

COVALENT GROUP INC  
Form PRER14A  
September 14, 2006  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a party other than the Registrant ☐

Check the appropriate box:

- ☒ Preliminary Proxy Statement ☐ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

Covalent Group, Inc.

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☒ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: common stock, \$0.001 par value, of Covalent Group, Inc.

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

- (2) Aggregate number of securities to which transaction applies: up to 9,275,171 shares of common stock of Covalent Group, Inc.
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \$2.87 (representing the average of the high and low bid prices on September 8, 2006)
- (4) Proposed maximum aggregate value of transaction: \$30,619,740 (including \$4,000,000 of cash consideration)

(5) Total fee paid: \$3,276.31

“ Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount previously paid: \$2,910.87
- (2) Form, Schedule or Registration Statement No.: Schedule 14A (Preliminary)
- (3) Filing party: Covalent Group, Inc.
- (4) Date filed: August 4, 2006

---

**Table of Contents**

**SUBJECT TO COMPLETION, SEPTEMBER 14, 2006**

Covalent Group, Inc.

One Glenhardie Corporate Center, Suite 100

1275 Drummers Lane

Wayne, PA 19087

---

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON OCTOBER 20, 2006**

---

To the Stockholders of Covalent Group, Inc.:

The 2006 Annual Meeting of Stockholders of Covalent Group, Inc. will be held at Courtyard by Marriott-Valley Forge, 1100 Drummers Lane, Wayne, Pennsylvania 19087 on October 20, 2006, at 10:00 A.M. local time. At the meeting stockholders will be asked to:

1. Approve the issuance of up to 9,275,171 shares of Covalent common stock, \$0.001 par value per share, in connection with the consummation of the business combination between us and Remedium Oy, a corporation organized under the laws of Finland;
2. Elect four directors to serve until the 2007 annual meeting of stockholders;
3. Elect three additional directors to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders;
4. Approve an amendment to our Certificate of Incorporation changing our name to Encorium Group, Inc. ;
5. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of our common stock from 25,000,000 shares to 35,000,000 shares;
6. Approve the Covalent Group, Inc. 2006 Equity Incentive Plan;
7. Ratify the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the fiscal year ending December 31, 2006; and
8. Transact such other business as may properly come before the meeting.

The board of directors has fixed the close of business on September 12, 2006 as the record date for determining the stockholders entitled to notice of and to vote at the annual meeting and at any adjournment or postponements thereof. Only stockholders of record of our common stock at the close of business on that date will be entitled to notice of and vote at the annual meeting and at any adjournments or postponements thereof.

The enclosed proxy is solicited by our board of directors. Reference is made to the attached proxy statement for further information with respect to the business to be transacted at the meeting. We encourage you to attend the meeting in person or to vote your shares by proxy. PLEASE PROMPTLY FILL OUT, SIGN, DATE AND MAIL THE ENCLOSED FORM OF PROXY IF YOU DO NOT EXPECT TO BE PRESENT AT

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

THE MEETING. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. The proxy is revocable at any time before it is voted. Returning the proxy will in no way limit your right to vote at the meeting if you later decide to attend and vote in person.

By Order of the Board of Directors,

Lawrence R. Hoffman

Executive Vice President, General Counsel,

Secretary and Chief Financial Officer

September 14, 2006

Wayne, Pennsylvania

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>SUMMARY</u></b>	<b>Page</b> 4
<b><u>QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION</u></b>	11
<b><u>WHO CAN HELP ANSWER YOUR QUESTIONS</u></b>	16
<b><u>RISK FACTORS</u></b>	17
<b><u>BUSINESS COMBINATION</u></b>	32
<u>Background of the Business Combination</u>	32
<u>Recommendation of the Covalent Board of Directors</u>	32
<u>Reasons for the Business Combination</u>	32
<u>Opinion of Financial Advisor to Covalent</u>	33
<u>Accounting Treatment</u>	37
<u>Regulatory Matters</u>	38
<u>Closing of Business Combination</u>	38
<u>Federal Income Tax Considerations</u>	38
<u>Appraisal Rights</u>	39
<u>Federal Securities Laws Consequences</u>	39
<b><u>MATERIAL PROVISIONS OF THE COMBINATION AGREEMENT</u></b>	40
<u>General Description of the Combination Agreement</u>	40
<u>Consideration</u> and Adjustments	41
<u>Conditions</u> to the Completion of the Business Combination	42
<u>Covenants</u>	44
<u>Termination</u>	46
<u>Fees and Expenses</u>	46
<u>Indemnification</u>	46
<u>Dispute Resolution</u>	47
<u>Lock-Up Agreement</u>	47
<u>Employment Agreement</u>	47
<u>Option Exchange Agreement</u>	48
<u>Registration Rights</u>	49
<u>Limited Purpose of Representations and Warranties</u>	50
<b><u>PROPOSAL ONE- APPROVAL OF THE ISSUANCE OF UP TO 9,275,171 SHARES OF COVALENT COMMON STOCK IN CONNECTION WITH THE BUSINESS COMBINATION WITH REMEDIUM</u></b>	51
<b><u>UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS</u></b>	54
<b><u>BUSINESS OF COVALENT</u></b>	62
<u>General</u>	62
<u>Industry Overview</u>	62
<u>Our Strategy</u>	62
<u>Our Services</u>	64
<u>Clients and Marketing</u>	66
<u>Contractual Arrangements</u>	67
<u>Backlog</u>	67
<u>Competition</u>	68
<u>Government Regulation</u>	68
<u>Intellectual Property</u>	70

## **Table of Contents**

	<b>Page</b>
<u>Potential Liability and Insurance</u>	70
<u>Employees</u>	71
<u>PROPERTIES OF COVALENT</u>	71
<u>LEGAL PROCEEDINGS OF COVALENT</u>	71
<u>MARKET PRICES AND DIVIDENDS FOR COVALENT COMMON STOCK</u>	72
<u>EQUITY COMPENSATION PLAN INFORMATION FOR COVALENT</u>	72
<u>SELECTED HISTORICAL FINANCIAL DATA OF COVALENT</u>	73
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF COVALENT</u>	74
<u>Forward Looking Statements</u>	74
<u>Overview</u>	74
<u>General</u>	74
<u>Critical Accounting Policies and Estimates</u>	75
<u>Revenue Recognition</u>	75
<u>Reimbursable Out-of-Pocket Expenses</u>	77
<u>Concentration of Credit Risk</u>	77
<u>Operating Expenses</u>	77
<u>Stock-Based Compensation</u>	78
<u>Results of Operations</u>	78
<u>Liquidity and Capital Resources</u>	82
<u>Off Balance Sheet Financing Arrangements</u>	83
<u>Recently Issued Accounting Standards</u>	84
<u>Quantitative and Qualitative Disclosure about Market Risk</u>	86
<u>BUSINESS OF REMEDIUM</u>	87
<u>General</u>	87
<u>Customers</u>	87
<u>Services</u>	87
<u>Strategic Trial Planning</u>	87
<u>Project Management</u>	88
<u>Monitoring</u>	88
<u>Data Management and Biostatistics Services</u>	88
<u>Pharmacovigilance</u>	89
<u>Medical Writing</u>	89
<u>Quality Assurance</u>	89
<u>Outsourcing of Staff</u>	89
<u>Medical Devices</u>	89
<u>Backlog</u>	90
<u>Management and Employees</u>	90
<u>ABSENCE OF MARKET FOR AND DIVIDENDS ON REMEDIUM CAPITAL STOCK AND RELATED STOCKHOLDER MATTERS</u>	90
<u>Pre-emptive Rights: Rights of First Refusal</u>	91
<u>Dividends</u>	91
<u>Ownership of Remedium</u>	92
<u>EQUITY COMPENSATION PLAN INFORMATION FOR REMEDIUM</u>	92
<u>SELECTED HISTORICAL FINANCIAL DATA OF REMEDIUM</u>	93

## **Table of Contents**

	<b>Page</b>
<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF REMEDIUM</u></b>	94
<u>Forward Looking Statements</u>	94
<u>Remedium Overview</u>	95
<u>Certain Differences between Finnish GAAP and U.S. GAAP</u>	95
<u>Critical Accounting Policies and Estimates</u>	98
<u>Results of Operations</u>	99
<u>Liquidity and Capital Resources</u>	101
<u>Off Balance Sheet Financing Arrangements</u>	103
<u>Contractual Obligations and Commitments</u>	103
<u>Recently Issued Accounting Standards</u>	103
<u>Additional Information</u>	103
<u>Quantitative And Qualitative Disclosures About Market Risk</u>	104
<b><u>PROPOSAL TWO- ELECTION OF FOUR DIRECTORS TO SERVE UNTIL THE 2007 ANNUAL MEETING OF STOCKHOLDERS</u></b>	105
<u>Directors Meetings and Committees</u>	106
<u>Code of Ethics</u>	106
<u>Director Nominations</u>	107
<u>Shareholder Communications</u>	107
<b><u>PROPOSAL THREE- ELECTION OF THREE ADDITIONAL DIRECTORS TO SERVE FROM THE CONSUMMATION OF THE BUSINESS COMBINATION BETWEEN US AND REMEDIUM OY UNTIL THE 2007 ANNUAL MEETING OF STOCKHOLDERS</u></b>	109
<b><u>EXECUTIVE OFFICERS OF COVALENT</u></b>	111
<b><u>EXECUTIVE COMPENSATION</u></b>	112
<u>Employment Agreement; Termination of Employment and Change-in-Control Arrangement</u>	112
<u>Option Grants In Last Fiscal Year</u>	113
<u>Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values</u>	113
<u>Directors Compensation</u>	113
<u>Compensation Committee Interlocks and Insider Participation</u>	114
<b><u>REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF COVALENT</u></b>	114
<b><u>PROPOSAL FOUR- AMENDMENT TO COVALENT'S CERTIFICATE OF INCORPORATION TO CHANGE COVALENT'S NAME TO ENCORIUM GROUP, INC.</u></b>	116
<b><u>PROPOSAL FIVE- AMENDMENT TO COVALENT'S CERTIFICATE OF INCORPORATION TO INCREASE ITS AUTHORIZED COMMON STOCK</u></b>	116
<b><u>PRINCIPAL STOCKHOLDERS</u></b>	118
<b><u>PROPOSAL SIX- APPROVE THE COVALENT GROUP, INC. 2006 EQUITY INCENTIVE PLAN</u></b>	120
<u>Description of 2006 Plan</u>	121
<u>Federal Tax Consequences</u>	124
<b><u>RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS</u></b>	126
<u>Policy for Pre-Approval of Audit and Non-Audit Services</u>	126
<b><u>DESCRIPTION OF COVALENT CAPITAL STOCK</u></b>	127
<b><u>TRANSFER AGENT AND REGISTRAR</u></b>	127
<b><u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u></b>	127

