ERESEARCHTECHNOLOGY INC /DE/
Form 10-Q
November 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transitional period from _____ to _____

Commission file number: 0-29100

eResearchTechnology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	22-3264604
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1818 Market Street Philadelphia, PA	19103
(Address of principal executive offices)	(Zip code)

215-972-0420

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

The number of shares of Common Stock, $.01 par value, outstanding as of October 22, 2010, was 49,057,842.

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Part 1. Financial Information
Item 1. Financial Statements

eResearchTechnology, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(unaudited)

	December 31, 2009	September 30, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 68,979	$ 19,333
Short-term investments	9,782	50
Investment in marketable securities	1,026	648
Accounts receivable, less allowance for doubtful accounts of $548 and $785, respectively	16,579	37,225
Inventory		3,879
Prepaid income taxes	2,698	2,989
Prepaid expenses and other	3,308	5,516
Deferred income taxes	1,649	2,411
Total current assets	104,021	72,051
Property and equipment, net	24,205	41,809
Goodwill	34,676	71,613
Intangible assets	1,607	19,565
Other assets	352	513
Total assets	$ 164,861	$ 205,551
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 3,007	$ 3,874
Accrued expenses	5,990	13,499
Income taxes payable	346	
Deferred revenues	11,728	13,283
Total current liabilities	21,071	30,656
Deferred rent	2,357	2,220
Deferred income taxes	2,502	2,098
Long-term debt		21,000
Other liabilities	1,259	2,220
Total liabilities	27,189	58,194
Commitments and contingencies		

Stockholders Equity:		
Preferred stock $10.00 par value, 500,000 shares authorized, none issued and outstanding		
Common stock $.01 par value, 175,000,000 shares authorized, 60,189,235 and 60,453,270 shares issued, respectively	602	604
Additional paid-in capital	97,367	99,723
Accumulated other comprehensive loss	(1,580)	(4)
Retained earnings	121,166	126,917
Treasury stock, 11,589,603 shares at cost	(79,883)	(79,883)
Total stockholders equity	137,672	147,357
Total liabilities and stockholders equity	$ 164,861	$ 205,551

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2010	2009	2010
Net revenues:				
Services	$ 15,969	$ 25,929	$ 48,292	$ 59,461
Site support	6,757	19,199	19,895	36,631
EDC licenses and services			2,501	
Total net revenues	22,726	45,128	70,688	96,092
Costs of revenues:				
Cost of services	7,577	13,526	22,941	29,162
Cost of site support	3,418	11,505	10,523	19,261
Cost of EDC licenses and services			863	
Total costs of revenues	10,995	25,031	34,327	48,423
Gross margin	11,731	20,097	36,361	47,669
Operating expenses:				
Selling and marketing	3,056	4,478	9,756	11,827
General and administrative	2,977	7,780	10,581	22,278
Research and development	989	1,250	3,131	3,177
Total operating expenses	7,022	13,508	23,468	37,282
Operating income	4,709	6,589	12,893	10,387
Foreign exchange losses	(173)	(1,745)	(543)	(1,267)
Other income (expense), net	91	(199)	168	(181)
Income before income taxes	4,627	4,645	12,518	8,939
Income tax provision	1,808	1,472	5,081	3,188
Net income	$ 2,819	$ 3,173	$ 7,437	$ 5,751
Net income per share:				
Basic	$ 0.06	$ 0.06	$ 0.15	$ 0.12
Diluted	$ 0.06	$ 0.06	$ 0.15	$ 0.12

Shares used in computing net income per share:				
Basic	48,452	48,860	49,399	48,789
Diluted	48,755	49,258	49,698	49,162

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Nine Months Ended September 30	
	2009	2010
Operating activities:		
Net income	$ 7,437	$ 5,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of EDC operations	(530)	
Depreciation and amortization	9,694	12,753
Cost of sales of equipment	93	767
Provision for uncollectible accounts	210	
Share-based compensation	2,145	2,048
Deferred income taxes	347	(1,043)
Changes in operating assets and liabilities:		
Accounts receivable	12,516	(6,429)
Inventory		(984)
Prepaid expenses and other	(1,269)	(640)
Accounts payable	(69)	1,622
Accrued expenses	(3,728)	5,145
Income taxes	(2,955)	(1,125)
Deferred revenues	588	1,153
Deferred rent	211	(225)
Net cash provided by operating activities	24,690	18,793
Investing activities:		
Purchases of property and equipment	(3,567)	(15,987)
Purchases of investments		(999)
Proceeds from sales of investments		10,731
Payment related to sale of EDC operations	(1,150)	
Payments for acquisitions	(655)	(82,789)
Net cash used in investing activities	(5,372)	(89,044)
Financing activities:		
Proceeds from long-term debt		23,000
Repayment of long-term debt		(2,000)
Repayment of capital lease obligations	(43)	
Proceeds from exercise of stock options	372	215
Stock option income tax benefit	134	29
Repurchase of common stock for treasury	(15,120)	
Net cash (used in) provided by financing activities	(14,657)	21,244

Effect of exchange rate changes on cash		1,030		(639)
Net increase (decrease) in cash and cash equivalents		5,691		(49,646)
Cash and cash equivalents, beginning of period		66,376		68,979
Cash and cash equivalents, end of period	$	72,067	$	19,333

The accompanying notes are an integral part of these statements.

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eResearchTechnology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of eResearchTechnology, Inc. (the Company, ERT or we) and its wholly-owned subsidiaries, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. Further information on potential factors that could affect our financial results can be found in our Report on Form 10-K for the year ended December 31, 2009 and in our Report on Form 10-Q for the quarter ended June 30, 2010, in each case as filed with the Securities and Exchange Commission (SEC). Subsequent events have been evaluated for disclosure and recognition.

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Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ERT and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. We consider our business to consist of one segment which is providing technology and service solutions to collect, interpret and distribute diagnostic data principally used by the pharmaceutical industry as part of clinical drug trials.

Use of Estimates

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

Revenue Recognition

Our services revenues consist primarily of our services offered under our Cardiac Safety, Respiratory Services and, to a lesser extent, our electronic patient reported outcomes (ePRO) solutions that we provide on a fee for services basis and are recognized as the services are performed. We also provide Cardiac Safety consulting services on a time and materials basis and recognize revenues as we perform the services. Our site support revenue, consisting of equipment rentals and sales along with related supplies and logistics management, are recognized at the time of sale or over the rental period.

At the time of each transaction, management assesses whether the fee associated with the transaction is fixed or determinable and whether or not collection is reasonably assured. The assessment of whether the fee is fixed or determinable is based upon the payment terms of the transaction. If a significant portion of a fee is due after our normal payment terms or upon implementation or client acceptance, the fee is accounted for as not being fixed or determinable and revenue is recognized as the fees become due or after implementation or client acceptance has occurred.

Collectability is assessed based on a number of factors, including past transaction history with the client and the creditworthiness of the client. If it is determined that collection of a fee is not reasonably assured, the fee is deferred and revenue is recognized at the time collection becomes reasonably assured, which is generally upon receipt of cash.

Under a typical contract for services, clients pay us a portion of our fee for these services upon contract execution as an upfront deposit, some of which is typically nonrefundable upon contract termination. Revenues are then recognized under service contracts as the services are performed.

For arrangements with multiple deliverables where the fair value of each element is known, the revenue is allocated to each component based on the relative fair value of each element. For arrangements with multiple deliverables where the fair value of one or more delivered elements is not known, revenue is allocated to each component of the

arrangement using the residual method provided that the fair value of all undelivered elements is known. Fair values for undelivered elements are based primarily upon stated renewal rates for future products or services.

We have recorded reimbursements received for out-of-pocket expenses incurred as revenue in the accompanying consolidated statements of operations.

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Unbilled revenue is revenue that is recognized but is not currently billable to the customer pursuant to contractual terms. In general, such amounts become billable in accordance with predetermined payment schedules, but recognized as revenue as services are performed. Amounts included in unbilled revenue are expected to be collected within one year and are included within current assets.

Our former electronic data capture (EDC) operations are included in EDC licenses and services revenue and include license revenue, technology consulting and training services and software maintenance services. We recognized up-front license fee revenues under the residual method when a formal agreement existed, delivery of the software and related documentation occurred, collectability was probable and the license fee was fixed or determinable. We recognized monthly and annual term license fee revenues over the term of the arrangement. Hosting service fees were recognized evenly over the term of the service. We recognized revenues from software maintenance contracts on a straight-line basis over the term of the maintenance contract, which was typically twelve months. We provided consulting and training services on a time and materials basis and recognized revenues as we performed the services.

Business Combinations

On May 28, 2010, we acquired Research Services Germany 234 GmbH (Research Services or RS), which was formed as a result of a demerger of CareFusion Germany 234 GmbH under German law, which effectively divided CareFusion Germany 234 GmbH into RS and another entity. RS is comprised of the research services division of CareFusion Germany 234 GmbH and certain research operations of CareFusion Corporation (CareFusion). RS is a leading provider of respiratory diagnostics services and a manufacturer of diagnostic devices and also offers cardiac safety and ePRO services. We paid $82.6 million for RS. The acquisition and related transaction costs was financed from our existing cash and a portion of the $23.0 million drawn from our new $40.0 million revolving credit facility through Citizens Bank of Pennsylvania. The credit facility was established on May 27, 2010. See Note 4 for additional disclosure on the RS acquisition and Note 7 for additional disclosure regarding the revolving credit facility.

We allocated the purchase price to the tangible and intangible assets we acquired and liabilities we assumed based on their estimated fair values. This valuation requires management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, customer relationships, proprietary technology and discount rates. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Other estimates associated with the accounting for this acquisition may change as additional information becomes available regarding the assets we acquired and liabilities we assumed and are subject to final working capital adjustments.

For a discussion of how we allocated the purchase price of RS, see Note 4.

Concentration of Credit Risk and Significant Clients

Our business depends entirely on the clinical trials that pharmaceutical, biotechnology and medical device companies conduct. Our revenues and profitability will decline if there is less competition in the pharmaceutical, biotechnology or medical device industries, which could result in fewer products under development and decreased pressure to accelerate a product approval. Our revenues and profitability will also decline if the FDA or similar agencies in foreign countries modify their requirements in a manner that decreases the need for our solutions.

Financial instruments that potentially subject us to concentration of credit risk consist primarily of trade accounts receivable from companies operating in the pharmaceutical, biotechnology and medical device industries. For the nine months ended September 30, 2009 and 2010, one client accounted for approximately 17% and 24% of net revenues, respectively. The loss of this client could have a material adverse effect on our operations. We maintain reserves for potential credit losses. Such losses, in the aggregate, have not historically exceeded management s estimates.

Cash and Cash Equivalents

We consider cash on deposit and in overnight investments and investments in money market funds with financial institutions to be cash equivalents. At the balance sheet dates, cash equivalents consisted primarily of investments in money market funds. At December 31, 2009 and September 30, 2010, approximately $13.1 million and $5.6 million, respectively, was held by our UK subsidiary. At September 30, 2010, approximately $6.6 million was held by our

German subsidiary.

