ICON PLC /ADR/
Form 20-F
March 30, 2007

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended: December 31, 2006

OR

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

Commission file number:

ICON public limited company

(Exact name of Registrant as specified in its charter)

Ireland

(Jurisdiction of incorporation or organization)

South County Business Park, Leopardstown, Dublin 18, Ireland.

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
None	

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Title of each class

American Depository Shares, representing Ordinary Shares, par value €0.06 each
Ordinary Shares, par value €0.06 each

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 28,517,852 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as determined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes x No o

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 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non- accelerated filer

Large Accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes o No x

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General

As used herein, “ICON plc”, the “Company” and “we” or “us” refer to ICON public limited company and its consolidated subsidiaries, unless the context requires otherwise.

Unless otherwise indicated, ICON plc’s financial statements and other financial data contained in this Form 20-F are presented in United States dollars (“$”) and are prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

In this Form 20-F, references to "U.S. dollars", "U.S.$" or "$" are to the lawful currency of the United States, references to "pounds sterling", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, references to “Euro” or “€” are to the European single currency adopted by thirteen members of the European Union (including the Republic of Ireland, France, Germany, Spain and the Netherlands). ICON publishes its consolidated financial statements in U.S. dollars.

On July 27, 2005 the Board of Directors of the Company approved a change of the Company’s fiscal year end from a twelve-month period ending on May 31 to a twelve-month period ending on December 31. The Company made this change in order to align its fiscal year end with the majority of other contract research organizations. As a requirement of this change, the Company reported results for the seven-month period from June 1, 2005 to December 31, 2005 as a separate transition period. As of January 1, 2006, the Company’s fiscal year now begins on January 1 and ends on December 31 and its fiscal quarters end on the last day of March, June, September and December.

On September 29, 2006, ICON’s shareholders approved a bonus issue of ordinary shares (the “Bonus Issue”) to shareholders of record as of the close of business on October 13, 2006 (the “Record Date”). The Bonus Issue provided for each shareholder to receive one bonus ordinary share for each ordinary share held as of the Record Date, effecting the equivalent of a 2-for-1 stock split. The Bonus shares were issued on October 16, 2006 to ordinary shareholders and on October 23, 2006 to holders of American Depositary Shares (“ADSs”). NASDAQ adjusted the trading price of ICON’s ADSs to effect the Bonus Issue prior to the opening of trading on October 24, 2006. All outstanding ordinary share amounts referenced in the consolidated financial statements and the notes thereto have been retrospectively restated to give effect to the Bonus Issue as if it had occurred as of the date referenced.

Cautionary Statement

Statements included herein which are not historical facts are forward looking statements. Such forward looking statements are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 (the “PSLRA”). The forward looking statements involve a number of risks and uncertainties and are subject to change at any time. In the event such risks or uncertainties materialize, our results could be materially affected. The risks and uncertainties include, but are not limited to, dependence on the pharmaceutical industry and certain clients, the need to regularly win projects and then to execute them efficiently, the challenges presented by rapid growth, competition and the continuing consolidation of the industry, the dependence on certain key executives and other factors identified in the Company’s Securities and Exchange Commission filings. The Company has no obligation under the PSLRA to update any forward looking statements and does not intend to do so.

Part I

Item 1. *Identity of Directors, Senior Management and Advisors.*

Not applicable.

Item 2.*Offer Statistics and Expected Timetable.*

Not applicable.

Item 3. *Key Information.*

Selected Historical Consolidated Financial Data for ICON plc

The following selected financial data set forth below are derived from ICON's consolidated financial statements and should be read in conjunction with, and are qualified by reference to, "Operating and Financial Review and Prospects" and ICON's consolidated financial statements and related notes thereto included elsewhere in this Form 20-F.