**Table of Contents**

	<b>Page</b>
<u>PERFORMANCE GRAPH</u>	128
<u>STOCKHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING OF STOCKHOLDERS</u>	129
<u>SOLICITATION OF PROXIES</u>	129
<u>HOUSEHOLDING INFORMATION</u>	129
<u>FORWARD-LOOKING STATEMENTS</u>	130
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1
<u>Appendix A- Opinion of Savvian Advisors, LLC</u>	A-1
<u>Appendix B- Amended and Restated Combination Agreement</u>	B-1
<u>Appendix C- Audit Committee Charter</u>	C-1
<u>Appendix D- Covalent Group, Inc. 2006 Equity Incentive Plan</u>	D-1



**Table of Contents**

PROXY STATEMENT

for Annual Meeting of Stockholders

October 20, 2006

*In this proxy statement, we , us , our, the Company and Covalent each refers to Covalent Group, Inc., a Delaware corporation ,unless the context otherwise requires*

**Time and Place of the Annual Meeting**

We are sending this proxy statement to you as part of the solicitation of proxies by our board of directors for use at the annual meeting of the stockholders of Covalent to be held at Courtyard by Marriott-Valley Forge, 1100 Drummers Lane, Wayne, Pennsylvania 19087 on October 20, 2006, at 10:00 A.M. local time. We are first mailing this proxy statement, the attached notice of annual meeting of stockholders and the enclosed proxy card to you on or after September 15, 2006.

**Purpose of the Meeting**

At the meeting, our stockholders will be asked to:

1. Approve the issuance of up to 9,275,171 shares of Covalent common stock, \$0.001 par value per share, in connection with the consummation of the business combination between us and Remedium Oy, a corporation organized under the laws of Finland;
2. Elect four directors to serve until the 2007 annual meeting of stockholders;
3. Elect three additional directors to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders;
4. Approve an amendment to our Certificate of Incorporation changing our name to Encorium Group, Inc.
5. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of our common stock from 25,000,000 shares to 35,000,000 shares;
6. Approve the Covalent Group, Inc. 2006 Equity Incentive Plan;
7. Ratify the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the fiscal year ending December 31, 2006; and
8. Transact such other business as may properly come before the meeting.

**Record Date; Stock Entitled to Vote; Quorum**

Our board of directors has fixed the close of business on September 12, 2006 as the record date for the annual meeting. Only holders of our common stock on the record date will be entitled to vote at the annual meeting and any adjournments or postponements thereof. At the record date, 13,348,401 shares of common stock were outstanding and entitled to vote.

The presence, in person or by proxy, of a majority of the shares of common stock is necessary to constitute a quorum at the meeting. Abstentions and withheld votes will be counted as shares present at the meeting for purposes of determining the presence of a quorum. However, abstentions will not count in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (1) the broker has not received voting instructions from the beneficial owner of the shares, and (2) the broker lacks the authority to vote the shares at the brokers discretion. Broker non-votes will be counted as shares present and entitled to be voted for purposes of determining the presence of a quorum.



## **Table of Contents**

### Required Vote

Proposal One: To be approved, this proposal must receive the affirmative vote of the holders of a majority of our outstanding common stock present in person or by proxy and entitled to vote thereon. Abstentions and broker non-votes will have the effect of a Negative vote with respect to this proposal.

Proposal Two: Directors are elected by a plurality and the four nominees for the positions to be voted on in Proposal Two who receive the most votes will be elected. Abstentions and broker non-votes will not affect the outcome of the election.

Proposal Three: Directors are elected by a plurality and the three nominees for the positions to be voted on in Proposal Three who receive the most votes will be elected. Abstentions and broker non-votes will not affect the outcome of the election.

Proposal Four: To be approved, this proposal must receive the affirmative vote of the majority of the shares of common stock outstanding on the record date. Abstentions and broker non-votes will have the effect of a Negative vote with respect to this proposal.

Proposal Five: To be approved, this proposal must receive the affirmative vote of the majority of the shares of common stock outstanding on the record date. Abstentions and broker non-votes will have the effect of a Negative vote with respect to this proposal.

Proposal Six: To be approved, this proposal must receive the affirmative vote of the holders of a majority of our outstanding common stock present in person or by proxy and entitled to vote thereon. Abstentions and broker non-votes will have the effect of a Negative vote with respect to this proposal.

Proposal Seven: To be approved, this proposal must receive the affirmative vote of the holders of a majority of our outstanding common stock present in person or by proxy and entitled to vote thereon. Abstentions and broker non-votes will have the effect of a Negative vote with respect to this proposal.

All properly executed proxies delivered and not properly revoked will be voted at the annual meeting as specified in such proxies. If a choice is not specified, the shares represented by a properly executed proxy will be voted FOR Proposals One, Four, Five, Six and Seven and FOR the election to our board of directors of each of the nominees named in Proposals Two and Three in the proxy.

### Proxies; Voting and Revocation

Each share of our common stock is entitled to one vote. Votes will be tabulated at the meeting by inspectors of election appointed by us. You may revoke or change your proxy at any time prior to its being voted by filing a written instrument of revocation or change with the corporate secretary. You may also revoke your proxy by filing a duly executed proxy bearing a later date or by appearing at the meeting in person, notifying the corporate secretary and voting by ballot at the meeting. If you attend the meeting, you may vote in person whether or not you have previously given a proxy, but your presence at the meeting, without notifying the corporate secretary of Covalent, will not revoke a previously given proxy. In addition, if you beneficially hold shares of Covalent common stock that are not registered in your own name, you will need additional documentation from the record holder of the shares to attend and vote those shares personally at the meeting.

### Solicitation of Proxies

Proxies will be solicited through the mail and directly by Covalent officers, directors and employees of Covalent not specifically employed for such purpose, without additional compensation. Covalent has also hired Altman Group, Inc. to assist in the solicitation of votes at an estimated cost of \$10,000, plus its out of pocket

**Table of Contents**

expenses. Covalent will bear the cost of soliciting proxies, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders by Covalent. Covalent may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding proxy and solicitation materials to beneficial owners.

**Other Matters**

The board of directors does not intend to bring any matters before the meeting other than as stated in this proxy statement, and is not aware that any other matters will be presented for action at the meeting. If any other matters come before the meeting, the persons named in the enclosed form of proxy will vote the proxy with respect thereto in accordance with their best judgment, pursuant to the discretionary authority granted by the proxy.

**Principal Executive Office**

Covalent's principal executive office is located at One Glenhardie Corporate Center, Suite 100 1275 Drummers Lane Wayne, PA 19087.

## **Table of Contents**

### **SUMMARY**

This summary highlights selected information from this proxy statement and does not contain all of the information that is important to you. To understand our proposed business combination with Remedium Oy more fully and for a more complete description of the legal terms of the business combination, you should read carefully this entire proxy statement and the documents to which we have referred you.

In this summary, we have included page references parenthetically with some of the information to direct you to a more complete description of the topic elsewhere in this proxy statement.

#### ***The Companies (pages 62 and 87)***

Covalent Group, Inc.

One Glenhardie Corporate Center

1275 Drummers Lane

Suite 100

Wayne, Pennsylvania 19087

Telephone Number: (610) 975-9533

Covalent is clinical research organization ( CRO ) which is a leader in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. Covalent's mission is to provide its clients with high quality, full-service support for their clinical trials. Covalent offers therapeutic expertise, experienced team management and advanced technologies.

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

Remedium Oy

Keilaranta 16

FIN-02150 Espoo

Finland

Tel. +358 20 751 8200

Founded in 1996, Remedium is a privately owned CRO offering clinical trial services to the pharmaceutical and medical device industries. Remedium offers a broad range of clinical research and development services supporting Phase I through Phase IV clinical trials, such as strategic trial planning, project management, monitoring, data management and biostatistics, pharmacovigilance, medical writing, quality assurance, outsourcing of clinical staff, and medical device certification in the European Union. Remedium has experience across a wide variety of therapeutic areas, such as vaccines, cardiovascular, immunology, oncology, dermatology, rheumatology, urology, ophthalmology, respiratory medicine, infectious diseases, hematology, and endocrinology. Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of Remedium's project work, although the mix of projects is subject to change from year to year. Remedium's headquarters are in Espoo, Finland. Remedium has a strong Northern and Eastern European presence with offices in Turku, Tampere, Oulu and Seinäjoki (Finland), Copenhagen (Denmark), Tallinn (Estonia), Vilnius (Lithuania), Stockholm (Sweden), Bucharest (Romania), Warsaw (Poland), and Ankara (Turkey). To expand its Northern and Eastern European dimension, Remedium utilizes independent contractor relationships in Riga (Latvia) and Oslo (Norway).