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Short-term Investments and Investments in Marketable Securities

At September 30, 2010, short-term investments consisted of an auction rate security issued by a municipality while marketable securities consisted of common stock received from the buyer of certain assets of our EDC operations. Available-for-sale securities are carried at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of stockholders equity. We classified our short-term investments and investment in marketable securities at December 31, 2009 and September 30, 2010 as available-for-sale. At December 31, 2009 and September 30, 2010, unrealized gains and losses were immaterial. Realized gains and losses during the nine months ended September 30, 2009 and 2010 were immaterial. For purposes of determining realized gains and losses, the cost of the securities sold is based upon specific identification.

The following summarizes the short-term investments at December 31, 2009 and September 30, 2010 (in thousands):

	December 31, 2009			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 6,764	$	$ (2)	$ 6,762
Corporate debt securities	1,769	1		1,770
Bonds of government sponsored agencies	1,250			1,250
Total short-term investments as of December 31, 2009	$ 9,783	$ 1	$ (2)	$ 9,782

	September 30, 2010			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 50	$	$	$ 50
Total short-term investments as of September 30, 2010	$ 50	$	$	$ 50

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of three years for computer and other equipment, two to four years for rental equipment, five years for furniture and fixtures and three to five years for system development costs. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Repair and maintenance costs are expensed as incurred. Improvements and betterments are capitalized. Depreciation expense was $2.1 million and $3.2 million for the three months ended September 30, 2009 and 2010, respectively, and $6.7 million and $6.8 million for the nine months ended September 30, 2009 and 2010, respectively.

We capitalize costs associated with internally developed and/or purchased software systems for new products and enhancements to existing products that have reached the application development stage and meet recoverability tests. These costs are included in property and equipment. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, and payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project.

Amortization of capitalized software development costs is charged to costs of revenues. Amortization of capitalized software development costs was $0.8 million and $0.9 million for the three months ended September 30, 2009 and

2010, respectively, and $2.5 million and $2.7 million for the nine months ended September 30, 2009 and 2010, respectively. For the nine-month periods ended September 30, 2009 and 2010, we capitalized $1.9 million and $4.3 million, respectively, of software development costs. As of September 30, 2010, $6.2 million of capitalized costs had not yet been placed in service and were therefore not being amortized.

The largest component of property and equipment is rental equipment which is internally manufactured and also purchased from third parties. Our clients use the rental equipment to perform the ECG, respiratory and ePRO tests and collect and send the related data to us. Our clients use the respiratory diagnostic equipment to perform the centralized spirometry and pulmonary function recordings, and it also provides the means to send such recordings to us. We provide this equipment to clients primarily through rentals via cancellable agreements and, in some cases, through non-recourse equipment sales. The equipment rentals and sales are included in our services agreements with our clients and the decision to rent or buy equipment is made by our clients prior to the start of the study. The decision to buy rather than rent is usually predicated upon the economics to the client based upon the length of the study and the number of diagnostic tests to be performed each month. The longer the study and the fewer the number of tests performed, the more likely it is that the client may request to purchase equipment rather than rent. Regardless of whether the client rents or buys the equipment, we consider the resulting cash flow to be part of our operations and reflect it as such in our consolidated statements of cash flows.

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Our services agreements contain multiple elements. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting. In doing so, we consider factors such as whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes and, if so, how the contract value should be allocated among the deliverable elements and when to recognize revenue for each element. We recognize revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding client acceptance are resolved and there are no client-negotiated refund or return rights affecting the revenue recognized for delivered elements.

The gross cost for rental equipment was $37.3 million and $55.3 million at December 31, 2009 and September 30, 2010, respectively. The accumulated depreciation for rental equipment was $30.9 and $34.3 million at December 31, 2009 and September 30, 2010, respectively. At December 31, 2009, rental equipment consisted solely of cardiac safety equipment, whereas at September 30, 2010, rental equipment included cardiac safety, respiratory and ePRO equipment.

Goodwill

The carrying value of goodwill was $34.7 million as of December 31, 2009 and $71.6 million as of September 30, 2010. During the first nine months of 2010, goodwill increased $36.8 million due to the acquisition of RS. See Note 4 for additional disclosure regarding the RS and Covance Cardiac Safety Services (CCSS) acquisitions. Goodwill is not amortized but is subject to an impairment test at least annually. We perform the impairment test annually as of December 31 or more frequently if events or circumstances indicate that the value of goodwill might be impaired. No provisions for goodwill impairment were recorded during 2009 or during the nine months ended September 30, 2010.

When it is determined that the carrying value of goodwill may not be recoverable, measurement of any impairment will be based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in the current business model.

Long-lived Assets

When events or circumstances so indicate, we assess the potential impairment of our long-lived assets based on anticipated undiscounted cash flows from the assets. Such events and circumstances include a sale of all or a significant part of the operations associated with the long-lived asset, or a significant decline in the operating performance of the asset. If an impairment is indicated, the amount of the impairment charge would be calculated by comparing the anticipated discounted future cash flows to the carrying value of the long-lived asset. No impairment was indicated during either of the nine-month periods ended September 30, 2009 or 2010.

Software Development Costs

Research and development expenditures related to software development are charged to operations as incurred. We capitalize certain software development costs subsequent to the establishment of technological feasibility. Because software development costs have not been significant after the establishment of technological feasibility, all such costs have been charged to expense as incurred.

Share-Based Compensation

Accounting for Share-Based Compensation

Share-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. The aggregate share-based compensation expense recorded in the consolidated statements of operations for each of the three month periods ended September 30, 2009 and 2010 was $0.6 million. The aggregate share-based compensation expense recorded in the consolidated statements of operations for each of the nine-month periods ended September 30, 2009 and 2010 was $2.1 million.

Valuation Assumptions for Options Granted

The fair value of each stock option granted during the nine months ended September 30, 2009 and 2010 was estimated at the date of grant using Black-Scholes, assuming no dividends and using the weighted-average valuation assumptions noted in the following table.

	2009	2010
Risk-free interest rate	1.34%	2.44%
Expected life	3.5 years	3.8 years

Expected volatility	63.98%	61.73%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of the stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility for a period equal to the stock option s expected life, calculated on a daily basis. Fluctuations in the market that affect these estimates could have an impact on the resulting compensation cost. The above assumptions were used to determine the weighted-average per share fair value of $2.14 and $3.24 for stock options granted during the first nine months of 2009 and 2010, respectively.

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Equity Incentive Plans

In 1996, we adopted a stock option plan (the 1996 Plan) that authorized the grant of both incentive and non-qualified options to acquire up to 9,450,000 shares of the Company s common stock, as subsequently amended. Our Board of Directors determined the exercise price of the options under the 1996 Plan. The exercise price of incentive stock options was not below the market value of the common stock on the grant date. Incentive stock options under the 1996 Plan expire ten years from the grant date and are exercisable in accordance with vesting provisions set by the Board, which generally are over three to five years. No additional options have been granted under this plan, as amended, since December 31, 2003 and no additional options may be granted thereunder in accordance with the terms of the 1996 Plan.

In May 2003, the stockholders approved a new stock option plan (the 2003 Plan) that authorized the grant of both incentive and non-qualified options to acquire shares of our common stock and provided for an annual option grant of 10,000 shares to each outside director. The Compensation Committee of our Board of Directors determines or makes recommendations to our Board of Directors regarding the recipients of option grants, the exercise price and other terms of the options under the 2003 Plan. The exercise price of incentive stock options may not be set below the market value of the common stock on the grant date. Incentive stock options under the 2003 Plan expire ten years from the grant date, or at the end of such shorter period as may be designated by the Compensation Committee, and are exercisable in accordance with vesting provisions set by the Compensation Committee, which generally are over four years.

On April 26, 2007, the stockholders approved the adoption of the Company s Amended and Restated 2003 Equity Incentive Plan (the Amended 2003 Plan) which included prohibition on repricing of any stock options granted under the Plan unless the stockholders approve such repricing and permitted awards of stock appreciation rights, restricted stock, long term performance awards and performance shares in addition to grants of stock options. On April 29, 2009 the Board of Directors approved a revised amendment to the Amended 2003 Plan that provides for the inclusion of restricted stock units in addition to the other equity-based awards authorized thereunder and eliminated the fixed option grants to outside directors. Restricted stock was granted for the first time in 2010 and is being recorded as compensation expense over the one-year vesting period or the four-year vesting period for grants to the Company s directors and management, respectively. In accordance with the terms of the Amended 2003 Plan, there are a total of 7,318,625 shares reserved for issuance under the Amended 2003 Plan and there were 1,254,321 shares available for grant as of September 30, 2010.

Information regarding the stock option and equity incentive plans for the nine months ended September 30, 2010 is as follows:

Share Options	**Shares**	**Weighted Average Exercise Price**	**Remaining Contractual Term (in years)**	**Intrinsic Value (in thousands)**
Outstanding as of January 1, 2010	4,406,606	$ 9.62		
Granted	877,930	6.46		
Exercised	(60,256)	3.58		
Cancelled/forfeited	(60,087)	8.41		
Outstanding as of September 30, 2010	5,164,193	$ 9.17	4.5	$ 5,867
Options exercisable or expected to vest at September 30, 2010	4,705,272	$ 9.38	4.3	$ 5,354

Options exercisable at September 30, 2010	3,107,125	$	10.80	3.6	$ 2,659

Restricted Stock	**Shares**	**Weighted Average Grant Date Fair Value**
Outstanding as of January 1, 2010		$
Granted	203,779	6.22
Exercised		
Cancelled/forfeited		
Outstanding as of September 30, 2010	203,779	$ 6.22

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The aggregate intrinsic value in the share options table above represents the total pre-tax intrinsic value (the difference between the closing price of our common stock on the last trading day of the third quarter of 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2010. This amount changes based on the fair market value of the Company s common stock. The total intrinsic value of options exercised for the nine months ended September 30, 2009 and 2010 was $0.3 million and $0.2 million, respectively.

As of September 30, 2010, 3,107,125 options with a weighted average exercise price of $10.80 per share were exercisable under the 1996 Plan and the 2003 Plan.

As of September 30, 2010, there was $5.3 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including stock options and restricted stock awards) granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.4 years.

Tax Effect Related to Share-based Compensation Expense

Income tax effects of share-based payments are recognized in the consolidated financial statements for those awards that will normally result in tax deductions under existing tax law. Under current U.S. federal tax law, we receive a compensation expense deduction related to non-qualified stock options only when those options are exercised. Accordingly, the consolidated financial statement recognition of compensation cost for non-qualified stock options creates a deductible temporary difference which results in a deferred tax asset and a corresponding deferred tax benefit in the consolidated statements of operations. We do not recognize a tax benefit for compensation expense related to incentive stock options (ISOs) unless the underlying shares are disposed of in a disqualifying disposition. Accordingly, compensation expense related to ISOs is treated as a permanent difference for income tax purposes. The tax benefit recognized in our consolidated statements of operations for the nine months ended September 30, 2009 and 2010 related to stock-based compensation expense was approximately $0.4 million and $0.3 million, respectively.