	Year ended May 31,				7 month Period ended December 31,	Year ended December 31
	2002	2003	2004	2005	2005	2006
	(in thousands, except share and per share data)					
Statement of Operations Data:						
Gross revenue	$ 218,842	$ 340,971	$ 443,875	$ 469,583	$ 275,586	$ 649,826
Subcontractor costs (1)	(62,287)	(115,246)	(146,952)	(142,925)	(73,636)	(194,229)
Net revenue	156,555	225,725	296,923	326,658	201,950	455,597
Costs and expenses:						
Direct costs	83,371	122,373	162,562	179,661	114,004	256,263
Selling, general and administrative	48,951	71,118	88,807	103,784	62,276	136,569
Depreciation and amortization	6,020	7,305	11,171	13,331	8,094	14,949
Share based compensation (2)	-	-	-	-	6,024	-
Other charges (4)	-	-	-	11,275	-	-
Total costs and expenses	138,342	200,796	262,540	308,051	190,398	407,781
Income from operations	18,213	24,929	34,383	18,607	11,552	47,816
Net interest income	1,116	354	288	979	1,272	3,640
Income before provision for income taxes	19,329	25,283	34,671	19,586	12,824	51,456
Provision for income taxes	(5,129)	(7,000)	(8,929)	(5,852)	(5,396)	(12,924)
Minority interest	-	-	-	(189)	(10)	(228)
Net income	$ 14,200	$ 18,283	$ 25,742	$ 13,545	$ 7,418	$ 38,304
Net income per ordinary share (3):						
Basic	$ 0.61	$ 0.78	$ 0.97	$ 0.49	$ 0.27	$ 1.35
Diluted	$ 0.58	$ 0.75	$ 0.94	$ 0.48	$ 0.26	$ 1.33
Weighted average number						

of ordinary shares outstanding:						
Basic	23,312,306	23,627,576	26,535,062	27,720,406	27,940,212	28,314,985
Diluted	24,483,640	24,362,188	27,406,326	28,306,890	28,495,084	28,863,334

	As of May 31,				As of December 31,	
	2002	2003	2004	2005	2005	2006
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 36,291	$ 18,311	$ 55,678	$ 56,341	$ 59,509	$ 63,039
Short term investments	18,551	-	23,085	22,034	22,809	39,822
Working capital	72,923	53,827	113,813	125,288	132,312	160,321
Total assets	165,794	235,014	335,323	347,553	349,067	476,341
Total debt	11,745	7,126	-	-	4,856	5,000
Long term government grants	962	1,140	1,411	1,257	1,160	1,170
Shareholders' equity	$ 107,561	$ 136,910	$ 216,760	$ 233,066	$ 241,558	$ 302,738

(1) Subcontractor costs are comprised of investigator payments and certain other costs reimbursed by clients under terms specific to each of ICON's contracts. See Note 2 (d) to the Audited Consolidated Financial Statements.

(2) $6.0million stock compensation expensed during the period ended December 31, 2005 was recorded in relation to the transfer of 288,000 shares from the founders of the Company to the Chief Executive Officer.

(3) Net income per ordinary share is based on the weighted average number of outstanding ordinary shares. Diluted net income per share includes potential ordinary shares from the exercise of options.

(4) Other operating charges of $11.3 million were realized in the year ended May 31, 2005. These charges related to the recognition of an impairment in the carrying value of our investment in the central laboratory, a write-down of certain fixed assets and the lease termination and exit costs associated with the consolidation of some of our office facilities in the US.

Risk Factors

We are dependent on the continued outsourcing of research and development by the pharmaceutical, biotechnology and medical device industries.

We are dependent upon the ability and willingness of the pharmaceutical, biotechnology and medical device companies to continue to spend on research and development and to outsource the services that we provide. We are therefore subject to risks, uncertainties and trends that affect companies in these industries. We have benefited to date from the tendency of pharmaceutical, biotechnology and medical device companies to outsource clinical research projects. Any downturn in these industries or reduction in spending or outsourcing could adversely affect our business. For example, if these companies expanded upon their in-house clinical or development capabilities, they would be less likely to utilize our services. In addition, if governmental regulations were changed, they could affect the ability of our clients to operate profitably, which may lead to a decrease in research spending and therefore this could have a material adverse effect on our business.

We depend on a limited number of clients and a loss of or significant decrease in business from them could affect our business.

We have in the past and may in the future derive a significant portion of our net revenue from a relatively limited number of clients. A loss of, or a significant decrease in business from any one or more of such clients could have a material adverse effect on our business. During the year ended December 31, 2006, 35% of our net revenue was derived from our top five clients. During 2006, no client contributed more than 10% of net revenues. During the 7 month transition period ended December 31, 2005, 39% of our net revenue was derived from our top five clients and no client contributed more than 10% of net revenues. During the fiscal year ended May 31, 2005, 43% of our net revenue was derived from our top five clients. In the fiscal year ended May 31, 2005, 12% of our net revenue was from Astra Zeneca plc, no other client contributed more than 10% of net revenues. During the fiscal year ended May 31, 2004, 40% of our net revenue was derived from our top five clients. In fiscal 2004, 17% of our net revenue was from Astra Zeneca plc. No other client contributed more than 10% of net revenues.