## **Table of Contents**

### ***What the Stockholders of Remedium are to Receive in the Business Combination (page 41)***

At the closing of the business combination, the Remedium stockholders are to receive \$2,500,000 in immediately available funds and the number of shares of common stock of Covalent equal to the quotient obtained by dividing \$11,000,000 by:

\$2.32 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing of the business combination agreement is not less than \$1.81 and not greater than \$2.83), or

\$2.83 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing date of the combination agreement is greater than \$2.83), or

\$1.81 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing date of the combination agreement is less than \$1.81).

The price per share of common stock of Covalent is referred to herein as the closing price.

On or prior to April 10, 2007 (or at a later date if the dispute resolution provisions of the combination agreement must be utilized to determine the number of shares), the Remedium stockholders are to receive an additional number of shares of our common stock, which we refer to as the earn-out shares, based on Remedium's net revenue for the fiscal year ending December 31, 2006, calculated under U.S. GAAP consistently applied with prior fiscal years of Remedium's U.S. GAAP consolidated financial statements, which we refer to as Remedium's net revenue, as follows:

if Remedium net revenue exceeds EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$3,000,000 by (ii) the closing price; or

if Remedium net revenue exceeds EUR 9,500,000 but is equal or less than EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$2,000,000 by (ii) the closing price; or

if Remedium net revenue exceeds EUR 8,300,000 but is equal or less than EUR 9,500,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$1,000,000 by (ii) the closing price; or

if Remedium net revenue is equal to or less than EUR 8,300,000, the Remedium stockholders are not entitled to any earn-out shares. On March 30, 2007, Remedium stockholders are to receive an additional \$1,500,000 in immediately available funds. Subject to adjustment, on the first anniversary of the closing of the business combination, Covalent will issue to the Remedium stockholders the number of shares of common stock of Covalent equal to the quotient obtained by dividing (i) \$2,000,000 by (ii) the closing price. For a description of the adjustments applicable to the consideration we have agreed to pay, which may have the effect of increasing or decreasing the consideration paid pursuant to the combination agreement, see The Combination Agreement Consideration and Adjustment.

### ***Reasons for the Business Combination (page 32)***

We believe that the combination of the businesses of Covalent and Remedium provides significant strategic benefits, including:

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

the expansion of Covalent's geographic footprint to Eastern/Central Europe, Scandinavia and the Baltics;

providing access to a desirable patient population for Covalent clinical trials;



## **Table of Contents**

greater scale to better compete in the clinical research organization market;

the potential to increase competitiveness through synergies;

increase in revenue bulk;

diversification of business offerings; and

enhancement of management and sales capabilities

### ***Board of Directors Recommendation (page 32)***

The board of directors of Covalent believes that the proposed business combination is in the best interests of the Covalent stockholders, has unanimously approved the consummation of the transaction and unanimously recommends that the stockholders approve Proposal One, relating to the issuance of up to 9,275,171 shares of Covalent common stock in connection with the business combination. The board of directors of Covalent also recommends approval by the Covalent stockholders of Proposals Four and Five, which relate to two amendments to our certificate of incorporation to be considered and acted upon at the meeting, and the election of the nominees named in Proposal Three to serve as directors of Covalent from the consummation of the business combination until the 2007 annual meeting of stockholders. Under the terms of the combination agreement, the obligation of Remedium's stockholders to consummate the proposed business combination is conditioned, among other things, on the approval of Proposals One, Four and Five and the election of the nominees named in Proposal Three to serve as directors of Covalent from the consummation of the business combination until the 2007 annual meeting of stockholders, and unless those approvals and election occur or any of the required actions not occurring are waived by the Remedium stockholders, in their sole discretion, we will not be able to perform our obligations under our agreement to acquire Remedium.

### ***Appraisal Rights (page 39)***

Covalent is organized under Delaware law. Under Delaware law, you will not be entitled to dissenters' rights or an appraisal of your shares in connection with the business combination because, among other things, you will not exchange or otherwise relinquish any shares of Covalent capital stock in connection with the business combination or any of the other matters presented to the stockholders for approval.

### ***Federal Income Tax Considerations (page 38)***

Stockholders of Covalent will not be subject to any tax consequences as a result of the business combination.

### ***Conditions to the Completion of the Business Combination (page 42)***

Covalent's and the Remedium stockholders' obligations to complete the business combination are subject to the satisfaction or waiver of the following conditions:

The representations and warranties of the other party must be true and correct as of the date made and as of the date of closing of the business combination, except where the failure to be true and correct would not reasonably be expected to have a material adverse effect on the other party.

All of the covenants and obligations that the other party is required to perform or comply with at or prior to the closing of the combination agreement must have been performed and complied with in all material respects.

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

Any applicable waiting period (including any extension thereof) under any applicable foreign anti-trust, competition or trade regulation laws shall have expired or been terminated.

There shall not have been a material adverse change in the financial condition or in the results of operation of, and there shall not have been any material adverse change in the condition of the assets of or in the business prospects of, the other party and its subsidiaries (taken as a whole).

## **Table of Contents**

The obligation of Covalent to complete the business combination is further subject to the satisfaction or waiver of the following conditions:

The stockholders of Covalent must have approved Proposals One, Four and Five relating to the issuance of the shares of Covalent common stock required to be issued in the business combination and the two amendments to Covalent's certificate of incorporation as described in this proxy statement.

The stockholders of Remedium must have delivered or caused to be delivered each of the documents required to be delivered under the combination agreement, including:

the executed employment agreement of Kai Lindevall, substantially in the form attached to the combination agreement as Exhibit A-1;

agreements not to compete, each substantially in the form attached to the combination agreement as Exhibit A-2, executed by the members of Remedium's management identified by Covalent;

lock-up agreements, substantially in the form attached to the combination agreement as Exhibit B, executed by each Remedium stockholder; and

the favorable legal opinion of Asianajotoimisto Susiluoto Oy, special Finnish counsel for the Remedium stockholders, in substantially the form attached to the combination agreement as Exhibit C.

Remedium shall not be liable for borrowed monies in an amount exceeding \$1,000,000.

Remedium shall have obtained from each of its lenders an amendment to, or waiver under, its loan agreements with such lenders pursuant to which the lenders agree that the entering by the Remedium stockholders into the combination agreement and the consummation of the transactions contemplated thereby will not result in the acceleration of Remedium's debt or any modification of the terms under which Remedium can borrow and repay debt.

There shall be no injunction, decree, or order of any court of competent jurisdiction that prohibits the sale to Covalent of the shares of Remedium capital stock by the Remedium stockholders or that otherwise prohibits the combination agreement or the consummation of the transactions contemplated thereby, that has been adopted or issued, or has otherwise become effective, since the date of the combination agreement, and there shall be no action or litigation pending or threatened in writing by any person since the date of the combination agreement in which (x) an injunction is or may be sought against the combination agreement or the transactions contemplated thereby, or (y) relief is or may be sought against any party to the combination agreement as a result of the combination agreement or the transactions contemplated thereby, and in which in the good faith judgment of Covalent (relying on the advice of its legal counsel), such person has a reasonable possibility of prevailing and such relief would have a material adverse effect on Covalent, Remedium, Covalent's subsidiaries, or the business of Remedium and the subsidiaries of Remedium.

The obligation of the Remedium stockholders to complete the business combination is further subject to the satisfaction or waiver of the following conditions:

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

The stockholders of Covalent must have properly approved the issuance of the shares of Covalent common stock required to be issued in the business combination and the two amendments to Covalent's certificate of incorporation as described in this proxy statement and a certificate of amendment reflecting such amendments shall have been duly filed with the Secretary of the State of Delaware.

Covalent must have delivered or caused to be delivered each of the documents required to be delivered under the combination agreement, including:

the executed stock certificates representing the shares to be delivered pursuant to the terms of the combination agreement;

the executed employment agreement of Kai Lindevall, substantially in the form attached to the combination agreement as Exhibit A-1;

## **Table of Contents**

agreements not to compete, each substantially in the form attached to the combination agreement as Exhibit A-2, executed by certain key employees of Remedium; and

the favorable legal opinion of Wolf, Block, Schorr and Solis-Cohen, LLP, counsel for Covalent, in substantially the form attached to the combination agreement as Exhibit D.

The board of directors of Covalent shall have been expanded to add as additional directors (for a total of seven directors), Kai Lindevall, currently president and chief executive officer of Remedium, Petri Manninen, currently a director of Remedium, and Dr. Jyrki Mattila, Executive Vice President of Business Development, R&D and Technical Operations of Auxilium's Pharmaceutical, Inc.

Covalent must have tendered the shares of common stock of Covalent required to be delivered at closing, and paid the cash consideration due pursuant to the terms of the combination agreement.

Kenneth Borow, M.D. shall continue to serve as Chief Executive Officer of Covalent, Lawrence R. Hoffman shall continue to serve as Chief Financial Officer of Covalent and Kai Lindevall shall assume at closing supervisory control of all European and Asian Operations.

There shall be no injunction, decree, or order of any court of competent jurisdiction that prohibits the sale to Covalent of the shares of Remedium capital stock by the Remedium stockholders or that otherwise prohibits the combination agreement or the consummation of the transactions contemplated thereby, that has been adopted or issued, or has otherwise become effective, since the date of the combination agreement, and there shall be no action or litigation pending or threatened in writing by any person since the date of the combination agreement in which (x) an injunction is or may be sought against the combination agreement or the transactions contemplated thereby, or (y) relief is or may be sought against any party to the combination agreement as a result of the combination agreement or the transactions contemplated thereby, and in which in the good faith judgment of Covalent (relying on the advice of its legal counsel), such person has a reasonable possibility of prevailing and such relief would have a material adverse effect on Remedium, the subsidiaries of Remedium or the stockholders of Remedium as a whole.

