acting on targets that are essential to the cellular function that is inhibited. Such targets are the full-length gene. Each inhibitory gene fragment is called a genetic suppressor element, or GSE. Some GSEs interfere with the production of the protein encoded by the target gene, while others inhibit the biochemical activity of the protein encoded by the target gene. After our scientists identify cells with altered phenotypes, they isolate the cells that display the desired phenotype and recover the inserted GSE from these cells. Our scientists then determine the nucleotide sequence of each GSE. Upon searching large databases containing gene sequences of the human genome using a GSE sequence, we can frequently find the gene from which that GSE came. The role of the newly identified target gene is then validated in a biological assay that is relevant to a particular disease state.

GSEs can themselves be used as therapeutic compounds or they can be used as drug discovery tools. They are potentially useful for both functions because of their inhibitory nature. Typically, GSEs are used to identify and validate drug discovery targets based on the premise that if a GSE causes a desired effect on a target, then a drug acting on the same target as the GSE should produce the same outcome. Once we identify a target using our GSX system, a scientist can easily test the ability of a chemical compound to inhibit the activity of the target using any one of a variety of conventional biological assays, preferably in a high throughput screening format to expedite the process.

Our GSX system can be applied to finding treatment for such diseases as cancer, heart disease, viral infections and others. In principle, the technology permits identification of all necessary components of any disease pathway as long as the component is involved in an observable phenotype. We offer our GSX system as part of our services to collaborators throughout the drug discovery process.

Chemistry and Preclinical Biology. Our chemistry and preclinical biology groups are devoted to assisting our customers from lead generation through IND filing. These services include providing chemicals with selected structures for screening, as well as employing a variety of methods to help determine which hits and leads have drug-like characteristics that make them worthy of additional study or optimization. We provide a broad range of chemistry and preclinical products and services, including:

- lead generation;
- lead profiling and portfolio prioritization;
- lead optimization;

- preclinical program design and proprietary preclinical project management software;
- custom designed combinatorial libraries; and
- in vitro metabolism reagents.

Lead Generation. The availability of high quality compound libraries that have been designed with structures relevant for screening specifically against important targets and that are designed for rapid lead optimization is a rate-limiting step in the drug discovery process. We have developed synthesis protocols to produce small molecule libraries so that any leads generated require less optimization and have a greater likelihood of success of becoming drug candidates. Our chemists can create scaffolds according to customer specifications or directed toward specific targets. We can also provide library synthesis as a re-synthesis service for a customer's in-house or previously purchased compound libraries. The parallel synthesis strategy we employ typically yields between one to 10,000 components in multi-well plates in which a library is stored. We use all available components to input a range of diversity for production of customer-unique libraries. We invest significant effort in the process and synthesis of each library to ensure that the compounds generated are of known purity, structure, diversity, and

amount. We analyze the library during each stage of its development to ensure the identity of each compound and to maintain quality.

We have developed proprietary software that uses various parameters to define diversity in a library. Our SAR System is a proprietary software system that analyzes how changes in chemical structure correlate with physical and chemical parameters of compounds in a virtual library. The SAR System software can be used prior to library synthesis to construct a virtual library based on customer specifications. We can then minimize the components of the virtual library to identify compounds that potentially interact with a particular target to be screened as leads.

We design and produce custom libraries of compounds for our clients. These libraries are generally focused toward specific target families or our customer specifications. We also produce custom-designed libraries for internal research and development programs.

Lead Profiling and Prioritization Resources. Our lead profiling and prioritization services facilitate the early screening process and enable our customers to choose compounds that have the best chance of success in the preclinical and clinical arenas. We can also perform computational analysis to predict absorption, toxicity or metabolite characteristics of a lead compound. We can employ a variety of assays to profile lead compounds including assays that use Pharmazyme(TM) isoymes, our patented recombinant human cytochrome P450 enzymes. Cytochrome P450s are enzymes primarily responsible for metabolizing many drug substances. We can identify metabolizing enzymes and identify metabolites. Using such in vivo assays, we can also determine pre-formulation, solubility and stability characteristics. We also employ a process known as cassette dosing in animals, which allows us to simultaneously evaluate a number of compounds in screening pharmacokinetic studies.

Lead Optimization. Our medicinal chemists can optimize structures to improve the profile of a compound or lead series generated from multiple starting points, including leads provided by our customers, leads generated internally from our custom libraries, and leads from internally generated libraries designed and synthesized to customer specifications. Regardless of the lead's source, we emphasize simultaneous improvement of multiple parameters of lead compounds. Our experts are able to evaluate and re-engineer compounds to improve compound solubility, absorption, half-life, inherent toxicity, delivery or pro-drug generation.

Preclinical Program Design and Proprietary Preclinical Project Management Software. Once a potential drug candidate is identified, we offer products and services that enable our customers to reach a faster decision whether to advance the drug candidate into a preclinical program and with a greater probability of success. We offer our customers access to our proprietary Web-based interactive tool called First Pass, a software program that helps the user prepare an efficient preclinical development plan based on a variety of parameters including route of administration, therapeutic indication being treated, mechanism of action of the compound or class, structure of the compound or class, similarity of the compound to known marketed drugs, duration and patient population. The program estimates costs, amount of material required and study timelines. The program also helps identify studies critical for development. Our experts can then provide full preclinical development services and can integrate other development services internally.

Our chemistry group also offers chemistry services, including:

- synthesis of stable isotope-labeled compounds;
- large scale chemical synthesis;

- synthesis of structurally complex clinical comparators, impurities and degradants;
- synthetic feasibility analysis to assess ease of scale-up;
- purification of active drug substance;
- re-certification of new or expired analytical standards;
- SAR analysis of compound portfolios;
- review of Type 2 Drug Master Files, IND/NDA Chemistry, Manufacturing and Controls sections, and patents; and
- drug metabolite, impurity and degradant characterization and identification.

Drug Development Collaborations. For a number of reasons, mostly limitations of development resources, biotechnology and pharmaceutical companies have discovered therapeutic compounds but have not yet begun to develop them. The failure to develop often is because the discovery has efficacy outside of the core therapeutic expertise of the company or the potential market for the discovery falls below the company's minimum threshold for development. We believe that there are attractive opportunities to selectively in-license these discoveries, jointly develop them with a third party and license them out again in collaborative arrangements that combine our global development resources with these discoveries. We currently offer contract clinical research services as part of joint development agreements with owners of chemical compounds in need of development.

For example, in January 2001, we granted ALZA Corporation, which later merged with Johnson & Johnson, an exclusive license to our compound, dapoxetine, for genitourinary indications, including premature ejaculation. We received a license for such rights in 1998 as part of a development collaboration with Eli Lilly. Under the terms of the agreement, Johnson & Johnson received worldwide rights to develop and commercialize dapoxetine and is responsible for manufacturing, clinical, regulatory, sales and marketing costs resulting from the license. In exchange, we received an up-front payment and will receive royalties on net sales and milestone payments based on product approval and meeting certain sales levels.

We intend to continue to use our development expertise both on a fee for service basis and in risk-sharing arrangements. We generally structure these risk-sharing arrangements to provide us with up-front fees, milestone payments and royalties as a compound is developed.

Our Development Group

We have designed our various global services to be flexible and integrated in order to assist our clients in optimizing their research and development spending through the clinical stages of the drug development process. We provide a broad range of development services, either individually or as an integrated package, to meet clients' needs. We provide systems integration services and software development services, and create data links between discovery and development.

Phase 1 Clinical Testing. We are one of the industry's largest Phase 1 trial providers, with clinical testing services conducted in a 220-bed unit in Austin, Texas, a 70-bed unit located near Research Triangle Park, North Carolina, and a 50-bed unit in Leicester, England. Our professional nursing and physician staff administers general Phase 1 safety tests, special population studies, and bioavailability and bioequivalence testing. Bioavailability and bioequivalence testing involves administration of test compounds and obtaining biological fluids sequentially over time to measure absorption, distribution, metabolism and excretion of the drug. Special population studies might involve the elderly, women or patients with specific diagnoses, such as renal failure or asymptomatic HIV disease. Our Austin, Texas site also has a Dental Research Center to evaluate the safety and effectiveness of new analgesic compounds in molar extraction models.

Our in-house clinical laboratory supports the Phase 1 operations in Austin. This laboratory performs analytical assays on volunteer specimens to ensure that each subject qualifies for the study and is not adversely affected by a drug. Having our laboratory in the same facility as the volunteers speeds our response time to unexpected outcomes. This laboratory also provides services to function as a central laboratory for Phases 2 through 4 studies. We manage our Phase 1 services to maximize scheduling flexibility and efficiency. These services also can be integrated with our other services, such as laboratory, data management, pharmacokinetic and biostatistical services.

Laboratory Services. We provide bioanalytical services through good laboratory practice, or GLP, compliant laboratories in Richmond, Virginia and Middleton, Wisconsin. Our bioanalytical laboratories analyze biological fluid samples from animal and human clinical studies. The latter includes those conducted by our Phase 1 units as well as those conducted on behalf of our clients from Phase 1 through Phase 4 for drug and metabolite content and concentration. We currently have over 1,500 validated assays available for our

clients' use in conducting laboratory analyses, qualifying us for a wide range of assignments. Our laboratories also process fluid samples for preclinical studies.

We provide product analysis laboratory services through our good manufacturing practice, or GMP, compliant laboratory in Middleton, Wisconsin. Our product analysis services include dissolution and stability studies, which are necessary to characterize dosage form release patterns and stability under various environmental conditions in the intended package for marketing. These studies must be carried out from preclinical through Phase 1 to Phase 4 and maintained over the commercial life of products. New formulations as well as generics, those prescription products going to over-the counter status that no longer require physician prescription for consumer use, require the same set of studies as the original dosage form.

Our analytical methods include gas chromatography/mass spectrometry, liquid chromatography/mass spectrometry, high performance liquid chromatography, gas chromatography, radioimmunoassay and enzyme linked immunosorbent assay. Support services include facilities for handling HIV-positive samples, data management for pharmacokinetic studies from multi-center trials and sample/data archiving.

We are one of a few full service companies able to offer our clients the advantages of both bioanalytical and product analysis, as well as Phase 1 clinical testing.

Phases 2 through 4 Clinical Trial Management. The core of our development business is a comprehensive package of services for the conduct of Phases 2 through 4 clinical trials, which, in concert with our other services, allow us to offer our clients an integrated package of clinical management services. We have significant clinical trials experience in the areas of:

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General Areas of Expertise	Specific Areas of Expertise
AIDS	Primary disease and treatment/prophylaxis of opportunistic infections
Analgesia	Acute and chronic pain modeling
Biotechnology	Growth hormone, multiple sclerosis, wound healing
Cardiovascular disease	Hypertension, angina pectoris, stroke
Central nervous disease	Schizophrenia, depression, epilepsy, chronic pain, anxiety, obsessive-compulsive disorders, panic disorders
Critical care	Sepsis, ARDS (acute respiratory distress syndrome)
Dermatology	Wound healing, acne, hair loss, psoriasis
Gastronenterology	Duodenal ulcer, gastric ulcer, gastro-esophogeal reflux disease, H.pylori, nonsteroidal anti-inflammatory drug-induced ulcers, inflammatory bowel disease, and irritable bowel disease
Genitourinary	Incontinence, sexual dysfunction
Infectious disease	Acute and chronic bacterial and fungal diseases, including pneumonia, influenza and sinusitis
Metabolic disease	Diabetes, hormone replacement therapy
Oncology	Prostate, colorectal, breast, lung and other cancers
Pulmonary/Allergy	Asthma, allergic rhinitis, community acquired pneumonia
Rheumatology	Rheumatoid and osteoarthritis
Urology	Sexual dysfunction, urinary incontinence
Virology	Herpes simplex, hepatitis B, chronic hepatitis C, herpes genitalia, RSV
Women's health	Osteoporosis, oral contraception

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We serve our clients' needs by conducting clinical trials through a project team. A project manager supervises all aspects of the conduct of the clinical trial, while our clinical research associates are in the field monitoring the trial at the various investigational sites where it is being

conducted. Within this project-oriented structure, we can manage every aspect of the clinical trial in Phases 2 through 4 of the drug development process. The services that we offer to initiate clinical trials include protocol development, case report form design, feasibility studies, investigator selection, recruitment and training, site initiation and monitoring, accelerated patient enrollment, development of training materials for investigators and training of clients' staff.

We monitor our clinical trials in compliance with government regulations. We have adopted global standard operating procedures intended to satisfy regulatory requirements in the United States and in many foreign

countries and serve as a tool for controlling and enhancing the quality of our clinical trials. All our standard operating procedures are in compliance with good clinical practice, or GCP, requirements and the International Conference on Harmonization, or ICH, standards. The FDA and the European community have adopted these standards, and more recently, the Japanese community, has agreed to conduct all studies in accordance with these standards. We compile, analyze, interpret and submit data generated during clinical trials in report form to the FDA or other relevant regulatory agencies for purposes of obtaining regulatory approval. We provide consulting on conducting clinical trials for simultaneous regulatory submissions to multiple countries.

We provide our clients with one or more of the following Phases 2 through 4 clinical trial management services using parallel processing to accelerate the development process:

Study Design. We serve our clients in the critical area of study design by applying our experience in the preparation of study protocols and case report forms.

Investigator Recruitment. During clinical trials, physicians, who are also referred to as investigators, at hospitals, clinics or other locations, supervise administration of the drug to patients. We recruit investigators who contract directly with either us or our clients to participate in clinical trials. For large-scale late stage trials, we use our Telecommunications Center, or TCC, for investigator recruitment. The TCC integrates telephones, relational databases, computerized scripts and customized tracking software for investigator recruitment, and centralized management of large-scale trials. In 2001, TCC had two clinical trials that enrolled more than 50,000 patients, recruited and managed more than 11,000 sites and processed more than 500,000 case report form pages.

Study Monitoring. We provide study-monitoring services, which include investigative site initiation, patient enrollment assistance and data collection through subsequent site visits. We have monitored many clinical trials, including a number of very large studies. For example, we are engaged in a project with the National Institute of Health, begun in 1990, which has approximately 50 protocols open at any given time. This project involves approximately 700 investigational sites and approximately 100,000 enrolled patients. To date, this project has generated 300 protocols and over 4,000 pharmacy, regulatory and operational audits at the sites.

Clinical Data Management and Biostatistical Analysis. We provide clients with assistance in such areas as study design, sample size determination, case report form design and production, fax-based monitoring, database design and construction, data safety and monitoring board summaries and presentations, interim analyses, new drug application preparation and production and FDA presentations and defense.

Medical Writing and Regulatory Services. We provide full planning services for product development, including preclinical review, chemistry, manufacturing and controls, or CMC, consulting and clinical protocol development. These activities are complemented by report writing, program management and regulatory services designed to reduce overall development time.

Post-Development Support. We provide custom-designed pharmaceutical and medical information programs in support of post-marketed pharmaceutical products. Other services include clinical consultations with pharmacists, nurses, veterinarians and other customer assistance specialists.

Healthcare Economics, Outcomes and Marketing Research. We offer a number of services in the healthcare economics, outcomes and market research to pharmaceutical and biotechnology companies, as well as managed care payors and providers. These services include: prospective health economic and outcomes studies incorporated into Phases 2 through 4 clinical trials; retrospective studies including database valuations and medical chart reviews to analyze use patterns; mathematical modeling of health economics and outcomes information to real world settings; epidemiological study design and implementation; and development and implementation of publication strategies for health outcomes and marketing research results.

Informatics. Our informatics division develops specialized software products to support different aspects of the pharmaceutical research and development process, including drug discovery, clinical trials and regulatory review. Our informatics clients include international and domestic pharmaceutical and biotechnology companies and government agencies, including the FDA. Our current informatics software products include:

- PPD Patient Profiles, which streamlines patient data review;
- TableTrans(R), which automates data transformation and integration;
- CrossGraphs(R), which provides graphical displays of complex research data;
- Resolve(TM), which manages data queries to investigator sites; and
- Classify(TM), which manages global coding capabilities.

A primary focus of our informatics division is to provide consulting services to help pharmaceutical and biotechnology companies assess and resolve clinical data management and safety system challenges, such as integrating and customizing systems, migrating clinical and safety data following mergers, or replacing legacy systems with commercial Web-based or client-server systems. In December 2000, we were selected by Oracle, a leading provider of clinical data management software in the industry, as their first application services provider offering regulatory compliant hosting services for Oracle's pharmaceutical applications.

We are continuing to build on our e- capabilities to offer time efficiencies and enhanced quality through Web-based programs to our clients. We retooled our internal clinical data management capabilities with Oracle's new Web-based applications to help streamline our internal data management processes and we are working with several clients on Remote Data Capture trials to accelerate the capturing and cleaning of clinical data. In June 2001, we launched PPD DirectConnect, which provides secured client Web sites to provide online access to key study information. In addition, we developed automated processes for delivery of key sections of clinical regulatory submissions to the FDA and we use a cancer information Internet site, CancerConsultants.com, with a reach of up to one million viewers per month as a primary tool for patient recruitment in this therapeutic area.

Pharmacogenomics. Pharmacogenomics is the use of genetic information to predict the safety, toxicity and/or efficacy of drugs in individual patients or groups of patients. In November 1997, we began providing pharmacogenetic services for clinical trials with molecular genotyping, phenotyping and DNA purification and archiving services through our GLP certified laboratories. In February 1999, this business became part of PPGx, Inc., our pharmacogenomics joint venture with Axys Pharmaceuticals, Inc. PPGx provides comprehensive pharmacogenomics products and services to pharmaceutical and biotechnology companies by combining genetic research technologies from its computational and research divisions, laboratory services and bioinformatics platform. We believe that pharmacogenomics is becoming widely adopted as a drug discovery and development tool and increasingly important in an individual's diagnosis and treatment regimen. In December 2000, PPGx was acquired by DNA Sciences, a genetics company focused on identifying the genetic basis of disease susceptibility, prediction of disease progression and response to drug treatment. We retained our exclusive marketing rights to PPGx pharmacogenomics products and services, sold under the brand name Pharmacogenomic Solutions(TM). During 2001, we modified our agreement with DNA Sciences as follows: DNA Sciences took over the marketing rights while we acquired the code and rights to GeneTrialsTM bioinformatics platform and also gained access to their pharmacogenetic intellectual property to develop therapeutics. We own a minority position in DNA Sciences.

Clients and Marketing

We provide a broad range of research and development and consulting services in the Development and Discovery Sciences Groups to help pharmaceutical and biotechnology companies from target discovery through development to post-market.

Our Development Group provides Phase 1 to Phase 4 clinical development and post-market support. We believe that the key differentiators that help us win business for our development services includes our global infrastructure, quality assurance and control practices, dedicated project teams, and cross-functional therapeutic units with dedicated expertise. Our services include Phase 1 trial clinics in the United States and Europe, a unique ability to offer analytical lab services from in vivo animal analysis through Phase 4 with our GLP bioanalytical and cGMP product analysis laboratories, and integrated technologies and expertise to provide simultaneous, multinational Phase 2 through Phase 4 submissions. In addition, we offer medical and drug information services and marketing services for post-market support from our medical communications division. We also offer consulting and technology for

clinical management, coding and drug safety from our informatics division. We market our development services primarily in the United States and Europe and are growing our capabilities in Asia.

For the year ended December 31, 2001, approximately 85.0% of our Development Group's net revenue was attributable to clinical services and 15.0% to laboratory services. In regards to geographic alignment, approximately 16% of our Development Group's net revenues in 2001 were derived from outside the United States, primarily in the United Kingdom.

Our discovery technology group offers services and technologies to identify and validate novel drug targets, create compounds, and optimize and profile drug candidates for clinical evaluation. We provide services under contract to clients in the pharmaceutical and biotechnology industries as well as in general chemical, agrochemical, and other industries. In addition, we conduct research on compounds for which we hold licenses. Our discovery revenues have all been generated in the United States to date.

For the year ended December 31, 2001, total net revenue for all of our services was derived approximately from various industries as follows:

Source	Percentage of Net Revenue
Pharmaceutical	82.2%
Biotechnology and Other	16.2
Government	1.7

For the purposes of classifying net revenue, we define Pharmaceutical to include companies with the majority of their research and development related to chemical entities and Biotechnology to include companies with the majority of their research and development related to biologically engineered compounds.

We believe that concentration of business among certain large customers is not uncommon in our industry. We have experienced this kind of concentration in the past and might experience it in the future. In 2001, one client accounted for 10.3% of our net revenue, while our ten largest clients accounted for approximately 50.3% of our total net revenue. Approximately 27.6% of our total 2001 net revenue was derived from clients headquartered outside the United States, in particular in Europe and Japan. Approximately 15% of our net revenue is generated from services provided by our employees located in countries outside the United States. See Note 18 of Notes to Consolidated Financial Statements included elsewhere in this report for the breakdown of this revenue.

With a primary focus on large pharmaceutical companies, we promote our functional genomics discovery technology through a dedicated sales team, localized scientist-to-scientist communications and centralized marketing efforts.

For all of our development, medical communications and informatics products and services, we use centralized corporate marketing to support the efforts of dedicated business development staff calling on pharmaceutical and biotechnology companies. Our sales teams focus on client segments and service areas. In addition, while the service area representatives call on particular buying groups within a given pharmaceutical client, sales account managers are responsible for coordinating all outsourcing across our service areas from that client. To further facilitate cross-functional sales, all business development staff for all services and products across the company worldwide report up to the same executive.

The top 20 pharmaceutical companies accounted for 79.2% of research and development spending in 2000, as ranked in Med Ad News, so we concentrate on these companies. The top 50 biotechnology companies accounted for only 55.2% of the biotechnology research and development expenditures in 2000. To appropriately focus our sales and marketing efforts among biotechnology companies, we consider additional factors such as the stage of a drug's development and the financial stability of a company's business.

Our business development personnel consult with potential pharmaceutical and biotechnology clients early in the project consideration stage in order to determine their requirements. Along with the appropriate operational,

technical or scientific personnel, our business development representatives invest significant time to determine the optimal means to design and execute the potential client's program requirements. For example, for our drug development

services, recommendations we make to the potential client with respect to study design and implementation are an integral part of our bid proposal process and an important aspect of the integrated services we offer. We believe our preliminary efforts relating to the evaluation of a proposed clinical protocol and implementation plan enhance the opportunity for accelerated initiation and overall success of the clinical trial.

Our core global marketing and corporate communications activities include online advertising and directory listings on predominant industry Web sources; interactive Web education and information programs, including Web conferences; direct e-mail campaigns; client presentations and detailing materials; global speakers' bureau; media relations; corporate materials and marketing at professional trade shows. In addition, we encourage and sponsor the participation of our personnel in a variety of professional endeavors, including the presentation of papers at national and international professional trade meetings and the publication of scientific articles in medical and pharmaceutical journals. Through these presentations, publications and additional promotion via our corporate Web site, we believe these activities advance and promote our reputation for professional excellence.

Backlog

Our backlog consists of anticipated net revenue from letters of intent, verbal commitments and contracts that either have not started but are anticipated to begin in the near future or are in process and have not been completed. Amounts included in backlog have not already been recognized as revenues in our statement of operation. Net revenue is defined as professional fee income, or gross revenue, less reimbursed costs, consisting principally of investigator fees and travel. Once contracted work begins, net revenue is recognized over the life of the contract. The backlog for the services under written agreements, including signed letters of intent, was $674.2 million in net revenue at December 31, 2001, compared to $498.2 million in net revenue at December 31, 2000.