If our clients discontinue using our services, or cancel or discontinue projects, our revenue will be adversely affected and we may not receive their business in the future or may not be able to attract new clients.

Our clients may discontinue using our services completely or cancel some projects either without notice or upon short notice. The termination or delay of a large contract or of multiple contracts could have a material adverse effect on our revenue and profitability. Historically, clients have cancelled or discontinued projects and may in the future cancel their contracts with us for reasons including:

- the failure of products being tested to satisfy safety or efficacy requirements;
- unexpected or undesired clinical results of the product;
- a decision that a particular study is no longer necessary;
- poor project performance, insufficient patient enrollment or investigator recruitment;
- production problems resulting in shortages of the drug; or

If we lose clients, we may not be able to attract new ones, and if we lose individual projects, we may not be able to replace them.

We compete against many companies and research institutions that may be larger or more efficient than we are. This may preclude us from being given the opportunity to bid, or may prevent us from being able to competitively bid on and win new contracts.

The market for Contract Research Organizations (CROs) is highly competitive. We primarily compete against in-house departments of pharmaceutical companies and other CROs including Quintiles Transnational Corporation, Covance Inc., PAREXEL International Corporation, Kendle International Inc., i3 Research (United Health Group Incorporated), Omnicare Inc., PRA International Inc., MDS Inc., PharmaNet Development Group, Inc. and Pharmaceutical Product Development, Inc.. Some of these competitors have substantially greater capital, research and development capabilities and human resources than we do. As a result, they may be selected as preferred vendors of our clients or potential clients for all projects or for significant projects, or they may be able to price projects more competitively than us. Any of these factors may prevent us from getting the opportunity to bid on new projects or prevent us from being competitive in bidding on new contracts.

Our quarterly results are dependent upon a number of factors and can fluctuate from quarter to quarter.

Our results of operations in any quarter can fluctuate depending upon, among other things, the number and scope of ongoing client projects, the commencement, postponement, variation and cancellation or termination of projects in the quarter, the mix of revenue, cost overruns, employee hiring and other factors. Our net revenue in any period is directly related to the number of employees and the percentage of these employees who were working on projects and billed to the client during that period. We may be unable to compensate for periods of underutilization during one part of a fiscal period by augmenting revenues during another part of that period. We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results.

Our Central Laboratory segment has been loss making in the past and may experience losses in the future.

Our central laboratory has experienced a period of underperformance over the past number of years. This business segment returned to profitability for the year ended December 31, 2006. To maintain this profitability we require continued strong levels of new business awards and economies of scale in the usage of both resources and lab inputs. If we do not achieve continued momentum in winning new business and if these economies are not sustained, then our central laboratory may return to a loss making position in the future.

Approximately 82% of our net revenue is earned from long-term fixed-fee contracts. We would lose money in performing these contracts if the costs of performance exceed the fixed fees for these projects.

Approximately 82% of our net revenue is earned from long-term fixed-fee contracts. We have in the past and will continue to bear the risk of cost overruns under these contracts. If the costs of performing these projects exceed the fixed fees for these projects, (for example if we under price these contracts), if there are significant cost overruns or if there are unanticipated delays under these contracts, our business, financial condition and operating results could be adversely affected.

If we fail to attract or retain qualified staff, our performance may suffer.

Our business, future success and ability to expand operations depends upon our ability to attract, hire, train and retain qualified professional, scientific and technical operating staff. We compete for qualified professionals with other CROs, temporary staffing agencies and the in-house departments of pharmaceutical, biotechnology and medical device companies. Although we have not had any difficulty attracting or retaining qualified staff in the past, there is no guarantee that we will be able to continue to attract a sufficient number of clinical research professionals at an acceptable cost.

Failure to comply with the regulations of the U.S. Food and Drug Administration and other regulatory authorities could result in substantial penalties and/or loss of business.

The U.S. Food and Drug Administration, or FDA, and other regulatory authorities inspect us from time to time to ensure that we comply with their regulations and guidelines, including environmental and health and safety matters. In addition, we must comply with the applicable regulatory requirements governing the conduct of clinical trials in all countries in which we operate. If we fail to comply with any of these requirements we could suffer:

- the termination of any research;
- the disqualification of data;
- the denial of the right to conduct business;
- criminal penalties; and
- other enforcement actions.