### ***Opinion of Financial Advisor to Covalent (page 33)***

Savvian Advisors, LLC, Covalent's financial advisor, has rendered a written opinion dated June 29, 2006 to Covalent's board of directors that, as of the date of the opinion, the consideration to be paid in the business combination was fair, from a financial point of view, to Covalent. The full text of the written opinion is attached as Appendix A to this proxy statement. We encourage you to read the opinion carefully in its entirety to understand the procedures followed, the assumptions made, matters considered and limitations on the review undertaken by Savvian Advisors, LLC in providing its opinion. The opinion of Savvian Advisors, LLC is directed to Covalent's board of directors and does not constitute a recommendation to any Covalent stockholder with respect to the issuance of the shares of Covalent common stock or the business combination.

### ***Ownership of Covalent After Business Combination (page 118)***

Between a maximum of 8,839,779 shares and a minimum of 4,593,639 shares of Covalent common stock will be issued to the Remedium stockholders in exchange for their Remedium shares, assuming we are not required to pay additional consideration for the Remedium shares in settlement of post-closing adjustments relating to Covalent's net worth as of the closing date or as a result of our breach of our representations, warranties or other obligations under the combination agreement, which, in each case, may be settled in cash or Covalent shares, at our option. Assuming the issuance on September 12, 2006 of a maximum of 8,839,779 shares or a minimum of 4,593,639 shares pursuant to the combination agreement, the number of shares issued to the Remedium stockholders under the terms of the combination agreement would have represented approximately 39.8% or 25.6%, respectively, of our shares then outstanding after giving effect to the issuance of these numbers of shares, including a maximum of approximately 3,009,720 shares or a minimum of approximately 1,460,074

## **Table of Contents**

shares that would have been owned by Dr. Lindevall and his wife and a maximum of approximately 522,427 shares or a minimum of approximately 274,071 shares that would have been owned by an entity controlled by Mr. Manninen. In addition, Dr. Lindevall and Mr. Manninen each holds currently exercisable options to purchase Remedium shares that, upon the consummation of the business combination, will become exercisable for up to 79,162 shares of Covalent common stock, assuming we are not required to pay additional consideration for the Remedium shares in settlement of post-closing adjustments under the combination agreement referred to above.

### ***Termination (page 46)***

Covalent or the Remedium stockholders have the right to terminate the combination agreement as follows:

by mutual written consent.

by either party if the other party has failed to satisfy a condition to the closing of the transaction and such condition has not been waived.

by either party if the combination agreement has not been consummated by November 30, 2006 (for any reason other than a breach or violation of any representation, warranty, covenant or agreement contained in the combination agreement by the party seeking such termination).

by either party, if a governmental entity permanently restrains, enjoins or otherwise prohibits completion of the combination agreement.

by either party, if at the meeting (including any adjournment or postponement), the requisite vote of the stockholders of Covalent in favor of Proposals One, Three, Four and Five shall not have been obtained (provided that the right to terminate the combination agreement under this section shall not be available to Covalent where the failure to obtain the approval of the Covalent stockholders is caused by the action or failure to act of Covalent and such action or failure constitutes a material breach by Covalent of the combination agreement).

by the Remedium stockholders, if the board of directors of Covalent withdraws or modifies its recommendation that the Covalent stockholders vote in favor of Proposals One, Three, Four and Five.

by either party if the other party files a petition in bankruptcy, reorganization, liquidation or receivership, or a petition in bankruptcy, reorganization, liquidation or receivership is filed on or before the closing of the transaction and is not withdrawn or dismissed on or before closing under the combination agreement.

### ***Senior Management Following the Business Combination (pages 14 and 111)***

Upon the closing of the business combination, which is conditioned, among other things, upon our stockholders' election of the three nominees named in Proposal Three to serve as directors of Covalent from the closing of the business combination until the 2007 annual meeting of our stockholders, Remedium will become a wholly-owned subsidiary of Covalent and Dr. Kai Lindevall, currently President and Chief Executive Officer of Remedium, will serve as Covalent's President, European and Asian Operations, and, together with Petri Manninen, a current director of Remedium, and Dr. Jyrki Mattila, will join Covalent's board of directors. Kenneth Borow, M.D. will continue to serve as Chief Executive Officer of Covalent and Lawrence R. Hoffman will continue to serve as Chief Financial Officer of Covalent.

### ***Regulatory Matters (page 38)***

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

The combination agreement and the transactions contemplated by the combination agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, other than the filing with the Secretary of State of the State of Delaware of an amendment to Covalent's Certificate of Incorporation to reflect the amendments described in Proposals Four and Five if the amendments are approved by stockholders at the meeting.

**Table of Contents**

*Accounting Treatment (page 37)*

The business combination will be accounted for under the purchase method of accounting in accordance with generally accepted accounting principles. This means that for accounting and financial reporting purposes, the assets and liabilities of Remedium will be recorded at their fair value, and any excess of Covalent's purchase price over the fair value will be recorded as an intangible asset, including goodwill.



---

**Table of Contents**

QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION

Q: What is the business combination?

A: On March 2, 2006, Covalent entered into a combination agreement with the stockholders of Remedium Oy, a corporation organized under the laws of Finland, which we refer to in this proxy statement as Remedium. On July 6, 2006, the combination agreement was amended and restated in its entirety, and all references in this proxy statement to the agreement or the combination agreement are to the combination agreement, as amended and restated on July 6, 2006 unless the context otherwise requires. Under the terms of the agreement, Covalent will, subject to certain terms and conditions, purchase all of the issued and outstanding shares of capital stock of Remedium. As a result of the business combination, Remedium will become a wholly-owned subsidiary of Covalent and the Remedium stockholders will become stockholders of Covalent. The consummation of the business combination is subject to a number of conditions, including the taking by our stockholders of the following actions at the meeting: (i) approval of Proposal One to issue up to 9,275,171 shares of our common stock to the stockholders of Remedium in connection with the business combination, (ii) the election of the three nominees named in Proposal Three to serve as directors of Covalent from the consummation of the business combination until the 2007 annual meeting of stockholders, (iii) approval of Proposal Four to change Covalent's name to Encorium Group, Inc., and (iv) approval of Proposal Five to increase our authorized common stock to 35,000,000 shares.

Q: Why are the Covalent stockholders being asked to approve the issuance of shares of Covalent common stock in connection with our business combination with Remedium?

A: The Nasdaq marketplace rules require the approval by Covalent's stockholders prior to the issuance of additional shares of Covalent's common stock in any transaction if:

the common stock has, or will have upon issuance, voting power in excess of 20% of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock, or

the number of shares of common stock to be issued is, or will be upon issuance, in excess of 20% of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

Covalent currently estimates that between 4,593,639 shares and 8,839,779 shares of Covalent common stock, representing approximately 34.4% to 66.2% of Covalent's estimated total shares of common stock outstanding before the transaction, will be issued to the Remedium stockholders and that between 278,466 and 435,392 additional shares of Covalent common stock may be issued upon the exercise of currently outstanding options to purchase shares of Remedium that will become exercisable for shares of Covalent common stock upon the consummation of the business combination with Remedium.

Therefore, we are seeking the approval of Covalent stockholders of the issuance of up to 9,275,171 shares of Covalent common stock, representing approximately 69.5% of Covalent's estimated total shares of common stock outstanding before the transaction, in connection with the business combination.

Q: Will any additional approval of Covalent's stockholders be required if the total number of shares ultimately issued to the Remedium stockholders and to the holders of outstanding options to acquire Remedium shares upon the exercise of those options exceeds the 9,275,171 shares for which we are asking approval in Proposal One?

A: We do not anticipate that any additional approval of Covalent's stockholders will be required if, at the meeting, Proposals One, Four and Five are approved and the nominees named in Proposal Three are elected to serve on our board of directors from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders. Under the terms of the combination agreement, the number of shares that we may ultimately issue to the Remedium stockholders in exchange for their Remedium shares and to the holders of outstanding options to acquire Remedium shares upon the exercise of those options could exceed,

## **Table of Contents**

by an indeterminate number, the 9,275,171 shares for which we are seeking approval. This could happen if we are required to pay additional consideration to the Remedium stockholders as a result of a post-closing adjustment relating to Covalent's net worth as of the closing date or as a result of our breach of our representations, warranties or other obligations under the combination agreement. Under the terms of the combination agreement, if Covalent's net worth, as defined in the combination agreement, is less than \$6,974,689 as of the closing date, we will be obligated to pay additional consideration to the Remedium stockholders equal to the amount of the deficiency if we pay the obligation in cash or, if we elect, at our option, to pay the obligation in Covalent shares, the number of shares determined by dividing the amount of the deficiency by the closing price. Under the terms of the combination agreement, we have also agreed, subject to limitations on the amount, to hold harmless the Remedium stockholders and their respective successors and assigns from any loss, claim, expense, cost, fine, fee, penalty, settlement payment, obligation or injury, together with reasonable costs and expenses, including reasonable attorneys' fees and expenses, incurred by these parties resulting from any misrepresentation, breach of any representation or warranty, or any non-fulfillment of any representation, warranty, consent or agreement of Covalent contained in the combination agreement, which, at our option, may be paid in cash or by the delivery of a number of Covalent shares determined by dividing the amount of the obligation by the closing price. With limited exceptions, we will not incur any obligation under our agreement to hold the Remedium stockholders harmless unless the amount of the obligation exceeds \$200,000 and we will not be obligated for any amount in excess of \$8,000,000. See Material Provisions of the Combination Agreement-Indemnification. However, because the total number of shares we might issue is not likely to exceed the number of shares for which we are seeking approval pursuant to Proposal One by a number that would require an additional approval of our stockholders under the Nasdaq rule described in Proposal One, or require us to issue shares that would exceed the number permitted if Proposal Four is approved, we believe it is unlikely any additional approval of our stockholders will be required in order to consummate the business combination, even if the total number of shares we issue exceeds 9,275,171.

Q: Why are the companies proposing the business combination?