Note 3. Fair Value of Financial Instruments

A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Fair value is based upon an exit price model.

We measure certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale securities. Available-for-sale securities as of September 30, 2010 consisted of an auction rate security, or ARS, issued by a municipality and common stock received from the buyer of certain assets of our EDC operations. Available-for-sale securities are included in short-term investments in our consolidated balance sheets with the exception of the common stock which is included in investment in marketable securities. The marketable securities, which were priced at a discount due to a restriction on trading that was in effect until June 23, 2010, are included in investments in marketable securities in our consolidated balance sheets. The discount on the marketable securities was valued using an option pricing model and takes into consideration multiple inputs including quoted prices of the securities, volatility factors and discount rates. The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or Inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

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The following tables represent our fair value hierarchy for financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of December 31, 2009 and September 30, 2010 (in thousands):

	Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 68,979	$ 68,979	$	$
Municipal securities	6,762	6,712		50
Corporate debt securities	1,770	1,770		
Bonds of government sponsored agencies	1,250	1,250		
Marketable securities	1,026		1,026	
Total	$ 79,787	$ 78,711	$ 1,026	$ 50

	Fair Value Measurements at September 30, 2010			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 19,333	$ 19,333	$	$
Municipal securities	50			50
Marketable securities	648		648	
Total	$ 20,031	$ 19,333	$ 648	$ 50

Cash and cash equivalents consist primarily of checking accounts and highly rated money market funds with original maturities of three months or less. The original cost of these assets approximates fair value due to their short term maturity. Bank debt consists of loans drawn under our bank credit facility. Based on our assessment of the current financial market and corresponding risks associated with the debt, we believe that the carrying amount of bank debt at September 30, 2010 approximates fair value.

Note 4. Business Combinations

Research Services (RS)

On May 28, 2010, we acquired RS. See Note 2 for a summary of the terms of this acquisition. We have included RS s operating results in our consolidated statements of operations from the date of the acquisition. We present pro forma results of operations for RS because the effect of this acquisition was material to ERT on a standalone basis. We paid $82.6 million for RS after giving effect to closing balance sheet working capital adjustments of $1.9 million. We have additionally incurred approximately $0.1 million and $4.1 million in the three and nine months ended September 30, 2010, respectively, in transaction costs which were included in general and administrative expenses. Our actual consolidated financial results for the nine months ended September 30, 2010 included RS revenue of $27.2 million, operating income of $3.6 million and net income of $1.9 million. The tax bases of the assets acquired and liabilities assumed in the RS transaction were stepped-up to fair value at the date of the RS acquisition.

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The RS acquisition purchase consideration of $82.6 million has been allocated to assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, as revised, as follows (in thousands):

Fair value of assets acquired:	
Cash	$ 149
Accounts receivable	12,687
Inventory	2,598
Other current assets	1,142
Property and equipment, net	11,179
Goodwill, including workforce	36,756
Other intangible assets, net	21,349
Other assets	407
Liabilities assumed:	
Accrued and other liabilities	(3,257)
Deferred revenue	(375)
Net assets acquired	$ 82,635

During the three months ended September 30, 2010, goodwill decreased $0.4 million due to valuation adjustments to intangible assets and deferred revenue. During the three months ended September 30, 2010, there was a $0.6 million reduction in the completion payment to CareFusion as a result of changes in estimates related to accounts receivable and prepaid expenses. $2.5 million was accrued for the completion payment at June 30, 2010 and $1.9 million was actually paid during the three months ended September 30, 2010 after the $0.6 million reduction.

Pro Forma Results

The unaudited financial information in the table below summarizes the combined results of operations for us and RS on a pro forma basis as though the companies had been combined as of the beginning of each of the periods presented after giving effect to certain adjustments. Our historical results of operations for the three and nine months ended September 30, 2010, included the results of RS since May 28, 2010, the date of acquisition. The unaudited pro forma financial information for the three and nine months ended September 30, 2009 and the nine months ended September 30, 2010 combines our historical results for these periods with the historical results for the comparable reporting periods for RS. The unaudited pro forma financial information below is for informational purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the acquisition would have taken place at the beginning of each of the periods presented and should not be taken as indicative of our future consolidated results of operations or financial condition. Acquisition-related transaction costs of $4.1 million were excluded from the pro forma results for the nine months ended September 30, 2010. Pro forma adjustments are tax-effected at our effective tax rate.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2010
	(Unaudited, in thousands except per share amounts)		
Revenue	$ 35,799	$ 103,951	$ 124,432
Operating income	3,151	11,597	16,153
Net income	1,601	5,945	9,807

Basic net income per share	$ 0.03	$ 0.12	$ 0.20
Diluted net income per share	$ 0.03	$ 0.12	$ 0.20

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Covance Cardiac Safety Services, Inc. (CCSS)

On November 28, 2007, we completed the acquisition of CCSS from Covance Inc. (Covance). Under the terms of the Purchase Agreement, we purchased all of the outstanding shares of capital stock of CCSS in consideration of an upfront cash payment of $35.2 million plus additional cash payments of up to approximately $14.0 million. We fully integrated the operations of CCSS into our existing operations in the quarter ended September 30, 2008. We did so by merging CCSS s Reno, Nevada based operations into our existing operations and closing the operations in Reno. The following table sets forth the activity and balance of our accrued liability relating to lease costs associated with the closing of CCSS operations, which is included in Accrued expenses and Other liabilities on our Consolidated Balance Sheets (in thousands):

	Lease Liability
Balance at December 31, 2009	$ 1,758
Adjustments to previous estimates	593
Cash payments	(369)
Balance at September 30, 2010	$ 1,982

Based on the continued poor commercial rental market in Reno, we determined to increase our reserve as of June 30, 2010 by $0.6 million to provide for any estimated costs for the remaining lease term.

Note 5. Inventory

Inventory consisted of the following:

	September 30, 2010 (Unaudited, in thousands)
Raw materials	$ 1,575
Work in process	756
Finished goods	1,548
Inventory	$ 3,879

Note 6. Intangible Assets

Amortization of intangible assets represents the amortization of the intangible assets from the RS and CCSS acquisitions. The gross and net carrying amounts of the acquired intangible assets as of December 31, 2009 (CCSS only) and September 30, 2010 were as follows (in thousands):

RS

	September 30, 2010			
Description	Gross Value	Accumulated Amortization	Net Book Value	Estimated Useful Life (in years)
Backlog	$ 12,782	$ 2,678	$ 10,104*	4
Technology	8,248	344	7,904	8
Covenants not-to-compete	319	28	291	4

Total	$ 21,349	$ 3,050	$ 18,299

* The backlog is being amortized over four years on an accelerated basis.

The related amortization expense reflected in our consolidated statements of operations for the three and nine months ended September 30, 2010 was $2.4 million and $3.1 million, respectively.

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Estimated amortization expense for the remaining estimated useful life of the acquired intangible assets is as follows for the years ending December 31 (the 2010 amount represents the amortization expense to be recognized over the last three months of the year) (in thousands):

Years ending December 31,	Amortization of Intangible Assets
2010	$ 2,288
2011	6,735
2012	3,238
2013	1,451
2014	1,064
Thereafter	3,523
Total	$ 18,299

CCSS

	December 31, 2009			
Description	Gross Value	Accumulated Amortization	Net Book Value	Estimated Useful Life (in years)
Backlog	$ 1,900	$ 1,643	$ 257*	3
Customer Relationships	1,700	350	$ 1,350	10
Technology	400	400	$	1
Total	$ 4,000	$ 2,393	$ 1,607	

	September 30, 2010			
Description	Gross Value	Accumulated Amortization	Net Book Value	Estimated Useful Life (in years)
Backlog	$ 1,900	$ 1,858	$ 42*	3
Customer Relationships	1,700	476	$ 1,224	10
Technology	400	400	$	1
Total	$ 4,000	$ 2,734	$ 1,266	

* The backlog is being amortized over three years on an

accelerated basis.

Backlog is being amortized over three years on an accelerated basis. Customer relationships are being amortized over ten years using the straight-line method and technology was amortized over one year using the straight-line method. The related amortization expense reflected in our consolidated statements of operations for the three and nine months ended September 30, 2009 was $0.1 million and $0.4 million, respectively. The related amortization expense reflected in our consolidated statements of operations for the three and nine months ended September 30, 2010 was $0.1 million and $0.3 million, respectively.

Estimated amortization expense for the remaining estimated useful life of the acquired intangible assets is as follows for the years ending December 31 (the 2010 amount represents the amortization expense to be recognized over the last three months of the year (in thousands)):

Years ending December 31,	Amortization of Intangible Assets
2010	$ 90
2011	170
2012	170
2013	170
2014	170
Thereafter	496
Total	$ 1,266

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Note 7. Credit Agreement

On May 27, 2010, we entered into a credit agreement (Credit Agreement) with Citizens Bank of Pennsylvania (Lender) which provides for a $40 million revolving credit facility. Also on May 27, 2010, we borrowed $23.0 million under the Credit Agreement to finance a portion of the purchase price for RS and related transaction costs and to provide working capital. At our option, borrowings under the Credit Agreement bear interest either at the Lender s prime rate or at a rate equal to LIBOR plus a margin ranging from 1.00% to 1.75% based on our senior leverage ratio as calculated under the Credit Agreement. In addition, we pay a quarterly unused commitment fee ranging from 0.10% to 0.20% of the unused commitment based on our senior leverage ratio. From the initial borrowing on May 27, 2010 through September 30, 2010, the annual interest rate ranged from 1.35% to 1.60% and the unused commitment fee was 0.10% resulting in a payment of $0.1 million for the three and nine months ended September 30, 2010. Borrowings under the Credit Agreement may be prepaid at any time in whole or in part without premium or penalty, other than customary breakage costs, if any. In the three months ended September 30, 2010, we repaid $2.0 million which reduced the balance outstanding to $21.0 million at September 30, 2010. The Credit Agreement terminates, and any outstanding borrowings mature, on May 27, 2013.

The Credit Agreement requires us to maintain a maximum senior leverage ratio of 2.0 to 1.0 and a minimum debt service coverage ratio of 1.5 to 1.0, in each case as calculated under the Credit Agreement. The Credit Agreement contains other customary affirmative and negative covenants and customary events of default.

At September 30, 2010, we were in compliance with all debt covenants. Borrowings under the line of credit are secured by 65% of the capital stock of certain of our foreign subsidiaries.

Note 8. Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options. The dilutive effect of stock options is calculated using the treasury stock method.