Our exposure to exchange rate fluctuations could adversely affect our results of operations.

We derived approximately 41.6% of our consolidated net revenue in the year ended December 31, 2006 from our operations outside of the United States. Our financial statements are presented in U.S. dollars. Accordingly, changes in exchange rates between the U.S. dollar and other currencies in which we report local results, including the pound sterling and the euro, will affect the translation of a subsidiary’s financial results into U.S. dollars for purposes of

reporting our consolidated financial results.

In addition, our contracts with our clients are sometimes denominated in currencies other than the currency in which we incur expenses related to such contracts. Where expenses are incurred in currencies other than those in which contracts are priced, fluctuations in the relative value of those currencies could have a material adverse effect on our results of operations. We regularly review our currency exchange exposure and hedge a portion of this exposure using forward exchange contracts.

Liability claims brought against us could result in payment of substantial damages to plaintiffs and decrease our profitability.

We contract with physicians who serve as investigators in conducting clinical trials to test new drugs on their patients. This testing creates the risk of liability for personal injury to or death of the patients. Although investigators are generally required by law to maintain their own liability insurance, we could be named in lawsuits and incur expenses arising from any professional malpractice actions against the investigators with whom we contract. To date, we have not been subject to any liability claims that are expected to have a material effect on us.

Indemnifications provided by our clients against the risk of liability for personal injury to or death of the patients vary from client to client and from trial to trial and may not be sufficient in scope or amount or the providers may not have the financial ability to fulfill their indemnification obligations. Furthermore, we would be liable for our own negligence and that of our employees.

In addition, we maintain an appropriate level of worldwide Professional Liability/Error and Omissions Insurance. The amount of coverage we maintain depends upon the nature of the trial. We may in the future be unable to maintain or continue our current insurance coverage on the same or similar terms. If we are liable for a claim that is beyond the level of insurance coverage, we may be responsible for paying all or part of any award.

We may lose business opportunities as a result of health care reform and the expansion of managed care organizations.

Numerous governments, including the U.S. government and governments outside of the U.S., have undertaken efforts to control growing health care costs through legislation, regulation and voluntary agreements with medical care providers and drug companies. If these efforts are successful, pharmaceutical, biotechnology and medical device companies may react by spending less on research and development and therefore this could have a material adverse effect on our business.

For instance, in the past the U.S. Congress has entertained several comprehensive healthcare reform proposals. The proposals were generally intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While the U.S. Congress has not yet adopted any comprehensive reform proposals, members of Congress may raise similar proposals in the future. We are unable to predict the likelihood that healthcare reform proposals will be enacted into law.

In addition to healthcare reform proposals, the expansion of managed care organizations in the healthcare market may result in reduced spending on research and development. Managed care organizations' efforts to cut costs by limiting expenditures on pharmaceuticals and medical devices could result in pharmaceutical, biotechnology and medical device companies spending less on research and development. If this were to occur, we would have fewer business opportunities and our revenues could decrease, possibly materially.

We may lose business as a result of changes in the regulatory environment

Various regulatory bodies throughout the world may enact legislation which could introduce changes to the regulatory environment for drug development and research. The adoption and implementation of such legislation is difficult to

predict and therefore could have a material adverse effect on our business.

We may not be able to successfully develop and market or acquire new services.

We may seek to develop and market new services that complement or expand our existing business or expand our service offerings through acquisition. If we are unable to develop new services and/or create demand for those newly developed services, or expand our service offerings through acquisition, our future business, results of operations, financial condition, and cash flows could be adversely affected.

We rely on third parties for important services.

We depend on third parties to provide us with services critical to our business. The failure of any of these third parties to adequately provide the needed services could have a material adverse effect on our business.

We may make acquisitions in the future, which may lead to disruptions to our ongoing business.

We have made a number of acquisitions and will continue to review new acquisition opportunities. If we are unable to successfully integrate an acquired company, the acquisition could lead to disruptions to the business. The success of an acquisition will depend upon, among other things, our ability to:

- assimilate the operations and services or products of the acquired company;
- integrate acquired personnel;
- retain and motivate key employees;
- retain customers; and
- minimize the diversion of management's attention from other business concerns.

Acquisitions of foreign companies may also involve additional risks, including assimilating differences in foreign business practices and overcoming language and cultural barriers.