A: The management of Covalent and Remedium believe that the combination of the businesses of Covalent and Remedium provides significant strategic benefits, including:

the expansion of Covalent's geographic footprint to Eastern/Central Europe, Scandinavia and the Baltics;

access to a desirable patient population for Covalent clinical trials;

greater scale to better compete in the clinical research organization market;

the potential to increase competitiveness through synergies;

increase in revenue bulk;

diversification of business offerings; and

enhancement of management and sales capabilities.

Q: What are the Remedium stockholders to receive in the business combination?

A: At the closing of the business combination, the Remedium stockholders are to receive \$2,500,000 in immediately available funds and the number of shares of common stock of Covalent equal to the quotient obtained by dividing \$11,000,000 by:

## Edgar Filing: COVALENT GROUP INC - Form PRER14A

\$2.32 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing of the business combination agreement is not less than \$1.81 and not greater than \$2.83), or

\$2.83 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing date of the combination agreement is greater than \$2.83), or

## **Table of Contents**

\$1.81 (if the equity weighted average price per share of common stock of Covalent on the Nasdaq Capital Market during the period commencing on June 15, 2006 and ending with the third trading day prior to closing date of the combination agreement is less than \$1.81).

The price per share of common stock of Covalent is referred to herein as the closing price.

On or prior to April 10, 2007 (or at a later date if the dispute resolution provisions of the combination agreement are required to determine the number of shares), the Remedium stockholders will be entitled to receive an additional number of shares of our common stock, which we refer to as the earn-out shares, based on Remedium's net revenue for the fiscal year ending December 31, 2006, calculated under U.S. GAAP consistently applied with prior fiscal years of Remedium's U.S. GAAP consolidated financial statements, which we refer to as Remedium's net revenue, as follows:

if Remedium net revenue exceeds EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$3,000,000 by (ii) the closing price; or

if Remedium net revenue exceeds EUR 9,500,000 but is equal or less than EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$2,000,000 by (ii) the closing price; or

if Remedium net revenue exceeds EUR 8,300,000 but is equal or less than EUR 9,500,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) \$1,000,000 by (ii) the closing price; or

if Remedium net revenue is equal to or less than EUR 8,300,000, the Remedium stockholders are not entitled to any earn-out shares. On March 30, 2007, Remedium stockholders are to receive an additional \$1,500,000 in immediately available funds. Subject to adjustment, on the first anniversary of the closing of the business combination, Covalent will issue to the Remedium stockholders the number of shares of common stock of Covalent equal to the quotient obtained by dividing (i) \$2,000,000 by (ii) the closing price. For a description of the adjustments applicable to the consideration we have agreed to pay, which may have the effect of increasing or decreasing the consideration paid pursuant to the combination agreement, see The Combination Agreement Consideration and Adjustment.

No fractional shares of Covalent common stock will be issued, and on the occasion of each issuance of shares to the Remedium stockholders, each stockholder who would otherwise be entitled to receive a fractional share of Covalent common stock will receive an aggregate number of shares of Covalent common stock rounded to the nearest whole number.

Q: Will Covalent stockholders receive any shares of common stock as a result of the business combination?

A: No. Covalent stockholders will continue to hold the shares of Covalent common stock they otherwise own.

Q: Who must approve the business combination?

A: In addition to the approval of Covalent's board of directors, which has been obtained, the issuance of the shares of Covalent common stock to be issued in connection with the business combinations, as described in Proposal One, must be approved at the meeting by the affirmative vote of the holders of at least a majority of our outstanding common stock present in person or by proxy and entitled to vote on the matter. Covalent's directors and executive officers and their affiliates are entitled to vote approximately 949,268 of the shares of common stock of Covalent outstanding on the record date. For information concerning additional actions of Covalent's stockholders at the meeting which are conditions to the consummation of the business combination, see Q- What is the business combination?, above.

---

**Table of Contents**

Q: Who will be the directors of Covalent after the business combination?

A: Assuming the stockholders of Covalent elect the four nominees named in Proposal Two, and the three additional nominees named in Proposal Three, following the meeting the directors of Covalent will be Kenneth M. Borow, M.D., Earl M. Collier, Jr., Scott M. Jenkins, and Christopher F. Meshginpoosh. In addition, effective on the consummation of the business combination, the board of directors will also include Kai Lindevall, currently President and Chief Executive Officer of Remedium, Petri Manninen, currently a director of Remedium, and Dr. Jyrki Mattila.

Q: Does the Covalent board of directors recommend approval of Proposal One relating to the shares of Covalent common stock to be issued to the Remedium stockholders upon consummation of the business combination and the other proposals to be considered at the meeting which are conditions to the closing of the business combination?

A: Yes. After careful consideration, the Covalent board of directors unanimously approved the consummation of the business combination and recommends approval by the Covalent stockholders of Proposal One relating to the issuance of up to 9,275,171 shares of Covalent common stock in connection with the business combination. The Covalent board of directors also recommends approval by the Covalent stockholders of Proposals Four and Five, which relate to two amendments to our certificate of incorporation to be considered and acted upon at the meeting, and the election of the nominees named in Proposal Three as additional directors of Covalent to serve from the consummation of the business combination until the 2007 annual meeting of Covalent's stockholders. Under the terms of the combination agreement, the obligation of Remedium's stockholders to consummate the proposed business combination is conditioned, among other things, on the approval of Proposals One, Four, and Five, and the election of the nominees named in Proposal Three as additional directors of Covalent to serve from the consummation of the business combination until the 2007 annual meeting of Covalent's stockholders, and, unless those approvals and election occur or are waived by the Remedium stockholders, in their sole discretion, we will not be able to perform our obligations under our agreement to acquire Remedium.

Q: What do I need to do now?

A: We urge you to read carefully this proxy statement, including the annexes, and to consider how the business combination will affect you as a Covalent stockholder.

Q: How do I vote?

A: You may vote by completing, dating and signing the enclosed proxy and mailing it in the enclosed return envelope as soon as possible so that those shares may be represented at the annual meeting. You may also attend the meeting and vote in person. If you return your proxy but do not include instructions on how to vote, the shares for which you have given your proxy will, in the absence of your instructions to the contrary, be voted FOR Proposals One, Four, Five, Six and Seven, and FOR the election to our board of directors of each of the nominees named in Proposals Two and Three of the proxy.

Q: What happens if I do not vote?

A: If you do not vote, your shares may still be voted under certain circumstances if they are held in street name through a broker or other nominee. However, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon at the meeting. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters.

## **Table of Contents**

Q: Can I change my vote?

A: Yes. You can change your vote at any time before your proxy is voted at the meeting. If you hold your shares in your own name, you may:

send a written notice stating that you would like to revoke your proxy;

complete and submit a new proxy with a later date; or

attend the meeting and vote in person.

If you hold your shares in street name, you should follow the directions provided by your broker regarding how to change your vote.

Q: Are there any risks associated with the business combination?

A: The business combination does involve risks. For a discussion of risk factors that should be considered in evaluating the business combination, see Risk Factors beginning on page 17 of this proxy statement.

Q: Am I entitled to appraisal or dissenter's rights?

A: Covalent is organized under Delaware law. Under Delaware law, you will not be entitled to dissenters' rights or an appraisal of your shares in connection with the business combination because, among other things, you will not exchange or otherwise relinquish any shares of Covalent capital stock in connection with the business combination or other matters presented to the stockholders for approval at the meeting.

Q: Who is paying for this proxy solicitation?

A: Covalent is conducting this proxy solicitation and will bear the cost of soliciting proxies, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. Proxies will be solicited through the mail and directly by officers, directors and employees of Covalent not specifically employed for such purpose, without additional compensation. Covalent has also hired Altman Group, Inc. to assist in the solicitation of votes at an estimated cost of \$10,000, plus its out of pocket expenses. Covalent may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding proxy and solicitation materials to beneficial owners.

Q: When and where is the Covalent annual meeting?

A: The annual meeting of Covalent stockholders will be held at 10:00 a.m., local time, on October 20, 2006 at Courtyard by Marriott-Valley Forge, 1100 Drummers Lane, Wayne, Pa 19087.

Q: When do you expect to complete the business combination?

A: Under the terms of the combination agreement, the business combination is to close no later than November 30, 2006. However, we expect to complete the business combination on or about November 1, 2006, provided that at the meeting Proposals One, Four, and Five are approved and the three nominees named in Proposal Three are elected to our board of directors effective upon the consummation of the business combination.

**Table of Contents**

WHO CAN HELP ANSWER YOUR QUESTIONS

Covalent is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Covalent files reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy these reports, proxy statements and other information at the SEC's Public Reference Section at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at <http://www.sec.gov>, that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

If you have any questions about the annual meeting or the business combination with Remedium after reading this proxy statement, or if you would like additional copies of this proxy statement or the proxy card, you should contact Covalent Group, Inc., One Glenhardie Corporate Center, Suite 100, 1275 Drummers Lane, Wayne, Pennsylvania 19087, Attention: Lawrence R. Hoffman, Executive Vice President, General Counsel, Secretary and Chief Financial Officer. Covalent also makes available, free of charge, through its Internet website ([www.covalentgroup.com](http://www.covalentgroup.com)) its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and, if applicable, amendments to those reports, filed pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. You may also contact our proxy solicitor:

The Altman Group, Inc.

1200 Wall Street West, 3rd Floor

Lyndhurst, New Jersey 07071

Call toll-free: (800) 252-8173

If you wish to request additional documents from Covalent, please do so by October 10, 2006 in order to receive them prior to the meeting.

## **Table of Contents**

### **RISK FACTORS**

You should carefully consider the risks described below before voting. The risks described are not the only ones we face. Any of the following risks could have a material adverse effect on our business, financial condition and operating results. You should also refer to the other information contained in this proxy statement, including our and Remedium's financial statements and the related notes.

#### **Risks Associated With the Business Combination**

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

Following the business combination, in order to maintain and increase profitability and operating efficiencies, we will need to integrate and coordinate certain key elements, including:

service offerings;

marketing and business development efforts;

management and other professional personnel; and

operational systems of Covalent and Remedium.