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The tables below set forth the reconciliation of the numerators and denominators of the basic and diluted net income per share computations (in thousands, except per share amounts):

Three Months Ended September 30,	Net Income	Shares	Per Share Amount
2009			
Basic net income	$ 2,819	48,452	$ 0.06
Effect of dilutive shares		303	
Diluted net income	$ 2,819	48,755	$ 0.06
2010			
Basic net income	$ 3,173	48,860	$ 0.06
Effect of dilutive shares		398	
Diluted net income	$ 3,173	49,258	$ 0.06

Nine Months Ended September 30,	Net Income	Shares	Per Share Amount
2009			
Basic net income	$ 7,437	49,399	$ 0.15
Effect of dilutive shares		299	
Diluted net income	$ 7,437	49,698	$ 0.15
2010			
Basic net income	$ 5,751	48,789	$ 0.12
Effect of dilutive shares		373	
Diluted net income	$ 5,751	49,162	$ 0.12

In computing diluted net income per share, options to purchase 2,926,000 and 2,609,000 shares of common stock were excluded from the computations for the three months ended September 30, 2009 and 2010, respectively, and options to purchase 3,032,000 and 2,731,000 shares of common stock were excluded from the computations for the nine months ended September 30, 2009 and 2010, respectively. These options were excluded from the computations because the exercise prices of such options were greater than the average market price of our common stock during the respective period.

Note 9. Comprehensive Income

Companies are required to classify items of other comprehensive income by their nature in the financial statements and display the accumulated balance of other comprehensive income (loss) separately from retained earnings and additional paid-in-capital in the stockholders equity section of the balance sheet. Our comprehensive income (loss) includes net income and unrealized gains and losses from marketable securities and foreign currency translation as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2010	2009	2010
Net income	$ 2,819	$ 3,173	$ 7,437	$ 5,751
Other comprehensive income (loss):				
Change in unrealized losses on marketable securities	(27)	(211)	(246)	(246)
Currency translation adjustment	(561)	4,206	1,285	1,822
Comprehensive income, net of tax	$ 2,231	$ 7,168	$ 8,476	$ 7,327

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Note 10. Recent Accounting Pronouncements

In September 2009, the FASB issued a new accounting standard regarding revenue arrangements with multiple deliverables. As codified in ASC 605-25 (formerly Emerging Issues Task Force Issue No. 08-1, Revenue Arrangements with Multiple Deliverables), this accounting standard sets forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. One of those current requirements is that there be objective and reliable evidence of the standalone selling price of the undelivered items, which must be supported by either vendor-specific objective evidence (VSOE) or third-party evidence (TPE).

This consensus eliminates the requirement that all undelivered elements have VSOE or TPE before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity s estimated selling price. Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted. The accounting standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are evaluating the potential impact of these requirements on our consolidated financial statements.

In January 2010, the FASB issued Accounting Standard Update 2010-06 which will require reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. Except for the detailed Level 3 roll forward disclosures, we adopted this standard effective January 1, 2010. The adoption of this aspect of the accounting standard did not have any impact on our consolidated financial statements. The new disclosures about purchases, sales, issuances, and settlements in the roll forward activity for Level 3 fair-value measurements are effective for interim and annual reporting periods beginning after December 15, 2010. We are evaluating the potential impact of these requirements on our consolidated financial statements.

Note 11. Income Taxes

At December 31, 2009 and September 30, 2010, we had $0.2 million of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. The tax years 2006 through 2009 remain open to examination by the major taxing jurisdictions to which we are subject.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

Our effective income tax rate was 39.1% and 31.7% for the three months ended September 30, 2009 and 2010, respectively, and 40.6% and 35.7% for the nine months ended September 30, 2009 and 2010, respectively. Through September 30, 2009, we calculated our transfer pricing for Cardiac Safety services using a profit split methodology based on cost. Subsequent to September 30, 2009, the profit split transfer pricing methodology was modified for Cardiac Safety services to allocate costs based on revenue instead of allocating revenue based on costs. Our effective income tax rates for the three and nine months ended September 30, 2010 were benefited by the lower tax rates applicable to the RS operations, which operates primarily in Germany which has a lower tax rate than our historic effective tax rate, and also from organizational restructuring activities undertaken in the third quarter of 2010 which resulted in a reduction in the effective tax rate.

Note 12. Related Party Transactions

Our Chairman, Dr. Morganroth, is a cardiologist who, through his wholly-owned professional corporation, provides medical professional services to the Company and receives consulting fees as an independent contractor. Additionally, beginning in January 2007, we entered into an arrangement with Dr. Morganroth s professional corporation, relating to

Dr. Morganroth s initiation of a consulting practice for us through the transition of his historic consulting services to us. In return, Dr. Morganroth s professional corporation receives a percentage fee of 80% of the net amounts we bill for Dr. Morganroth s services to our customers. Our Executive Vice President and Chief Medical Officer is responsible for assigning the consulting work to internal and external resources based upon the requirements of the engagement. Beginning in March 2010, we entered into a new arrangement with Dr. Morganroth s professional corporation which eliminated the consulting fees other than the percentage fees. We recorded revenues in connection with services billed to customers under this consulting arrangement of approximately $0.4 million in each of the three-month periods ended September 30, 2009 and 2010 and $1.0 million in each of the nine month periods ended September 30, 2009 and 2010. We incurred percentage fees under this consulting arrangement of approximately $0.3 million in each of the three-month periods ended September 30, 2009 and 2010, and $0.8 million in each of the nine-month periods ended September 30, 2009 and 2010. Total amounts payable incurred under this consulting arrangement, including consulting fees and the percentage fees, approximated $0.4 million and $0.3 million in the three months ended September 30, 2009 and 2010, respectively, and $1.1 million and $0.8 million in the nine months ended September 30, 2009 and 2010, respectively. At December 31, 2009 and September 30, 2010, we owed $0.1 million to the professional corporation in connection with this consulting agreement, which is included in accounts payable.

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Note 13. Commitments and Contingencies

We have a long-term strategic relationship with Healthcare Technology Systems, Inc. (HTS), a leading authority in the research, development and validation of computer administered clinical rating instruments. The strategic relationship includes the exclusive licensing (subject to one pre-existing license agreement) of 57 Interactive Voice Response (IVR) clinical assessments offered by HTS along with HTS s IVR system. We placed the system into production in December 2007. As of September 30, 2010, we had paid HTS $1.5 million for the license and $1.0 million in advanced payments against future royalties. As of September 30, 2010, HTS had earned royalties of $0.2 million, which were offset against these advanced payments. Royalty payments will be made to HTS based on the level of revenues received from the assessments and the IVR system. Any royalties earned by HTS will be applied against these payments. All future payments to HTS will be solely based on royalty payments based on revenues received from ePRO sales.

On November 28, 2007, we completed the acquisition of CCSS. Under the terms of the purchase agreement, we purchased all of the outstanding shares of capital stock of CCSS in consideration of an upfront cash payment of $35.2 million plus additional cash payments of up to approximately $14.0 million, based upon our potential realization of revenue from the backlog transferred and from new contracts secured through Covance s marketing activities. Through September 30, 2010, Covance earned $5.3 million of this contingent amount with less than $0.1 million earned during the three months ended September 30, 2010. At September 30, 2010, $0.1 million of the contingent amount earned remained to be paid to Covance, which we recorded in accounts payable. These contingent payments increased goodwill by $5.3 million. The period for contingent payments runs through December 31, 2010. The acquisition included a marketing agreement under which Covance is obligated to use us as its provider of centralized cardiac safety solutions, and to offer these solutions to Covance s clients, on an exclusive basis, for a 10-year period, subject to certain exceptions. We expense payments to Covance based upon a portion of the revenues we receive during each calendar year of the 10-year term that are based primarily on referrals made by Covance under the agreement. The agreement does not restrict our continuing collaboration with our other key CRO, Phase I units, Academic Research Centers and other strategic partners.

On September 10, 2010, we announced that Michael McKelvey will be retiring from his positions as President and Chief Executive Officer and a director of ERT. The Company s Board of Directors has begun a search for a successor. Dr. McKelvey will continue in his current position until a successor is appointed or earlier, based on mutual agreement of Dr. McKelvey and the Board. In recognition of his service to ERT, the Board agreed that Dr. McKelvey would be entitled to retirement benefits equal to the severance benefits to which he would have been entitled under his employment agreement had the Company terminated his employment without cause. As a result, we have recorded approximately $0.6 million of incremental expense in the three months ended September 30, 2010, to fully record the estimated cost of these retirement benefits.

Note 14. Operating Segments / Geographic Information

We consider our business to consist of one segment which is providing technology and service solutions to collect, interpret and distribute diagnostic data principally used by the pharmaceutical industry as part of clinical drug trials. We operate on a worldwide basis with two primary locations in the United States, categorized below as North America, and one primary location each in the United Kingdom and Germany. The majority of our revenues are allocated among our geographic segments based upon the profit split transfer pricing methodology, and revenues are generally allocated to the geographic segment where the work is performed.

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Geographic information is as follows (in thousands of dollars):

	Three Months Ended September 30, 2009				
	North America	UK	Germany	Eliminations	Total
Service revenues	$ 13,505	$ 2,464	$	$	$ 15,969
Site support revenues	4,803	1,954			6,757
Net revenues from external customers	$ 18,308	$ 4,418	$	$	$ 22,726
Operating income	$ 4,003	$ 706	$	$	$ 4,709
Long-lived assets	$ 20,717	$ 3,049	$	$	$ 23,766
Total assets	$ 139,894	$ 20,301	$	$	$ 160,195

	Three Months Ended September 30, 2010				
	North America	UK	Germany	Eliminations	Total
Service revenues	$ 11,037	$ 5,553	$ 9,339	$	$ 25,929
Site support revenues	4,606	2,445	12,148		19,199
Net revenues from external customers	15,643	7,998	21,487		45,128
Intersegment revenues	1,100	39		(1,139)	
Total revenues	$ 16,743	$ 8,037	$ 21,487	$ (1,139)	$ 45,128
Operating income (A)	$ 1,702	$ 1,835	$ 3,052	$	$ 6,589
Long-lived assets	$ 22,762	$ 6,017	$ 13,030	$	$ 41,809
Total assets	$ 94,223	$ 15,290	$ 96,038	$	$ 205,551

	Nine Months Ended September 30, 2009				
	North America	UK	Germany	Eliminations	Total
Service revenues	$ 41,109	$ 7,183	$	$	$ 48,292
Site support revenues	14,175	5,720			19,895
EDC licenses and services revenues	2,501				2,501
Net revenues from external customers	$ 57,785	$ 12,903	$	$	$ 70,688
Operating income	$ 11,185	$ 1,708	$	$	$ 12,893
Long-lived assets	$ 20,717	$ 3,049	$	$	$ 23,766
Total assets	$ 139,894	$ 20,301	$	$	$ 160,195

	Nine Months Ended September 30, 2010				
	North America	UK	Germany	Eliminations	Total

Service revenues	$ 31,820	$ 15,728	$ 11,913	$	$ 59,461
Site support revenues	14,328	7,036	15,267		36,631
Net revenues from external customers	46,148	22,764	27,180		96,092
Intersegment revenues	1,424	39		(1,463)	
Total revenues	$ 47,572	$ 22,803	$ 27,180	$ (1,463)	$ 96,092
Operating income (A)	$ 8	$ 6,764	$ 3,615	$	$ 10,387
Long-lived assets	$ 22,762	$ 6,017	$ 13,030	$	$ 41,809
Total assets	$ 94,223	$ 15,290	$ 96,038	$	$ 205,551

(A) North American and German operating income for the three and nine months ended September 30, 2010 included the negative impact of $0.1 million and $4.1 million, respectively, of transaction costs associated with the RS acquisition.