In the event that the operations of an acquired business do not meet our performance expectations, we may have to restructure the acquired business or write-off the value of some or all of the assets of the acquired business.

We rely on our interactive voice response systems to provide accurate information regarding the randomization of patients and the dosage required for patients enrolled in the trials.

We develop and maintain computer run interactive voice response systems to automatically manage the randomization of patients in trials, assign study drug, and adjust the dosage when required for patients enrolled in trials we support. An error in the design, programming or validation of these systems could lead to inappropriate assignment or dosing of patients which could give rise to patient safety issues, invalidation of the trial or both.

We rely on various control measures to mitigate the risk of a serious adverse event resulting from healthy volunteer Phase I trials.

We conduct healthy volunteer Phase I trials including first-into-man trials for new clinical entities in the UK. Due to the experimental nature of these studies, serious adverse events may arise. We mitigate such events by following Good Clinical Practice and ensuring appropriately trained and experienced clinical physicians are managing these trials and that internal Standards Operating Procedures and client protocols are rigorously adhered to. We also ensure that a signed contract is in place with the client in advance of clinical dosing with appropriate indemnifications and insurance coverage. We maintain our own no-faults clinical trial insurance. Following our internal review and submission, an Independent Ethics committee approves the study protocol and appropriate approval is obtained from the UK regulatory body.

Item 4.*Information on the Company.*

General

We are a contract research organization ("CRO"), providing outsourced development services on a global basis to the pharmaceutical, biotechnology and medical device industries. We specialize in the strategic development, management and analysis of programs that support Clinical Development - from compound selection to Phase I-IV clinical studies.

Our primary approach is to use dedicated teams to achieve optimum results, but we can implement a range of resourcing models to suit client requirements.

In a highly fragmented industry, we are one of a small number of companies with the capability and expertise to conduct clinical trials in all major therapeutic areas on a global basis. Currently, we have approximately 4,300 employees, in 49 locations in 30 countries, providing Phase I - IV Clinical Trial Management, Drug Development Support Services, Data Management and Biostatistics and Central Laboratory and Imaging Services. We have the operational flexibility to provide development services on a stand-alone basis or as part of an integrated "full service" solution.

Headquartered in Dublin, Ireland, we began operations in 1990 and have expanded our business through internal growth and strategic acquisitions. For the year ended December 31, 2006, we derived approximately 58.4%, 35.8% and 5.8% of our net revenue in the United States, Europe and Rest of World, respectively.

During the year ended December 31, 2006, we commenced operations in Vilnius, Lithuania, Warsaw, Poland, Beijing, China, San Diego, California, Salt Lake City, Utah and Bangalore, India and acquired an additional office, outside of Chicago, Illinois and also in San Francisco, California.

On September 29, 2006, ICON's shareholders approved a bonus issue of ordinary shares (the "Bonus Issue") to shareholders of record as of the close of business on October 13, 2006 (the "Record Date"). The Bonus Issue provided for each shareholder to receive one bonus ordinary share for each ordinary share held as of the Record Date, effecting the equivalent of a 2-for-1 stock split. The Bonus shares were issued on October 16, 2006 to Ordinary Shareholders and on October 23, 2006 to holders of American Depositary Shares ("ADSs"). NASDAQ adjusted the trading price of ICON's ADSs to effect the Bonus Issue prior to the opening of trading on October 24, 2006. All outstanding ordinary share amounts referenced in the consolidated financial statements and the notes thereto have been retrospectively restated to give effect to the Bonus Issue as if it had occurred as of the date referenced.

On July 10, 2006, we acquired 100% of the common stock of Ovation Healthcare Research 2 Inc. ("Ovation"), based in Illinois, USA, for an initial cash consideration of U.S.$6.6 million, excluding costs of acquisition. Working capital provisions were built into the acquisition contract requiring the potential payment of additional deferred consideration up to a maximum of $1.4 million. On October 27, 2006, $0.18 million was paid to the former shareholders of Ovation in full and final settlement of the working capital provisions.

On July 27, 2005, our Board of Directors approved a change of our fiscal year end from a twelve-month period ending on May 31, to a twelve-month period ending on December 31. We have made this change in order to align our fiscal year end with the majority of other contract research organizations. Our fiscal quarters now end on the last day of March, June, September and December of each year.

On December 1, 2004, we acquired the workforce of Biomines Research Solutions Private Limited, based in Chennai, India. The workforce is engaged in the business of clinical trial data management and statistical analysis services and has been transferred to our existing Indian operation.