We believe that our backlog as of any date is not necessarily a meaningful predictor of future results, because backlog can be affected by a number of factors, including the size and duration of contracts, many of which are performed over several years. Additionally, contracts relating to our clinical development business generally are subject to early termination by the client or delay for many reasons, including unexpected test results. Also, the scope of a contract can change during the course of a study. For these reasons, we might not be able to fully realize our entire backlog as net revenue.

Intellectual Property

We believe that patents, trademarks, copyrights and other proprietary rights are important to our business. We also rely on trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position.

We actively seek patent protection both in the United States and abroad. As of December 31, 2001, we owned or co-owned four issued United States patents and 12 pending United States patent applications. Our issued United States patents primarily relate to our proprietary anti-tumor compounds, human immunodeficiency virus, or HIV, drug target gene sequences and related target discovery technologies. Our pending United States patent applications primarily relate to proprietary genomic and genetic information, chemical compounds, clinical development business methods and software. We have filed or plan to file applications in other countries corresponding to most of our United States applications. As of December 31, 2001, we had 21 pending foreign filings, including 7 pending Patent Cooperation Treaty, or PCT, filings.

We also have obtained licenses for numerous other patents from academic institutions and pharmaceutical companies. As of December 31, 2001, we had exclusive license rights to 17 issued United States patents and five pending United States patent applications, as well as corresponding foreign filings.

Pursuant to the terms of the Uruguay Round Agreements Act, patents issuing from applications filed on or after June 8, 1995 have a term of 20 years from the date of filing, irrespective of how long it takes for the patent to issue. Because patent applications in the pharmaceutical industry often take a long time to issue, this method of

patent term calculation can result in a shorter period of patent protection afforded to us compared to the prior method of term calculation (17 years from the date of issue). Under the Drug Price Competition and Patent Term Restoration Act of 1984 and the Generic Animal Drug and Patent Term Restoration Act, a patent that claims a product, use or method of manufacture covering drugs may be extended for up to five years to compensate the patent holder for a portion of the time required for FDA review. However, we might not be able to take advantage of the patent term extension provisions of this law.

In addition, we rely on trade secrets and continuing technological innovation, which we try to protect with reasonable business procedures for maintaining trade secrets, including confidentiality agreements with its collaborators, employees and consultants. We also have numerous trademark registration applications pending in the United States and other jurisdictions throughout the world.

Employees

At December 31, 2001, we had approximately 4,375 professionals, of whom 4,000 were in the Development Group, 110 were in the Discovery Sciences Group and the remainder served in corporate operations functions. Of our staff, approximately 325 hold Ph.D., M.D., Pharm.D. or D.V.M. degrees and approximately 575 hold other masters or other postgraduate degrees. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

We believe that our success is based on the quality and dedication of our employees. We strive to hire the best available people in terms of ability, experience, attitude and fit with our performance philosophy and standard operating procedures. We train new employees extensively, and we believe that we are an industry leader in the thoroughness of our training programs. In addition, we encourage our employees to continually grow and broaden their skills through internal and external training programs. As new technologies develop, we equip and train our employees to make use of technological innovations.

Competition

The drug development outsourcing industry consists of several hundred smaller, limited-service providers and a few full-service global drug development companies. The industry is consolidating and, in recent years, a few large, full-service competitors have emerged. This trend of industry consolidation appears to have created greater competition among the larger companies for clients and acquisition candidates. Our Development Group's primary competitors include Covance, ICON, Kendle International, MDS Pharma, Parexel and Quintiles Transnational Corporation. We also compete against some medium-sized companies, in-house research and development departments of pharmaceutical and biotechnology companies, as well as universities and teaching hospitals. In addition, the industry has few barriers to entry. Newer, smaller entities with specialty focuses, such as those aligned to a specific disease or therapeutic area, may compete aggressively against larger companies for clients. Increased competition might lead to price and other forms of competition that may adversely affect our operating results.

Providers of outsourced drug development products and services compete on the basis of a number of factors, including reputation for on-time quality performance, expertise and experience in specific therapeutic areas, scope of service offerings, price, strengths in various geographic markets, technological expertise and systems, data management capabilities for time savings with data integrity, ability to acquire, process, analyze and report data in a time-saving accurate manner, ability to manage large-scale clinical trials both domestically and internationally, and expertise and experience in healthcare economics. Although there can be no assurance that we will continue to do so, we believe that we compete favorably in these areas.

As a general matter, the drug development services industry is not capital-intensive and the financial costs of entry into the industry are relatively low. Despite recent consolidation, this industry remains highly fragmented, with several hundred smaller, limited-service providers and a few full-service companies with global capabilities. Although there are few barriers to entry for smaller, limited-service providers, we believe there are significant barriers to becoming a global provider offering a broad range of products and services. These barriers include:

- the cost and experience necessary to develop broad therapeutic expertise;

- the ability to manage large, complex clinical trials;
- the ability to deliver high quality consistently;
- the experience to prepare regulatory submissions throughout the world; and
- the infrastructure and knowledge to respond to the global needs of clients.

Our informatics division has agreements with several of the major software vendors in pharmaceutical data applications. Competitors for our informatics consulting services include major consulting companies with pharmaceutical industry groups, for example, Cap Gemini, CSC and EDS, and smaller companies with a pharmaceutical industry focus, for example,

DataCeutics, FCG and CSS. Competitors for our informatics software products include larger software vendors such as SAS, but are mainly smaller, specialized software companies.

Our Discovery Sciences Group competes principally on the basis of reputation, scientific and technical expertise, experience and qualifications of professional staff, quality of services, and ability to deliver quality products to the client's specifications. The outsourced functional genomics, chemistry and preclinical research industry consists of several dominant providers and numerous smaller niche companies. Our Discovery Sciences Group faces significant competition from these companies, as well as competition from research teams funded internally by pharmaceutical and biotechnology companies. While the trend to outsource research is increasing, the vast majority of research spending by these companies is for their own internal research personnel. As such, our ability to attract and retain qualified technical personnel and to continue to develop intellectual property are key components in our ability to compete successfully.

Government Regulation

Our clients are subject to extensive regulations by government agencies. Consequently, the services that we provide for these clients must comply with relevant laws and regulations.

Prior to commencing human clinical trials in the United States, a company developing a new drug or biologic must file an investigational new drug application, or IND, with the FDA. If the product is a drug, the IND is submitted to FDA's Center for Drug Evaluation and Research, or CDER. If the product is a biologic, the IND is submitted to FDA's Center for Biologic Evaluation and Research, or CBER. The IND must include information about animal toxicity and distribution studies, manufacturing and control data, stability data and a detailed plan, or study protocol, for the proposed clinical trial of the drug or biologic in humans. If the FDA does not object within 30 days after the IND is filed, human clinical trials may begin. The study protocol will also be reviewed and approved by the institutional review board, or IRB, in each institution in which a study is conducted, and the IRB may impose additional requirements on the way in which the study is conducted in its institution.

Human trials usually start on a small scale to assess safety and then expand to larger trials to test efficacy along with safety in the target population. The trials are generally conducted in three phases, which may overlap, although the FDA may require a fourth phase as a condition of approval. After the successful completion of the first three clinical phases, a company requests approval for marketing its product by submitting a new drug application, or NDA, to CDER, or a biologics license application, or BLA, to CBER, depending on the nature of the product. The NDA or BLA is a comprehensive, multi-volume filing that includes, among other things, the results of all pre-clinical and clinical studies, information about how the product will be manufactured and tested, additional stability data and proposed labeling. The FDA's review can last from six months to many years, with the average review lasting 18 months. Once the NDA or BLA is approved, the product may be marketed in the United States subject to any conditions imposed by the FDA.

Laboratories such as ours that provide information that is included in INDs, NDAs and BLAs, must conform to regulatory requirements that are designed to ensure the quality and integrity of the testing process. For example, our bioanalytical laboratories in Richmond, Virginia and Middleton, Wisconsin follow the FDA's good laboratory practice regulations, or GLPs. These regulations have also been adopted by the Ministry of Health in the United Kingdom and by similar regulatory authorities in other countries. Our product analysis lab in Middleton, Wisconsin follows the FDA's good manufacturing practice, or cGMP, regulations. For both GLP and cGMP, the regulations require standardization procedures for studies, for recording and reporting data, and for retaining

appropriate records. To help ensure compliance with these regulations, we have established quality assurance at our laboratory facilities to monitor ongoing compliance by auditing test data and conducting regular inspections of testing procedures and our laboratory facilities.

In addition, laboratories that analyze human blood or other biological samples must comply with the Clinical Laboratory Improvement Act, or CLIA. CLIA requires laboratories to meet certain staffing, proficiency and quality standards. The laboratory in our Austin, Texas facility is CLIA-certified and also has a voluntary certification given by the American Society of Clinical Pathologists.

The industry standard for the conduct of clinical research is embodied in the FDA's regulations for IRBs, Investigators, and Sponsor/Monitors which collectively are termed the good clinical practice, or GCPs by industry, and the GCP guidelines issued by ICH, which have been agreed upon by the United States, many European governments and the Japanese government. These standards require

that those conducting clinical trials:

- comply with regulations governing the selection of qualified investigators;
- obtain specific written commitments from investigators;
- verify that informed consent is obtained from patients;
- monitor the validity and accuracy of data;
- verify product accountability; and
- instruct investigators to maintain proper records and reports.

Our global standard operating procedures are written in accordance with all FDA and ICH requirements. This enables our work to be conducted locally, regionally and globally to standards that exceed all currently applicable regulatory requirements.

In the past few years, both the United States and foreign governments have become more concerned about the disclosure of confidential personal data. The European Union, or EU, now prohibits the disclosure of personal confidential information, including medical information, to any entity that does not comply with certain security safeguards. Companies in the United States can satisfy these requirements by filing for safe harbor status according to a self-certification procedure agreed to by the EU and the United States. We have registered for and obtained Safe Harbor status.

The Department of Health and Human Services recently promulgated final regulations under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, that will govern the disclosure of confidential medical information in the United States. The Privacy Rule, which governs disclosure of confidential information, was effective beginning April 14, 2001 and all companies subject to the Privacy Rule must comply with its provisions on or before April 14, 2003. We have had a global privacy policy in place since January 2001, which includes a designated privacy officer, and believe that we are in compliance with the current EU and HIPAA requirements. Nevertheless, we will continue to monitor our compliance with these new regulations and will take appropriate steps to ensure compliance as these and other privacy regulations come into effect.

We are also subject to the Occupational Safety and Health Administration, or OSHA, and federal, state and local regulations that govern the use or disposal of toxic substances, biological wastes, radioactive materials.

The failure on our part to comply with applicable regulations could result in the termination of ongoing research or the disqualification of data for submission to regulatory authorities. Furthermore, the issuance of a notice of finding by a governmental authority against either us or our clients, based upon a material violation by us of any applicable regulation, could materially and adversely affect our business.

Factors that Might Affect our Business or Stock Price

Changes in trends in the pharmaceutical and biotechnology industries could adversely affect our operating results.

Industry trends and economic factors that affect our primary customers, pharmaceutical and biotechnology companies, also affect our business. For example, the practice of many companies in these industries has been to hire companies like us to conduct large drug development projects. If these industries reduce their tendency to

outsource those projects, our operations, financial condition and growth rate could be materially and adversely affected. In the past two years, mergers and other factors in the pharmaceutical industry appear to have slowed decision-making by pharmaceutical companies and delayed drug development projects. Continuation or increase of these trends could have an ongoing adverse effect on our business. In addition, numerous governments have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and pharmaceutical companies. If future regulatory cost containment efforts limit the profits that can be derived on new drugs, our customers might reduce their drug discovery and development spending, which could reduce our business.

Our revenue depends on a small number of industries and clients.

We provide products and services to the pharmaceutical and biotechnology industries and our revenue is highly dependent on expenditures by clients in these industries. Accordingly, our operations could be materially adversely affected by the current trend toward consolidation in these industries or other factors resulting in a decrease in the number of our potential customers. If the number of our potential customers declines even further, they might be able to negotiate price discounts or other terms for our products and

services that are less favorable to us than has historically been the case. We have experienced customer concentration in the past; for example, in the year ended December 31, 2001, one customer accounted for 10.3% of our net revenue. We are likely to experience continued customer concentration in the future. The loss of business from a significant client could have a material adverse effect on our results of operations.

In addition, most of our contracts are terminable by the client upon 30 to 90 days' notice. Clients terminate or delay their contracts for a variety of reasons, including, but not limited to:

- products being tested fail to satisfy safety requirements;
- products have undesired clinical results;
- the client decides to forego a particular study;
- inability to enroll enough patients in the study;
- inability to recruit enough investigators; or
- production problems cause shortages of the drug.

We might not be able to recruit and retain the experienced personnel we need to compete in the drug discovery and development industry.

Our future success depends on our ability to attract, retain and motivate highly skilled personnel.

Management

Our future success depends on the personal efforts and abilities of the principal members of our senior management and scientific staff to provide strategic direction, develop business, manage our operations and maintain a cohesive and stable environment. For example, we rely on the services of Fredric N. Eshelman, Pharm.D., our Chief Executive Officer. Although we have an employment agreement with Dr. Eshelman, as we do with other executive managers, this does not mean Dr. Eshelman or any other executive manager with whom we have an employment agreement will remain with us. We do not have employment agreements with all of our key personnel.

Healthcare Providers

Our ability to maintain, expand or renew existing business with our customers and to get business from new customers, particularly in the drug development sector, depends on our ability to hire and retain healthcare providers with the skills necessary to keep pace with continuing changes in drug development technologies. Competition for experienced healthcare providers is intense. We compete with pharmaceutical and biotechnology companies, including our customers and collaborators, contract research companies, and academic and research institutions to recruit healthcare providers.

Scientists

Our ability to maintain, expand or renew existing business with our customers and to get business from new customers in both the drug development as well as the drug discovery areas also depends on our ability to hire and retain scientists with the skills necessary to keep pace with continuing changes in drug discovery and development technologies. We face the same risks and challenges in attracting and retaining experienced scientists as we do with healthcare providers.

Our inability to hire additional qualified personnel might also require an increase in the workload for both existing and new personnel. We might not be successful in attracting new healthcare providers, scientists or management or in retaining or motivating our existing personnel. The shortage of experienced healthcare providers and scientists, or other factors, might lead to increased recruiting, relocation and compensation costs for these professionals, which might exceed our expectations. These increased costs might reduce our profit margins or make hiring new healthcare providers or scientists impracticable. If we are unable to attract and retain any of these personnel our ability to execute our business plan will be adversely affected.

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

The biotechnology and pharmaceutical industries generally and drug discovery and development specifically are subject to increasingly rapid technological changes. Our competitors or others might develop technologies, products or services that are more effective or commercially attractive than our current or future technologies, products or services, or that render our technologies, products or services less competitive or obsolete. If competitors introduce superior technologies, products or services and we cannot make enhancements to our technologies, products and services necessary for them to remain competitive, our competitive position, and in turn our business, revenues and financial condition, would be materially and adversely affected.

Any failure by us to comply with existing regulations would harm our reputation and operating results.

Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to regulatory authorities. This would harm our reputation, our prospects for future work and our operating results. For example, if we were to fail to verify that informed consent is obtained from patient participants in connection with a particular clinical trial, the data collected from that trial could be disqualified, and we could be required to redo the trial under the terms of our contract at no further cost to our customer, but at a substantial cost to us. Furthermore, the issuance of a notice from the Food and Drug Administration based on a finding of a material violation by us of good clinical practice, good laboratory practice or good manufacturing practice requirements would materially and adversely affect us.

Proposed and future regulations might increase the cost of our business or limit our product or service offerings.

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

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

Numerous governments have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with healthcare providers and drug companies. Healthcare reform could reduce

demand for our products and services and, as a result, our revenue. In the last few years, the United States Congress has reviewed several comprehensive health care reform proposals. The proposals intended to expand healthcare coverage for the uninsured and reduce the growth of total health care expenditures. While the United States Congress did not adopt any of the proposals, it might adopt similar proposals in the future. If Congress approves any of these proposals, pharmaceutical and biotechnology companies might react by spending less on research and development. If this were to occur, we would have fewer business opportunities, which could reduce our earnings. Similarly, pending or future healthcare reform proposals outside the United States could negatively impact our revenues from our international operations.

Our drug development business exposes us to personal injury claims that could affect our financial condition.

Our drug development business involves the testing of new drugs on human volunteers. This testing exposes us to the risk of liability for personal injury or death to patients resulting from, among other things, possible unforeseen adverse side effects or improper administration of a new drug. Many of these patients are already seriously ill and are at risk of further illness or death. We could be materially and adversely affected if we were required to pay damages or incur defense costs in connection with a claim that is outside the scope of indemnification agreements we have with clients, if any indemnification agreement is not performed in accordance with its terms or if our liability exceeds the amount of any applicable insurance. We might not be able to get adequate insurance at reasonable rates.

Our business uses biological and hazardous materials, which could injure people or violate laws, resulting in liability that could hurt our financial condition and business.

Our drug discovery and development activities involve the controlled use of potentially harmful biological materials, as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our resources. Any contamination or injury could also damage our reputation, which is critical to getting new business. In addition, we are subject to federal,

state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations could be significant.

Our business has experienced substantial expansion in the past and we must properly manage that expansion.

Our business has expanded substantially in the past. Rapid expansion could strain our operational, human and financial resources. If we fail to properly manage our expansion, our results of operations and financial condition might be hurt. In order to manage expansion, we must:

- continue to improve our operating, administrative and information systems;
- accurately predict our future personnel and resource needs to meet client contract commitments;
- track the progress of ongoing client projects; and
- attract and retain qualified management, sales, professional, scientific and technical operating personnel.

In addition, we have numerous business groups, subsidiaries and divisions. If we cannot properly manage these groups, subsidiaries or divisions, it will disrupt our operations.

We will face additional risks in expanding our foreign operations. Specifically, we might find it difficult to:

- assimilate differences in foreign business practices;
- hire and retain qualified personnel; and
- overcome language barriers.

The fixed price nature of our development contracts could hurt our operating results.

The majority of our contracts for the provision of drug development services are at fixed prices. As a result, we bear the risk of cost overruns. If we fail to adequately price our contracts or if we experience significant cost overruns, our operating results could be materially adversely affected. In the past, we have had to commit unanticipated resources to complete projects, resulting in lower gross margins on those projects. We might experience similar situations in the future, which would have a material adverse impact on our operating results.

If we are unable to attract suitable willing volunteers for our clinical trials, our development business might suffer.

Our clinical research studies rely upon the ready accessibility and willing participation of volunteer subjects. These subjects generally include volunteers from the communities in which the studies are conducted, including our Phase 1 centers in Austin, Research Triangle Park and Leicester, which to date have provided a substantial pool of potential subjects for research studies. However, our clinical research development could be adversely affected if we were unable to attract suitable and willing volunteers on a consistent basis.

Future acquisitions or investments could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our business.

We anticipate that a portion of any future growth of our business might be accomplished by acquiring existing businesses, products or technologies. The success of any acquisitions will depend upon, among other things, our ability to integrate acquired personnel, operations, products and technologies into our organization effectively, to retain and motivate key personnel of acquired businesses and to retain their customers. In addition, we might not be able to identify suitable acquisition opportunities or obtain any necessary financing on acceptable terms. Any future acquisitions could involve other risks, including the assumption of additional liabilities and expenses, potentially dilutive issuances of equity securities and diversion of management's attention from other business concerns.

Acquisitions of foreign companies also might involve the additional risks of, among others, assimilating differences in foreign business practices and overcoming language barriers.

We have made and plan to continue to make investments in other companies. In many cases, there is no public market for the securities of these companies and we might not be able to sell these securities on terms acceptable to us, if at all. In addition, if these companies encounter financial difficulties, we might lose all or part of our investment.

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

Because we provide our drug development services worldwide, our business is subject to risks associated with doing business internationally. Our revenue from our non-U.S. operations represented approximately 15% of our total revenues for the year ended December 31, 2001. We anticipate that revenue from international operations will grow in the future. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in foreign currency exchange rates, which could result in foreign currency losses to the income statement;
- changes in a specific country's or region's political or economic conditions, including Western Europe, in particular;
- potential negative consequences from changes in tax laws affecting our ability to expatriate profits;
- difficulty in staffing and managing widespread operations; and
- unfavorable labor regulations applicable to our European operations.

Because we have only limited experience in providing drug discovery services, our prospects for success in this business remain uncertain and we might be unsuccessful in our discovery business.

We established our drug discovery group in 1997 and have only limited experience with these activities and might not be successful in our drug discovery efforts. Our ability to generate revenue and income from our drug discovery business will depend on our ability to:

- develop products internally or obtain rights to them from others on favorable terms;
- complete laboratory testing and human studies;
- obtain and maintain necessary intellectual property rights to our products;
- obtain and maintain necessary regulatory approvals related to the efficiency and safety of our products;
- enter into arrangements with third parties to manufacture our products on our behalf; and
- enter into arrangements with third parties to provide sales and marketing functions.

Our future success in our drug discovery efforts will depend on our ability to enter into collaborations with other companies.

To succeed in our drug discovery business, we will need to enter into collaborative arrangements, first to obtain rights to potential drug targets, and then for the development, manufacturing and commercialization of those products when and if they are approved. We have limited or no control over the resources that a company that collaborates with us devotes to our product candidates. Any entity with which we collaborate with might not perform its obligations as expected. These entities also might breach or terminate their agreements with us or otherwise fail to conduct their collaborative activities successfully and in a timely manner. Further, parties collaborating with us might elect not to develop product candidates arising out of collaborative arrangements or not to devote sufficient resources to the development, manufacture, marketing or sale of these product candidates.

The drug discovery and development services industry is highly competitive.

The drug discovery and development services industry is highly competitive. We often compete for business not only with other drug discovery and development companies, but also with internal discovery and development departments within our clients, who are often large pharmaceutical and biotechnology companies with greater resources than ours. If we do not compete successfully, our business will suffer. The industry is highly fragmented, with numerous smaller specialized companies and a few full-service companies with global capabilities. Increased competition might lead to price and other forms of competition that might adversely affect our operating results. As a result of competitive pressures, our industry has been consolidating. This trend is likely to produce more competition among the larger companies for both clients and acquisition candidates. In addition, there are few barriers to entry for smaller specialized companies considering entering the industry. Because of their size and focus, these companies might compete effectively against larger companies such as us, which could have a material adverse impact on our business.

Our inability to adequately protect our intellectual property rights would hurt our business.

Our success will depend in part on our ability to protect the proprietary software, compositions, processes and other technologies we develop during drug discovery and the development process. In addition, one of our business strategies is to license rights to drug candidates and enter into

collaborations with pharmaceutical and biotechnology companies for the development of drug candidates. The proprietary rights associated with such drug candidates must remain protected.

Any patents that we own or license in the future might not provide valuable protection for the technology or products. Our efforts to enforce and maintain our intellectual property rights might not be successful and might result in substantial costs and diversion of management time. In addition, others might challenge patents we control and, as a result, these patents could be narrowed, invalidated, rendered unenforceable or blocked. If blocked, we might be forced to stop using some or all of the technology or to license the technology from third parties. In addition, current and future patent applications on which we depend might not result in the issuance of patents in the

United States or foreign countries. Even if our rights are valid, enforceable and broad in scope, competitors might develop products based on similar technology that is not covered by our patent claims.