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

coordinating the efforts and managing the operation, facilities and decision-making process in a geographically distant organization with Covalent based in the United States and Remedium based in Europe;

integrating organizations whose personnel have diverse business and cultural backgrounds; and

combining different corporate cultures.

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

*The business combination may affect our ability to hire, train and retain highly qualified professionals which may cause our business to suffer.*

Our success following the closing of the business combination will depend upon the retention of senior executives and other key employees from both Covalent and Remedium who are critical to the continued advancement, development and support of our services, ongoing sales and marketing efforts. The loss for any reason of any key executive officer or of any significant group of our client-serving professionals could negatively affect our business and prospects. Employee uncertainty regarding the effects of the business combination could also cause increased turnover among our employees. We may not be able to retain or hire key management, technical, sales or marketing personnel before or after the business combination.



## Edgar Filing: COVALENT GROUP INC - Form PRER14A

*We will incur significant expenses related to the business combination whether or not completed.*

The business combination will result in significant costs to Covalent and Remedium. Excluding costs associated with combining the operations of the two companies, which are difficult to estimate, direct transaction costs are estimated at approximately \$2,000,000. We expect these costs to consist primarily of fees for

## **Table of Contents**

investment bankers, attorneys, accountants, filing fees, financial printing and costs associated with discontinuing some redundant business activities. Our current estimates of these costs are preliminary and subject to change. Accordingly, the aggregate amount of these costs may be greater than currently anticipated. The substantial majority of the costs other than those associated with combining the operations of the two companies will be incurred whether or not the business combination is completed. Also, additional unanticipated expenses may be incurred in the integration of our businesses. Although we expect that the elimination of duplicative expenses as well as the realization of other efficiencies related to the integration of the businesses may result in cost savings, we cannot assure you that these benefits will be achieved in the near term or at all.

*The market price of our common stock may decline as a result of the business combination.*

The market price of our common stock may decline as a result of the business combination for a number of reasons, including if:

we do not achieve the perceived benefits of the business combination as rapidly or to the extent anticipated by financial or industry analysts;

the effects of the business combination on the businesses are not consistent with the expectations of financial or industry analysts; or

investors react negatively to the effects of the business combination.

*If the business combination is not completed, our stock price could decline.*

The obligations of Covalent and Remedium to complete the business combination are subject to the satisfaction or waiver of certain conditions. See page 42 of this proxy statement for a discussion of these conditions. These conditions might not be satisfied or waived and the business combination might not be completed. If the business combination is not completed, it may have a negative effect on our stock trading price.

*Our stockholders will suffer immediate and substantial dilution to their equity and voting interests as a result of the business combination.*

In connection with the business combination, we will issue as many as 8,839,779 shares of our common stock to the Remedium stockholders and up to an additional 435,392 shares upon the exercise of currently outstanding Remedium options that will become exercisable for Covalent shares upon consummation of the business combination. This means that the Remedium stockholders could own up to approximately 40% of the total number of share of Covalent's common stock following the business combination. If the combined company is unable to realize the strategic and financial benefits currently anticipated from the business combination, the Covalent stockholders will have experienced substantial dilution of their ownership interest without receiving any commensurate benefit.

*Currency exchange rate fluctuations could adversely affect our results of operations.*

International revenues accounted for approximately 7% of our revenues during fiscal 2005. We will significantly increase our international operations upon consummation of the business combination. Our results of operations following the closing of the business combination could be significantly affected by factors associated with international operations, such as changes in foreign currency exchange rates and uncertainties relative to regional economic or political circumstances, as well as by other risks sometimes associated with international operations. Since the revenue and expenses of our foreign operations will generally be denominated in local currencies, exchange rate fluctuations between such local currencies and the U.S. dollar subject us to currency translation risk with respect to the reported results of our foreign operations. Also, we may be subject to foreign currency translation risks when transactions are denominated in a currency other than the currency in which we incur expenses related to such transactions. There can be no assurance that we will not experience fluctuations in financial results from our operations outside the United States, and there can be no assurance that we will be able to reduce contractually or otherwise favorably the currency translation risk associated with our operations.

## **Table of Contents**

*We could lose clients as a result of uncertainty regarding the business combination*

Uncertainty regarding the business combination and the ability of Covalent and Remedium to integrate effectively their operations without significant reduction in quality of service could lead some clients to select other vendors. The loss of business from significant clients could have a negative effect on our business following the closing.

**Risks Relating to Covalent's Business Before and After the Business Combination**

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

The market for contract research services is highly competitive. We primarily compete against in-house departments of pharmaceutical, biotechnology and medical device companies and other contract research organizations. Competitors in our industry range from small, limited-service providers to full service, global contract research organizations. Many of our competitors have an established global presence, including Quintiles Transnational Corp., Covance, Inc., Parexel International Corporation, Pharmaceutical Product Development, Inc., Icon Clinical Research, and Kendle International, Inc. These competitors have substantially greater financial and other resources than we do. Significant factors in determining whether we will be able to compete successfully include: our consultative and clinical trials design capabilities; our reputation for on-time quality performance; our expertise and experience in specific therapeutic areas; the scope of our service offerings; our ability to recruit investigators and study subjects in a timely manner; our strength in various geographic markets; the price of our services; our ability to acquire, process, analyze and report data in a time-saving and accurate manner; our global data services capabilities; our ability to manage large-scale clinical trials both domestically and internationally; and our size.

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

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

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

We provide services to the pharmaceutical, biotechnology and medical device industries and our revenue is highly dependent on expenditures on the services we provide by clients in these industries. Our operations could be materially and adversely affected if:

our clients reduce their research and development expenditures or reduce the rate of growth in their research and development expenditures;

consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for us;

one or more significant studies are terminated as a result of the failure of the product to satisfy safety requirements, unexpected or undesired clinical results, or other reasons; or

our clients' businesses experience financial problems or are affected by a general economic downturn.

## **Table of Contents**

Four of our clients account for a significant percentage of our revenues. For the year ended December 31, 2005, net revenues from our four largest clients amounted to 83% of our net revenues, with the four largest clients representing 27%, 26%, 17% and 13% of net revenues, respectively. For the year ended December 31, 2004, net revenues from our three largest clients amounted to 57% of our net revenues, with the three largest clients representing 23%, 19%, and 15% of net revenues, respectively. For the year ended December 31, 2003, net revenues from our three largest clients amounted to 69% of our net revenues, with the three largest clients representing 41%, 21%, and 7% of net revenues, respectively. We expect that a relatively small number of clients will continue to represent a significant percentage of our net revenue, even if the business combination is consummated. The contracts with our clients and the clients of Remedium generally can be terminated on short notice. The loss of business from any significant client or our failure to continue to obtain new business would have a material and adverse effect on our business and revenues.

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

Our future success depends on the personal efforts and abilities of the principal members of our senior management and scientific team to provide strategic direction, develop business, provide service to our clients, manage our operations and finances, and maintain a cohesive and stable environment. The loss of their services might significantly delay or prevent the achievement of business development and strategic objectives. As a provider of complex clinical trial support services, our success depends on our ability to retain key employees and to attract additional qualified employees. Competition for qualified personnel is intense and we cannot assure you that we will be able to retain existing personnel or attract and retain additional highly qualified employees in the future. Specifically, we are substantially dependent upon the efforts of Kenneth M. Borow, M.D., our President and Chief Executive Officer and Alison O'Neill, our Senior Vice President, Global Operations and, if the business combination is consummated, we will also be substantially depending on Dr. Kai Lindevall, the current President and Chief Executive Officer of Remedium who will serve as President for our European and Asian operations. A condition to the closing of the business combination is our entering into an employment agreement with Dr. Lindevall. See Material Provisions of the Combination Agreement-Employment Agreement. However, we currently do not have an employment agreement with Dr. Borow or Ms. O'Neill. The loss of services of any of our key executives would have a material and adverse affect on our business operations, results of operations and financial position.

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

*The fixed price nature of the Company's contracts could have a negative impact on our operating results.*

The majority of our contracts, and some of the contracts of Remedium, are at fixed prices. As a result, we and Remedium bear the risk of cost overruns. If we fail to adequately price our contracts, fail to effectively estimate the cost to complete fixed price contracts, or if we experience significant cost overruns, our operating results and financial condition could be materially and adversely affected. In 2003 and 2004, we had to commit unanticipated resources to complete projects, resulting in higher costs and lower operating margins on those projects. The Company attempts to negotiate contract amendments with the sponsor to cover services provided outside the terms of the contract. However, there can be no guarantee that the sponsor will agree to proposed amendments, and we ultimately bear the risk of cost overruns. We might experience similar situations in the future, which could, depending on the magnitude of the cost overrun, have a material and adverse impact on our operating results and financial condition.

## **Table of Contents**

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

Our contracts generally may be terminated or reduced in scope either immediately or upon notice. Clients may terminate or delay their contracts for a variety of reasons, including, but not limited to, the failure of products to satisfy safety requirements, unexpected or undesired clinical results, merger or potential merger related activities, the client's budget constraints, the client's decision to terminate the development of a particular product or to end a particular study, insufficient patient enrollment in a study, insufficient investigator recruitment, manufacturing problems resulting in shortages of the product, or our failure to perform our obligations under the contract. This risk of loss or delay of contracts potentially has greater effect as we pursue larger outsourcing arrangements with global pharmaceutical companies. Also, over the past several years we have observed that clients may be more willing to delay, cancel or reduce contracts more rapidly than in the past. If this trend continues, it could become more difficult for us to balance our resources with demands for our services and our financial results could be materially and adversely affected.

In addition, companies may proceed with fewer clinical trials or conduct them without assistance of contract research organizations as a result of changing priorities or other internal considerations. These factors may cause such companies to cancel contracts with CROs, such as Covalent and Remedium.