On July 1, 2004, we acquired 70% of the outstanding share capital of Beacon Bioscience, Inc., a leading specialist CRO, which provides a range of medical imaging services to the pharmaceutical, biotechnology and medical device industries.

ICON plc's principal executive office is located at: South County Business Park, Leopardstown, Dublin 18, Republic of Ireland. The contact telephone number of this office is 353 (1) 291 2000.

Industry Overview

The CRO industry provides independent product development services for the pharmaceutical, biotechnology and medical device industries. Companies in these industries outsource product development services to CROs in order to manage the drug development process more efficiently and to cost-effectively maximize the profit potential of both patent-protected and generic products. The CRO industry has evolved since the 1970s from a small number of companies that provided limited clinical services to a larger number of CROs that offer a range of services that encompass the entire research and development process, including pre-clinical development, clinical trials management, clinical data management, study design, biostatistical analysis, post marketing surveillance, central laboratory and regulatory affairs services. CROs are required to provide these services in accordance with good clinical and laboratory practices, as governed by the applicable regulatory authorities.

The CRO industry is highly fragmented, consisting of several hundred small, limited-service providers and a limited number of medium-sized and large CROs with global operations. Although there are few barriers to entry for small, limited-service providers, we believe there are significant barriers to becoming a CRO with global capabilities. Some of these barriers include the infrastructure and experience necessary to serve the global demands of clients, the ability to manage simultaneously complex clinical trials in numerous countries, broad therapeutic expertise and the development and maintenance of the complex information technology systems required to integrate these capabilities. In recent years, the CRO industry has experienced consolidation, resulting in the emergence of a select group of CROs that have the capital, technical resources, integrated global capabilities and expertise to conduct multiple phases of clinical trials on behalf of pharmaceutical, biotechnology and medical device companies. We believe that some large pharmaceutical companies, rather than utilizing many CRO service providers, are selecting a limited number of CROs who are invited to bid for projects. We believe that this trend will further concentrate the market share among CROs with a track record of quality, speed, flexibility, responsiveness, global capabilities and overall development experience and expertise.

New Drug Development - An Overview

Before a new drug may be marketed, the drug must undergo extensive testing and regulatory review in order to determine that the drug is safe and effective. The following discussion primarily relates to the FDA approval process. Similar procedures must be followed for clinical trials in other countries. The stages of this development process are as follows:

Preclinical Research (1 to 3.5 years). "In vitro" (test tube) and animal studies are conducted to establish the relative toxicity of the drug over a wide range of doses and to detect any potential to cause birth defects or cancer. If results warrant continuing development of the drug, the manufacturer will file for an Investigational New Drug Application, or IND, upon which the FDA may grant permission to begin human trials.

Clinical Trials (3.5 to 6 years)

Phase I (6 months to 1 year). Basic safety and pharmacology testing in 20 to 80 human subjects, usually healthy volunteers, includes studies to determine how the drug works, if it is safe, how it is affected by other drugs, where it goes in the body, how long it remains active and how it is broken down and eliminated from the body.

Phase II (1 to 2 years). Basic efficacy (effectiveness) and dose-range testing in 100 to 200 patients to help determine the best effective dose, confirm that the drug works as expected, and provide additional safety data.

Phase III (2 to 3 years). Efficacy and safety studies in hundreds or thousands of patients at many investigational sites (hospitals and clinics). These studies can be placebo-controlled trials, in which the new drug is compared with a "sugar pill", or studies comparing the new drug with one or more drugs with established safety and efficacy profiles in the

same therapeutic category.

TIND (may span late Phase II, Phase III, and FDA review). When results from Phase II or Phase III show special promise in the treatment of a serious condition for which existing therapeutic options are limited or of minimal value, the FDA may allow the manufacturer to make the new drug available to a larger number of patients through the regulated mechanism of a Treatment Investigational New Drug, or TIND. Although less scientifically rigorous than a controlled clinical trial, a TIND may enroll and collect a substantial amount of data from tens of thousands of patients.

NDA Preparation and Submission. Upon completion of Phase III trials, the manufacturer assembles the statistically analyzed data from all phases of development into a single large submission, the New Drug Application, or NDA, which today comprises, on average, approximately 100,000 pages.

FDA Review & Approval (1 to 1.5 years). Data from all phases of development (including a TIND) is scrutinized to confirm that the manufacturer has complied with regulations and that the drug is safe and effective for the specific use (or "indication") under study.