In addition to patent protection, we also rely on copyright, trademark and trade secrets protection, as well as know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our intellectual property, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements might not provide us with adequate protection against improper use or disclosure of confidential information and there might not be adequate remedies in the event of unauthorized use or disclosure. Furthermore, we from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements might conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all confidential information of previous employers, these individuals or we might be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others might independently develop substantially equivalent proprietary information, or otherwise gain access to our trade secrets. Our failure to protect our proprietary information and techniques might inhibit or limit our ability to exclude certain competitors from the market and to execute our business strategies.

The drug discovery and development industry has a history of patent and other intellectual property litigation, and we might be involved in costly intellectual property lawsuits.

The drug discovery and development industry has a history of patent and other intellectual property litigation, and these lawsuits will likely continue. Because we provide many different products and services in this industry, we face potential patent infringement suits by companies that have patents for similar products and methods used in business or other suits alleging infringement of their intellectual property rights. In order to protect or enforce our intellectual property rights, we might have to initiate legal proceedings against third parties. Legal proceedings relating to intellectual property would be expensive, take significant time and divert management's attention from other business concerns, whether we win or lose. The cost of this kind of litigation could affect our profitability. Further, if we do not prevail in an infringement lawsuit brought against us, we might have to pay substantial damages, including treble damages, and we could be required to stop the infringing activity or obtain a license to use the patented technology.

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

We depend on our customers, and our laboratories and other facilities for the continued operation of our business. Although we have contingency plans in effect for natural disasters or other catastrophic events, catastrophic events, including terrorist attacks, could still disrupt our operations or those of our customers, which would also affect us. Even though we carry business interruption insurance policies, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies. Any natural disaster or catastrophic event in our facilities could have a significant negative impact on our operations.

Because our stock price may be volatile, our stock price could experience substantial declines.

The market price of our common stock has historically experienced and might continue to experience volatility. Our quarterly operating results, changes in general conditions in the economy or the financial markets and other developments affecting us or our competitors could cause the market price of our

common stock to fluctuate substantially. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. The market, and in particular technology companies, have also experienced significant decreases in value. This volatility and the recent market decline has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock.

Item 2. Properties

As of December 31, 2001, we had 48 offices located in 20 countries spanning six continents. Our principal executive offices are located in Wilmington, North Carolina. We own and operate 4 facilities, including a 52-bed Phase 1 facility in Leicester, England, a building in Kersewell, Scotland, and one building in Durham, North Carolina. We lease all our other facilities. We believe that our facilities are adequate for our operations and that suitable additional space will be available when needed. The locations, approximate square footage and lease expiration dates of our operating facilities comprising more than 10,000 square feet as of December 31, 2001 were as follows:

Location	Group	Approximate Square Footage	Lease Expiration Date
Morrisville, North Carolina	Development and Discovery	258,000	11/30/05 - 1/23/15
Wilmington, North Carolina	Development	135,000	11/30/06 - 9/21/09
Austin, Texas	Development	174,000	7/31/06 - 7/31/10
Richmond, Virginia	Development	79,000	8/31/14
Menlo Park, California	Discovery	60,000	6/1/07
San Bruno, California	Development	18,000	9/30/04
Middleton, Wisconsin	Development and Discovery	86,000	7/31/10 - 11/30/11
Columbia, Maryland	Development	12,000	7/31/03
Lawrenceville, New Jersey	Development	11,000	5/31/02
Blue Bell, Pennsylvania	Development	21,000	8/31/05
Westminster, Colorado	Development	15,000	1/31/05
Brussels, Belgium	Development	24,000	9/30/08
Charenton-Le-Pont, France	Development	17,000	11/30/10
Granta Park, United Kingdom	Development	28,000	3/30/16
Johannesburg, South Africa	Development	11,000	10/31/02

Item 3. Legal Proceedings

In the normal course of business, we are a party to various claims and legal proceedings. Although the ultimate outcome of these matters is not yet determined, after consultation with legal counsel we do not believe that the resolution of these matters will have a material effect upon our financial condition or results of operations in any interim or annual period.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2001.

Executive Officers

The following table contains information concerning our executive officers as of February 15, 2002:

<TABLE>
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Name	Age	Position(s)
<S>	<C>	<C>
Fredric N. Eshelman., Pharm.D...	53	Vice Chairman, Chief Executive Officer
Fred B. Davenport, Jr	50	President, Secretary
Paul S. Covington	45	Executive Vice President - Development
Philippe M. Maitre	45	Chief Financial Officer, Treasurer
Francis J. Casieri	59	Senior Vice President - Global Business Development
Linda Baddour	43	Chief Accounting Officer, Vice President, Assistant Secretary

</TABLE>

Fredric N. Eshelman, Pharm.D., has served as Chief Executive Officer and as a director since July 1990, and as Vice Chairman of the Board of Directors since 1993. Dr. Eshelman founded our company's predecessor in 1985 and

served as its Chief Executive Officer until its sale to us in 1989. Prior to rejoining us in 1990, Dr. Eshelman served as Senior Vice President, Development and as a director of Glaxo Inc., a subsidiary of Glaxo Holdings plc.

Fred B. Davenport, Jr. is our President and Secretary. Prior to his employment by us in December 1996, Mr. Davenport was a partner in the Wilmington, North Carolina law firm of Murchison, Taylor, Kendrick and Gibson, L.L.P., which he joined in 1977. Mr. Davenport was also a member of the faculty of the University of North Carolina at Wilmington's Cameron School of Business Administration from 1982 to 1991.

Paul S. Covington is our Executive Vice President -Development. Dr. Covington joined us in September 1991. He is board certified in internal medicine and licensed in North Carolina and Alabama. Prior to joining us, Dr. Covington was in private practice in Clanton, Alabama from 1985 to 1990 where he served as Chief of Staff and head of Critical Care and Cardiopulmonary for the local hospital. From 1991 to 1992, he was Medical Director for the Birmingham site of Future Healthcare Research Centers.

Philippe M. Maitre is our Chief Financial Officer and Treasurer. Prior to joining us in August 2000, Mr. Maitre was Deputy-Chief Financial Officer and Corporate Controller for Aventis Pharmaceutical Company. Mr. Maitre joined Rhone-Poulenc in 1981, which subsequently merged with Hoechst Marion Roussel to form Aventis. Mr. Maitre earned his master's degree in finance from Hautes Etudes de Commerce business school in Paris.

Francis J. Casieri is our Senior Vice President - Global Business Development. Mr. Casieri served as our Director of Business Development from 1991 to 1994. Prior to rejoining us in 1999, Mr. Casieri served as Vice President, Business Development for PharmaResearch Corporation from 1997 to 1999 and Vice President, Operations for Cytrx Corporation from 1994 to 1997. Prior to 1991, Mr. Casieri worked with Johnson & Johnson for over twenty years in a variety of capacities, including ten years as Executive Director, Manufacturing and Logistics for Janssen Pharmaceutica, a Johnson & Johnson subsidiary.

Linda Baddour is our Chief Accounting Officer, Vice President and Assistant Secretary. She also served as our Interim Chief Financial Officer from February 2000 until August 2000. Prior to her employment by us in December 1995, Ms. Baddour was the Controller for Cooperative Bank for Savings Inc. from 1980 to 1995. Ms. Baddour is a certified public accountant and received her Masters in Business Administration from the University of North Carolina at Wilmington.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded under the symbol "PPDI" in the over-the-counter market and is quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System, or NASDAQ. The following table sets forth the high and low prices for shares of our common stock, as reported by the National Association of Securities Dealers, Inc., for the periods indicated. These prices are based on quotations between dealers, which do not reflect retail mark-up, markdown or commissions.

	2001		2000(1)	
	High	Low	High	Low
First Quarter	$ 28.906	$ 16.844	$ 14.500	$ 5.438
Second Quarter	$ 38.360	$ 18.469	$ 10.875	$ 6.938
Third Quarter	$ 38.000	$ 19.400	$ 13.625	$ 9.438
Fourth Quarter	$ 33.750	$ 22.670	$ 29.375	$ 12.438

(1) 2000 stock prices restated to reflect the one-for-one stock dividend paid in May 2001.

As of February 15, 2002, there were approximately 16,600 holders of our common stock.

We have never declared or paid any cash dividends. Furthermore, we have no present plans to pay cash dividends to our shareholders and, for the foreseeable future, intend to retain all of our earnings for use in continuing to develop our business. The declaration of dividends is within the discretion of our Board of Directors and is dependent upon our earnings, financial

condition and capital requirements, as well as any other factors deemed relevant by the Board of Directors

Item 6. Selected Consolidated Financial Data

The following table represents selected historical consolidated financial data. The statement of operations data for the years ended December 31, 1999, 2000 and 2001 and balance sheet data at December 31, 2000 and 2001 are derived from our audited consolidated financial statements included elsewhere in this report. The statement of operations data for each of the years ended December 31, 1997 and 1998, and the balance sheet data at December 31, 1997, 1998 and 1999 are derived from our audited consolidated financial statements which are not included elsewhere 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 financial statements and notes to the financial statements.

<TABLE>
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	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Net revenues (1)	$ 193,851	$ 246,454	$ 302,530	$ 345,318	$ 431,541
Operating expenses	175,909	220,831	265,604	301,771	358,949
Merger costs, and acquired in-process research and development costs	9,670	3,163	218	-	-
	185,579	223,994	265,822	301,771	358,949
Income from operations	8,272	22,460	36,708	43,547	72,592
Other income, net	1,429	3,588	4,337	7,284	5,414
Income from continuing operations before provision for income taxes	9,701	26,048	41,045	50,831	78,006
Provision for income taxes	3,363	9,448	12,154	18,521	28,747
Income from continuing operations before equity in net loss of investee	6,338	16,600	28,891	32,310	49,259
Equity in net loss of investee, net of income taxes	-	-	-	-	92
Net income from continuing operations	6,338	16,600	28,891	32,310	49,167
Income (loss) from operations of discontinued environmental sciences segment, net (2)	4,152	4,614	(395)	-	-
Net income	$ 10,490	$ 21,214	$ 28,496	$ 32,310	$ 49,167
Income from continuing operations per share:					
Basic	$ 0.13	$ 0.35	$ 0.59	$ 0.65	$ 0.95
Diluted	$ 0.13	$ 0.34	$ 0.58	$ 0.64	$ 0.94
Income (loss) from discontinued operations per common share:					
Basic	$ 0.09	$ 0.10	$ (0.01)	$ -	$ -
Diluted	$ 0.09	$ 0.10	$ (0.01)	$ -	$ -
Net income per common share:					
Basic	$ 0.22	$ 0.44	$ 0.58	$ 0.65	$ 0.95
Diluted	$ 0.22	$ 0.44	$ 0.57	$ 0.64	$ 0.94
Weighted average number of common shares outstanding:					
Basic	47,110	47,982	49,132	49,930	51,689
Dilutive effect of stock options	120	338	574	424	805
Diluted	47,230	48,320	49,706	50,354	52,494

<CAPTION>

	As of December 31,

	1997	1998	1999	2000	2001
			(in thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 16,067	$ 34,821	$ 61,251	$ 76,411	$ 143,173
Marketable securities	7,994	-	-	-	-
Working capital (3)	70,581	93,309	104,973	106,903	152,829
Total assets	199,653	243,329	288,703	344,915	465,400
Long-term debt	406	224	359	1,353	1,871
Long-term debt, including current portion	5,315	5,656	570	1,967	3,074
Shareholders' equity	129,332	158,769	192,464	233,943	302,635

</TABLE>

(1) Revenues are presented net of subcontractor costs. See accompanying Consolidated Statements of Operations included elsewhere in this report.

(2) The discontinued operations include the environmental sciences group sold in January 1999. All periods presented have been restated to exclude the results of operations of the environmental sciences group.

(3) Working capital is calculated as current assets minus current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

During 2001, we reported net income of $49.2 million, or $0.94 per diluted share, compared to net income of $32.3 million, or $0.64 per diluted share, during 2000.

In October 2001, we made an investment in Apothogen, Inc., a new company formed with JPMorgan Partners (BHCA), L.P., the Chairman of our Board of Directors, and our Chief Executive Officer to engage in the business of acquiring, developing and commercializing pharmaceutical products. Due to the individual interests of the Chairman of our Board of Directors and our Chief Executive Officer in Apothogen, in connection with this transaction, our board of directors adopted a policy to address potential conflicts of interest. This policy identifies the transactions that are subject to the policy and establishes procedures for the disclosure and disinterested approval of these transactions Apothogen's shareholders have committed to provide financing to Apothogen through the purchase of Apothogen's Series A convertible preferred stock. Our maximum total capital commitment to Apothogen is $18 million, and the timing of this commitment is subject to capital calls approved by Apothogen's board of directors and JPMorgan. As such, JPMorgan can control all future capital calls. As of December 31, 2001, we had contributed approximately $0.3 million to Apothogen for Series A convertible preferred stock. The Series A preferred stock can be converted to Apothogen common stock at any time and is subject to a mandatory conversion upon the occurrence of certain events. Given the involvement of the Chairman of our Board of Directors and our Chief Executive Officer, we are accounting for our investment in Apothogen under the equity method of accounting. Accordingly, based on our current ownership interest of 14.75% of Apothogen's Series A convertible preferred stock, we are recognizing 14.75% of the net earnings or losses of Apothogen. In connection with this investment, we also entered into an agreement to be the exclusive provider of drug development and clinical research program management services to Apothogen. Under this agreement, these services will be provided to Apothogen at our customary and usual rates. We also granted Apothogen a first right to negotiate an exclusive license with respect to compounds acquired or licensed by us after October 5, 2001. We had a receivable from Apothogen as of December 31, 2001 of $0.2 million. Apothogen rents facility space from us and we provide Apothogen with development services and specified administrative services. During 2001, we recorded $0.1 million in rental income and $5 thousand in drug development services revenues from Apothogen.

In November 2001, we made a $4.7 million investment in SLIL Biomedical Corp. SLIL Biomedical is a privately held biopharmaceutical company engaged in the discovery and development of drugs to treat cancer and other diseases. We purchased 2.0 million shares of SLIL Biomedical Series C preferred stock. In connection with this investment, we also received a warrant to purchase up to $1.2 million of stock which SLIL Biomedical issues in connection with a future institutional offering at the price per share stated in that offering. We owned approximately 18.7% of SLIL Biomedical as of December 31, 2001. We are accounting for this investment under the cost method.

In March 1999, we acquired ATP, Inc., a health information services company. We acquired all of the outstanding stock of ATP, Inc. in exchange for approximately 876,000 shares of our common stock. In February 2001, we changed the name of this subsidiary to PPD Medical Communications. PPD Medical

Communications provides customized inbound and outbound telecommunications programs targeting consumers and healthcare providers. We accounted for this acquisition as a pooling of interests transaction. Accordingly, our financial statements include results of PPD Medical Communications for all periods presented.

In February 1999, we invested in PPGx with Axys Pharmaceuticals, Inc. to pursue the business of pharmacogenomics, which is the use of genetic information to predict the characteristics of drugs. We contributed $1.5 million in cash, the stock of our Intek subsidiary and the rights to a software license in exchange for an 18.2% ownership interest in PPGx. We accounted for our investment in PPGx under the cost method. In December 2000, we exercised our option to increase our ownership to 50% for $5.9 million. Subsequently, PPGx was acquired by DNA Sciences, Inc., a genetics discovery company focused on identifying the genetic basis of disease susceptibility, disease progression and response to drug treatment, in exchange for 1,479,000 shares of Series D preferred stock of DNA Sciences. We retained our exclusive marketing rights to PPGx pharmacogenomics products and services, sold

under the brand name Pharmacogenomic Solutions(TM). Also in December 2000, we purchased 1,478,000 shares of DNA Sciences Series C preferred stock for $15.0 million. In December 2001, we relinquished our exclusive marketing rights for DNA Science's pharmacogenomics products and services, entered into a new non-exclusive sales agency agreement, acquired the code and rights to DNA Sciences' GeneTrials Software, and acquired specified licensing rights to therapeutic applications of DNA Sciences' genetic research. We owned 10.8% of DNA Sciences as of December 31, 2001, and account for that investment under the cost method.

Effective January 31, 1999, we sold our environmental sciences group to Environ Holdings, Inc., a new company formed by the management of the environmental sciences group. We received $1.2 million in cash, a note in the amount of $7.0 million (which was paid in full in the first quarter of 1999) and a 12-year note in the amount of $18.0 million. We did not recognize a gain or loss as a result of the sale because the sales price was equal to the book value of the net assets sold. We also entered into a three-year consulting agreement to provide consulting services to Environ Holdings for a fee of $0.5 million per year.

Results of Operations

We recognize revenues from fixed-price contracts on a percentage-of-completion basis in our Development Group. To measure the percentage of completion, the Company compares actual costs incurred to estimated total contract costs. We recognize revenues from time-and-materials contracts as hours are incurred, multiplied by the billable rates for each contract in both our Development Group and Discovery Sciences Group. We also recognize revenues from unitized contracts as subjects or samples are tested, multiplied by the price of each . We record revenues net of reimbursement received from clients for pass-through expenses, which generally include subcontractor costs that consist of investigator fees, travel and other contract costs. Effective January 1, 2002, we plan to account for these expenses in direct costs and the related reimbursements as a separate revenue line item. See further discussion regarding Topic D-103 requirements in the "Recently Issued Accounting Standards" section below.

Discovery Sciences Group revenues also include nonrefundable technology license fees and milestone payments. For nonrefundable license fees received at the initiation of license agreements for which we have an ongoing research and development commitment, we defer these fees and recognize them ratably over the period of the related research and development. For nonrefundable license fees received under license agreements where our continued performance of future research and development services is not required, we recognize revenue upon delivery of the technology. These non-refundable fees are generally up-front payments for the initial license of and access to our technology. In addition to license fees, our Discovery Sciences Group also generates revenue from time to time in the form of milestone payments. Milestone payments are only received and recognized as revenues if the specified milestone is achieved and accepted by the customer. Although these payments are typically lower than up-front license fees, these payments can be significant because they are triggered as a result of achieving specified scientific milestones.

We record our recurring operating expenses among four categories:

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

Direct costs consist of appropriate amounts necessary to carry-out the revenue and earnings process, and include direct labor and related benefit

charges, other costs directly related to contracts, and an allocation of facility and information technology costs. Direct costs, as a percentage of net revenues, 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 involving the hundreds of studies conducted during any period of time.

Research and development, or R&D, expenses consist primarily of labor and related benefit charges associated with personnel performing internal research and development work, supplies associated with this work 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, administrative travel, an allocation of facility and information technology costs and costs related to professionals working in an indirect capacity.

Depreciation and amortization expenses consist of depreciation costs recorded on a straight-line method on property and equipment. In addition, the excess of the purchase price of a business acquired over the fair value of net tangible assets and identifiable intangibles and acquired in-process research and development costs at the date of the acquisitions has been assigned to goodwill. Goodwill is being amortized over periods of 10 to 25 years. In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", or SFAS No. 142. We intend to adopt SFAS No. 142 as of January 1, 2002, as required, and will no longer record amortization of goodwill in our financial statements. Rather, we will analyze goodwill for impairment at the reporting unit level during the first quarter of 2002 and, at a minimum, on an annual basis going forward. Amortization expense related to goodwill for 2001 was $0.9 million and would have been expected to approximate this amount in 2002 under pre-existing accounting standards.

The following tables set forth, for the periods indicated, amounts for certain items in our consolidated financial statements expressed as a percentage of net revenue from continuing operations and the percentage changes in dollar amounts of certain items compared with the prior period:

<TABLE>
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Percentage of Net Revenue from Continuing Operations

	For the Years Ended December 31,					
	1999		2000		2001	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net revenue: (1)						
Development	$ 299,769	99.1%	$ 330,516	95.7%	$ 403,701	93.5%
Discovery sciences	2,761	0.9	14,802	4.3	27,840	6.5
	302,530	100.0	345,318	100.0	431,541	100.0
Direct costs:						
Development	146,921	48.6	166,586	48.3	196,078	45.5
Discovery sciences	6,073	2.0	5,978	1.7	11,794	2.7
	152,994	50.6	172,564	50.0	207,872	48.2
Research and development expenses	2,638	0.9	2,791	0.8	4,422	1.0
Selling, general and administrative expenses	95,130	31.4	109,183	31.6	126,391	29.3
Depreciation and amortization	14,842	4.9	17,233	5.0	20,264	4.7
Merger costs	218	0.1	-	-	-	-
Operating income	$ 36,708	12.1%	$ 43,547	12.6%	$ 72,592	16.8%

Percentage Change

	For the Years Ended December 31,	
	2000 vs. 1999	2001 vs. 2000
Net revenue:		
Development	10.3%	22.1%

Discovery sciences	436.1	88.1
Total net revenue	14.1	25.0
Direct costs:		
Development	13.4	17.7
Discovery sciences	(1.6)	97.3
Research and development expenses	5.8	58.4
Selling, general and administrative expenses	14.8	15.8
Depreciation and amortization	16.1	17.6

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(1) Net of subcontractor costs.

</TABLE>

Year Ended December 31, 2001 Versus Year Ended December 31, 2000

Net revenue increased $86.2 million, or 25.0%, to $431.5 million in 2001 from $345.3 million in 2000. The Development Group's operations accounted for 93.5% of net revenue for 2001. The Development Group generated net revenue of $403.7 million, an increase of $73.2 million, or 22.1%, from 2000. The growth in the Development Group operations was primarily attributable to an increase in the size, scope and number of contracts in the global contract research organization, or CRO, Phase 2 through 4 division, as well as the increase in the number of contracts in the North America laboratory services division.

The Discovery Sciences Group generated net revenue of $27.8 million in 2001, an increase of $13.0 million, or 88.1%, from 2000. The growth in the Discovery Sciences operations was primarily attributable to revenue generated by our sublicensing of the compound dapoxetine to Alza Corporation (which was acquired by Johnson & Johnson) in the first quarter of 2001 and the payments from Eli Lilly and Company in 2001 for relinquishing our rights to all compounds other than dapoxetine licensed by us in 1998.

Total direct costs increased 20.5% to $207.9 million in 2001 from $172.6 million in 2000 and decreased as a percentage of net revenue to 48.2% for 2001 as compared to 50.0% in 2000. Development Group direct costs increased to $196.1 million in 2001 as compared to $166.6 million in 2000. This increase resulted primarily from increased personnel costs due to the increase in the size and number of contracts in the global CRO Phase 2 through 4 division. The Development Group direct costs decreased as a percentage of related net revenue to 48.6% in 2001 from 50.4% in 2000. This decrease is principally due to the mix of levels of personnel involved in the contracts performed, variations in the utilization of personnel and the mix of contracts being performed during each period. Discovery Sciences direct costs increased to $11.8 million in 2001 as compared to $6.0 million in 2000. This increase was primarily due to the costs associated with sublicensing dapoxetine and the increase in the functional genomics division's direct costs associated with its increased FTE revenue.

R&D expenses increased 58.4% to $4.4 million in 2001 from $2.8 million in 2000. This increase was primarily due to the increase in spending on R&D in the Discovery Sciences segment. As of the end of 2001, the Discovery Sciences segment had more than double the number of employees working on R&D as compared to the end of 2000.

SG&A expenses increased 15.8% to $126.4 million in 2001 from $109.2 million in 2000. The increase was primarily attributable to additional administrative personnel costs and an increase in recruiting and training costs associated with new hires to support our expanding operations. As a percentage of net revenue, SG&A expenses decreased to 29.3% in 2001 from 31.6% in 2000. This decrease is primarily attributable to the increase in revenue and, to a smaller extent, to increased efficiencies as our operations expand.