Through September 30, 2009, we calculated our transfer pricing for Cardiac Safety services using a profit split methodology based on cost. Subsequent to September 30, 2009, the profit split transfer pricing methodology was modified for Cardiac Safety services to allocate costs based on revenue instead of allocating revenue based on costs.

Note 15. Stock Repurchase

Our board of directors has authorized the repurchase of up to an aggregate of 12.5 million shares, of which 5.0 million shares remain to be purchased as of September 30, 2010. The stock buy-back authorization allows us, but does not require us, to purchase the authorized shares. During the three months ended September 30, 2009, we purchased 196,016 shares of our common stock at a cost of $1.1 million. During the nine months ended September 30, 2009, we purchased 2,902,735 shares of our common stock at a cost of $15.1 million. We did not purchase any shares during the nine months ended September 30, 2010.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement for Forward-Looking Information

Except for historical matters, the matters discussed in this Form 10-Q are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views as to future events and financial performance with respect to our operations. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as aim, anticipate, are confident, estimate, expect, will continue, will likely result, project, intend, plan, believe, look to and other words and terms of simila conjunction with a discussion of future operating or financial performance.

These statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause such a difference include: unfavorable economic conditions; our ability to obtain new contracts and accurately estimate net revenues due to variability in size, scope and duration of projects and internal issues at the sponsoring client; our ability to successfully integrate acquisitions; competitive factors in the market for centralized cardiac safety and respiratory services; changes in the pharmaceutical, biotechnology and medical device industries to which we sell our solutions; technological development; and market demand. There is no guarantee that the amounts in our backlog will ever convert to revenue. Should the current economic conditions continue or deteriorate further, the cancellation rates that we have historically experienced could increase. Further information on potential factors that could affect the Company s financial results can be found in the reports we file with the Securities and Exchange Commission.

Forward-looking statements speak only as of the date made. We undertake no obligation to update any forward-looking statements, including prior forward-looking statements, to reflect the events or circumstances arising after the date as of which they were made. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements included in this discussion or that may be made in our filings with the Securities and Exchange Commission or elsewhere from time to time by, or on behalf of, us.

Overview

eResearchTechnology, Inc. (ERT), a Delaware corporation, was founded in 1977 to provide Cardiac Safety solutions to evaluate the safety of new drugs. ERT and its consolidated subsidiaries collectively are referred to as the Company or we. ERT® and EXPeRT® are registered trademarks of eResearchTechnology, Inc. We are a global provider of technology and services to the pharmaceutical, biotechnology and medical device industries. We are the market leader in providing centralized core-diagnostic electrocardiographic (ECG) technology and services (Cardiac Safety services) to evaluate cardiac safety in clinical development. We are also a leading provider of centralized respiratory technology and services (Respiratory services) to evaluate pulmonary function efficacy and safety in clinical development. We also provide solutions to streamline the clinical trials process by automating the collection, analysis, and distribution of electronic patient reported outcomes (ePRO) clinical data using multi-mode technology in all phases of clinical development as well as providing selected medical devices for the clinical trials and healthcare industries.

Our solutions improve the accuracy, timeliness and efficiency of trial set-up, data collection from sites worldwide, data interpretation, and new drug, biologic and device application submissions. We offer Cardiac Safety, Respiratory and ePRO solutions, which are utilized by pharmaceutical, biotechnology and medical device companies, clinical trial sponsors and clinical research organizations (CROs) during all phases of the clinical trial cycle. Our centralized data collection services include the collection, interpretation and distribution of electocardiographic (ECG) data, respiratory data from spirometry to full pulmonary function tests (PFTs) and patient reported outcomes such as daily symptoms, quality of life data and medication usage.

The data collected provides an assessment of the efficacy and safety of a new drug by documenting the change of selected parameters over a defined time period.

Acquisition of RS

On May 28, 2010, we acquired Research Services Germany 234 GmbH (Research Services or RS), which was formed as a result of a demerger of CareFusion Germany 234 GmbH under German law which effectively divided CareFusion Germany 234 GmbH into RS and another entity. RS is comprised of the research services division of CareFusion Germany 234 GmbH and certain research operations of CareFusion Corporation. RS is a leading provider of

respiratory diagnostics services and manufacturer of diagnostic devices and also offers cardiac safety and ePRO services. The RS business has been included in our financial results from the acquisition date.

RS is a business with its roots in the former Erich Jaeger GmbH which was founded in Würzburg, Germany in 1954 as a healthcare device manufacturing and servicing operation. The business entered the clinical research market in 2002 under VIASYS Healthcare Inc. It subsequently became part of Cardinal Health in 2007 when Cardinal Health acquired VIASYS Healthcare Inc. In 2009, RS was part of the businesses spun off from Cardinal Health with the creation of CareFusion, a $4 billion healthcare company with products and services focused on improving safety and quality of care. RS currently provides services to 16 of the 20 largest pharmaceutical companies and has supported clinical trials in more than 75 countries and more than 25,000 investigator sites.

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We acquired the following key products as part of the RS acquisition:

MasterScope® CT a PC-based device platform for centralized spirometry/ pulmonary function tests (PFT) and Cardiac Safety featuring fully customizable workflows that is 21 CFR 11 compliant.

Flow/CorScreen® CT a desktop-based device platform for centralized spirometry and ECG featuring a built-in color printer that is customizable and 21 CFR 11 compliant.

Asthma Monitor AM3® an electronic lung function monitor with text-based diary available in a broad range of languages.

VIAPad® a dedicated hand held ePRO device for capturing high quality patient reported outcomes in a broad range of languages.

VIAPen an ePRO device which utilizes digital pen technology to capture quality of life information.

VIAConnect® an intelligent modem solution for transferring collected data from any patient s home to the data center, using an analog or wireless connection.

Our acquisition of RS offers multiple strategic benefits:

Establishes us as one of the market leaders in respiratory core lab services in the clinical trials market. The transaction provides us with a leadership position in an attractive clinical end market and serves to diversify ERT s revenue base.

Provides us with a leading diagnostic device capability. RS is a leader in diagnostic device manufacturing, having developed over 20 proprietary devices and supporting software platforms for use in the clinical trials industry. This device manufacturing expertise has expanded our technological capabilities, enables us to provide greater breadth of services and technologies for clinical research, and will serve as a basis for development of other healthcare solutions.

Expands our revenue base in cardiac safety. RS has a significant, and growing, business in cardiac safety services that will add to our current position in this market.

Provides scale for our ePRO business, as well as expands the depth and breadth of our ePRO services. This transaction will establish us as one of the five largest providers in the ePRO market. RS s offering is based on innovative hand-held devices. When combined with our interactive voice response technology and our planned web-based technology, we will be able to offer our customers a multi-modality approach for their ePRO solutions.

Expands significantly our global footprint. RS employs more than 250 people, of whom approximately 230 are in Germany. This increased local European presence will enable us to bolster our already strong international presence, better serve our continental European customers, and enable us to expand our relationships with other clients in Europe.

Accelerates our movement into healthcare solutions. RS s device manufacturing and services capabilities provides us with a platform and experience for future growth in healthcare delivery.

Sale of EDC Assets

On June 23, 2009, we completed the sale of certain assets relating to our electronic data capture (EDC) operations. Under the terms of the transaction, OmniComm Systems, Inc. issued to us 8.1 million shares of common stock and assumed certain liabilities including deferred revenue relating to our EDC operations in exchange for our EDC assets which primarily included our EDC software, applications and fixed assets and $1.15 million in cash we paid. During

the nine months ended September 30, 2009, we recorded a gain on the sale of these assets of $0.5 million within general and administrative expenses in the consolidated statements of operations.

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Products and Services

We offer the following products and services on a global basis:

Centralized Cardiac Safety Solutions

Our Cardiac Safety solutions include the collection, interpretation and distribution of electrocardiographic (ECG) data and images and are performed during clinical trials in all phases of the clinical research process. The ECG provides an electronic map of the heart s rhythm and structure, and is performed in most clinical trials. Our Cardiac Safety solutions permit assessments of the safety of therapies by documenting the occurrence of cardiac electrical change. Specific trials, such as a Thorough QTc study, focus on the cardiac safety profile of a compound. Thorough QTc studies are comprehensive studies that typically are of large volume and short duration and are recommended by the United States Food and Drug Administration (FDA) under guidance issued in 2005 by the International Committee on Harmonization (ICH E14).

Cardiac Safety solutions, including our EXPERT technology platform, provide for workflow-enabled cardiac safety data collection, interpretation and distribution of electrocardiographic (ECG) data and images as well as for analysis and cardiologist interpretation of ECGs performed on research subjects in connection with our clients clinical trials. EXPERT is designed specifically to address global regulatory guidance and technical standards for digital ECG processing to include digital collection, waveform measurements and annotations, review and output to the regulatory standard file format. Also included in Cardiac Safety solutions is FDA XML delivery, which provides for the delivery of ECGs in a format compliant with the United States Food and Drug Administration s XML standard for digital ECGs. We also provide ECG equipment through rental and sales to clients to perform the ECG recordings and give them means to send such recordings to us. Our portal product, MyStudy Portal, provides sponsors and investigator sites with the ability to order supplies, gain real time reports and respond to queries via a secure web portal in lieu of less efficient means such as faxing and telephone calls.

Cardiac Safety Consulting

The centralization of electrocardiograms in clinical research has become increasingly important to organizations involved in the development of new drugs. Global regulators each apply their own slightly different interpretation of the ICH E14 guidelines and, as a result, sponsors look to their vendors to provide key scientific input into the overall process. Our cardiac safety consulting service aids sponsors in the development of protocol synopses, the creation and analysis of statistical plans as well as the provision of an expert medical report with regard to the cardiac findings. We are involved in all phases of clinical development from a consultancy point of view. We offer this service both as a stand-alone service and integrated with our full suite of Cardiac Safety solutions.

Centralized Spirometry / Pulmonary Function Solutions

Spirometry is the most commonly performed PFT today and measures the volume and/or flow of air that can be inhaled and exhaled. Sponsors developing new compounds for the treatment of asthma, cystic fibrosis and Chronic Obstructive Pulmonary Disease (COPD) use this non-invasive, cost effective test to assess the efficacy of a drug. Lung diseases such as asthma, COPD, and emphysema decrease a patient s air flow by narrowing or blocking the airways during exhalation. Peak flow is a simple, non-invasive and inexpensive method to measure the function of the airway and we provide a unique electronic peak flow meter with integrated diary for clinical trials capturing peak flow data at home.

The diffusing capacity of the lung related to carbon monoxide, which is known as DLCO, measures the extent to which oxygen passes from the air sacs of the lungs into the blood and involves measuring the partial pressure difference between inspired and expired carbon monoxide. Centralized DLCO testing offers sponsors the advantage of being able to diagnose and treat lung disorders not found by either spirometry or chest x-ray. DLCO testing is also described as single-breath determination of carbon monoxide uptake in the lung or Lung Safety in clinical research and is used to determine if new drugs being inhaled for pain, diabetes or multiple sclerosis may have an effect on the lung, e.g. if the diffusion of oxygen into the bloodstream is affected or not.