In general, our contracts entitle us to receive the costs of winding down a terminated project, as well as all fees earned by us up to the time of termination. The loss, reduction in scope or delay of a significant contract or the loss or delay of multiple contracts could materially and adversely affect our business, results of operations and financial condition.

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

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

*Our drug or biologics development programs could result in potential liability to us.*

We contract with physicians to serve as investigators in conducting clinical trials. Such testing creates risk of liability for personal injury to or death of volunteers, particularly to volunteers with life-threatening illnesses, resulting from adverse reactions to the drugs administered during testing. It is possible that third parties could claim that we should be held liable for losses arising from any professional malpractice of the investigators with whom we contract or in the event of personal injury to or death of persons participating in clinical trials. We do not believe we are legally accountable for the medical care rendered by third party investigators, and we would vigorously defend any such claims. However, such claims may still be brought against us that require us to incur legal defense costs, and it is possible we could be found liable for these types of losses.

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

Industry trends and economic factors that affect our clients in the pharmaceutical, biotechnology and medical device industries also affect our business. Our revenues depend greatly on the expenditures made by the pharmaceutical, biotechnology and medical device industries in research and development. The practice of many companies in these industries has been to hire outside organizations like us to conduct clinical research projects.

## **Table of Contents**

This practice has grown significantly in the last decade, and we have benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, our business could be materially and adversely affected. For example, over the past year, mergers and other factors in the pharmaceutical industry appear to have slowed decision-making by pharmaceutical companies and delayed drug development projects. The continuation of or increase of these trends could have a negative affect on our business.

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

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

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

*Our backlog may not be indicative of future results.*

As of June 30, 2006, our backlog was approximately \$27 million. The backlog represents anticipated net revenue from uncompleted projects with our clients. We cannot be certain that the backlog we have reported will be indicative of our future results. A number of factors may affect our backlog, including: the ability of clients to reduce or expand the size and duration of the projects (some are performed over several years); the termination or delay of projects; and a change in the scope of work during the course of a project.

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

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

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

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

Governmental agencies throughout the world, but particularly in the U.S., strictly regulate the drug development and approval process. Our business involves helping pharmaceutical, biotechnology and medical

## **Table of Contents**

device companies navigate the regulatory drug approval process. Any changes in drug approval regulatory requirements such as the introduction of simplified drug approval procedures or an increase in regulatory requirements that we have difficulty satisfying, could eliminate or substantially reduce the need for our services. These and other changes in regulation could have an impact on the business opportunities available to us. As a result, our business, results of operations and financial condition could be materially and adversely affected.

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

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

*Our operating results have fluctuated between quarters and years and may continue to fluctuate in the future.*

Our quarterly and annual operating results have varied, and are expected to continue to vary, as a result, of a variety of factors, many of which are beyond our control. Factors that may cause these variations include the commencement, completion or cancellation of large contracts, the progress of on-going projects, changes in the mix of services offered, our ability to successfully negotiate contract amendments in a timely manner, and the timing and amount of start-up costs incurred in connection with the introduction of new products, services or subsidiaries.

A significant percentage of our operating costs are fixed. The timing of the completion, delay or loss of contracts, or the progress of client projects, can cause our operating results to vary substantially between reporting periods. We had an accumulated deficit of \$5,418,116 and \$3,933,377 in retained earnings as of December 31, 2005 and 2004, respectively, versus positive retained earnings of \$289,918 as of December 31, 2003. We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results. While fluctuations in our quarterly or annual operating results could negatively impact the market price of our common stock, these fluctuations may not be related to our future overall operating performance.

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

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

## **Table of Contents**

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

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

Contractual indemnifications generally do not protect us against liability arising from certain of our own actions, such as negligence. Our financial condition and results of operations could be materially and adversely affected if we were required to pay damages or bear the cost of defending any claim which is not covered by a contractual indemnification provision, in the event that a party who must indemnify us does not fulfill its indemnification obligations or which is beyond the level of our insurance coverage. In addition, we may not be able to continue to maintain adequate insurance coverage on terms acceptable to us.

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

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

*Our revenues and earnings are exposed to exchange rate fluctuations as well as international economic, political and other risks.*

In 2005, approximately 7% of our net revenues were derived from contracts denominated in currencies other than U.S. dollars and the percentage of our net revenues that are derived from such sources can be expected to increase if the business combination is consummated. Our financial statements are denominated in U.S. dollars. As a result, factors associated with international operations, including changes in foreign currency exchange rates, could affect our results of operations and financial condition.

We offer many of our services on a worldwide basis and we are therefore subject to risks associated with doing business internationally. We anticipate that net revenues from international operations may increase in the future and represent a greater percentage of total net revenues. If the business combination is consummated, net revenues from international operations can be expected to increase as a result of the transaction. As a result, our future results could be negatively affected by a variety of factors, including changes in a specific country's political or economic conditions, potential negative consequences from changes in tax laws, difficulty in staffing and managing widespread operations, and unfavorable labor regulations applicable to our international operations.



---

**Table of Contents**

*Our stock price may be volatile and could experience substantial declines.*

The market price of our common stock has experienced historical volatility and might continue to experience volatility in the future in response to quarter-to-quarter variations in operating results, changes in backlog and new business results, the issuance of analysts' reports, market conditions in the industry, prospects of health care reform, changes in governmental regulations, and changes in general conditions in the economy or the financial markets.

The general equity markets have also experienced significant fluctuations in value. This volatility and the market variability 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.

*Failure to satisfy NASDAQ Capital Market maintenance criteria could negatively impact the liquidity and market price of our common stock.*

Our common stock began trading on the NASDAQ Capital Market in December 1997. There are several requirements for continued listing on the NASDAQ Capital Market including, but not limited to, a minimum stock price of \$1.00 per share and either (i) \$2.5 million or more in stockholders' equity, (ii) market capitalization of \$35.0 million or more, or (iii) net income in the last fiscal year, or two of the last three fiscal years, of \$500,000 or more.

If our common stock price closes below \$1.00 per share for 30 consecutive days, we may receive notification from NASDAQ that our common stock will be delisted from the NASDAQ Capital Market unless the stock closes at or above \$1.00 per share for at least ten consecutive days during the 180-day period following such notification. In the future, our common stock price or tangible net worth may fall below the NASDAQ Capital Market listing requirements, or we may not comply with other listing requirements, with the result being that our common stock might be delisted. If our common stock is delisted, we may list our common stock for trading over-the-counter. Delisting from the NASDAQ Capital Market could adversely affect the liquidity and price of our common stock and it could have a long-term impact on our ability to raise future capital through a sale of our common stock. In addition, it could make it more difficult for investors to obtain quotations or trade our stock.

*Our common stock may not continue to qualify for exemption from the penny stock restrictions, which may make it more difficult for you to sell your shares.*

The Securities and Exchange Commission has adopted regulations which define a penny stock to be any equity security that has a market price of less than \$5.00 per share, or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, these rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule relating to the penny stock market. Disclosure is also required to be made about current quotations for the securities and about commissions payable to both the broker-dealer and the registered representative. Finally, broker-dealers must send monthly statements to purchasers of penny stocks disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. These penny stock restrictions will not apply to our shares of common stock as long as: (1) they continue to be listed on the NASDAQ Capital Market; (2) certain price and volume information is publicly available about our shares on a current and continuing basis; and (3) we meet certain minimum net tangible assets or average revenue criteria. Our common stock may not continue to qualify for an exemption from the penny stock restrictions. If our shares of common stock were subject to the rules on penny stocks, the liquidity of our common stock would be adversely affected.

## **Table of Contents**

### *The Failure to Integrate or Negotiate Successfully Any Future Acquisitions Could Harm Our Business and Operating Results*

If we acquire businesses in the future and are unable to integrate successfully these businesses, it could harm our business and operating results. In order to remain competitive or to expand our business, we may find it necessary or desirable to acquire other businesses, products or technologies. We may be unable to identify appropriate acquisition candidates. If we identify an appropriate acquisition candidate, we may not be able to negotiate the terms of the acquisition successfully, to finance the acquisition or to integrate the acquired businesses, products or technologies into our existing business and operations. Further, completing a potential acquisition and integrating an acquired business may strain our resources and require significant management time. In addition, we may be required to amortize significant amounts of goodwill and other intangible assets in connection with future acquisitions which would harm our operating results.

### *We do not intend to pay dividends*

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

### **Risks Relating to Remedium's Business**

#### *Failure to develop new business in Remedium's intensely competitive industry will cause its revenues to decline.*

The market for contract research services is highly competitive. Remedium primarily competes against in-house departments of pharmaceutical, biotechnology and medical device companies and other contract research organizations. Remedium's competitors range from small, limited-service providers to full service, global contract research organizations. Many of these competitors have an established global presence, and others are smaller Scandinavian or European regional competitors. Some of these competitors have substantially greater financial and other resources than does Remedium. Significant factors in determining whether Remedium is able to compete successfully include: its consultative and clinical trials design capabilities; its reputation for on-time quality performance; its expertise and experience in specific therapeutic areas; the scope of its service offerings; its ability to recruit investigators and study subjects in a timely manner; its strength in various geographic markets; the price of its services; its ability to acquire, process, analyze and report data in a time-saving and accurate manner; its global data services capabilities; its ability to manage large-scale clinical trials both domestically and internationally; and its size.

If Remedium's services are not competitive based on these or other factors and Remedium is unable to develop an adequate level of new business, its business, backlog position, financial condition and results of operations will be materially and adversely affected. In addition, it may compete for fewer clients arising out of consolidation within the pharmaceutical industry and the growing tendency of drug companies to outsource to a smaller number of preferred contract research organizations.

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

Remedium depends on a small number of industries and clients for its business, and the loss of one of its significant clients could cause revenues to drop quickly and unexpectedly.