Total depreciation and amortization expense increased $3.1 million, or 17.6%, to $20.3 million in 2001 from $17.2 million in 2000. The increase was related to the depreciation on the increased investment in property and equipment due primarily to our growth. Capital expenditures were $41.9 million in 2001 as compared to $21.5 million in 2000. The acquisition of a new airplane, for cash, to replace our previous one, which was more than 27 years old, as well as additional facility costs related to our laboratories to increase capacity, additional software licenses related to our increase in headcount and additional scientific equipment in our laboratories, accounted for the majority of our capital investment in 2001.

Operating income increased $29.1 million to $72.6 million in 2001, as compared to $43.5 million in 2000. As a percentage of net revenue, operating income of 16.8% in 2001 represents an improvement from 12.6% of net revenue in 2000. This increase was primarily due to the increase in revenue and our focus on controlling the increase in both direct and administrative costs as revenues increased.

Our provision for income taxes increased $10.2 million, or 55.2%, to $28.7 million in 2001, as compared to $18.5 million in 2000. Our effective income tax rate increased to 36.9% in 2001 from 36.4% in 2000. 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. In particular, as the geographic mix of our pre-tax earnings among various tax jurisdictions changes, our effective tax rate might vary from period to period.

In October 2001, we made an investment in Apothogen, Inc. Given the involvement of the Chairman of our Board of Directors and our Chief Executive Officer, we are accounting for our investment in Apothogen under the equity method of accounting. Equity in net loss of investee, net of income taxes, was $0.1 million for 2001. We expect to recognize development revenues for services performed for Apothogen in 2002, which we expect will partially offset our equity losses in Apothogen.

Net income of $49.2 million in 2001 represents an increase of $16.9 million over $32.3 million in 2000. Net income per diluted share of $0.94 for 2001 compares to $0.64 in 2000.

Year Ended December 31, 2000 Versus Year Ended December 31, 1999

Net revenue increased $42.8 million, or 14.1%, to $345.3 million in 2000 from $302.5 million in 1999. The Development Group's operations accounted for 95.7% of net revenue for 2000. The Development Group generated net revenue of $330.5 million, an increase of $30.7 million, or 10.3%, from 1999. The growth in the Development Group operations was primarily attributable to an increase in the size, scope and number of contracts in the global contract research organization, or CRO, Phase 2 through 4 division as well as the increase in the number of contracts in the North America Phase 1 and laboratory services.

The Discovery Sciences Group generated net revenue of $14.8 million in 2000, an increase of $12.0 million, or 436.1%, from 1999. The growth in the Discovery Sciences operations was primarily attributable to revenue generated by the functional genomics division as a result of entering into new contracts in January 2000 and July 2000. In addition, the combinatorial chemistry division had an increase in contracts during 2000.

Total direct costs increased 12.8% to $172.6 million in 2000 from $153.0 million in 1999 and decreased as a percentage of net revenue to 50.0% for 2000 as compared to 50.6% in 1999. Development direct costs increased to $166.6 million in 2000 as compared to $146.9 million in 1999. The increased direct cost dollars resulted primarily from increased personnel costs due to the increase in the size and number of contracts in the global CRO Phase 2 through 4 division. The Development Group direct costs increased as a percentage of related net revenue to 50.4% in 2000 from 49.0% in 1999. This increase is principally due to the mix of levels of personnel involved in the contracts performed and an increase in personnel utilization due to quality initiatives. Discovery Sciences direct costs decreased to $6.0 million in 2000 as compared to $6.1 million in 1999.

R&D expenses increased 5.8% to $2.8 million in 2000 from $2.6 million in 1999. This increase was primarily due to the increase in spending on R&D in the Discovery Sciences segment.

SG&A expenses increased 14.8% to $109.2 million in 2000 from $95.1 million in 1999. The increase was primarily attributable to an investment in additional administrative personnel and an increase in facility and information technology costs to support expanding operations. As a percentage of net revenue, SG&A expenses increased slightly to 31.6% in 2000 from 31.4% in 1999.

Total depreciation and amortization expense increased $2.4 million, or 16.1%, to $17.2 million in 2000 from $14.8 million in 1999. The increase was related to the depreciation of the increased investment in property and equipment due primarily to our growth. Capital expenditures were $21.5 million in 2000. Additional scientific equipment in our laboratories accounted for approximately 33.2% of this capital investment. Furniture and leasehold improvements in existing facilities accounted for approximately 25.6%, while the enhancement and expansion of information technology capacities accounted for approximately 26.0%. The remaining capital expenditures were incurred predominantly in connection with the expansion of existing operations and the opening of new offices.

During the first quarter of 1999, we recorded merger costs of $0.2 million in connection with the acquisition of PPD Medical Communications. These costs were primarily cash expenses, such as legal and accounting fees, related to this transaction. We had no merger costs in 2000.

Operating income increased $6.8 million to $43.5 million in 2000, as compared to $36.7 million in 1999. As a percentage of net revenue, operating

income of 12.6% in 2000 represents an improvement from 12.1% of net

revenue in 1999. These increases were primarily due to our focus on controlling the increase in both direct and administrative costs, as revenues increased.

Net interest and other income increased $3.0 million, or 68.0%, to $7.3 million for 2000 from $4.3 million in 1999. The increase was primarily the result of the increase in interest income of $2.3 million. We recognized $1.6 million in interest income related to the notes receivable from the Chicago Center for Clinical Research and Environ Holdings in both 1999 and 2000.

We recorded a loss from discontinued operations, net of income tax expense, related to our environmental sciences group, of $0.4 million in 1999. We sold our environmental sciences group on January 31, 1999.

Our provision for income taxes increased $6.3 million, or 52.4%, to $18.5 million in 2000, as compared to $12.2 million in 1999. Our effective income tax rate increased to 36.4% in 2000 from 29.6% in 1999, primarily due to an investment transaction entered into in the fourth quarter of 1999, which created a significant capital gain. We offset this capital gain with a capital loss carryforward, which had previously been fully reserved. As a result of the reversal of the valuation allowance on this capital loss carryforward, we recognized a tax benefit of approximately $3.8 million.

Net income of $32.3 million in 2000 represents an increase of $3.8 million over $28.5 million in 1999. Net income per diluted share of $1.28 for 2000 compares to $1.15 in 1999. Excluding the discontinued operations, non-recurring tax benefits and merger charges in 1999, our 2000 net income of $32.3 million was 27.6% higher than net income of $25.3 million for 1999.

Liquidity and Capital Resources

As of December 31, 2001, we had $143.2 million of cash and cash equivalents on hand. We have historically funded our operations and growth, including acquisitions, with cash flow from operations, borrowings and sales of our stock. We are exposed to changes in interest rates on cash equivalents, short-term investments, and amounts outstanding under notes payable, notes receivable and lines of credit. Our cash and cash equivalents and short-term investments are invested in financial instruments, which are rated A or better by Standard & Poor's or Moody's and which have market interest rates.

For the year ended December 31, 2001, our operating activities provided $101.3 million in cash as compared to $61.9 million last year. The increase in cash flow from operations is primarily due to an increase in our net revenues, an increase in operating margins as a percentage of net revenues and our effort to control accounts receivable. For the 2001 period, net income of $49.2 million, depreciation and amortization of $20.3 million and the net increase of $33.1 million in assets and liabilities were partially offset by the $4.7 million decrease in deferred income taxes.

For the year ended December 31, 2001, our investing activities used $45.5 million in cash. The payment of $5.1 million for several cost method investments and capital expenditures of $41.9 million were slightly offset by $0.9 million from proceeds from the sale of property and equipment and $0.5 million received from the repayment of a note receivable.

For the year ended December 31, 2001, our financing activities provided $11.9 million in cash, as net proceeds from stock option exercises and the employee stock purchase plan totaling $13.6 million were partially offset by $1.7 million in repayments of capital lease obligations.

Working capital as of December 31, 2001 was $152.8 million, compared to $106.9 million at December 31, 2000. The increase in working capital was due primarily to the increase in cash and cash equivalents of $66.8 million and an increase in accounts receivable and unbilled services, net, of $22.3 million. This was partially offset by the increase in other accrued expenses and accrued income taxes of $19.1 million and the increase in unearned income of $29.0 million. The number of days revenue outstanding in accounts receivable and unbilled services, net of unearned income, also known as DSO, were 43.0 and 51.1 days as of December 31, 2001 and December 31, 2000, respectively. This improvement is a result of a focused effort by management on improving the accounts

receivable collection process along with certain improved temporary terms regarding investigator fee down payments. We expect DSO in future periods will be approximately 50 days, but no assurance can be given that such expectations will be achieved.

In June 2001, we amended our revolving credit facility for $50.0 million from First Union National Bank. The primary purpose of the amendment was to extend the expiration date and to relax certain covenants governing financial ratios and investments. Indebtedness under the facility is unsecured and subject to traditional covenants relating to financial ratios. Borrowings under this credit facility are available to provide working capital and for general corporate purposes. As of December 31, 2001, there was no amount outstanding under this credit facility. This credit facility is currently scheduled to expire in June 2002, at which time any outstanding balance would be due.

In July 2001, we amended our revolving credit facility for $50.0 million from Wachovia Bank, N.A. The primary purpose of the amendment was to extend the expiration date and to relax certain covenants governing financial ratios and investments. Indebtedness under the line is unsecured and subject to traditional covenants relating to financial ratios. As of December 31, 2001, there was no amount outstanding under this credit facility. This credit facility is currently scheduled to expire in July 2002, at which time any outstanding balance would be due.

In September 2001, First Union and Wachovia merged to create Wachovia Corporation. This merger has had no effect on the structure and terms of our two revolving credit facilities.

In April 2000, we made an investment in Spotlight Health, Inc. (formerly known as ADoctorInYourHouse.com). In January 2001, we entered into an agreement with Spotlight Health and First Union National Bank to guarantee a revolving $2.0 million line of credit from First Union to Spotlight Health. Indebtedness under the line from First Union to Spotlight Health is unsecured and subject to traditional covenants relating to financial ratios. As of December 31, 2001, Spotlight Health had $2.0 million outstanding under this credit facility. This credit facility is currently scheduled to expire in June 2002, at which time any outstanding balance is due. We anticipate that Spotlight Health will seek to renew the facility at that time and we may elect to extend our guarantee. We review the financial statements of Spotlight Health on a quarterly basis to determine if they have sufficient financial resources to continue operations. While we do not have current concerns regarding this guarantee, there can be no assurance that we will not have to act upon this guarantee due to changes in the financial condition of the debtor.

We expect to continue expanding our operations through internal growth and strategic acquisitions. We expect these activities will be funded from existing cash, cash flow from operations and borrowings under our credit facilities. We believe that these sources of liquidity will be sufficient to fund our operations for the foreseeable future, but offer no assurances. In particular, our liquidity could be affected by our dependence on a small number of industries and clients, compliance with regulations, international risks, personal injury, environmental or intellectual property claims, as well as other factors described under "Factors that Might Affect our Business or Stock Price", "Potential Volatility of Quarterly Operating Results and Stock Price", "Quantitative and Qualitative Disclosures about Market Risk", and "Judgments, Assumptions, Risks and Uncertainties". From time to time, we evaluate potential acquisitions and other growth opportunities, which might require additional external financing, and we might seek funds from public or private issuances of equity or debt securities.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

The majority of our revenues are recorded from fixed-price contracts on a percentage-of-completion basis based on assumptions regarding patient enrollment and the anticipated scope of work. Each month costs are accumulated on each project and compared to the budget for that particular project. This determines the percentage-

of-completion on the project. This percentage is multiplied by the contract value to determine the amount of revenue that can be recognized. Each month management reviews the budget on each project to determine if the assumptions within the budget are still correct and budgets are adjusted accordingly. As the work progresses, original estimates might be deemed incorrect due to revisions in the scope of work or patient enrollment rate and a contract modification might be negotiated with the customer to cover additional costs. We bear the risk of cost overruns. In the past, we have had to commit unanticipated resources to complete projects, resulting in lower gross margins on those projects. We might experience similar situations in the future. Should our

estimated costs on fixed price contracts prove to be low, future margins could be reduced, absent our ability to negotiate a contract modification. We accumulate information on each project to refine our bidding process. Historically, the majority of our estimates and assumptions have been materially correct, but these estimates might not continue to be accurate. Clients generally may terminate a study at any time, which might cause unplanned periods of excess capacity and reduced revenues and earnings. To offset the effects of early terminations of significant contracts, the Company attempts to negotiate the payment of an early termination fee as part of the original contract.

In our Discovery Science Group, we generate revenue from time to time in the form of milestone payments. Milestone payments are only received and recognized as revenues if the specified milestone is achieved and accepted by the customer. Although these payments are typically lower than up-front license fees, these payments can be significant because they are triggered as a result of achieving specified scientific milestones. Future potential milestone payments under various discovery contracts might never be received if the milestones are not achieved.

Included in "Accounts receivable and unbilled services, net" on our Consolidated Balance Sheets is a reserve for doubtful accounts. Generally, before we do business with a new client, we have a credit check performed on that company to determine if they have a satisfactory credit rating. Senior management reviews the accounts receivable aging on a monthly basis to determine if any receivables will potentially be uncollectable. After all attempts to collect the receivable have failed, the receivable is written off against the reserve. Based on the information available to us, we believe our reserve for doubtful accounts as of December 31, 2001 was adequate. However, no assurances can be given that actual write-offs will not exceed the recorded reserve. On a quarterly basis, we review the financial statements and compliance certificates submitted by the entities that owe us money under outstanding notes receivable. To date, we have not had any indication that these notes will not be paid in full on a timely basis. All payments of interest and/or principal due had been made on a timely basis as of December 31, 2001. Due to unforeseen circumstances in the future, we may be unable to collect all or part of these notes receivable.

Our investments consist of equity instrument investments in private entities for which fair values are not readily determinable. All of our investments are recorded under the cost method of accounting, with the exception of Apothogen. Many of the our investments are in relatively early stage life sciences or biotechnology companies that do not have long-established products or proven technologies. Therefore, these investments are subject to write-down for impairment whenever events or changes in circumstances indicate that the carrying amount of these investments may not be recoverable. Senior management reviews these investments for other than temporary declines in value, at a minimum, on a quarterly basis. Given the nature of these companies, our assessments of value are judgmental.

Given the involvement of the Chairman of our Board of Directors and our Chief Executive Officer, we account for our investment in Apothogen under the equity basis method of accounting. Our maximum total capital commitment to Apothogen is $18 million and the timing of this commitment is subject to capital calls approved by Apothogen's board of directors and JPMorgan. As such, JPMorgan can control all future capital calls. We believe that the extent of our capital commitment to Apothogen will depend on the success of Apothogen in identifying and developing compounds and the resulting licensing or commercialization of those compounds. As of December 31, 2001, we had contributed approximately $0.3 million to Apothogen.

Based on estimates of future taxable profits and losses in certain foreign tax jurisdictions, management has determined that a valuation allowance of $0.7 million is required for specific foreign tax loss carryforwards as of December 31, 2001. If these estimates prove inaccurate, a change in the valuation allowance, up or down, could be required in the future.

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 were present, we would evaluate the carrying value of property and equipment and intangibles, including goodwill, in relation to estimates of future undiscounted cash flows of the underlying business, which are based on judgment and assumptions.

The only off-balance sheet financing arrangement with non-consolidated entities that we have is with Spotlight Health. We are the guarantor of a $2.0 million revolving line of credit between Spotlight Health and First Union National Bank. See full details on this arrangement disclosed in the "Liquidity" section.

In the normal course of business, we are party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome

is probable and the amount of the potential liability is reasonably estimable. Although the ultimate outcome of these matters is currently not determinable, we do not believe that the resolution of these matters will have a material effect upon our financial condition, results of operations or cash flows for an interim or annual period. We attempt to manage our risk of liability for personal injury or death from administration of products under study through stringent operating procedures, contractual indemnification provisions with clients and minimum insurance requirements for clients. See full details on this insurance disclosed in the "Potential Liability and Insurance" section.

Contractual Obligations and Commercial Commitments

Future minimum payments for all contractual obligations for years subsequent to December 31, 2001 are as follows (in thousands):

<TABLE>

	Total	2002	2003-2004	2005-2006	2007 and thereafter
<S>	<C>	<C>	<C>	<C>	<C>
Capital lease obligations, including interest payments	$ 3,288	$ 1,327	$ 1,961	$ -	$ -
Operating leases	146,935	20,928	38,029	34,019	53,959
Less: sublease income	(400)	(400)	-	-	-
Total	$149,823	$ 21,855	$39,990	$34,019	$53,959

</TABLE>

Other commercial commitments include the guarantee we provide on Spotlight Health's $2.0 million line of credit. See full details on this arrangement in the "Liquidity" section.

Recently Issued Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities," or SFAS No. 133. SFAS No. 133 establishes accounting and reporting standards for derivatives and hedging activities and supercedes several existing standards. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Our adoption of SFAS No. 133 as of January 1, 2001 did not have a material impact on our consolidated financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations", or SFAS No. 141, and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", or SFAS No. 142. We have adopted SFAS No. 141 as of July 1, 2001, which requires that all business combinations be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. We intend to adopt SFAS No. 142 as of January 1, 2002, as required, and for goodwill and intangible assets acquired after June 30, 2001 (for the nonamortization and amortization provisions of the Statement), we have adopted the required provisions. We will no longer record amortization of goodwill in the financial statements effective January 1, 2002, as required by SFAS No. 142. Rather, we will analyze goodwill for impairment at the reporting unit level during the first quarter of 2002 and, at a minimum, on an annual basis going forward. Amortization expense related to goodwill for 2001 was $0.9 million and would have been expected to approximate this amount in 2002 under pre-existing accounting standards.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", or SFAS No. 144, which supersedes SFAS No. 121 and portions of APB Opinion No. 30. SFAS No. 144 provides guidance on the recognition and impairment of long-lived assets to be held and used and for long-lived assets to be disposed. We intend to adopt SFAS No. 144 as of January 1, 2002, as required, and do not believe the adoption will have a material impact on our consolidated financial statements.

In November 2001, the FASB issued Topic D-103, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred". Topic D-103 requires reimbursements for out-of-pocket expenses incurred to be characterized as revenue in the income statement. Currently, we account for out-of-pocket expenses and contracted physician expenses as a reduction of revenues. Topic D-103 is effective for periods beginning after December 1, 2001 and will require comparative financial statements for prior periods to be reclassified. We are currently in the process of evaluating the impact that Topic D-103 will have on our consolidated financial statements.

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 further impacted by changes in the tax rates of the various taxing jurisdictions. In particular, as the geographic mix of our pre-tax earnings among various tax jurisdictions changes, our effective tax rate might vary from period to period.

Potential Liability and Insurance

Clinical research services involve the testing of new drugs on human volunteers pursuant to a study protocol. This testing exposes us to the risk of liability for personal injury or death to patients resulting from, among other things, possible unforeseen adverse side effects or improper administration of the new drug. Many of these patients are already seriously ill and are at risk of further illness or death. We attempt to manage our risk of liability for personal injury or death to patients from administration of products under study through measures such as stringent operating procedures and contractual indemnification provisions with clients and through insurance maintained by clients. We monitor our clinical trials in compliance with government regulations. We have adopted global standard operating procedures intended to satisfy regulatory requirements in the United States and in many foreign countries and serve as a tool for controlling and enhancing the quality of our clinical trials. The contractual indemnifications generally do not protect us against our own actions, such as negligence. We currently maintain professional liability insurance coverage of up to $15.0 million per claim, with an annual aggregate policy limit of $15.0 million.

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 include:

- our dependence on a small number of industries and clients;
- the timing of the initiation, progress or cancellation of significant projects;
- the mix of products and services sold in a particular period;
- our need to recruit and retain experienced personnel;
- rapid technological change and the timing and amount of start-up costs incurred in connection with the introduction of new products and services;
- intellectual property risks;
- the timing and amount of start-up costs incurred in connection with the introduction of new products and services;
- the timing of our Discovery Sciences Group milestone payments or other revenue;
- the timing of the opening of new offices;
- the timing of other internal expansion costs;
- the timing and amount of costs associated with integrating acquisitions; and
- exchange rate fluctuations between periods.

Delays and terminations of trials are often the result of actions taken by our customers 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. 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 or other factors beyond our control could affect the market price of our common stock. Such factors include changes in earnings estimates by analysts, market conditions in our industry, changes in environmental, pharmaceutical and biotechnology industries, general economic conditions, and differences in assumptions employed compared to actual results. Any effect on our common stock could be unrelated to our longer-term operating performance.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to foreign currency risk by virtue of our international operations. We conduct business in several foreign countries. Approximately 14.8%, 12.2% and 15.0% of our net revenues for the years ended December 31, 1999, 2000 and 2001, respectively, were derived from operations outside the United States. Funds generated by each subsidiary are generally reinvested in the country where they are earned. Our operations in the United Kingdom generated more than 51% of our revenue from international operations during 2001. Accordingly, we do have some exposure to adverse movements in the pound sterling and other foreign currencies. The United Kingdom has traditionally had a relatively stable currency compared to our functional currency, the U.S. dollar. We anticipate that those conditions will persist for at least the next

12 months, but cannot guarantee such.

The vast majority of our contracts are entered into by our United States or United Kingdom subsidiaries. The contracts entered into by the United States subsidiaries are almost always denominated in United States dollars. Contracts between our United Kingdom subsidiaries are generally denominated in pounds sterling, United States dollar or Euros. In most transactions involving multiple currencies, contractual provisions either limit or reduce the economic risk.

We do have some currency risk resulting from the passage of time between the invoicing of customers under contracts and the ultimate collection of customer payments against those invoices. If a contract is denominated in a currency other than the subsidiary's local currency, we recognize 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 the invoice is prepared and payment from the customer is received will result in our receiving either more or less in local currency than the local currency equivalent of the invoice amount at the time the invoice was prepared and the receivable established. We recognize this difference as a foreign currency transaction gain or loss, as applicable, and report it in other income, net.

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 each foreign subsidiary's financial results are translated to U.S. dollars is as follows:

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

Translation of the balance sheet in this manner affects the shareholders' equity account, referred to as 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. Translation adjustments are reported with accumulated other comprehensive income (loss) as a separate component of shareholders' equity. To date, cumulative translation adjustments have not been material to our consolidated financial position. Adjustments could in the future be material to our financial statements.

There are no material exchange controls currently in effect in any country in which we conduct operations on the payment of dividends or otherwise restricting the transfer of funds outside these countries. Although we perform services for clients located in a number of foreign jurisdictions, to date, we have not experienced any difficulties in receiving funds remitted from foreign countries. However, if any of these jurisdictions imposed or modified existing exchange control restrictions, the restrictions could have an adverse effect on our financial condition.

We are exposed to changes in interest rates on our cash equivalents, short-term investments and amounts outstanding under notes payable and lines of credit. We invest our cash and cash equivalents and short-term investments in financial instruments with interest rates based on financial market conditions.

Item 8. Financial Statements and Supplementary Data

The information called for by this Item is set forth herein commencing on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Certain information required by Part III is omitted from this report, because the Registrant intends to file a definitive proxy statement for its 2002 Annual Meeting of Stockholders to be held on May 15, 2002 (the "Proxy Statement") within 120 days after the end of its fiscal year pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, and the information included therein is incorporated herein by reference to the extent provided below.