Electronic Patient Reported Outcomes (ePRO)

We offer electronic patient report outcomes (ePRO) solutions which refers to the electronic capture of patient self-reported data pertaining to their quality of life. ePRO solutions offer our clients higher quality data with accurate timestamps and real-time data access. ePRO provides less variable and more reliable data enabling smaller trials and

better scientific conclusions.

Our solutions include both products and services for clinical trials. We manufacture devices which include convenient handheld electronic diaries that are designed exclusively for clinical research or using an Interactive Voice Response (IVR) system accessible through standard telephone lines or using an electronic pen (VIAPen). We also offer device customization, worldwide logistics and our in-house global and local support to ensure comprehensive and efficient trial management. Diaries, screening, recruitment and all clinical assessments can be completed directly by the subject without requiring clinician involvement.

In December 2009 the FDA finalized PRO Guidance for Label Claims, which outlines the steps required to develop a PRO instrument from hypothesis of a concept or claim through data item evaluation, collection, cognitive debriefing, interpretation, revision and finalization. We believe that our devices conform to this guidance.

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Project Assurance

We provide a full spectrum of project assurance services that augment the study management and implementation efforts of clients in support of their clinical research requirements. Our project assurance methodology is a consistent framework through which we can efficiently manage the delivery of all data, from study initiation to completion. It also provides our clients with the standards, guidelines and services that allow us to effectively anticipate their needs and ensure proactive communication to meet and exceed their goals.

Integrated Product Offering

With the acquisition of the RS, we now offer a fully integrated set of products and services for centralized cardiac safety, respiratory, and ePRO and a single point of contact for all aspects of the electronic data collection process in clinical trials.

The protocols of many of the respiratory trials in which we participate often also require ECGs and/or Holter monitoring. Our flagship investigator site device, MasterScope® CT, is a comprehensive solution for standardized and centralized spirometry, full PFT, ECG and ePRO in clinical trials. Using customized software, this innovative system combines protocol-driven workflows (with many diagnostic applications) into a single easy-to-use clinical trial workstation. These workflows can be specially tailored for multicentre studies. Our clients and their users consider the availability of a fully integrated platform for respiratory, cardiac safety and ePRO a major advantage.

Revenues

Our services revenues consist primarily of our services offered under our Cardiac Safety, Respiratory Services and, to a lesser extent, ePRO solutions that we provide on a fee for services basis and are recognized as the services are performed. We also provide Cardiac Safety consulting services on a time and materials basis and recognize revenues as we perform the services. Site support revenues, consisting of equipment rentals and sales along with related supplies and logistics management, are recognized at the time of sale or over the rental period.

For arrangements with multiple deliverables where the fair value of each element is known, the revenue is allocated to each component based on the relative fair values of each element. For arrangements with multiple deliverables where the fair value of one or more delivered elements is not known, revenue is allocated to each component of the arrangement using the residual method provided that the fair value of all undelivered elements is known. Fair values for undelivered elements are based primarily upon stated renewal rates for future products or services.

We have recorded reimbursements received for out-of-pocket expenses incurred as revenue in the accompanying consolidated financial statements.

Unbilled revenue is revenue that is recognized but is not currently billable to the customer pursuant to contractual terms. In general, such amounts become billable in accordance with predetermined payment schedules, but recognized as revenue as services are performed. Amounts included in unbilled revenue are expected to be collected within one year and are included within current assets.

Our former electronic data capture (EDC) operations were included in EDC licenses and services revenue and included license revenue, technology consulting and training services and software maintenance services. We recognized up-front license fee revenues under the residual method when a formal agreement existed, delivery of the software and related documentation occurred, collectability was probable and the license fee was fixed or determinable. We recognized monthly and annual term license fee revenues over the term of the arrangement. Hosting service fees were recognized evenly over the term of the service. We recognized revenues from software maintenance contracts on a straight-line basis over the term of the maintenance contract, which was typically twelve months. We provided consulting and training services on a time and materials basis and recognized revenues as we performed the services.

Costs

Cost of services includes the cost of Cardiac Safety, Respiratory and ePRO services. Cost of services consists primarily of wages, depreciation, amortization of intangible assets, fees paid to consultants and other direct operating costs. Cost of site support consists primarily of wages, equipment rent and depreciation, amortization of intangible assets, supplies, cost of equipment sold, shipping expenses and other direct operating costs. Selling and marketing expenses consist primarily of wages and incentive compensation paid to sales personnel, travel expenses and advertising and promotional expenditures. General and administrative expenses consist primarily of wages and direct

costs for our finance, administrative, corporate information technology and executive management functions, in addition to professional service fees and corporate insurance. Research and development expenses consist primarily of wages paid to our product development staff, costs paid to outside consultants and other direct costs associated with the development of our technology.

Costs of our former EDC operations included primarily wages, fees paid to outside consultants and other direct operating costs related to our software licensing, consulting and client support functions.

We conduct our operations through offices in the United States (U.S.) and Europe (the United Kingdom and Germany). Our international net revenues represented approximately 18% and 52% of total net revenues for the nine months ended September 30, 2009 and 2010, respectively. The majority of our revenues are allocated among our geographic segments based upon the profit split transfer pricing methodology which equalizes gross margins for each legal entity based upon its respective direct revenue or direct costs, as determined by the relevant revenue source. Through September 30, 2009, we calculated our transfer pricing for Cardiac Safety services using a profit split methodology based on cost. Subsequent to September 30, 2009, the profit split transfer pricing methodology was modified for Cardiac Safety services to allocate costs based on revenue instead of allocating revenue based on costs. This has resulted in an increase in revenue attributed to the UK beginning in the fourth quarter of 2009.

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Results of Operations

Executive Overview

Net revenues were $45.1 million for the third quarter of 2010, an increase of $22.4 million or 98.6% from $22.7 million in the third quarter of 2009. Net revenues were $96.1 million for the nine months ended September 30, 2010, an increase of $25.4 million or 39.5% from $70.7 million in the nine months ended September 30, 2009. The revenue changes were due primarily to the contributions by our newly acquired RS business which closed on May 28, 2010. Revenue in the nine months ended September 30, 2009 included $2.5 million of EDC revenue for which we had no corresponding revenue in 2010 as this business was sold in June 2009. The general business environment across all our product lines cardiac safety, respiratory, and ePRO continued to improve with bookings of $59.1 million during the third quarter of 2010, backlog of $303.1 million at September 30, 2010 and we experienced a relatively strong general level of business development activities. The general business environment across all our product lines cardiac safety, respiratory, and ePRO continued to improve, as seen in another relatively strong bookings quarter, strong backlog and general level of business development activities. However, we have experienced an increase in the time period between booking new business and the actual start dates of these new studies which has resulted in slower growth in our cardiac safety business.

Gross margin percentage was 44.5% in the third quarter of 2010 compared to 51.6% in the third quarter of 2009. The decrease in gross margin percentage was driven by (1) inclusion of three months of RS activity in the third quarter of 2010, including amortization of acquired intangibles of $2.3 million, and RS historically has had a lower gross margin than ERT, (2) costs associated with integration related activities and (3) a higher mix of site support revenue to total revenue due to RS having a higher proportion of site support revenue with a lower gross margin than services. Our gross margin on site support was 40.1% for the third quarter, down from 49.4% a year ago and the gross margin percentage for services was 47.8% in the third quarter of 2010 compared to 52.6% in the comparable quarter a year ago.

Operating income for the third quarter of 2010 was $6.6 million or 14.6% of total net revenues compared to $4.7 million or 20.7% of total net revenues in the third quarter of 2009. Operating income for the third quarter of 2010 was negatively impacted by $2.3 million of amortization of acquisition related intangibles related to the acquisition of RS and $0.6 million of retirement costs, which reduced our operating margin by approximately 6 percentage points.

Our effective income tax rate for the third quarter of 2010 was 31.7% compared to 39.1% in the third quarter of 2009 as we have benefited from the lower tax rates applicable to the RS operations in Germany and also from organizational restructuring activities undertaken in the current quarter which resulted in a reduction in the effective tax rate.

Net income for the third quarter of 2010 was $3.2 million, or $0.06 per diluted share, compared to $2.8 million, or $0.06 per diluted share, in the third quarter of 2009. Net income in the third quarter was positively impacted by the three months of contribution from RS and negatively impacted by the amortization of acquired intangibles, retirement costs and foreign exchange losses related to recent weakening of the US dollar against the euro.

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The following table presents certain financial data as a percentage of total net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2010	2009	2010
Net revenues:				
Services	70.3%	57.5%	68.4%	61.9%
Site support	29.7%	42.5%	28.1%	38.1%
EDC licenses and services	0.0%	0.0%	3.5%	0.0%
Total net revenues	100.0%	100.0%	100.0%	100.0%
Costs of revenues:				
Cost of services	33.4%	30.0%	32.5%	30.4%
Cost of site support	15.0%	25.5%	14.9%	20.0%
Cost of EDC licenses and services	0.0%	0.0%	1.2%	0.0%
Total costs of revenues	48.4%	55.5%	48.6%	50.4%
Gross margin	51.6%	44.5%	51.4%	49.6%
Operating expenses:				
Selling and marketing	13.4%	9.9%	13.8%	12.3%
General and administrative	13.1%	17.2%	15.0%	23.2%
Research and development	4.4%	2.8%	4.4%	3.3%
Total operating expenses	30.9%	29.9%	33.2%	38.8%
Operating income	20.7%	14.6%	18.2%	10.8%
Foreign exchange losses	(0.7%)	(3.9%)	(0.7%)	(1.3%)
Other income (expense), net	0.4%	(0.4%)	0.2%	(0.2%)
Income before income taxes	20.4%	10.3%	17.7%	9.3%
Income tax provision	8.0%	3.3%	7.2%	3.3%
Net income	12.4%	7.0%	10.5%	6.0%

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Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2010.
The following table presents our consolidated statements of operations with product line detail (dollars in thousands):

	Three Months Ended September 30,			
	2009	2010	Increase (Decrease)	
Services:				
Net revenues	$ 15,969	$ 25,929	$ 9,960	62.4%
Costs of revenues	7,577	13,526	5,949	78.5%
Gross margin	$ 8,392	$ 12,403	$ 4,011	47.8%
Site support:				
Net revenues	$ 6,757	$ 19,199	$ 12,442	184.1%
Costs of revenues	3,418	11,505	8,087	236.6%
Gross margin	$ 3,339	$ 7,694	$ 4,355	130.4%
Total				
Net revenues	$ 22,726	$ 45,128	$ 22,402	98.6%
Costs of revenues	10,995	25,031	14,036	127.7%
Gross margin	11,731	20,097	8,366	71.3%
Operating expenses:				
Selling and marketing	3,056	4,478	1,422	46.5%
General and administrative	2,977	7,780	4,803	161.3%
Research and development	989	1,250	261	26.4%
Total operating expenses	7,022	13,508	6,486	92.4%
Operating income	4,709	6,589	1,880	39.9%
Foreign exchange losses	(173)	(1,745)	(1,572)	908.7%
Other income (expense), net	91	(199)	(290)	(318.7%)
Income before income taxes	4,627	4,645	18	0.4%
Income tax provision	1,808	1,472	(336)	(18.6%)
Net income	$ 2,819	$ 3,173	$ 354	12.6%

The following table presents costs of revenues as a percentage of related net revenues and operating expenses as a percentage of total net revenues:

	Three Months Ended September 30,		Increase
	2009	2010	(Decrease)

Cost of services	47.4%	52.2%	4.8%
Cost of site support	50.6%	59.9%	9.3%
Total costs of revenues	48.4%	55.5%	7.1%
Operating expenses:			
Selling and marketing	13.4%	9.9%	(3.5%)
General and administrative	13.1%	17.2%	4.1%
Research and development	4.4%	2.8%	(1.6%)

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Revenues

Services revenues for the three months ended September 30, 2010 included $9.3 million from the operations of RS. Apart from the impact of RS, the increase in services revenues was primarily due to a $0.5 million increase in revenue from our ePRO operations, an increase in average revenue per transaction that was due to customer mix which resulted in an increase in revenue of approximately $0.3 million and a number of other revenue increases totaling $0.6 million. This was partially offset by a $0.7 million reduction in transaction revenue related to lower volume of transactions performed in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009.