## **Table of Contents**

Remedium provides services to the pharmaceutical, biotechnology and medical device industries and its revenue is highly dependent on expenditures by clients in these industries. Remedium's operations could be materially and adversely affected if:

its clients reduce their research and development expenditures or reduce the rate of growth in their research and development expenditures;

consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for Remedium;

one or more significant studies are terminated as a result of the failure of the product to satisfy safety requirements, unexpected or undesired clinical results, or other reasons; or

Remedium's clients' businesses experience financial problems or are affected by a general economic downturn. Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of Remedium's project work, although the mix of projects is subject to change from year to year. In fiscal 2004, approximately 72% of Remedium's revenue came from multiple projects of one major customer. In fiscal 2005, approximately 30% of revenue came from multiple projects of the same customer and 19% of revenue came from multiple projects of another customer. Remedium expects that a relatively small number of clients will continue to represent a significant percentage of its net revenue. Remedium's contracts with these clients generally can be terminated on short notice. The loss of business from any one of these significant clients or Remedium's failure to continue to obtain new business would have a material and adverse effect on its business and revenues.

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

Remedium's future success depends on the personal efforts and abilities of its key personnel and professional team to provide strategic direction, develop business, provide service to its clients, manage its operations and finances, and maintain a cohesive and stable environment. The loss of their services might significantly delay or prevent the achievement of business development and strategic objectives. As a provider of complex clinical trial support services, its success depends on its ability to retain key employees and to attract additional qualified employees. Competition for qualified personnel is intense and we cannot assure you that Remedium will be able to retain existing personnel or attract and retain additional highly qualified employees in the future. Specifically, Remedium is substantially dependent upon the efforts of Dr. Kai Lindevall, its President and Chief Executive Officer. Remedium currently does not have an employment agreement with Dr. Lindevall. The loss of his services would have a material and adverse affect on Remedium's business operations, results of operations and financial position. However, it is a condition to closing of the business combination with Covalent that Dr. Lindevall enter into a three-year employment agreement that takes effect at closing. See "Material Provisions of the Combination Agreement" Employment Agreement.

Competition for skilled personnel, particularly those with a medical degree, a Ph.D. or equivalent degrees, is intense. Remedium competes with contract research organizations, pharmaceutical and biotechnology companies, and academic and research institutions with far greater financial resources to recruit skilled personnel. Remedium's inability to attract and retain qualified scientific staff could have a material and adverse affect on Remedium's business, results of operations and financial condition. There can be no assurance that Remedium will be able to continue to attract and retain qualified scientific staff in the future.

*Remedium may bear financial losses because its contracts may be delayed or terminated or reduced in scope for reasons beyond its control.*

Remedium's contracts generally may be terminated or reduced in scope either immediately or upon notice. Clients may terminate or delay their contracts for a variety of reasons, including, but not limited to: the failure of

## **Table of Contents**

products to satisfy safety requirements; unexpected or undesired clinical results; merger or potential merger related activities; the client's budget constraints; the client's decision to terminate the development of a particular product or to end a particular study; insufficient patient enrollment in a study; insufficient investigator recruitment; manufacturing problems resulting in shortages of the product; or Remedium's failure to perform its obligations under the contract. This risk of loss or delay of contracts potentially has greater effect as Remedium pursues larger outsourcing arrangements with global pharmaceutical companies. Also, over the past several years Remedium has observed that clients may be more willing to delay, cancel or reduce contracts more rapidly than in the past. If this trend continues, it could become more difficult for Remedium to balance its resources with demands for its services and its financial results could be adversely affected.

In addition, companies may proceed with fewer clinical trials or conduct them without assistance of contract research organizations as a result of changing priorities or other internal considerations. These factors may cause such companies to cancel contracts with CROs.

In general, Remedium's contracts entitle it to receive the costs of winding down the terminated project, as well as all fees earned by it up to the time of termination. The loss, reduction in scope or delay of a significant contract or the loss or delay of multiple contracts could materially and adversely affect Remedium's business, results of operations and financial condition.

*The fixed price nature of some of Remedium's contracts could have a negative impact on its operating results.*

Remedium bears the risk of cost overruns on any fixed priced contracts with its customers. If it fails to adequately price its contracts, fails to effectively estimate the cost to complete contracts, or if it experiences significant cost overruns, its operating results and financial condition could be materially and adversely affected. Remedium attempts to negotiate contract amendments with the sponsor to cover services provided outside the terms of the contract. However, there can be no guarantee that the sponsor will agree to proposed amendments, and Remedium ultimately bears the risk of cost overruns. Remedium might experience similar situations in the future, which would have a material and adverse impact on its operating results and financial condition.

*Remedium's drug or biologics development programs could result in potential liability to it.*

Remedium contracts with physicians to serve as investigators in conducting clinical trials. Such testing creates risk of liability for personal injury to or death of volunteers, particularly to volunteers with life-threatening illnesses, resulting from adverse reactions to the drugs administered during testing. It is possible third parties could claim that Remedium should be held liable for losses arising from any professional malpractice of the investigators with whom it contracts or in the event of personal injury to or death of persons participating in clinical trials. Remedium does not believe it is legally accountable for the medical care rendered by third party investigators, and it would vigorously defend any such claims. However, such claims may still be brought against Remedium requiring it to incur legal defense costs, and it is possible Remedium could be found liable for these types of losses.

*Changes in outsourcing trends in the pharmaceutical and biotechnology industries could materially and adversely affect Remedium's operating results and growth rate.*

Industry trends and economic factors that affect Remedium's clients in the pharmaceutical, biotechnology and medical device industries also affect Remedium's business. Remedium's revenues depend greatly on the expenditures made by the pharmaceutical, biotechnology and medical device industries in research and development. The practice of many companies in these industries has been to hire outside organizations like Remedium to conduct clinical research projects. This practice has grown significantly in the last decade, and Remedium has benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, Remedium's business could be materially and adversely affected. For example, over the past year, mergers and other factors in the

---

**Table of Contents**

pharmaceutical industry appear to have slowed decision-making by pharmaceutical companies and delayed drug development projects. The continuation of or increase of these trends could have a negative affect on Remedium's business.

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

*Failure to comply with existing regulations could harm Remedium's reputation and its operating results.*

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

*Remedium's backlog may not be indicative of future results.*

Remedium's backlog represents anticipated net revenue from uncompleted projects with its clients. Remedium cannot be certain that the backlog it has reported will be indicative of its future results. A number of factors may affect Remedium's backlog, including: the ability of clients to reduce or expand the size and duration of the projects (some are performed over several years); the termination or delay of projects; and a change in the scope of work during the course of a project.

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

*If Remedium is unable to successfully develop and market new services in Europe and internationally, its results could be materially and adversely affected.*

An element of Remedium's growth strategy is the successful development and marketing of new services that complement or expand its existing business. If Remedium is unable to develop new services and create demand for those newly developed services, it may not be able to implement this element of its growth strategy, and its future business, results of operations and financial condition could be materially and adversely affected. For example, Remedium has invested in the creation and administrative set-up of international subsidiaries which have sustained operating losses to date. It may need to make additional investments in these subsidiaries in the future in order for it to achieve its objectives. The profitability of Remedium's subsidiaries depends, in part, on client acceptance and use of its services. There can be no assurance that Remedium's international subsidiaries will be profitable in the future or that any revenue resulting from them will be sufficient to recover the investment in them. If Remedium's international subsidiaries do not develop as anticipated, Remedium's business, financial condition and results of operations may be materially and adversely affected.

*Changes in governmental regulation could reduce the need for the services Remedium provides, which would negatively affect its future business opportunities.*

We are unable to predict what legislative proposals will be adopted in the future, if any. Implementation of health care reform legislation that results in additional costs to develop new drugs could limit the profits that can

## **Table of Contents**

be made by Remedium's clients from the development of new products. This could adversely affect these clients' research and development expenditures, which could in turn decrease the business opportunities available to Remedium. In addition, new laws or regulations may create a risk of liability, increase Remedium's costs or limit its service offerings. We cannot predict the likelihood of any of these events.

Governmental agencies throughout the world strictly regulate the drug development and approval process. Remedium's business involves helping pharmaceutical, biotechnology and medical device companies navigate the regulatory drug approval process. Any changes in drug approval regulatory requirements such as the introduction of simplified drug approval procedures or an increase in regulatory requirements that Remedium has difficulty satisfying, could eliminate or substantially reduce the need for its services. These and other changes in regulation could have an impact on the business opportunities available to Remedium. As a result, Remedium's business, results of operations and financial condition could be materially and adversely affected.

*Proposed and future laws and regulations, including the confidentiality of patient information, might increase the cost of Remedium's business, increase its risks of liability or limit its service offerings.*

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

*Remedium's operating results have fluctuated between quarters and years and may continue to fluctuate in the future.*

Remedium's quarterly and annual operating results have varied, and will continue to vary as a result of a variety of factors, many of which are beyond Remedium's control. Factors that may cause these variations include: the commencement, completion or cancellation of large contracts; the progress of on-going projects; changes in the mix of services offered; Remedium's ability or inability to successfully negotiate contract amendments in a timely manner; and the timing and amount of start-up costs incurred in connection with the introduction of new products, services or subsidiaries.

A significant percentage of Remedium's operating costs are fixed. The timing of the completion, delay or loss of contracts, or the progress of client projects, can cause operating results to vary substantially between reporting periods. We believe that operating results for any particular quarter are not necessarily a meaningful indication of Remedium's future results. While fluctuations in Remedium's quarterly or annual operating results could negatively impact the market price of our common stock, these fluctuations may not be related to our future overall operating performance.

*Remedium's operations may be interrupted by the occurrence of a natural disaster or other catastrophic event.*

Remedium depends upon its clients' study sites and its facilities, as well as the ability to readily travel among these, for the continued operation of its business. It also depends upon the continuous, effective, reliable and secure operation of its computer hardware, software, networks, telecommunications networks, Internet servers