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 of Form 10-K concerning the Registrant's executive officers is set forth under the heading "Executive Officers" located at the end of Part I of this Form 10-K.

The other information required by Item 10 of Form 10-K is incorporated by reference to the information under the headings "Proposal No. 1 - Election of Directors" and "Other Information-Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference to the information under the heading "Proposal No. 1 - Election of Directors - Information About the Board of Directors and Its Committees," "Other Information - Executive Compensation Tables," "--Director Compensation," "--Report of the Compensation Committee on Executive Compensation," "--Compensation Committee Interlocks and Insider Participation," and "--Performance Graph" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 of Form 10-K is incorporated by reference to the information under the heading "Other Information - Principal Shareholders" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 of Form 10-K is incorporated by reference to the information under the heading "Other Information - Certain Transactions" in the Proxy Statement.

PART IV

Item 14. Exhibits and Reports on Form 8-K

(a) Financial Statements

1. The consolidated financial statements of the Company and its subsidiaries filed as part of this Report are listed in the attached Index to Consolidated Financial Statements.

2. The schedule to the consolidated financial statements of the Company and its subsidiaries. None.

3. The exhibits filed as part of this Report are listed in Item 14(c) below.

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on October 16, 2001, relating to the Company's investment with Apothogen, Inc.

(c) Exhibits

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
2.1**	--Plan of Merger to Merge PPD Subsidiary, Inc. with and into Pharmaceutical Product Development Clinical Research Unit, Inc. ("PPD-CRU").
2.2**	--Plan of Merger to Merge PPD-Europe, Inc. ("PPD Europe") with and into the Registrant.
2.3*	--Agreement and Plan of Reorganization, dated as of June 20, 1996, among the Registrant, Wilmington Merger Corp. and Applied Bioscience International Inc.
2.4*	--Stock and Asset Master Purchase Agreement by and among Huntingdon International Holdings plc, Huntingdon Life Sciences Inc., Applied Bioscience International Inc. and Pharmaco LSR International Inc., dated as of November 1, 1995, incorporated by reference to Exhibit 2 to Applied Bioscience International Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 1996.
2.5*	--Stock Purchase Agreement among Applied Bioscience International Inc., PPD UK Holdings Limited and Environ Holdings Inc. for the acquisition of all the capital stock of APBI Environmental Sciences Group, Inc., Environmental Assessment Group Limited and Environ International Limited, dated January 31, 1999.
2.6*	--Agreement and Plan of Merger and Reorganization dated December 17, 2000, between DNA Sciences, Inc., PIPO Acquisition Corp., and PPGx, Inc.
2.7*	--Series C Preferred Stock Purchase Agreement dated December 17, 2000, between DNA Sciences, Inc. and Pharmaceutical Product Development, Inc.

2.8*	--Agreement and Plan of Reorganization dated January 28, 2002, by and among Pharmaceutical Product Development, Inc., Subsidiary No. 8, LLC and Medical Research Laboratories International, Inc.
2.9*	--Share Purchase Agreement among Pharmaceutical Product Development, Inc., PPD UK Holdings Limited, Evan A. Stein, M.D., Ph.D. and MRL Select Ltd. Co.
3.1*	--Restated Articles of Incorporation.
3.2*	--Amended and Restated Bylaws.
10.8**	--Pharmaceutical Product Development, Inc. Equity Compensation Plan, effective as of October 30, 1995.
10.9**	--Pharmaceutical Product Development, Inc. Stock Option Plan for Non-Employee Directors, effective as of October 31, 1995.
10.10**	--Registration Rights Agreement, dated January 24, 1996, by and among the Registrant and certain of its shareholders.
10.35**	--Lease, dated January 26, 1994, by and between Michael James Lawton, Jeffrey William Ware, Prudential Nominees Limited and Gabbay Group Limited.
10.39**	--Lease Agreement, dated as of October 25, 1995, by and between PPD-CRU and Perimeter Park West Associates Limited Partnership.
10.55**	--Lease made January 23, 1996 between PPD-CRU and Western Center Properties, Inc.
10.57*	--First Amendment to Registration Rights Agreement.
10.59*	--First Amendment dated May 20, 1999 to Lease Agreement, dated October 25, 1995, between PPD Development and Perimeter Park West Associates Limited Partnership.
10.60*	--First, Second and Third Amendments to Lease Agreement, dated March 25, 1996, between PPD and BBC Family Limited Partnership.

</TABLE>

<TABLE>

<S>	<C>
10.61*	--Lease Agreement, dated March 25, 1996, between PPD and BBC Family Limited Partnership.
10.71*	--Lease Agreement by and between ABI (TX) QRS 12-11, Inc. and Pharmaco LSR International Inc., incorporated by reference to Exhibit 10.43 to Applied Bioscience International Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995.
10.86*	--Pharmaceutical Product Development, Inc. Employee Stock Purchase Plan, dated May 15,1997.
10.87*	--Amendment to Employee Stock Purchase Plan, dated June 21, 1997.
10.88*	--Amendment to Stock Option Plan for Non-Employee Directors, dated May 15, 1997.
10.89*	--Amendment to Equity Compensation Plan, dated May 15, 1997.
10.90*	--Employment Agreement, effective July 1, 1997, between Pharmaceutical Product Development, Inc. and Fredric N. Eshelman.
10.93*	--Lease Agreement dated July 9, 1997, between Weeks Realty, Inc. and PPD Pharmaco, Inc.
10.96*	--Employment Agreement dated January 1, 1998 between PPD Pharmaco, Inc. and Patrick C. O'Connor.
10.110*	--Amendment to Employee Stock Purchase Plan, dated March 2, 1998.
10.111*	--Employment Agreement dated May 22, 1998 between Subsidiary No. 5, Inc. and Karl B. Thor.
10.113*	--Note and Loan Agreement, dated June 24, 1998 between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.114*	--Lease Agreement dated June 26, 1998 between Weeks Realty Limited Partnership and PPD Pharmaco, Inc.
10.116*	--First Amendment to Lease Agreement dated October 20, 1998, between PPD Pharmaco, Inc. and Weeks Realty, Inc.
10.117*	--Lease Agreement dated September 15, 1998 between PPD Pharmaco, Inc. and BBC Family Limited Partnership.
10.118*	--Lease Agreement dated December 16, 1998 between PPD Pharmaco, Inc. and Weeks Realty Limited Partnership.
10.119*	--Employment Agreement dated January 1, 1999 between Pharmaceutical Product Development, Inc. and David R. Williams.
10.122*	--Second Amendment to Loan Agreement dated January 30, 1999, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.124*	--Stock Purchase Agreement dated February 1, 1999 between PPGx, Inc. and Pharmaceutical Product Development, Inc.
10.128*	--Credit and Security Agreement dated February 2, 1999, between Applied Bioscience International Inc., Environ Holdings, Inc. and APBI Environmental Sciences Group, Inc.
10.129*	--First Amendment to Credit and Security Agreement dated March 30, 1999, between Applied Bioscience International Inc., Environ Holdings, Inc. and Environ International Corporation (formerly APBI Environmental Sciences Group, Inc.).
10.130*	--Subordination and Intercreditor Agreement dated March 30, 1999, between First Union National Bank and Applied Bioscience International, Inc.
10.131*	--Amendment, dated April 14, 1999, to Lease Agreement dated September 15, 1998 between PPD Pharmaco, Inc. and BBC Family Limited Partnership.
10.132*	--Amendment, dated April 14, 1999, to Lease Agreement dated March 25, 1996 between PPD and BBC Family Limited Partnership.
10.133*	--Fourth Amendment, dated July 6, 1999, to Lease Agreement dated July 9, 1997 between PPD Development, Inc. (formerly known as PPD Pharmaco, Inc.) and Weeks Realty, L.P.
10.134*	--Pharmaceutical Product Development, Inc. Equity Compensation Plan as amended and restated effective May 12, 1999.
10.136*	--Termination of Employment Agreement dated September 14, 1999 between Pharmaceutical Product Development, Inc. and Thomas D'Alonzo.
10.137*	--Amendment No. 2 and Restatement of Credit and Security Agreement dated November 24, 1999, between Applied Bioscience International Inc., Environ Holdings, Inc. and Environ International Corporation
10.138*	--Termination of Employment Agreement dated October 7, 1999 between PPD Development, Inc. and Joshua S. Baker.
10.140*	--Employment Agreement dated December 17, 1999 between PPD Development, Inc. and Francis J.

Casieri.
10.142* --Termination of Employment Agreement dated February 8, 2000 between Pharmaceutical Product Development, Inc. and Rudy C. Howard.
</TABLE>

<TABLE>
<S> <C>
10.143* --Second Amendment to Loan Agreement dated March 1, 2000, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.145* --Third Amendment to Employee Stock Purchase Plan, dated June 21, 1997.
10.146* --Third Amendment to Loan Agreement dated June 23, 2000, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.147* --Fourth Amendment to Loan Agreement dated June 30, 2000, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.148* --Employment Agreement dated July 20, 2000, between Pharmaceutical Product Development, Inc. and Philippe M. Maitre.
10.154* --Loan Agreement dated September 22, 2000, by and between PPGx, Inc., Pharmaceutical Product Development, Inc. and Axys Pharmaceuticals, Inc.
10.155* --Second Amendment to Registration Rights Agreement.
10.156* --Amendment No. 3 to Credit and Security Agreement dated October 17, 2000, between Applied Bioscience International Inc., Environ Holdings, Inc. and Environ International Corporation and Environ Facility Services Corporation.
10.157* --Amended and Restated Promissory Note dated October 17, 2000, between Applied Bioscience International Inc., Environ Holdings, Inc. and Environ International Corporation and Environ Facility Services Corporation.
10.158* --Deferred Compensation Plan dated February 1, 2001.
10.159* --Fifth Amendment to Loan Agreement dated December 19, 2000, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.160* --First Amendment to and Reaffirmation of Subordination and Intercreditor Agreement dated October 17, 2000, between First Union National Bank and Applied Bioscience International, Inc.
10.162* --Severance Agreement dated January 1, 2001, between Pharmaceutical Product Development, Inc. and various individuals.
10.163* --Loan Agreement dated January 24, 2001, by and among Spotlight Health, Inc., Pharmaceutical Product Development, Inc. and First Union National Bank.
10.164* --First Amendment, dated January 28, 1998, to Lease Agreement dated July 9, 1997 between PPD Development, Inc. (formerly known as PPD Pharmaco, Inc.) and Weeks Realty, L.P.
10.165* --Second Amendment, dated June 26, 1998, to Lease Agreement dated July 9, 1997 between PPD Development, Inc. (formerly known as PPD Pharmaco, Inc.) and Weeks Realty, L.P.
10.166* --Third Amendment, dated February 18, 1999, to Lease Agreement dated July 9, 1997 between PPD Development, Inc. (formerly known as PPD Pharmaco, Inc.) and Weeks Realty, L.P.
10.167* --First Amendment, dated February 28, 2000, to Lease Agreement dated December 16, 1998 between PPD Development, Inc. and Duke-Weeks Realty, L.P.
10.168* --First Amendment, dated January 1, 2001, to Employment Agreement dated December 17, 1999 between PPD Development, Inc. and Francis J. Casieri.
10.169* --Sixth Amendment to Loan Agreement dated June 30, 2001, between Pharmaceutical Product Development, Inc. and First Union National Bank.
10.170* --Employment Agreement dated July 9, 2001 between Pharmaceutical Product Development, Inc. and Brainard Judd Hartman.
10.171* --First Amendment dated June 30, 2001, by and among Spotlight Health, Inc., Pharmaceutical Product Development, Inc. and First Union National Bank.
10.172* --Amended and Restated Loan Agreement, dated July 31, 2001, between Pharmaceutical Product Development, Inc. and Wachovia Bank, N.A.
10.173* --Second Amendment to and Reaffirmation of Subordination and Intercreditor Agreement dated June 30, 2001, between First Union National Bank and Applied Bioscience International Inc.
10.174* --Amendment No. 4 to Credit and Security Agreement dated June 30, 2001, between Applied Bioscience International Inc., Environ Holdings, Inc. and Environ International Corporation and Environ Facility Services Corporation.
10.175* --Registration Rights Agreement among Pharmaceutical Product Development, Inc., Evan A. Stein, M.D., Ph.D., Paula Steiner, Peter Laskarzewski, Joseph L. Staneck and MRL Select Ltd. Co.
10.176 --Employment Agreement dated January 15, 2002, between Pharmaceutical Product Development, Inc. and Fred B. Davenport, Jr.
</TABLE>

<TABLE>

<S> <C>
10.177 --Employment Agreement dated January 15, 2002, between Pharmaceutical Product Development, Inc. and Paul S. Covington.
10.178 --Second Amendment dated December 31, 2001 among Spotlight Health, Inc., Pharmaceutical Product Development, Inc. and First Union National Bank.
21 --Subsidiaries of the Registrant.
23.1 --Consent of PricewaterhouseCoopers LLP.
</TABLE>

Exhibit 10.162 has been updated to amend Paul S. Covington's severance from two to two and one half years salary.

* Previously filed.
** Incorporated by reference to the Registrant's Registration Statement on Form S-1, as amended (File No. 33-98996).

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheets as of December 31, 2000 and 2001	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 1999, 2000 and 2001	F-5
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Pharmaceutical Product Development, Inc. and its Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Pharmaceutical Product Development, Inc. and its subsidiaries at December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

McLean, Virginia
January 25, 2002

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(in thousands, except per share data)

<TABLE>
<CAPTION>

	1999	2000	2001
<S>	<C>	<C>	<C>
Development revenues, net of subcontractor costs of $120,666, $120,455 and $155,652, respectively	$ 299,769	$ 330,516	$ 403,701

Discovery sciences revenues, net of subcontractor costs of $57, $145 and $476, respectively	2,761	14,802	27,840
Net revenue	302,530	345,318	431,541
Direct costs - Development	146,921	166,586	196,078
Direct costs - Discovery sciences	6,073	5,978	11,794
Research and development expenses	2,638	2,791	4,422
Selling, general and administrative expenses	95,130	109,183	126,391
Depreciation and amortization	14,842	17,233	20,264
Merger costs	218	-	-
	265,822	301,771	358,949
Operating income	36,708	43,547	72,592
Interest:			
Income	3,555	5,808	5,480
Expense	(400)	(505)	(535)
Interest income, net	3,155	5,303	4,945
Other income, net	1,182	1,981	469
Income from continuing operations before provision for income taxes	41,045	50,831	78,006
Provision for income taxes	12,154	18,521	28,747
Income from continuing operations before equity in net loss of investee	28,891	32,310	49,259
Equity in net loss of investee, net of income taxes	-	-	92
Income from continuing operations	28,891	32,310	49,167
Loss from operations of discontinued environmental sciences segment, net of income tax benefit of $251	395	-	-
Net income	$ 28,496	$ 32,310	$ 49,167
Income from continuing operations per common share:			
Basic	$ 0.59	$ 0.65	$ 0.95
Diluted	$ 0.58	$ 0.64	$ 0.94
Loss from discontinued operations per common share:			
Basic	$ (0.01)	$ -	$ -
Diluted	$ (0.01)	$ -	$ -
Net income per common share:			
Basic	$ 0.58	$ 0.65	$ 0.95
Diluted	$ 0.57	$ 0.64	$ 0.94
Weighted average number of common shares outstanding:			
Basic	49,132	49,930	51,689
Dilutive effect of stock options	574	424	805
Diluted	49,706	50,354	52,494

</TABLE>

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

PHARMACEUTICAL PRODUCT DEVELOPMENT,INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2000 AND 2001
(in thousands,except share data)

Assets

<TABLE>
<CAPTION>

	2000	2001
<S>	<C>	<C>
Current assets		

Cash and cash equivalents	$ 76,411	$ 143,173
Accounts receivable and unbilled services, net	118,400	140,744
Investigator advances	4,104	6,008
Prepaid expenses and other current assets	12,185	10,507
Current maturities of note receivable	500	500
Deferred tax asset	2,133	9,273
Total current assets	213,733	310,205
Property and equipment, net	60,240	85,690
Goodwill, net	9,034	7,590
Notes receivable, long-term portion	19,000	17,000
Investments	38,755	43,758
Other assets	4,153	1,157
Total assets	$ 344,915	$ 465,400
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 8,772	$ 8,210
Payables to investigators	5,538	7,988
Other accrued expenses	38,248	48,951
Unearned income	53,385	82,336
Accrued income taxes	273	8,688
Current maturities of long-term debt and capital lease obligations	614	1,203
Total current liabilities	106,830	157,376
Long-term debt and capital lease obligations, less current maturities	1,353	1,871
Deferred rent and other	2,789	3,518
Total liabilities	110,972	162,765
Commitments and contingencies (Notes 10 and 14)		
Shareholders' equity		
Common stock, $0.10 par value, 95,000,000 shares authorized; 50,669,526 and 51,930,313 shares issued and outstanding, respectively	5,066	5,193
Paid-in capital	142,975	164,162
Retained earnings	91,007	140,174
Deferred compensation	-	(966)
Accumulated other comprehensive loss	(5,105)	(5,928)
Total shareholders' equity	233,943	302,635
Total liabilities and shareholders' equity	$ 344,915	$ 465,400

</TABLE>

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

PHARMACEUTICAL PRODUCT DEVELOPEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(in thousands)

<TABLE>
<CAPTION>

	Common Shares	Par Value	Paid-in Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Total	Comprehensive Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1998	48,618	$ 4,862	$ 124,277	$ 30,201	-	$ (571)	$ 158,769	
Net income				28,496			28,496	$ 28,496
Other comprehensive loss:								
Translation adjustments						(2,154)	(2,154)	(2,154)
Comprehensive income								$ 26,342

								=========
Issuance of common shares for exercise of stock options and employee stock purchase plan	640	64	6,136				6,200	
Income tax benefit from exercise of stock options			1,153				1,153	
Balance December 31, 1999	49,258	4,926	131,566	58,697	-	(2,725)	192,464	
Net income				32,310			32,310	$ 32,310
Other comprehensive loss: Translation adjustments						(2,380)	(2,380)	(2,380)
Comprehensive income								$ 29,930
Issuance of common shares for exercise of stock options and employee stock purchase plan	1,412	140	9,028				9,168	
Income tax benefit from exercise of stock options			2,381				2,381	
Balance December 31, 2000	50,670	5,066	142,975	91,007	-	(5,105)	233,943	
Net income				49,167			49,167	$ 49,167
Other comprehensive loss: Translation adjustments						(823)	(823)	(823)
Comprehensive income								$ 48,344
Issuance of common shares for exercise of stock options and employee stock purchase plan	1,230	124	13,483				13,607	
Income tax benefit from exercise of stock options			6,258				6,258	
Stock issued for deferred compensation	30	3	1,446		(1,449)		-	
Amortization of stock compensation					483		483	
Balance December 31, 2001	51,930	$ 5,193	$ 164,162	$140,174	$(966)	$ (5,928)	$ 302,635	

</TABLE>

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

PHARMACEUTICAL PRODUCT DEVELOPEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001
(in thousands)

<TABLE>
<CAPTION>

	1999	2000	2001
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 28,496	$ 32,310	$ 49,167
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,040	17,233	20,264
Discount on note receivable	-	-	1,500
Stock compensation amortization	-	-	483
Provision for doubtful accounts	409	1,060	973
Equity in net loss of investee	-	-	92
Gain on sale of business	-	(498)	-
Deferred income taxes	294	1,879	(4,361)
Loss on disposition of property and equipment, net	-	34	438

Change in operating assets and liabilities:			
Accounts receivable and unbilled services, net	(6,420)	(4,708)	(23,317)
Prepaid expenses and investigator advances	(1,987)	(2,519)	(2,293)
Current income taxes	(4,114)	6,190	16,739
Other assets	(3,962)	(761)	411
Accounts payable, other accrued expenses and deferred rent	6,428	8,927	9,754
Payable to investigators	712	(379)	2,450
Unearned income	15,704	3,172	28,951
Net cash provided by operating activities	50,600	61,940	101,251
Cash flows from investing activities:			
Purchases of property and equipment	(23,233)	(21,515)	(41,889)
Net cash received from sale of businesses	3,421	-	-
Proceeds from sale of property and equipment	31	225	946
Cash received from repayment of note receivable	500	500	500
Purchases of investments	(3,500)	(30,755)	(5,095)
Net cash paid for acquisitions	-	(1,500)	-
Net cash used in investing activities	(22,781)	(53,045)	(45,538)
Cash flows from financing activities:			
Proceeds from long-term debt	982	-	-
Principal repayments on long-term debt	(6,406)	(94)	(54)
Repayment of capital lease obligations	(11)	(429)	(1,680)
Proceeds from exercise of stock options and employee stock purchase plan	6,200	9,168	13,606
Net cash provided by financing activities	765	8,645	11,872
Effect of exchange rate changes on cash and cash equivalents	(2,154)	(2,380)	(823)
Net increase in cash and cash equivalents	26,430	15,160	66,762
Cash and cash equivalents, beginning of the year	34,821	61,251	76,411
Cash and cash equivalents, end of the year	$ 61,251	$ 76,411	$ 143,173

</TABLE>

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

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

1. Summary of Operations and Significant Accounting Policies:

Nature of Business

Pharmaceutical Product Development, Inc. and its subsidiaries (collectively the "Company") provide a broad range of research and development and consulting services in the development and discovery sciences segments. In the development segment, the Company provides services, which include preclinical programs through phase 1 to phase 4 clinical development. In addition, the Company also offers post-market support services for drugs receiving approval for market use, such as product launch services, patient compliance programs, and medical communications programs for consumer and healthcare providers on product use and adverse events. The discovery sciences services include functional genomics, which is the study of gene functions to identify drug targets within the body, as well as biological chemistry research and preclinical biology services. The Company provides services under contract to clients in the pharmaceutical, general chemical, biotechnology and other industries. The Company markets its development services primarily in the United States and Europe. The Company's discovery revenues have all been generated in the United States to date.

Prior to selling its environmental sciences segment on January 31, 1999 (see Note 3), the Company also provided environmental sciences services. Environmental sciences services included assessment and management of chemical and environmental health risk, site investigation and remediation planning and litigation support. In addition to the industries mentioned above, the environmental sciences segment also marketed services to clients in the industrial, manufacturing and oil and gas industries. The environmental sciences segment marketed its services primarily in the United States and Europe.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and results of operations of the Company and its wholly-owned subsidiaries. All

significant intercompany balances and transactions have been eliminated, including transactions with the equity method investee.

Merger Costs

The Company recorded merger costs of $218 in connection with the acquisition of ATP, Inc. (PPD Medical Communications) in 1999 (see Note 2). This acquisition was accounted for using the pooling of interests method of accounting. This cost was primarily transaction expenses related to this pooling transaction.

Revenue Recognition

The Company records revenues from fixed-price contracts on a percentage-of-completion basis. To measure the percentage-of-completion, the Company compares actual costs incurred to estimated total contract costs. Revenues from time-and-material contracts are recognized as hours are incurred multiplied by the billable rates for each contract. Revenues from unitized contracts are recognized as subjects or samples are tested multiplied by the price for each. Revenues are recorded net of reimbursement received from clients for pass-through expenses, which generally include subcontractor costs that consist of investigator fees, travel and certain other contract costs.

If we determine that a loss will result from the performance of a fixed-price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made. Clients generally may terminate a study at any time, which might cause unplanned periods of excess capacity and reduced revenues and earnings. To offset the effects of early terminations of significant contracts, the Company attempts to negotiate the payment of an early termination fee as part of the original contract.