Site support revenues for the three months ended September 30, 2010 included $12.1 million from the operations of RS. Apart from the impact of RS, the increase in site support revenue was primarily due to $0.9 million associated with an increase in the number of units rented in the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 and a $0.1 million increase in each of supplies revenue and equipment sales. Partially offsetting these increases is a $0.6 million decrease in revenue attributable to decreases in average rental per unit and $0.2 million of other items.

Costs of Revenues

The cost of services revenues for the three months ended September 30, 2010 included $5.6 million from the operations of RS. Apart from the impact of RS, the increase in the cost of services, both in absolute terms and as a percentage of service revenues, was primarily due to a $0.3 million increase in variable incentive compensation expenses and a $0.2 million increase in royalties associated with our ePRO operations. Partially offsetting these increases was a $0.2 million reduction in labor costs as a result of transitioning the costs associated with the customer support center to the cost of site support to better align costs with related revenue.

The cost of site support revenues for the three months ended September 30, 2010 included $7.8 million from the operations of RS. Apart from the impact of RS, the increase in the cost of site support, both in absolute terms and as a percentage of site support revenues, was primarily due to a $0.5 million increase in labor that was partially due to the costs associated with the customer support center as discussed above and the costs of US operations that we assumed in conjunction with our acquisition of RS. Partially offsetting these increases was a $0.3 million decrease in depreciation expense as older, more expensive ECG equipment has become fully depreciated.

Operating Expenses

Selling and marketing expenses for the three months ended September 30, 2010 included $0.9 million from the operations of RS. Apart from the impact of RS, the increase in selling and marketing expenses, both in absolute terms and as a percentage of total net revenues, was due primarily to $0.4 million in higher labor costs due to higher commissionable revenue and the costs of US operations that we assumed in conjunction with our acquisition of RS. The balance of the increase was related to smaller increases in items such as variable incentive compensation expenses and tradeshows.

General and administrative expenses for the three months ended September 30, 2010 included $2.6 million from the operations of RS. Apart from the impact of RS, the increase in general and administrative expenses, both in absolute terms and as a percentage of total net revenues, was due primarily to $0.8 million increase in labor costs which included payments to be made to our Chief Executive Officer upon his recently announced retirement from the Company. Additionally, there was a $0.4 million increase in variable incentive compensation expenses. Several items had increases as result of the continuing integration of the RS acquisition such as travel and professional fees with increases of $0.2 million each. Non-income taxes increased as the result of a $0.2 million credit that reduced non-income taxes in 2009.

Research and development expenses for the three months ended September 30, 2010 included $0.4 million from the operations of RS. Apart from the impact of RS, the decrease in research and development expenses, both in absolute terms and as a percentage of total net revenues, was primarily due to a an increase in the capitalization of consultant fees associated with internal-use software development projects which offsets expenses.

Foreign exchange losses increased primarily due to the movement in the exchange rate between the euro and U.S. dollar that impacts our operations in Germany acquired in the RS acquisition.

Other income (expense), net changed as we incurred interest expense on advances under our line of credit in 2010 that we used to purchase RS and to fund related acquisition expenses and working capital needs, while 2009 included a small amount of interest income on our cash balance, a substantial portion of which we used to purchase RS.

Our effective tax rate for the three months ended September 30, 2010 was 31.7% compared to 39.1% for the three months ended September 30, 2009. Through September 30, 2009, we calculated our transfer pricing for Cardiac Safety services using a profit split methodology based on cost. Subsequent to September 30, 2009, the profit split transfer pricing methodology was modified for Cardiac Safety services to allocate costs based on revenue instead of allocating revenue based on costs. Our effective tax rate for the third quarter of 2010 included the impact of the RS acquisition, which operates primarily in Germany which has a lower tax rate than our historic effective tax rate. Additionally, as of July 1, 2010, we reorganized our operations in the United States to align our corporate structure along departmental business lines which has also reduced our effective tax rate.

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Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2010.
The following table presents our consolidated statements of operations with product line detail (dollars in thousands):

	Nine Months Ended September 30,			
	2009	2010	Increase (Decrease)	
Services:				
Net revenues	$ 48,292	$ 59,461	$ 11,169	23.1%
Costs of revenues	22,941	29,162	6,221	27.1%
Gross margin	$ 25,351	$ 30,299	$ 4,948	19.5%
Site support:				
Net revenues	$ 19,895	$ 36,631	$ 16,736	84.1%
Costs of revenues	10,523	19,261	8,738	83.0%
Gross margin	$ 9,372	$ 17,370	$ 7,998	85.3%
EDC licenses and services:				
Net revenues	$ 2,501	$	$ (2,501)	(100.0%)
Costs of revenues	863		(863)	(100.0%)
Gross margin	$ 1,638	$	$ (1,638)	(100.0%)
Total				
Net revenues	$ 70,688	$ 96,092	$ 25,404	35.9%
Costs of revenues	34,327	48,423	14,096	41.1%
Gross margin	36,361	47,669	11,308	31.1%
Operating expenses:				
Selling and marketing	9,756	11,827	2,071	21.2%
General and administrative	10,581	22,278	11,697	110.5%
Research and development	3,131	3,177	46	1.5%
Total operating expenses	23,468	37,282	13,814	58.9%
Operating income	12,893	10,387	(2,506)	(19.4%)
Foreign exchange losses	(543)	(1,267)	(724)	133.3%
Other income (expense), net	168	(181)	(349)	(207.7%)
Income before income taxes	12,518	8,939	(3,579)	(28.6%)
Income tax provision	5,081	3,188	(1,893)	(37.3%)
Net income	$ 7,437	$ 5,751	$ (1,686)	(22.7%)

The following table presents costs of revenues as a percentage of related net revenues and operating expenses as a percentage of total net revenues:

	Nine Months Ended September 30,		Increase
	2009	2010	(Decrease)
Cost of services	47.5%	49.0%	1.5%
Cost of site support	52.9%	52.6%	(0.3%)
Cost of EDC licenses and services	34.5%	N/A	N/A
Total costs of revenues	48.6%	50.4%	1.8%
Operating expenses:			
Selling and marketing	13.8%	12.3%	(1.5%)
General and administrative	15.0%	23.2%	8.2%
Research and development	4.4%	3.3%	(1.1%)

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Revenues

Services revenues for the nine months ended September 30, 2010 included $11.9 million from the operations of RS. Apart from the impact of RS, the decrease in services revenues was primarily due to a $1.9 million reduction in transaction revenue related to lower volume of transactions performed in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. There was also a decrease in average revenue per transaction that was largely due to certain lower transaction prices which resulted in a decrease in revenue of approximately $0.8 million. These decreases were partially offset by a number of revenue increases totaling $2.0 million, primarily from our ePRO operations.

Site support revenues for the nine months ended September 30, 2010 included $15.3 million from the operations of RS. Apart from the impact of RS, the increase in site support revenue was primarily due to $1.9 million associated with an increase in the number of units rented in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 and $0.2 million increase each in supplies revenue and equipment sales. Partially offsetting these increases was a $0.7 million decrease in revenue attributable to decreases in average rental per unit and $0.2 million of other items.

Costs of Revenues

The cost of services revenues for the nine months ended September 30, 2010 included $6.8 million from the operations of RS. Apart from the impact of RS, the decrease in the cost of services, both in absolute terms and as a percentage of service revenues, was primarily due to a $1.4 million reduction in labor costs of which $1.2 million was a result of transitioning the costs associated with the customer support center to the cost of site support in 2010 to better align costs with related revenue. We have also realized cost savings as a result of efficiency initiatives implemented in the latter part of 2009. Additionally, depreciation expense decreased by $0.4 million as computer equipment purchased for the development and implementation of the EXPERT 2 technology platform has become fully depreciated. Partially offsetting these decreases were increases in variable incentive compensation expenses of $0.7 million and $0.2 million each for travel, telephone and connectivity and consulting.

The cost of site support revenues for the nine months ended September 30, 2010 included $9.5 million from the operations of RS. Apart from the impact of RS, the decrease in the cost of site support, both in absolute terms and as a percentage of site support revenues, was primarily due to a $1.5 million decrease in depreciation expense as older, more expensive ECG equipment has become fully depreciated. Partially offsetting these decreases were $0.7 million of costs in 2010 associated with the customer support center as discussed above.

Operating Expenses

Selling and marketing expenses for the nine months ended September 30, 2010 included $1.3 million from the operations of RS. Apart from the impact of RS, the increase in selling and marketing expenses, both in absolute terms and as a percentage of total net revenues, was due primarily to $0.4 million in higher labor costs due to higher commissionable revenue and the costs of US operations that we assumed in conjunction with our acquisition of RS, $0.3 million in higher variable incentive compensation expenses, $0.2 million each in higher marketing costs and royalties. These increases were partially offset by $0.3 million lower consulting costs.

General and administrative expenses for the nine months ended September 30, 2010 included $3.8 million from the operations of RS. Apart from the impact of RS, the increase in general and administrative expenses, both in absolute terms and as a percentage of total net revenues, was due primarily to $4.1 million of professional fees incurred related to transaction costs associated with our acquisition of RS. Labor costs increased $0.9 million which included payments to be made to our Chief Executive Officer upon his recently announced retirement from the Company. We added $0.6 million to the reserve for losses on the lease of our former Reno, Nevada facility due to continued poor prospects for subleasing that facility. We recognized a $0.5 million gain on sale of our former EDC business in the second quarter of 2009 which decreased our expenses in 2009. Additionally, software costs increased $0.4 million and consultant costs increased $0.3 million as a result of an information technology modernization and virtualization project started in late 2009 and continuing in 2010. There was a $0.4 million increase in variable incentive compensation expenses. Travel costs increased $0.3 million as a result of continuing integration costs associated with the RS acquisition.

Research and development expenses for the nine months ended September 30, 2010 included $0.7 million from the operations of RS. Apart from the impact of RS, the decrease in research and development expenses, both in absolute terms and as a percentage of total net revenues, was primarily due to a $0.5 million reduction in labor costs as a result of the sale of our former EDC operations in June 2009 and an increase in the capitalization of salaries and consultant fees associated with internal-use software development projects.

Foreign exchange losses increased primarily due to the movement in the exchange rate between the euro and U.S. dollar that impacts our operations in Germany acquired in the RS acquisition.

Other income (expense), net changed as we incurred interest expense on advances under our line of credit in 2010 that we used to purchase RS and to fund related acquisition expenses and working capital needs, while 2009 included a small amount of interest income on our cash balance, a substantial portion of which we used to purchase RS.

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Our effective tax rate for the nine months ended September 30, 2010 was 35.7% compared to 40.6% for the nine months ended September 30, 2009. Through September 30, 2009, we calculated our transfer pricing for Cardiac Safety services using a profit split methodology based on cost. Subsequent to September 30, 2009, the profit split transfer pricing methodology was modified for Cardiac Safety services to allocate costs based on revenue instead of allocating revenue based on costs. Our effective tax rate for the nine months ended September 30, 2010 included the impact of the RS acquisition, which operates primarily in Germany which has a lower tax rate than our historic effective tax rate. However, acquisition costs are not deductible for tax purposes which increased the estimated effective tax rate for the year ended December 31, 2010 by approximately eight percentage points. Additionally, as of July 1, 2010, we reorganized our operations in the United States to align our corporate structure along departmental business lines which has also reduced our effective tax rate.

Liquidity and Capital Resources

At September 30, 2010, we had $19.4 million of cash, cash equivalents and short-term investments. We generally place our investments in highly-rated securities such as municipal securities, bonds of government sponsored agencies, certificates of deposit with fixed rates and maturities of less than one year, and A1P1 rated commercial bonds and paper. Of the $19.4 million, $5.6 million and $6.6 million are held by our UK and German subsidiaries, respectively. Although a portion of our UK subsidiary s current undistributed net earnings, as well as any future net earnings of our UK and German subsidiaries, will be permanently reinvested, we believe that this does not have a material impact on our overall liquidity.

For the nine months ended September 30, 2010, our operations provided cash of $18.8 million, a decrease of $5.9 million compared to $24.7 million during the nine months ended September 30, 2009. The decrease was primarily the result of an increase in accounts receivable in the nine months ended September 30, 2010 of $6.4 million as compared to a decrease of $12.5 million in the nine months ended September 30, 2009. The accounts receivable were reduced significantly during the nine months ended September 30, 2009 as a result of focused collection efforts and a reduction in revenue. The increase in the accounts receivable in 2010 was primarily due to an increase in the RS accounts receivables we acquired and as RS revenue increased. Partially offsetting this negative impact on cash flow was a $5.1 million increase in accrued expenses in the nine months ended September 30, 2010 as compared to a $3.7 million decrease in the nine months ended September 30, 2009. The increase in the 2010 accrued expenses was largely due to an increase in the RS accrued expenses and an increase in the 2010 accrual for incentive compensation due to expected improved results against targets as compared to 2009. The decrease in 2009 was largely the result of the payment of a greater amount in 2009 for variable incentive compensation related to the prior year s results. Other items with a positive impact on operating cash flow in the nine months ended September 30, 2010 as compared to the same period in 2009 included net income before depreciation and amortization and accounts payable.

For the nine months ended September 30, 2010, our investing activities used cash of $89.0 million as compared to $5.4 million during the nine months ended September 30, 2009. Acquisition payments totaled $82.8 million in the nine months ended September 30, 2010, substantially all for RS, as compared to $0.7 million related to Covance Cardiac Safety Services (CCSS) in the nine months ended September 30, 2009. Proceeds from sales of investments net of purchases were $9.7 million during the nine months ended September 30, 2010, with no activity during the nine months ended September 30, 2009.

During the nine months ended September 30, 2010 and 2009, we capitalized $16.0 million and $3.6 million, respectively, of property and equipment. Included in property and equipment acquisitions was $4.3 million and $1.9 million for the nine months ended September 30, 2010 and 2009, respectively, of internal use software. The balance of the change was primarily due to an increase in purchases of ECG and respiratory equipment commensurate with the additional units rented in the nine months ended September 30, 2010, which included RS for four months, as compared to the nine month ended September 30, 2009.

For the nine months ended September 30, 2010, our financing activities provided cash of $21.2 million as compared to a $14.7 million use of cash for the nine months ended September 30, 2009. We obtained proceeds of $23.0 million from our Citizens Bank of Pennsylvania credit facility which we used to purchase RS on May 28, 2010 and to fund related transaction costs and working capital needs. We subsequently repaid $2.0 million. In the nine months ended September 30, 2009, we repurchased $15.0 million of our common stock under our stock buy-back program, with no

corresponding expenditure in the nine months ended September 30, 2010.

We have a revolving line of credit arrangement with Citizens Bank of Pennsylvania in the aggregate amount of $40.0 million, with an additional $10.0 million increase option. As of September 30, 2010, we have outstanding $21.0 million under our line of credit and $29.0 million remains available for us to borrow including the increase option. The line has a three-year term which expires May 27, 2013 and annual interest rates based upon LIBOR plus a margin of 1.00% to 1.75% based upon a total leverage ratio and unused commitment fees of 0.10% to 0.20% based upon the same total leverage ratio. From the initial borrowing on May 27, 2010 through September 30, 2010, the annual interest rate ranged from 1.35% to 1.60% and the unused commitment fee was 0.10%. Financial covenants include maximum total senior funded debt to earnings before interest, income taxes, depreciation and amortization (EBITDA) of 2.0 and minimum debt service coverage ratio of 1.5. At September 30, 2010, the Company was in compliance with all debt covenants. Borrowings under the line of credit are secured by 65% of the capital stock in certain of our foreign subsidiaries.

We have commitments to purchase approximately $2.8 million of private label cardiac safety equipment from a manufacturer over a twelve-month period beginning upon completion of our user acceptance testing, which was completed in the first quarter of 2010. We expect to purchase this cardiac safety equipment in the normal course of business and thus this commitment does not represent a significant commitment above our expected purchases of ECG equipment during this period. As of September 30, 2010, approximately $1.7 million of equipment was purchased under the commitments; accordingly the balance of such commitments as of September 30, 2010 was $1.1 million.

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In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Act of 2010 became law. The provisions of the Acts are not expected to have a significant impact to our consolidated financial statements.

We expect that existing cash and cash equivalents, cash flows from operations and amounts available under the $40 million credit facility as discussed above will be sufficient to meet our foreseeable cash needs for at least the next year. In addition, there may be acquisition and other growth opportunities that require additional external financing and we may from time to time seek to obtain additional funds from the public or private issuances of equity or debt securities. There can be no assurance that any such acquisitions will occur or that such financing will be available or available on terms acceptable to us, particularly in view of current capital market uncertainty.

Our board of directors has authorized the repurchase of up to an aggregate of 12.5 million shares, of which 5.0 million shares remain to be purchased as of September 30, 2010. The stock buy-back authorization allows us, but does not require us, to purchase the authorized shares. The purchase of the remaining shares authorized could require us to use a significant portion of our cash, cash equivalents and investments and could also require us to seek additional external financing. During the nine months ended September 30, 2009, we purchased 2,902,735 shares of our common stock at a cost of $15.1 million. No shares were purchased during the nine months ended September 30, 2010.

On November 28, 2007, we completed the acquisition of CCSS from Covance Inc. Under the terms of our agreement to purchase CCSS, the total initial purchase consideration was $35.2 million. We may also pay contingent consideration of up to approximately $14.0 million based upon our potential realization of revenue from the backlog transferred and from new contracts secured through Covance s marketing activities. The period for contingent payments runs through December 31, 2010. Through September 30, 2010, Covance earned $5.3 million of this contingent amount with less than $0.1 million earned during the nine months ended September 30, 2010. At September 30, 2010, $0.1 million of the contingent amount earned remained to be paid to Covance, which we recorded in accounts payable. These contingent payments increased goodwill by $5.3 million. Under the terms of the marketing agreement, Covance agreed to exclusively use us as its provider of centralized cardiac safety solutions for a ten-year period, subject to certain exceptions, and we agreed to pay referral fees on certain revenues.

Inflation

We believe the effects of inflation and changing prices generally do not have a material effect on our consolidated results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary financial market risks include fluctuations in interest rates and currency exchange rates.

Interest Rate Risk

Short-term debt

At September 30, 2010, our short-term debt was comprised of $21.0 million drawn under our $40.0 million credit facility with Citizens Bank of Pennsylvania. We do not manage the interest rate risk on our debt through the use of derivative instruments. Our credit facility s interest rates may be reset due to fluctuations in the London Interbank Offered Rate (LIBOR). A hypothetical 100-basis-point change in the interest rate of our credit facilities would change our annual pre-tax earnings by $0.2 million based on our current borrowings under the credit facility.

Investments

We generally place our investments in highly-rated securities such as money market funds, municipal securities, bonds of government sponsored agencies, certificates of deposit with fixed rates with maturities of less than one year and A1P1 rated commercial bonds and paper. We actively manage our portfolio of cash equivalents and short-term investments, but in order to ensure liquidity, will only invest in instruments with high credit quality where a secondary market exists. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. The impact on interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents, short-term investments and log-term investments. See Liquidity and Capital Resources as part of Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Foreign Currency Risk

We operate on a global basis from locations in the United States (U.S.), the United Kingdom (UK) and Germany. All international net revenues and expenses are billed or incurred in either U.S. dollars, pounds sterling or euros. As such, we face exposure to adverse movements in the exchange rate of the pound sterling and euro. As the currency rate changes, translation of the statement of operations of our UK and German subsidiaries from the local currency to U.S. dollars affects year-to-year comparability of operating results. With the recent RS acquisition, there has been a significant increase in activity in countries outside the U.S. As a result, while we did not hedge translation risks through September 30, 2010, we are currently in the process of evaluating a hedging strategy.

Management estimates that a 10% change in the exchange rate of the pound sterling and euro would have impacted the reported operating income for the nine months ended September 30, 2010 by approximately $1.0 million.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed and functioning effectively to provide reasonable assurance that information required to be disclosed by the Company (including our consolidated subsidiaries) in the reports we file with or submit to the Securities and Exchange Commission is (i) recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information
Item 6. Exhibits

31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Statement of Chief Executive Officer Pursuant to Section 1350 of Title 18 of the United States Code.
32.2	Statement of Chief Financial Officer Pursuant to Section 1350 of Title 18 of the United States Code.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

eResearchTechnology, Inc.
(Registrant)

Date: November 9, 2010

By: /s/ Michael J. McKelvey
Michael J. McKelvey
President and Chief Executive Officer,
(Principal executive officer)

Date: November 9, 2010

By: /s/ Keith D. Schneck
Keith D. Schneck
Executive Vice President, Chief Financial
Officer and Secretary
(Principal financial and accounting officer)

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EXHIBIT INDEX

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