Discovery Sciences Group revenues also include nonrefundable technology license fees and milestone payments. For nonrefundable license fees received at the initiation of license agreements for which the Company has an ongoing research and development commitment, the Company defers these fees and recognizes them ratably over the period of the related research and development. Nonrefundable license fees received under license

1. Summary of Operations and Significant Accounting Policies (Continued):

Revenue Recognition (Continued)

agreements where the Company's continued performance of future research and development services is not required, are recognized upon delivery of the technology. These non-refundable fees are generally up-front payments for the initial license of and access to technology. In addition to license fees, the Discovery Sciences Group also generates revenue from time to time in the form of milestone payments. Milestone payments are only received and recognized as revenues if the specified milestone is achieved and accepted by the customer. Although these payments are typically lower than up-front license fees, these payments can be significant because they are triggered as a result of achieving specified scientific milestones.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", ("SAB 101"), which provides guidance on the recognition, presentation and disclosures of revenue in financial statements filed with the SEC. SAB 101, as amended by SAB 101A and SAB 101B, outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB 101 was adopted in the Company's fourth quarter of fiscal year 2000. The adoption of SAB 101 did not have a significant impact on the Company's revenue recognition policies.

In November 2001, the FASB issued Topic D-103, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred". Topic D-103 requires reimbursements for out-of-pocket expenses incurred to be characterized as revenue in the income statement. Currently, the Company accounts for out-of-pocket expenses and contracted physician expenses as a reduction of revenues. Topic D-103 is effective for periods beginning after December 1, 2001 and will require comparative financial statements for prior periods to be reclassified. The Company is currently in the process of evaluating the impact that Topic D-103 will have on its consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash accounts, which are

(in thousands, except per share data)

not subject to withdrawal restrictions or penalties, and all highly liquid investments which are rated A or better by Standard & Poor's or Moody's and which have a maturity of three months or less at the date of purchase.

Supplemental cash flow information consisted of the following:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Cash paid for interest	$ 319	$ 565	$ 273
Cash paid for income taxes, net	$ 15,972	$ 11,252	$ 16,627
Assets acquired under capital leases	$ 349	$ 2,006	$ 2,841
Property and equipment additions included in accounts payable	$ 1,458	$ 1,243	$ 1,755
Investment acquired for PPGx stock	$ -	$ 17,005	$ -

</TABLE>

1. Summary of Operations and Significant Accounting Policies (Continued):

Financial Instruments

In the fourth quarter of 1999, the Company entered into a short sale and repurchase of U.S. Treasury bonds with a face value of $520,000. This transaction matured on May 15, 2000. The Company is required to record these financial instruments at their net fair value on each reporting date, with any changes in the fair value recorded as either interest income or interest expense. Net interest expense of $100 and $349 has been recognized related to this transaction at December 31, 1999 and 2000, respectively. The Company was required to make a margin deposit of $2,600 related to this transaction.

Investigator Payments

Billings and payments to investigators are based on predetermined contractual agreements that can differ from the accrual of the related costs. Investigator costs are recognized 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. Payments made in excess of the accrued costs are classified as investigator advances, and accrued costs in excess of amounts paid are classified as payables to investigators in the consolidated balance sheets. Contracted physician costs are considered a pass-through expense and are recorded as a reduction to revenues in the consolidated statements of operations. See the discussion of recent accounting pronouncements (Topic D-103) under "Revenue Recognition".

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is recorded using the straight-line method, based on estimated useful lives of 20 to 40 years for buildings, five to seven years for laboratory equipment, three to five years for computers and related equipment and seven to 10 years for furniture and equipment, except for the airplane which is being depreciated over 25 years. Leasehold improvements are amortized over the shorter of the respective lives of the leases or the useful lives of the improvements. Property under capital leases is amortized over the life 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 AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", which requires certain direct costs and interest costs that are incurred during the application stage of development to be capitalized and amortized over the useful life of the software.

Goodwill

The excess of the purchase price of businesses acquired over the fair value of net tangible assets and identifiable intangible assets and acquired

in-process research and development costs at the date of the acquisitions has been assigned to goodwill. Goodwill is being amortized over periods of 10 to 25 years. Goodwill is presented net of accumulated amortization at December 31, 2000 and 2001 of $5,753 and $6,801, respectively. The amortization charges for each of the three years ended December 31, 1999, 2000 and 2001 were $1,005, $925 and $929, respectively.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations", or SFAS No. 141. On July 1, 2001, the Company adopted SFAS No. 141, which requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill.

1. Summary of Operations and Significant Accounting Policies (Continued):

Realizability of Carrying Value of Long-Lived Assets

The Company is required to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant and equipment and intangibles, including goodwill, in relation to the operating performance and estimates of future undiscounted cash flows of the underlying business and recognizes an impairment, if necessary, to state property, plant and equipment and intangibles at their fair value. No such impairment was recorded during any of the three years ended December 31, 1999, 2000 and 2001.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", or SFAS No. 144, which supersedes SFAS No. 121 and portions of APB Opinion No. 30. SFAS No. 144 provides guidance on the recognition and impairment of long-lived assets to be held and used and for long-lived assets to be disposed. The Company intends to adopt SFAS No. 144 as of January 1, 2002, as required, and does not believe the adoption will have a material impact on the consolidated financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", or SFAS No. 142. The Company intends to adopt SFAS No. 142 as of January 1, 2002, as required, and for goodwill and intangible assets acquired after June 30, 2001 (for the nonamortization and amortization provisions of the Statement). The Company will no longer record amortization of goodwill in the financial statements effective January 1, 2002 as required by SFAS No. 142. Rather, the Company will analyze goodwill for impairment at the reporting unit level during the first quarter of 2002 and, at a minimum, on an annual basis going forward. Amortization expense related to goodwill for 2001 was $929 and would have been expected to approximate this amount in 2002 under pre-existing accounting standards.

Investments

Investments consist of equity instrument investments in private entities for which fair values are not readily determinable. All of the Company's investments are recorded under the cost method of accounting, with the exception of Apothogen. These investments are subject to write-down for impairment whenever events or changes in circumstances indicate that the carrying amount of these investments may not be recoverable. Given the involvement of the Chairman of the Board of Directors of the Company and the Chief Executive Officer of the Company, the Company accounts for its investment in Apothogen under the equity method of accounting. Accordingly, based on its ownership of 14.75% of Apothogen's Series A convertible preferred stock, the Company has recognized 14.75% of the net losses of Apothogen.

Other Assets

Other assets are comprised primarily of other intangible assets and a net long-term deferred tax asset. Other intangible assets are being amortized on a straight-line basis over periods of three to ten years. See Note 8.

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 arise when services have been rendered but clients have not been billed. Conversely, unearned income represents amounts billed in excess of revenue recognized.

1. Summary of Operations and Significant Accounting Policies (Continued):

Income Taxes

Income taxes are computed 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 portion or all of a deferred tax asset will not be realized, a valuation allowance is recorded.

Concentration of Credit Risk

Statement of Financial Accounting Standards No. 105, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk", requires 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, notes receivable and cash equivalents.

The Company's clients are primarily pharmaceutical and biotechnology companies. One customer accounted for 10.3% and 10.7% of consolidated net revenue in 2001 and 2000, respectively. No single client accounted for more than 10% of the Company's net revenue in 1999. These revenues were derived from the Company's development segment. Concentrations of credit risk with respect to accounts receivable are limited to a degree due to the large number of clients comprising the Company's client base. Ongoing credit evaluations of clients' financial condition are performed and, generally, no collateral is required. The Company maintains reserves for potential credit losses and these losses, in the aggregate, have historically not exceeded management's estimates.

The Company's cash equivalents consist principally of commercial paper. Bank deposits at times 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 risk.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", requires the Company to display an amount representing comprehensive income for the year in a financial statement which is displayed with the same prominence as other financial statements. The Company has elected to present this information in the Statements of Shareholders' Equity. The Company's comprehensive income (loss) consists of net income and the change in the cumulative foreign currency translation adjustment.

Foreign Currency Translations and Transactions

Assets and liabilities of foreign operations, where the functional currency is the local currency, are translated into U.S. dollars at the rate of exchange at each reporting date. Income and expenses are translated 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 cumulative translation adjustment included in other comprehensive income for the years ended December 31, 1999, 2000 and 2001 totaled $(2,154), $(2,380) and $(823), respectively. Foreign currency transaction gains and losses are included in other income, net.

Stock Dividend

On April 16, 2001, the Board of Directors declared a one-for-one stock dividend. The record date for the dividend was April 27, 2001, and the distribution date was May 11, 2001. All share and per share amounts for all periods presented in the accompanying consolidated financial statements have been restated to reflect the effect of this stock dividend, which was accounted for as a stock split.

1. Summary of Operations and Significant Accounting Policies (Continued):

Earnings Per Share

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

Stock-Based Compensation

The Company accounts for stock-based compensation based on the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), which states that, for fixed plans, no compensation expense is recorded for stock options or other stock-based awards to employees that are granted with an exercise price equal to or above the estimated fair value per share of the Company's common stock on the grant date. In the event that stock options are granted with an exercise price below the estimated fair value of the Company's common stock at the grant date, the difference between the fair value of the Company's common stock and the exercise price of the stock option is recorded as deferred compensation. Deferred compensation is amortized to compensation expense over the vesting period of the stock option. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", which requires compensation expense to be disclosed based on the fair value of the options granted at the date of the grant. See Note 11.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs were approximately $1,206, $2,048 and $1,390 for the years ended December 31, 1999, 2000 and 2001, respectively.

Research and Development Costs

Research and development costs are charged to operations as incurred. Research and development costs are listed as a separate line item on the Company's consolidated statements of operations.

Derivative Investments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivatives and hedging activities and supercedes several existing standards. SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The adoption of SFAS No. 133 as of January 1, 2001 did not have a material impact on the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2001 presentation.

2. Acquisitions:

In March 1999, the Company acquired PPD Medical Communications (formerly ATP, Inc.), a health information services company. PPD Medical Communications provides customized inbound and outbound telecommunications

(in thousands, except per share data)

programs targeting consumers and health care providers. The Company acquired all of the outstanding stock of ATP, Inc. in exchange for issuance of approximately 876 shares of the Company's common stock. Outstanding ATP, Inc. options were exchanged for options to acquire approximately 216 shares of the Company's common stock. This acquisition was accounted for using the pooling of interests method. Accordingly, the Company's financial statements include the results of PPD Medical Communications for all periods presented.

3. Discontinued Operations:

Effective January 31, 1999, the Company sold its environmental sciences segment to Environ Holdings, Inc., a new company formed by the management of the environmental sciences segment, for total consideration of approximately $26,244 in a management buyout. The Company received cash of $1,244, a four-year note for $7,000 and a 12-year note for $18,000 (see Note 6). The sale resulted in no gain or loss because the sales price was equal to the book value of the net assets sold at the date of the sale. In the first quarter of 1999, the Company received full pre-payment of the four-year note.

The operating results of the environmental sciences segment for the year ended December 31, 1999 were as follows:

Net revenues	$ 3,866
Loss from operations	(629)
Net loss	(395)

4. Accounts Receivable and Unbilled Services:

Accounts receivable and unbilled services consisted of the following:

	December 31, 2000	December 31, 2001
Trade:		
Billed	$ 81,584	$ 99,877
Unbilled	38,770	43,748
Reserve for doubtful accounts	(1,954)	(2,881)
	$ 118,400	$ 140,744

Change in reserve for doubtful accounts consisted of the following:

<TABLE>
<CAPTION>

	Years Ended December 31, 1999	2000	2001
<S>	<C>	<C>	<C>
Balance at beginning of year	$ 2,042	$ 1,066	$ 1,954
Additions charged to costs and expenses	409	1,060	973
Deductions	(516)	(172)	(46)
Sale of environmental sciences segment	(869)	-	-
Balance at end of year	$ 1,066	$ 1,954	$ 2,881

</TABLE>

5. Property and Equipment:

Property and equipment, stated at cost, consisted of the following:

<TABLE>
<CAPTION>

	December 31, 2000	December 31, 2001
<S>	<C>	<C>
Land	$ 1,257	$ 1,245
Buildings and leasehold improvements	18,748	21,088
Construction in progress and asset deposits	2,661	9,864

(in thousands, except per share data)

Furniture and equipment	57,495	77,102
Computer equipment and software	46,990	54,211
	127,151	163,510
Less accumulated depreciation and amortization	(66,911)	(77,820)
	$ 60,240	$ 85,690

</TABLE>

The annual depreciation and amortization charges on property and equipment for the years ended December 31, 1999, 2000 and 2001 were $13,936, $16,291 and $19,200 respectively.

The Company had property and equipment under capital leases with a net book value at December 31, 2000 and 2001 of $1,915 and $3,075, respectively. Capital leases, net of accumulated depreciation, of $451 and $1,706 as of December 31, 2000 and 2001, respectively, are included in computer equipment and software.

6. Notes Receivable:

<TABLE>
<CAPTION>

Notes receivable consisted of the following:

	December 31, 2000	December 31, 2001
<S>	<C>	<C>
Note receivable from sale of environmental sciences segment	$ 18,000	$ 16,500
Other note receivable	1,500	1,000
	19,500	17,500
Less current maturities	(500)	(500)
	$ 19,000	$ 17,000

</TABLE>

The note receivable related to the sale of the Company's environmental sciences segment (see Note 3) will be received over 12 years. The first four years are interest-only payments with the first interest payment received on December 31, 1999. Principal payments commence on December 31, 2003. The note bears interest at a rate of 8%. During the fourth quarter of 2001, the Company was negotiating a potential pre-payment of this note receivable and recorded a $1,500 discount.

The other note receivable relates to the sale of a prior business and bears interest at a rate of 10% and is payable over a five-year period, which began on February 27, 1998, in equal annual payments.

7. Investments:

Investments consisted of the following:

	December 31, 2000	December 31, 2001
Investment in DNA Sciences, Inc.	$ 32,005	$ 32,005
Investment in Spotlight Health	5,000	5,000
Investment in SLIL Biomedical Corp.	-	4,700
Investment in DAS	1,500	1,500
Investment in CancerConsultants.com, Inc.	250	250
Investment in Apothogen, Inc.	-	203
Investment in PrimeCyte, Inc.	-	100
	$ 38,755	$ 43,758

All of the Company's investments, with the exception of Apothogen, Inc., are being accounted for using the cost method of accounting as the Company has determined that it does not have the ability to exercise significant influence on the operations of these companies.

In February 1999, the Company invested in PPGx, an entity formed together with Axys Pharmaceuticals, Inc. ("Axys") to pursue the business of

pharmacogenomics. The Company contributed $1,500 and the net assets of Intek, and assigned the rights to a certain software license from Axys for an 18.2% ownership interest in PPGx. In December 2000, the Company exercised its option to increase its ownership to 50% for $5,900 and subsequently sold its investment in PPGx to DNA Sciences, Inc. for approximately 1.5 million shares of DNA Sciences Series D preferred stock. As a result of this transaction, the Company recognized a gain from the sale of PPGx of $498. In conjunction with this transaction, the Company repaid a $4,560 loan on PPGx's behalf and forgave a note receivable from PPGx in the amount of $1,065. In December 2000, the Company purchased approximately 1.5 million shares of DNA Sciences Series C preferred stock for $15,000. The Company owned approximately 1.5 million shares of DNA Sciences Series C preferred stock and approximately 1.5 million shares of DNA Sciences, Inc. Series D preferred stock, representing an 11.2% and 10.8% ownership interest as of December 31, 2000 and 2001, respectively.

In April 2000, the Company purchased 1.0 million shares of Spotlight Health Series C convertible preferred stock, which represented approximately 8.4% and 7.6% ownership of Spotlight Health as of December 31, 2000 and 2001, respectively. In January 2001, the Company entered into an agreement with Spotlight Health and First Union National Bank to serve as the guarantor of a $2,000 revolving line of credit from First Union. Indebtedness under the line is unsecured and subject to traditional covenants relating to financial ratios. As of December 31, 2001, there was $2,000 outstanding under this credit facility. This credit facility is currently scheduled to expire in June 2002, at which time any outstanding balance is due. Further extensions of this guarantee beyond June 2002 are possible.

In November 2001, the Company purchased 2.0 million shares of SLIL Biomedical Series C preferred stock, which represents an 18.7% ownership interest as of December 31, 2001. In connection with this investment, the Company also received a warrant to purchase up to $1,175 of stock, which SLIL Biomedical issues in connection with a future institutional offering, at the price per share stated in that offering. The Company owns 0.6 million shares of Digital Arts and Sciences ("DAS") Series D preferred stock, which represented a 6.8% and 6.7% ownership interest of December 31, 2000 and 2001, respectively.

In December 2000, the Company purchased approximately 0.3 million shares of CancerConsulatants.com common stock, which represented a 2.8% and 2.7% ownership interest as of December 31, 2000 and 2001, respectively. The Company also received, as part of the purchase, a warrant to purchase approximately 0.2 million shares of CancerConsultants.com common stock at an exercise price of $1.25 per common share.

7. Investments (Continued):

In October 2001, the Company made an investment in Apothogen, Inc., a new company formed with JPMorgan Partners (BHCA), L.P., the Chairman of the Company's Board of Directors and the Chief Executive Officer of the Company to engage in the business of acquiring, developing and commercializing pharmaceutical products. Due to the individual interests of the Chairman of the Company's Board of Directors and the Chief Executive Officer of the Company in Apothogen, in connection with this transaction, the Company's board of directors adopted a policy to address potential conflicts of interest. This policy identifies the transactions that are subject to the policy and establishes procedures for the disclosure and disinterested approval of these transactions. Apothogen's shareholders have committed to provide financing to Apothogen through the purchase of Apothogen's Series A convertible preferred stock. The Company's maximum total capital commitment to Apothogen is $18,000, and the timing of this commitment is subject to capital calls approved by Apothogen's board of directors and JPMorgan. As such, JPMorgan can control all future capital calls. The Company's level of financing is dependent upon the success of Apothogen in developing compounds and the resulting licensing or commercialization of those compounds. JPMorgan can contribute up to $100,000 to Apothogen. As of December 31, 2001, the Company had contributed $295 to Apothogen for Series A convertible preferred stock. The Series A preferred stock can be converted to Apothogen common stock at any time and is subject to a mandatory conversion upon the occurrence of certain events. Given the involvement of the Chairman of the Company's Board of Directors and the Chief Executive Officer of the Company, the Company is accounting for its investment in Apothogen under the equity method of accounting. Accordingly, based on the Company's current ownership interest of 14.75% of Apothogen's Series A convertible preferred stock, the Company is recognizing 14.75% of the net earnings or losses of Apothogen. Due to the fact that the Company has a future capital commitment, it is possible that the Company might end up recording losses in excess of the amount of its investment contributions to Apothogen. In connection with this investment, the Company also entered into an agreement to be the exclusive provider of drug development and clinical research program

(in thousands, except per share data)

management services to Apothogen. Under this agreement, these services will be provided to Apothogen at the Company's customary and usual rates. The Company also granted Apothogen a first right to negotiate an exclusive license with respect to compounds acquired or licensed by the Company after October 5, 2001. The Company had a receivable from Apothogen as of December 31, 2001 of $199. Apothogen rents facility space from the Company and the Company provides Apothogen with development services and specified administrative services. During 2001, the Company recorded $118 in rental income and $5 in drug development services revenues from Apothogen.

In November 2001, the Company purchased approximately 67 thousand shares of PrimeCyte Series D preferred stock, which represented a 0.7% ownership interest in PrimeCyte as of December 31, 2001. The Company also received, as part of the purchase, a warrant to purchase 33 thousand shares of common stock in PrimeCyte at an exercise price of $1.50 per common share.

8. Other Assets:

Other assets consisted of the following:

<TABLE>
<CAPTION>

	December 31,	
	2000	2001
<S>	<C>	<C>
Long-term deferred tax assets	$ 2,404	$ -
Intangible assets, net of accumulated amortization of $1,099 and $1,232, respectively	880	698
Other assets	869	459
	$ 4,153	$ 1,157

</TABLE>

The annual amortization charges on intangible assets for each of the three years ended December 31, 1999, 2000 and 2001 were $153, $17 and $135, respectively.

9. Other Accrued Expenses:

Other accrued expenses consisted of the following:

<TABLE>
<CAPTION>

	December 31,	
	2000	2001
<S>	<C>	<C>
Accrued salaries, wages, benefits and related costs	$ 28,307	$ 35,356
Other	9,941	13,595
	$ 38,248	$ 48,951

<CAPTION>
10. Long-Term Debt and Lease Obligations:

Long-term debt consisted of the following:

	December 31,	
	2000	2001
<S>	<C>	<C>
Equipment leases at interest rates up to 7.0%	$ 1,915	$ 3,074
Various notes at interest rates up to 7.5%	52	-
	1,967	3,074
Less: current maturities	(614)	(1,203)
	$ 1,353	$ 1,871

</TABLE>

(in thousands, except per share data)

In June 2001, the Company amended a $50,000 revolving credit facility with First Union National Bank. Indebtedness under the line is unsecured and subject to traditional covenants relating to financial ratios. Borrowings under this loan are available to provide working capital and for general corporate purposes. As of December 31, 2000 and 2001, there was no amount outstanding under this credit facility. This credit facility expires in June 2002, at which time any outstanding balance is due.

In July 2001, the Company amended a credit facility for $50,000 with Wachovia Bank, N.A. Indebtedness under the line is unsecured and subject to traditional covenants relating to financial ratios. Borrowings under this loan are available to provide working capital and for general corporate purposes. As of December 31, 2000 and 2001, there was no amount outstanding under this credit facility. This credit facility expires in July 2002, at which time any outstanding balance is due.

In September 2001, First Union and Wachovia merged to create Wachovia Corporation. This merger has had no effect on the structure and terms of the Company's two revolving credit facilities.

For the years subsequent to December 31, 2001, payment obligations and interest payments on capital leases are as follows:

2002	$ 1,327
2003	1,443
2004	518
	3,288
Less: amounts representing interest	(214)
Net present value	$ 3,074

10. Long-Term Debt and Lease Obligations (Continued):

Operating Leases

The Company is obligated under noncancellable leases expiring at various dates through 2016 relating to its operating facilities and certain equipment. Rental expense for all operating leases, net of sublease income, was $13,625, $17,832 and $18,520 for the years ended December 31, 1999, 2000 and 2001, respectively.

The Company completed a sale-leaseback transaction involving real estate in Austin, Texas, in November 1995. Total gross proceeds in the transaction were $12,000, resulting in a pre-tax gain of approximately $2,100. The gain, which has been deferred, is classified as deferred rent and other in the accompanying consolidated balance sheets and is being amortized as a reduction of rent expense on a straight-line basis over the 15-year lease term. The facilities are leased to the Company with all responsibility of operations and maintenance residing with the Company.

Certain facility leases entered into provided for concessions by the landlords, including payments for leasehold improvements, moving expenses and free rent periods. These concessions have been reflected as deferred rent and other in the accompanying consolidated financial statements. The Company is recording rent expense on a straight-line basis for these leases.

Future minimum payments for all operating lease obligations for years subsequent to December 31, 2001 are as follows:

2002	$ 20,928
2003	19,457
2004	18,572
2005	17,438
2006	16,581
2007 and thereafter	53,959
	146,935
Less: sublease income	(400)
	$ 146,535

11. Stock Plans:

(in thousands, except per share data)

Restricted Stock

In January 2001, the Company awarded 30 thousand shares of restricted stock to members of the senior management team. This restricted stock vests over three years. Deferred compensation is being expensed on a straight-line basis over the three-year vesting period. Total deferred compensation recorded was $1,449. Deferred compensation, net of accumulated amortization of $483, was $966 as of December 31, 2001.

Stock Incentive Program

The Company has two stock option plans (the "Plans") under which the Company may grant options to its employees and directors. As of December 31, 2001, there were 2.3 million shares of common stock available for grant. Under the Plans, the exercise price of each option granted must equal the market price of the Company's stock on the date of grant and an option's maximum exercise term is 10 years. Options are granted upon approval of the Board of Directors and vest over various periods, as determined by the Board of Directors at the date of the grant. The majority of the Company's options vest over a period of three years.

11. Stock Plan (Continued):

On January 1, 1996, the Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock Based Compensation". As permitted by SFAS No. 123, the Company has chosen to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for the Plans. Accordingly, no compensation cost has been recognized for options granted under the Plans. Had compensation cost for the Company's Plans been determined based on the fair value at the grant dates for awards under the Plans consistent with the method required by SFAS No. 123, the Company's net income and diluted net income per common share would have been the pro forma amounts indicated below.

<TABLE>
<CAPTION>

	1999		2000		2001	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income	$ 28,496	$ 25,232	$ 32,310	$ 28,934	$ 49,167	$ 44,666
Basic net income per common share	$ 0.58	$ 0.51	$ 0.65	$ 0.58	$ 0.95	$ 0.86
Diluted net income per common share	$ 0.57	$ 0.51	$ 0.64	$ 0.57	$ 0.94	$ 0.85

</TABLE>

For the purposes of the pro forma presentation above, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1999, 2000 and 2001: expected volatility of 81.1%, 68.1% and 76.1% respectively; risk-free interest of 6.19%, 4.99% and 4.59%, respectively; and expected lives of five years. The resulting estimated weighted average fair value of options granted during 1999, 2000 and 2001 was $13.71, $15.78 and $11.54, per share, respectively. All options granted during the years ended December 31, 1999, 2000 and 2001 were granted with an exercise price equal to the fair value of the Company's common stock at the grant date. The estimated pro forma amounts above include the compensation cost for the Company's Employee Stock Purchase Plan based on the fair value of the contributions under this plan, consistent with the method of SFAS No. 123.

A summary of the status of the Plans at December 31, 1999, 2000 and 2001, and changes during the years, is presented below and includes common stock options of the Company:

<TABLE>
<CAPTION>

	1999		2000		2001	
	(000's) Shares	Weighted Average Exercise Price	(000's) Shares	Weighted Average Exercise Price	(000'S) Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Outstanding at beginning of year	3,580	$ 9.78	3,214	$ 9.35	2,802	$ 11.05
Granted	756	7.11	822	12.96	501	24.21
Exercised	(442)	9.39	(956)	7.19	(985)	11.03
Forfeited	(680)	12.34	(278)	10.57	(65)	12.60
Outstanding at end of year	3,214	$ 9.35	2,802	$ 11.05	2,253	$ 13.94
Options exercisable at end of year	2,016	$ 9.20	1,500	$ 10.44	1,148	$ 11.30

</TABLE>

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands,except per share data)

11. Stock Plans (Continued):

The following table summarizes information about the Plans' stock options at December 31, 2001:

<TABLE>
<CAPTION>

Options Outstanding				Options Exercisable	
Range of Exercise Prices	(000's) Number Outstanding at 12/31/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	(000's) Number Exercisable at 12/31/01	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$ 0.00 - $ 3.23	23	3.9 years	$ 1.96	23	$ 1.96
$ 3.24 - $ 6.46	203	6.9 years	$ 5.00	133	$ 4.76
$ 6.47 - $ 9.69	460	6.9 years	$ 7.47	340	$ 7.42
$ 9.70 - $ 12.92	448	7.7 years	$ 10.87	198	$ 11.22
$ 12.93 - $ 16.15	305	6.3 years	$ 13.76	269	$ 13.71
$ 16.16 - $ 19.38	304	8.5 years	$ 18.12	120	$ 17.91
$ 19.39 - $ 22.62	299	8.9 years	$ 21.77	29	$ 20.38
$ 22.63- $ 25.85	23	9.1 years	$ 23.66	3	$ 24.84
$ 25.86 - $ 32.31	188	9.7 years	$ 27.94	33	$ 31.54
	2,253			1,148	

</TABLE>

Employee Stock Purchase Plan

The Board of Directors has reserved shares of the Company's common stock for issuance under the Employee Stock Purchase Plan (the "ESPP"). As of December 31, 2001, there were 1.2 million shares of common stock available for issuance. The ESPP has two six-month offering periods (each an "Offering Period") annually, beginning January 1 and July 1, respectively. Eligible employees can elect to make deductions from 1% to 15% of their compensation during each payroll period of an Offering Period. Special limitations apply to eligible employees who own 5% or more of the outstanding common stock of the Company. None of the contributions made by eligible employees to purchase the Company's common stock under the ESPP are tax deductible to the employees. At the end of an Offering Period, the total payroll deductions by an eligible employee for that Offering Period will be used to purchase common stock of the Company at a price equal to 85% 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. Only 300 thousand shares will be available for purchase during each of the Offering Periods.

Employees eligible to participate in the ESPP include employees of the Company and its United States operating subsidiaries, except those employees who customarily work less than 20 hours per week or five months in a year. Since the eligible employee determines both participation in and contributions to the

(in thousands,except per share data)

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.

During 2001, $2,753 had been contributed to the ESPP and 146 thousand shares were issued. The compensation costs for the ESPP as determined based on the fair value of the contributions under the ESPP, consistent with the method of SFAS No. 123, was $466, $497 and $715 and is reflected in the pro forma net income and basic and diluted net income per share for 1999, 2000 and 2001, respectively, as disclosed above.

12. Income Taxes:

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Domestic	$ 38,782	$ 53,172	$ 70,893
Foreign	2,263	(2,341)	7,021
Income from continuing operations	41,045	50,831	77,914
Domestic	(683)	-	-
Foreign	37	-	-
Loss from discontinued operations	(646)	-	-
Total	$ 40,399	$ 50,831	$ 77,914

</TABLE>

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
State income taxes:			
Current	$ 1,620	$ 708	$ 3,398
Deferred	(329)	(1,037)	(270)
Federal income taxes:			
Current	10,113	15,721	29,288
Deferred	(589)	1,397	(5,226)
Foreign income taxes:			
Current	1,288	1,196	422
Deferred	(200)	536	1,135
Provision for income taxes	$ 11,903	$ 18,521	$ 28,747

</TABLE>

The income tax provision is included in the financial statements as follows:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Continuing operations	$ 12,154	$ 18,521	$ 28,747
Discontinued operations	(251)	-	-
Total	$ 11,903	$ 18,521	$ 28,747

</TABLE>

(in thousands, except per share data)

The 1999 federal and state tax expense reflects the benefit related to the utilization of capital loss carryforwards to offset the capital gains derived from the Company's investment activities. Additionally, a tax planning strategy was implemented during 2000 with the full benefit recognized in the financial statements.

12. Income Taxes (Continued):

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

	Years Ended December 31,		
	1999	2000	2001
Effective tax rate	29.5%	36.4%	36.9%
Statutory rate of 35%	$14,140	$17,791	$27,270
State taxes (net of federal benefit)	839	(919)	2,106
Utilization of capital loss carryforward	(3,853)	(611)	-
Nondeductible expenses net of nontaxable income	432	649	210
Change in valuation allowance	(205)	1,053	(2,533)
Deferred taxes set up on S corporation acquisition	(211)	-	-
Impact of international operations	500	679	1,452
Other	261	(121)	242
Provision for income taxes	$11,903	$18,521	$28,747

Components of the net current deferred tax asset were as follows:

	December 31,	
	2000	2001
Future benefit of foreign net operating losses	$ 3,249	$ 1,047
Reserve for doubtful accounts	650	1,103
Accrued expenses	1,047	3,134
Unearned income	436	4,705
Valuation allowance	(3,249)	(716)
Net current deferred tax asset	$ 2,133	$ 9,273

Components of the net long-term deferred tax asset (included in other assets on the consolidated balance sheet) in 2000 and net long-term deferred tax liability (included in deferred rent and other on the consolidated balance sheet) in 2001, were as follows:

	2000	2001
Depreciation and amortization	$ 2,243	$ (281)
Deferred rent	244	261
Other	(83)	(354)
Net long-term deferred tax asset (liability)	$ 2,404	$ (374)

12. Income Taxes (Continued):

The valuation allowance related to the Company's foreign tax losses was reduced by $2,533 during 2001. This reduction occurred as a portion of the tax loss was utilized in 2001 and it was determined there was a greater than 50% probability that another portion would be utilized in future years.

(in thousands, except per share data)

The Company records current and deferred income tax expense related to its foreign operations to the extent those earnings are taxable. No provision has been made for the additional taxes that would result from the distribution of earnings of foreign subsidiaries because those earnings are expected to be invested permanently. The cumulative amount of undistributed retained earnings of foreign subsidiaries for which no provision has been made is $3,042 as of December 31, 2001.

13. Employee Savings and Pension Plans:

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 for all employees for each of the three years ended December 31, 1999, 2000 and 2001 were $2,562, $2,977 and $3,467, respectively.

Pension Plans

Pension costs are determined under the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", and related disclosures are determined under the provisions of Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and other Postretirement Benefits".

The Company has a separate contributory defined benefit plan (the "U.K. Plan") for its qualifying United Kingdom employees employed by the Company's U.K. subsidiaries. The benefits for the U.K. Plan are based primarily on years of service and average pay at retirement. Plan assets consist principally of investments managed in a mixed fund.

Pension costs for the U.K. Plan included the following components:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Service cost benefits earned during the year	$ 740	$ 848	$ 846
Interest cost on projected benefit obligation	756	805	843
Actual return on plan assets	(1,006)	(72)	(935)
Net amortization and deferral	205	(711)	9
Net periodic pension cost	$ 695	$ 870	$ 763

</TABLE>

Assumptions used to determine pension costs and projected benefit obligations were as follows:

<TABLE>
<CAPTION>

	1999	2000	2001
<S>	<C>	<C>	<C>
Discount rate	5.5%	6.0%	5.5%
Rate of compensation increase	3.0%	4.0%	3.0%
Long-term rate of return on plan assets	8.0%	5.0%	6.0%

</TABLE>

13. Employee Savings and Pension Plans (Continued):

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>

Change in benefit obligations			
Benefit of obligation at beginning of year	$ 11,545	$ 14,507	$ 15,776
Service cost	544	848	619
Interest cost	756	805	843
Participant contributions	196	248	227
Net actuarial loss (gain)	2,047	750	(2,114)
Benefits paid	(273)	(285)	(189)
Foreign currency translation adjustment	(308)	(1,097)	(394)
Benefit obligation at end of year	$ 14,507	$ 15,776	$ 14,768
Change in plan assets			
Fair value of plan assets at beginning of year	$ 12,579	$ 16,250	$ 15,638
Actual asset return	3,626	72	(1,714)
Employer contributions	457	582	639
Plan participants' contributions	195	248	227
Benefits and expenses paid	(273)	(285)	(189)
Foreign currency translation adjustment	(334)	(1,229)	(389)
Fair value of plan assets at end of year	$ 16,250	$ 15,638	$ 14,212
Net amount recognized			
Funded status	$ 1,743	$ (137)	$ (556)
Unrecognized transition asset	(69)	(52)	(39)
Unrecognized net actuarial loss	265	1,899	2,366
Net prepaid pension cost	$ 1,939	$ 1,710	$ 1,771

</TABLE>

14. Commitments and Contingencies:

The Company currently maintains liability insurance on a "claims made" basis for professional acts, errors and omissions. The policy has a self-insured retention per claim of $250. As of December 31, 2000 and 2001, there are no open claims related to this coverage above the self-insured retention.

The Company currently is self-insured for group health for employees located within the United States. The Company maintains insurance on a "claims made" basis, up to a maximum of $100 per occurrence. As of December 31, 2000 and 2001, the Company maintained a reserve of approximately $2,423 and $2,630, respectively, included in other accrued expenses on the consolidated balance sheets, to cover open claims and estimated claims incurred but not reported. The Company switched plans and administrators at the beginning of 2001. The 2001 plan includes a maximum claims provision to limit the Company's liability.

In the normal course of business, the Company is a party to various claims and legal proceedings. The Company records a reserve for these matters when an adverse outcome is probable and the amount of the potential liability is reasonably estimable. Although the ultimate outcome of these matters is currently not determinable, 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 for an interim or annual period.

15. Related Party Transactions:

The Company is related through common ownership with Apothogen, Inc. See Note 7 for terms of relationships. The Company had a receivable from Apothogen as of December 31, 2001 of $199. Apothogen rents facility space from the Company for which the Company recognized approximately $118 in rental income in 2001. The Company also provides Apothogen with development services and professional services such as legal and accounting services. During 2001, the Company recorded revenues of $5 related to the provisions of these development services to Apothogen.

16. Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Accounts Receivable, Accounts Payable and Accrued Liabilities

(in thousands, except per share data)

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

Notes Receivable

The Company believes the carrying value approximated market value on December 31, 2001.

Investments

The Company's investments in DNA Sciences, Spotlight Health, DAS, CancerConsultants.com, PrimeCyte and SLIL Biomedical Corp. are recorded at $32,005, $5,000, $1,500, $250, $100 and $4,700, respectively, at December 31, 2001. These investments, for which no public market exists, are accounted for using the cost method of accounting as the Company does not exert significant influence on the operations of these companies. The Company monitors these investments for other than temporary declines in value. As of December 31, 2001, the Company had not recorded an impairment for these investments.

The Company's investment in Apothogen, Inc. is recorded at $203 at December 31, 2001 and is accounted for using the equity method of accounting.

Derivative Financial Instrument

The Company entered into a purchase and sale of a U.S. Treasury Bond with a face value of $520,000 during the fourth quarter of 1999 with the same financial institution. The Company had the legal right of offset with regard to the obligation to pay for the cost of the U.S. Treasury Bond and the investment in the U.S. Treasury Bond. The fair value of this net obligation of $(100) at December 31, 1999 was based on the quoted market price of these investments and is determined as follows:

Fair Value of U.S. Treasury Bond	$ 537,958
Fair Value of Purchase Obligation	(538,058)
	$ (100)

Long-Term Debt

The fair value of the Company's long-term debt approximates net book value.

Letters of Credit

From time to time, the Company uses letters of credit to back certain guarantees and insurance policies. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace. During 2001, the Company did not utilize any letters of credit.

17. Business Segment Data:

During 1999, the Company operated in three business segments - development, environmental sciences and discovery sciences. The Company sold its environmental sciences segment in January 1999 (see Note 3). Accordingly, the income statements have been restated to conform to the provisions of APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Operations". The consolidated balance sheets and statement of cash flows have not been restated to exclude the assets, liabilities and cash flows of the environmental sciences segment.

Revenues by principal business segment are separately stated in the consolidated financial statements. Merger costs of $218 in 1999 and equity in net loss of investee of $92 in 2001 were not allocated to the Company's business segments and are shown separately for purposes of business segment analysis. The equity in net loss of investee is related to the investment in Apothogen, which operates in the discovery field. See Note 7. Income taxes are allocated ratably to each division for purposes of business segment analysis, except for the 1999 tax benefit of $3,800 from the reversal of a portion of the valuation allowance on the Company's capital loss carryforward which has been specifically identified to the Development segment. Income from operations, net income, depreciation and amortization, identifiable assets and capital expenditures by principal business segment were as follows:

(in thousands, except per share data)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Income (loss) from operations: (a)			
Development	$ 44,669	$ 40,834	$ 66,830
Discovery sciences	(7,743)	2,713	5,762
Merger costs	(218)	-	-
Total	$ 36,708	$ 43,547	$ 72,592
Net income (loss):			
Development	$ 33,630	$ 30,592	$ 45,620
Discovery sciences	(4,739)	1,718	3,639
Environmental sciences	(395)	-	-
Equity in net loss of investee	-	-	(920)
Total	$ 28,496	$ 32,310	$ 49,167
Depreciation and amortization: (a)			
Development	$ 14,294	$ 16,166	$ 18,366
Discovery sciences	548	1,067	1,898
Total	$ 14,842	$ 17,233	$ 20,264
Identifiable assets: (b)			
Development	$ 286,424	$ 335,135	$ 451,594
Discovery sciences	2,279	9,780	13,806
Total	$ 288,703	$ 344,915	$ 465,400
Capital expenditures:			
Development	$ 22,644	$ 18,231	$ 37,570
Discovery sciences	589	3,284	4,319
Total	$ 23,233	$ 21,515	$ 41,889

</TABLE>

(a) Does not include results of operations of the environmental sciences segment, which was sold January 31, 1999. See Note 3.
(b) The note receivable from the sale of the environmental sciences segment is included in the Development segment. See Note 3.

18. Operations by Geographic Area:

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1999	2000	2001
<S>	<C>	<C>	<C>
Net revenue: (a)			
United States	$ 257,717	$ 303,048	$ 366,878
U.K.	16,391	15,635	33,138
Other (b)	28,422	26,635	31,525
Total	$ 302,530	$ 345,318	$ 431,541
Operating income (loss): (a)			
United States	$ 35,362	$ 47,338	$ 65,651

(in thousands, except per share data)

U.K.	(469)	(1,990)	5,630
Other (b)	1,815	(1,801)	1,311
Total	$ 36,708	$ 43,547	$ 72,592
Identifiable assets:			
United States	$ 244,403	$ 303,604	$ 412,700
U.K.	27,988	27,783	37,454
Other (b)	16,312	13,528	15,246
Total	$ 288,703	$ 344,915	$ 465,400

(a) Does not include results of operations of the environmental sciences segment, which was sold January 31, 1999. See Note 3.

(b) Principally consists of operations in 19 countries, ten of which are located in Europe, none of which individually comprise more than 5% of net revenue, operating income (loss) or identifiable assets.

19. Quarterly Financial Data (Unaudited):

2000	First	Second	Third	Fourth	Total
Net revenue	$ 81,761	$ 84,049	$ 89,270	$ 90,238	$ 345,318
Operating income	9,292	9,275	12,051	12,929	43,547
Net income	6,640	6,927	8,776	9,967	32,310
Net income per common share:					
Basic	$ 0.13	$ 0.14	$ 0.18	$ 0.20	$ 0.65
Diluted	$ 0.13	$ 0.14	$ 0.17	$ 0.19	$ 0.64
2001					
Net revenue	$ 106,953	$ 102,038	$ 108,310	$ 114,240	$ 431,541
Operating income	21,246	14,870	16,612	19,864	72,592
Net income	14,537	10,464	11,507	12,659	49,167
Net income per common share:					
Basic	$ 0.28	$ 0.20	$ 0.22	$ 0.24	$ 0.95
Diluted	$ 0.28	$ 0.20	$ 0.22	$ 0.24	$ 0.94

20. Subsequent Event:

In February 2002, the Company acquired Medical Research Laboratories International, Inc. ("MRL") and Medical Research Laboratories International, BVBA ("MRL Belgium"). The Company acquired all of the capital stock of MRL in exchange for $29,000 in cash and $64,708 in the Company's common stock. The Company issued approximately 2.3 million unregistered shares of its common stock in satisfaction of the stock component of the merger consideration. The Company acquired all of the capital stock of MRL Belgium in exchange for $10,000 million in cash and $8,792 in the Company's common stock. The Company issued approximately 0.3 million unregistered shares of its common stock in satisfaction of the stock component of the acquisition consideration. These acquisitions will be accounted for using the purchase method. The Company has not yet quantified the purchase price allocations. Thus the amount of goodwill recorded with this transaction has not been determined.

MRL operates a central laboratory in Highland Heights, Kentucky, near Cincinnati, Ohio and MRL Belgium operates a central laboratory in Brussels, Belgium. These two MRL companies specialize in the provision of highly standardized efficacy and safety testing services for pharmaceutical companies engaged in clinical drug development.

SIGNATURES

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

PHARMACEUTICAL PRODUCT DEVELOPMENT, INC.

Date: February 20, 2002

By: /s/ Fredric N. Eshelman, Pharm.D.

Name: Fredric N. Eshelman, Pharm.D.
Title: Chief Executive Officer

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

<TABLE>

<S>	<C>	<C>
/s/ Fredric N. Eshelman, Pharm.D. Fredric N. Eshelman, Pharm.D.	Chief Executive Officer and Director (Principal Executive Officer)	February 20, 2002
/s/ Philippe M. Maitre Philippe M. Maitre	Chief Financial Officer (Principal Financial Officer)	February 20, 2002
/s/ Linda Baddour Linda Baddour	Chief Accounting Officer (Principal Accounting Officer)	February 20, 2002
/s/ Ernest Mario, Ph.D. Ernest Mario, Ph.D.	Director	February 20, 2002
/s/ Stuart Bondurant, M.D. Stuart Bondurant, M.D.	Director	February 20, 2002
/s/ Abraham Cohen Abraham E. Cohen	Director	February 20, 2002
/s/ Frederick Frank Frederick Frank	Director	February 20, 2002
/s/ Paul J. Rizzo Paul J. Rizzo	Director	February 20, 2002
/s/ John A. McNeill, Jr. John A. McNeill, Jr.	Director	February 20, 2002
/s/ Catherine M. Klema Catherine M. Klema	Director	February 20, 2002
/s/ Terry Magnuson, Ph.D. Terry Magnuson, Ph.D.	Director	February 20, 2002

</TABLE>

EXHIBIT 10.176

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement"), is made and entered into effective the 15th day of January, 2002, by and between Pharmaceutical Product Development, Inc. (the "Company"), a North Carolina corporation whose mailing address for notice purposes is 3151 South Seventeenth Street, Wilmington, North Carolina 28412, Attention: Chief Executive Officer, and Fred B. Davenport, Jr. ("Employee"), an individual whose mailing address for notice purposes is 3151 South Seventeenth Street, Wilmington, North Carolina 28412.

RECITALS

A. The Company is engaged in providing research and development services to pharmaceutical and biotech companies and other entities (the "Business").

B. The Company desires to employ Employee and Employee desires to be employed by the Company, all upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual covenants of the parties hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE 1
EMPLOYMENT AND DUTIES

1.1 Engagement of Employee. The Company agrees to employ Employee and Employee accepts such employment pursuant and subject to the terms and conditions of this Agreement.

1.2. Duties and Powers. During the Employment Period (as defined herein), Employee shall serve as President of the Company and will have such responsibilities, duties and authority, and will render such services for and in connection with the Company and its affiliates as are customary in such position and as the Board of Directors of the Company (the "Board") and the Chief Executive Officer of the Company shall from time to time reasonably direct. Employee shall devote Employee's full business time and attention exclusively to the Business of the Company and shall use best efforts to faithfully carry out Employee's duties and responsibilities hereunder. Employee shall comply with all personnel policies and procedures of the Company as the same now exist or may be hereafter implemented by the Company from time to time,

including those policies contained in the Company's employee manual or handbook which sets forth policies and procedures generally for employees of the Compoany and its subsidiaries and affiliates (the "Handbook") to the extent not inconsistent with this Agreement.

ARTICLE 2
TERM OF EMPLOYMENT

Unless sooner terminated as provided elsewhere in this Agreement, Employee's employment under this Agreement shall commence on January 15, 2002 and end on December 31, 2003 ("Initial Employment Period"). This Agreement then automatically shall renew for successive one-year periods, unless either the Company or Employee provides written notice to the other at least sixty (60) days prior to the termination of any such period stating said party's desire to terminate this Agreement. The Initial Employment Period and any extension or renewal thereof shall be referred to herein together as the "Employment Period". Notwithstanding anything to the contrary contained herein, the Employment Period is subject to termination pursuant to Article 4 hereof.

ARTICLE 3
COMPENSATION AND BENEFITS

3.1 Compensation. The Company will pay Employee a base salary at a rate of $310,000.00 per annum (the "Base Salary"), payable in accordance with the Company's regular payroll policy for salaried employees. The Base Salary of Employee may be subject to increase annually during the Employment Period by the Board of the Company. If the Employment Period is terminated pursuant to Article 4 hereof, then the Base Salary for any partial year will be prorated based on the number of days elapsed in such year during which services were actually performed by Employee.

3.2 Benefits. During the Employment Period, Employee shall be eligible to participate in and/or receive benefits under such employee and welfare benefit plans as may be established from time to time by the Company, including any profit-sharing, stock purchase, stock option, bonus, pension, disability, group-term life insurance, health insurance and flexible benefit payroll deduction plans, subject in each instance to Employee meeting all eligibility and qualification requirements of such plans.

3.3 Expenses. The Company will reimburse Employee, in accordance with and subject to Employee's compliance with the Company's policy, for Employee's necessary and reasonable out-of-pocket expenses incurred in the course of performance of Employee's duties hereunder. All reimbursement of expenses to Employee hereunder shall be conditioned upon presentation of

sufficient documentation evidencing such expenses.

3.4 Vacation and Leave. Employee shall be entitled to the number of days of "Paid Time Off" ("PTO") and other leave as may be established from time to time by the Company for the benefit of its employees (but not less than that which he was

entitled to as an employee of the Company immediately prior to the commencement of thisAgreement), subject to Employee's compliance with the guidelines set forth in the Handbook.

3.5 Working Facilities. The Company shall furnish Employee with such office space, equipment, technical, secretarial and clerical assistance and such other facilities, services and supplies as shall be reasonably necessary to enable Employee to perform the duties required of Employee hereunder in an efficient and professional manner.

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 Basis for Termination. Notwithstanding any other provision in this Agreement to the contrary, the Employment Period and Employee's employment hereunder shall terminate effective on the date indicated upon the happening of any of the following events:

a. Upon the death of Employee, effective immediately on the date of death without any notice.

b. A determination by the Chief Executive Officer of the Company, acting in good faith but made in the sole discretion of the Chief Executive Officer, that Employee has failed to substantially perform his duties under or otherwise breached any of the material terms of this Agreement, effective upon the date said determination is communicated to Employee or such later date, if any, as specified by the Chief Executive Officer of the Company.

c. A determination by the Chief Executive Officer of the Company, acting in good faith but made in the sole discretion of the Chief Executive Officer, that Employee (i) has become physically or mentally incapacitated and is unable to perform his duties under this Agreement as a result of such disability, which inability continues for a period of sixty (60) days during any twelve-month period hereunder, (ii) has demonstrated gross negligence or willful misconduct in the execution of his duties, or (iii) has been convicted of a felony, effective upon the date said determination is

communicated to Employee or such later date, as specified by the Chief Executive Officer of the Company.

4.2 Compensation After Termination During Employment Period.

If the Company shall terminate Employee's employment during the Employment Period pursuant to Section 4.1 hereof, the Company shall have no further obligations hereunder or otherwise with respect to Employee's employment from and after the termination or expiration date, except that the Company shall pay Employee's Base Salary accrued through the date of termination or expiration and shall provide such benefits as are

required by applicable law. From and after such termination or expiration date, the Company shall continue to have all other rights available hereunder, including without limitation all rights under Article 5 hereof, and at law or in equity.

ARTICLE 5
PROPRIETARY INFORMATION

Prior to the commencement date hereof, Employee shall have executed in favor of the Company its standard Proprietary Information and Inventions Agreement (the "Proprietary Agreement").

ARTICLE 6
MISCELLANEOUS

6.1 Withholding Taxes. All amounts payable under this Agreement, whether such payment is to be made in cash or other property, shall be subject to withholding for Federal, state and local income taxes, employment and payroll taxes, and other legally required withholding taxes and contributions to the extent appropriate in the determination of the Company, and Employee shall report all such amounts as ordinary income on Employee's personal income returns and for all other purposes.

6.2 Assignment. No party hereto may assign or delegate any of its rights or obligations hereunder without the prior written consent of the other party hereto; provided, however, that the Company shall have the right to assign all or any part of its rights and obligations under this Agreement (i) any subsidiary or affiliate of the Company or any surviving entity following any merger or consolidation of any of those entities with any entity other than the Company, or (ii) in connection with the sale of the Business by the Company.

6.3 Binding Effect. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall be binding upon and inure to the benefit of the respective legal representatives, heirs, successors and permitted assigns of the parties hereto.

6.4 Entire Agreement. Except as otherwise expressly set forth herein, this Agreement sets forth the entire understanding of the parties and supersedes and preempts all prior oral or written understandings and agreements with respect to the subject matter hereof, specifically including but not limited to that certain employment agreement dated September 26, 1996 between the Company and Employee.

6.5 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable

law,such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

6.6 Amendment; Modification. No amendment or modification of this Agreement and no waiver by any party of the breach of any covenant contained herein shall be binding unless executed in writing by the party against whom enforcement of such amendment, modification or waiver is sought. No waiver shall be deemed a continuing waiver or a waiver in respect of any subsequent breach or default, either of a similar or different nature, unless expressly so stated in writing.

6.7 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of North Carolina, without giving effect to provisions thereof regarding conflict of laws.

6.8 Arbitration. Any dispute, controversy or claim arising out of or relating to this Agreement, including but not limited to its existence, validity, interpretation, performance or non-performance or breach, shall be decided by a single neutral arbitrator agreed upon by the parties hereto in Wilmington, North Carolina in binding arbitration pursuant to the commercial arbitration rules of the American Arbitration Association then in effect. The parties to any such arbitration shall be limited to the parties to

this Agreement or any successor thereof. The written decision of the arbitrator shall be final and binding and may be entered and enforced in any court of competent jurisdiction. Each party waives any right to a jury trial in any such forum. Each party to the arbitration shall pay its fees and expenses, unless otherwise determined by the arbitrator.

6.9 Notices. All notices, demands or other communications to be given or delivered hereunder or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been properly served if (a) delivered personally, (b) delivered by a recognized overnight courier service, (c) sent by certified mail, return receipt requested and first class postage prepaid, or (d) sent by facsimile transmission followed by a confirmation copy delivered by a recognized overnight courier service the next day. Such notices, demands and other communications shall be sent to the address first set forth above, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party. Date of service of such notice shall be (i) the date such notice is personally delivered or sent by facsimile transmission (with issuance by the transmitting machine of a confirmation of successful transmission), (ii) the date of receipt if sent by certified mail, or (iii) the date of receipt if sent by overnight courier.

6.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same Agreement.

6.11 Descriptive Heading; Interpretation. The descriptive headings in this Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY: Pharmaceutical Product Development, Inc.

By: /s/Fred N. Eshelman

Name: Fred N. Eshelman
Title: Chief Executive Officer

EMPLOYEE:

By: /s/Fred B. Davenport, Jr.

Name: Fred B. Davenport, Jr.

EXHIBIT 10.177

EMPLOYMENT AGREEMENT

THIS AGREEMENT (the "Agreement"), is made and entered into effective the 15th day of January, 2002, by and between PPD Development, LP (the "Company"), a Texas limited partnership whose mailing address for notice purposes is 3151 South Seventeenth Street, Wilmington, North Carolina 28412, Attention: Chief Executive Officer - Pharmaceutical Product Development, Inc., and Paul S. Covington ("Employee"), an individual whose mailing address for notice purposes is 3151 South Seventeenth Street, Wilmington, North Carolina 28412.

RECITALS

A. The Company is a contract research organization which, among other services, provides Phases I through IV development and bioanalytical, cGMP and central laboratory services to pharmaceutical and biotech companies (the "Business").

B. The Company desires to employ Employee and Employee desires to be employed by the Company, all upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual covenants of the parties hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE 1
EMPLOYMENT AND DUTIES

1.1 Engagement of Employee. The Company agrees to employ Employee and Employee accepts such employment pursuant and subject to the terms and conditions of this Agreement.

1.2 Duties and Powers. During the Employment Period (as defined herein), Employee shall serve as Executive Vice President of Development and will have such responsibilities, duties and authority, and will render such services for and in connection with the Company and its affiliates as are customary in such position and as the general partner of the Company and the Chief Executive Officer of Pharmaceutical Product Development, Inc. ("PPD") shall from time to time reasonably direct. Employee shall devote Employee's full business time and attention exclusively to the Business of the Company and shall use best efforts to faithfully carry out Employee's duties and responsibilities

hereunder. Employee shall comply with all personnel policies and procedures of the Company as the same now exist or may be hereafter implemented by the Company from time to time, including those policies contained in the PPD employee manual or handbook which sets forth policies and procedures generally for employees of

PPD and its subsidiaries and affiliates (the "Handbook") to the extent not inconsistent with this Agreement.

ARTICLE 2
TERM OF EMPLOYMENT

Unless sooner terminated as provided elsewhere in this Agreement, Employee's employment under this Agreement shall commence on January 15, 2002 and end on December 31, 2003 ("Initial Employment Period"). This Agreement then automatically shall renew for successive one-year periods, unless either the Company or Employee provides written notice to the other at least sixty (60) days prior to the termination of any such period stating said party's desire to terminate this Agreement. The Initial Employment Period and any extension or renewal thereof shall be referred to herein together as the "Employment Period". Notwithstanding anything to the contrary contained herein, the Employment Period is subject to termination pursuant to Article 4 hereof.

ARTICLE 3
COMPENSATION AND BENEFITS

3.1 Compensation. The Company will pay Employee a base salary at a rate of $275,000.00 per annum (the "Base Salary"), payable in accordance with the Company's regular payroll policy for salaried employees. The Base Salary of Employee may be subject to increase annually during the Employment Period by the general partner of the Company. If the Employment Period is terminated pursuant to Article 4 hereof, then the Base Salary for any partial year will be prorated based on the number of days elapsed in such year during which services were actually performed by Employee.

3.2 Benefits. During the Employment Period, Employee shall be eligible to participate in and/or receive benefits under such employee and welfare benefit plans as may be established from time to time by or for the benefit of employees of the Company, including any profit-sharing, stock purchase, stock option, bonus, pension, disability, group-term life insurance, health insurance and flexible benefit payroll deduction plans, subject in each instance to Employee meeting all eligibility and qualification requirements of such plans.

3.3 Expenses. The Company will reimburse Employee, in

accordance with and subject to Employee's compliance with the Company's policy, for Employee's necessary and reasonable out-of-pocket expenses incurred in the course of performance of Employee's duties hereunder. All reimbursement of expenses to Employee hereunder shall be conditioned upon presentation of sufficient documentation evidencing such expenses.

3.4 Vacation and Leave. Employee shall be entitled to the number of days of "Paid Time Off" ("PTO") and other leave as may be established from time to time by the Company for the benefit of its employees (but not less than that which he was entitled to as an employee of the Company immediately prior to the commencement of this Agreement), subject to Employee's compliance with the guidelines set forth in the Handbook.

3.5 Working Facilities. The Company shall furnish Employee with such office space, equipment, technical, secretarial and clerical assistance and such other facilities, services and supplies as shall be reasonably necessary to enable Employee to perform the duties required of Employee hereunder in an efficient and professional manner.

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 Basis for Termination. Notwithstanding any other provision in this Agreement to the contrary, the Employment Period and Employee's employment hereunder shall terminate effective on the date indicated upon the happening of any of the following events:

a. Upon the death of Employee, effective immediately on the date of death without any notice.

b. A determination by the Chief Executive Officer of PPD, acting in good faith but made in the sole discretion of the Chief Executive Officer, that Employee has failed to substantially perform his duties under or otherwise breached any of the material terms of this Agreement, effective upon the date said determination is communicated to Employee or such later date, if any, as specified by the Chief Executive Officer of PPD.

c. A determination by the Chief Executive Officer of PPD, acting in good faith but made in the sole discretion of the Chief Executive Officer, that Employee (i) has become physically or mentally incapacitated and is unable to perform his duties under this Agreement as a result of such disability, which inability continues for a period of sixty (60) days during any twelve-month period hereunder, (ii) has demonstrated gross negligence or willful

misconduct in the execution of his duties, or (iii) has been convicted of a felony, effective upon the date said determination is communicated to Employee or such later date, as specified by the Chief Executive Officer of PPD.

4.2 Compensation After Termination During Employment Period.

If the Company shall terminate Employee's employment during the Employment Period pursuant to Section 4.1 hereof, the Company shall have no further obligations hereunder

or otherwise with respect to Employee's employment from and after the termination or expiration date, except that the Company shall pay Employee Base Salary accrued through the date of termination or expiration and shall provide such benefits as are required by applicable law. From and after such termination or expiration date, the Company shall continue to have all other rights available hereunder, including without limitation all rights under Article 5 hereof, and at law or in equity.

ARTICLE 5
PROPRIETARY INFORMATION

Prior to the commencement date hereof, Employee shall have executed in favor of the Company its standard Proprietary Information and Inventions Agreement (the "Proprietary Agreement").

ARTICLE 6
MISCELLANEOUS

6.1 Withholding Taxes. All amounts payable under this Agreement, whether such payment is to be made in cash or other property, shall be subject to withholding for Federal, state and local income taxes, employment and payroll taxes, and other legally required withholding taxes and contributions to the extent appropriate in the determination of the Company, and Employee shall report all such amounts as ordinary income on Employee's personal income returns and for all other purposes.

6.2 Assignment. No party hereto may assign or delegate any of its rights or obligations hereunder without the prior written consent of the other party hereto; provided, however, that the Company shall have the right to assign all or any part of its rights and obligations under this Agreement (i) any subsidiary or affiliate of the Company or any surviving entity following any merger or consolidation of any of those entities with any entity other than the Company, or (ii) in connection with the sale of the Business by the Company.

6.3 Binding Effect. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall be binding upon and inure to the benefit of the respective legal representatives, heirs, successors and permitted assigns of the parties hereto.

6.4 Entire Agreement. Except as otherwise expressly set forth herein, this Agreement sets forth the entire understanding of the parties and supersedes and preempts all prior oral or written understandings and agreements with respect to the subject matter hereof, specifically including but not limited to that certain employment agreement dated October 1, 1997 between PPD Pharmaco, Inc, the Company's predecessor-in-interest, and Employee.

6.5 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

6.6 Amendment; Modification. No amendment or modification of this Agreement and no waiver by any party of the breach of any covenant contained herein shall be binding unless executed in writing by the party against whom enforcement of such amendment, modification or waiver is sought. No waiver shall be deemed a continuing waiver or a waiver in respect of any subsequent breach or default, either of a similar or different nature, unless expressly so stated in writing.

6.7 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of North Carolina, without giving effect to provisions thereof regarding conflict of laws.

6.8 Arbitration. Any dispute, controversy or claim arising out of or relating to this Agreement, including but not limited to its existence, validity, interpretation, performance or non-performance or breach, shall be decided by a single neutral arbitrator agreed upon by the parties hereto in Wilmington, North Carolina in binding arbitration pursuant to the commercial arbitration rules of the American Arbitration Association then in effect. The parties to any such arbitration shall be limited to the parties to this Agreement or any successor thereof. The written decision of the arbitrator shall

be final and binding and may be entered and enforced in any court of competent jurisdiction. Each party waives any right to a jury trial in any such forum. Each party to the arbitration shall pay its fees and expenses, unless otherwise determined by the arbitrator.

6.9 Notices. All notices, demands or other communications to be given or delivered hereunder or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been properly served if (a) delivered personally, (b) delivered by a recognized overnight courier service, (c) sent by certified mail, return receipt requested and first class postage prepaid, or (d) sent by facsimile transmission followed by a confirmation copy delivered by a recognized overnight courier service the next day. Such notices, demands and other communications shall be sent to the address first set forth above, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party. Date of service of such notice shall be (i) the date such notice is personally delivered or sent by facsimile transmission (with issuance by the transmitting machine of a confirmation of successful transmission), (ii) the date of receipt if sent by certified mail, or (iii) the date of receipt if sent by overnight courier.

6.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same Agreement.

6.11 Descriptive Heading; Interpretation. The descriptive headings in this Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

PPD Development, LP

By: PPD GP, LLC,
General Partner

By: /s/Fred N. Eshelman

Name: Fred N. Eshelman
Title: President

EMPLOYEE:

By:/s/Paul S. Covington

Name: Paul S. Covington

EXHIBIT 10.178

SECOND AMENDMENT

THIS SECOND AMENDMENT (this "Amendment") dated as of December 30, 2001, to the Loan Agreement referenced below, is by and among Spotlight Health, Inc., a Delaware corporation (the "Borrower"), Pharmaceutical Product Development, Inc., a North Carolina corporation (the "Company"), and First Union National Bank (the "Bank"). Terms used herein but not otherwise defined herein shall have the meanings provided to such terms in the Loan Agreement.

W I T N E S S E T H

WHEREAS, a $2 million credit facility has been established in favor of the Borrower pursuant to the terms of that Loan Agreement dated as of January 24, 2001 (as amended and modified from time to time, the "Loan Agreement") among the Borrower, the Company and the Bank;

WHEREAS, the Borrower has requested certain modifications to Loan Agreement; and

WHEREAS, the Bank has agreed to the modifications on the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Loan Agreement is amended in the following respects:

(a) In Section 1.1 of the Loan Agreement, the definition of "Termination Date" is amended to read as follows:

> "Termination Date" means June 30, 2002, or such later date as to which the Bank may agree in its sole discretion.

2. This Amendment shall be effective upon satisfaction of the following conditions precedent:

(a) execution of this Amendment by the Borrower, the Company and the Bank; and

(b) receipt by the Bank of certified resolutions of the Company approving this Amendment and the terms hereof.

3. Except as expressly modified hereby, all of the terms and provisions of the Loan Documents (including schedules and exhibits thereto) shall remain in full force and effect.

4. The Borrower agree to pay all reasonable costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Moore & Van Allen, PLLC.

5. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

6. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with, the laws of the State of North Carolina.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER: SPOTLIGHT HEALTH, INC.,
a Delaware corporation

By: /s/Tyler J. Spring

Name: Tyler J. Spring
Title: Chief Financial Officer/Treasurer

COMPANY: PHARMACEUTICAL PRODUCT DEVELOPMENT, INC.,
a North Carolina corporation

By: /s/Fred B. Davenport, Jr.

Name: Fred B. Davenport, Jr.
Title: Executive Vice President

BANK: FIRST UNION NATIONAL BANK

By: /s/Douglas T. Davis

Name: Douglas T. Davis
Title: Senior Vice President

EXHIBIT 21

Pharmaceutical Product Development, Inc., and Subsidiaries
Subsidiaries

The subsidiaries of Pharmaceutical Product Development, Inc., as of February 15, 2002, are as follows:

<TABLE>
<CAPTION>

Name of Subsidiary	Jurisdiction of Incorporation or Organized in
<S>	<C>
1. Applied Bioscience International Inc.	Delaware
2. PPD Development, LP	Texas
3. Pharmaco International Holdings, Inc.	Delaware
4. Pharmaco Investments Inc.	Delaware
5. PPD France SNC	France
6. PPD Scandinavia AB	Sweden
7. PPD Canada, Ltd.	Canada
8. PPD Do Brazil-Suporte a Pesquisa, LTDA	Brazil
9. Pharmaco International Holdings GmbH	Germany
10. PPD Germany GmbH	Germany
11. PPD Poland Sp. zo.o	Poland
12. PPD Czech Republic, S.r.o.	Czech Republic
13. PPD Germany GmbH & Co. KG	Germany
14. PPD South Africa	South Africa
15. PPD Hungary R&D, Ltd.	Hungary
16. PPD UK Holdings Ltd.	United Kingdom
17. PPD Global Ltd.	United Kingdom
18. Leicester Clinical Research Centre, Ltd.	United Kingdom
19. Chelmsford Clinical Trials Unit Ltd.	United Kingdom
20. Gabbay Ltd.	United Kingdom
21. Data Analysis & Research (DAR), Ltd.	United Kingdom
22. APBI Investor Relations Inc.	New Jersey
23. PPD Aeronautics, LLC	North Carolina
24. APBI Finance Corporation	Delaware
25. PPD Pharmaco Mexico S.A. de C.V.	Mexico
26. PPD Australia Pty Limited	Australia
27. PPD Italy SRL	Italy
28. Pharmaceutical Product Development Spain SL	Spain
29. PPD Development (Thailand) Co., Ltd.	Thailand
30. Cambridge Applied Nutrition Toxicology and Bioscience Limited	United Kingdom
31. Clinical Technology Centre (International) Limited	United Kingdom
32. Genupro, Inc.	North Carolina
33. Belmont Research, Inc.	Massachusetts
34. PPD Discovery, Inc.	North Carolina
35. Target Discovery, Inc.	North Carolina
36. SARCO, Inc.	Delaware
37. PPD Virtual, Inc.	North Carolina
38. ATP, LLC.	North Carolina
39. Clinical Science Research International, Ltd.	United Kingdom
40. PPD Holdings, LLC	Delaware
41. PPD GP, LLC	Delaware
42. PPD Japan, K.K.	Japan
43. Subsidiary No. 8, LLC	Kentucky

</TABLE>

Subsidiaries 1, 23, 33, 24, 37, and 43 are wholly owned subsidiaries of Pharmaceutical Product Development, Inc.

Subsidiaries 16, 22, 24, 40, and 41 are wholly owned subsidiaries of Subsidiary 1.

Subsidiary 2 is owned 99.9% by Subsidiary 40 and .1% by Subsidiary 41.

Subsidiaries 3, 4 and 38 are wholly owned subsidiaries of Subsidiary 2.

Subsidiary 5 is owned 99% by Subsidiary 3 and 1% by Subsidiary 1.

Subsidiaries 6, 7, 8, 9, 14, 25, 26, 27, 28, 29, and 42 are wholly owned subsidiaries of Subsidiary 3.

Subsidiaries 10, 11 and 12 are wholly owned subsidiaries of Subsidiary 9.

Subsidiary 13 is owned 72% by Subsidiary 9 and 28% by Subsidiary 10.

Subsidiary 15 is owned 96.7% by Subsidiary 9 and 3.3% by Subsidiary 3.

Subsidiaries 17, 18, 19, 20 and 21 are wholly owned subsidiaries of Subsidiary 16.

Subsidiaries 30, 31, and 39 are wholly owned subsidiaries of Subsidiary 17.

Subsidiaries 35 and 36 are wholly owned subsidiaries of Subsidiary 34.

Subsidiary 25 is owned 99% by Subsidiary 3 and 1% by Subsidiary 2.

Subsidiary 32 is a wholly owned subsidiary of Subsidiary 37.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-20925) of Pharmaceutical Product Development, Inc. and its subsidiaries of our report dated January 25, 2002 relating to the consolidated financial statements as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001, which appears in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

McLean, Virginia
February 20, 2002