Post-Marketing Surveillance and Phase IV Studies. Federal regulation requires the manufacturer to collect and periodically report to the FDA additional safety and efficacy data on the drug for as long as the manufacturer markets the drug (post-marketing surveillance). If the drug is marketed outside the U.S., these reports must include data from all countries in which the drug is sold. Additional studies (Phase IV) may be undertaken after initial approval to find new uses for the drug, to test new dosage formulations, or to confirm selected non-clinical benefits, e.g., increased cost-effectiveness or improved quality of life.

Key Trends Affecting the CRO Industry

CROs derive substantially all of their revenue from the research and development expenditures of pharmaceutical, biotechnology and medical device companies. Based on industry surveys and investment analyst research, we estimate that clinical development expenditures outsourced by pharmaceutical and biotechnology companies worldwide in 2005 was approximately $14 billion. We believe that the following trends create further growth opportunities for global CROs, although there is no assurance that growth will materialize.

Innovation driving new Drug Development activity.

Technologies such as combinational chemistry and high throughput screening, together with improved understanding of disease pathology (driven by scientific advances such as the mapping of the human genome) have greatly increased the number of new drug candidates being investigated in early development and greatly broadened the number of biological mechanisms being targeted by such candidates. Arising from this innovation, funding for research and development, particularly by biotechnology companies, has been growing strongly. This is leading to significant increased activity in both Preclinical and Phase I development which we believe will lead to more treatments in Phase II-III clinical trials. As the number of trials that need to be performed increases, we believe that drug developers will increasingly rely on CROs to manage these trials in order to continue to focus on drug discovery.

Declining productivity within Research and Development programs.

Whilst the total number of compounds that have entered clinical development has risen over the last few years, the number of novel drugs that have successfully been approved for marketing has remained relatively stable. Pharmaceutical and biotechnology companies have responded in a number of ways including looking to extend the product life cycle of existing drugs and initiating programs to drive efficiency in the development process. One example of this has been the efforts to achieve a more seamless transition across development phases, particularly Phase I-III. In parallel regulatory initiatives such as the FDA's "Critical Path" and the emergence of techniques such as adaptive trial design are focused on ensuring unsafe or ineffective drugs are eliminated from the development process earlier, allowing effective treatments to get to patients quicker at potentially reduced development costs.

Pressure to Accelerate Time to Markets; Globalization of the Marketplace.

Reducing product development time maximizes the client's potential period of patent exclusivity, which in turn maximizes potential economic returns. We believe that clients are increasingly using CROs that have the appropriate expertise to improve the speed of product development to assist them in improving economic returns. In addition,

applying for regulatory approval in multiple markets and for multiple indications simultaneously, rather than sequentially, reduces product development time and thereby maximizes economic returns. We believe that CROs with global operations and experience in a broad range of therapeutic areas are a key resource to support a global regulatory approval strategy. Alongside this, the increasing need to access pools of “treatment naive” patients is leading to the conduct of clinical trials in new “emerging regions” such as Eastern Europe, Latin America, South America and India. We believe that having access to both traditional and emerging clinical research markets gives global CROs a competitive advantage.

Emergence of the Biotechnology Sector

The nature of the drugs being developed is changing. Biotechnology is enabling the development of targeted drugs with diagnostic tests to determine a priori whether a drug will be effective given a patient's genomic profile. An increasing proportion of R&D expenditure is being spent on the development of highly technical drugs to treat very specific therapeutic areas. Much of this discovery expertise is found in smaller biotechnology firms. We believe that it is to these organizations that the large pharmaceutical companies will look for an increasing proportion of their new drug pipelines. Whether it is through licensing agreements, joint ventures or equity investment, we believe we will see the emergence of more strategic relationships between small discovery firms and the larger pharmaceutical groups. As the majority of these biotechnology companies do not have a clinical development infrastructure, we believe that the services offered by CROs will continue to be in demand from such companies.

Cost Containment Pressures.

Over the last several years, drug companies have sought more efficient ways of conducting business due to margin pressures stemming from patent expirations, greater acceptance of generic drugs, pricing pressures caused by the impact of managed care, purchasing alliances and regulatory consideration of the economic benefit of new drugs. Consequently, drug companies are centralizing research and development, streamlining their internal structures and outsourcing certain functions to CROs, thereby converting previously fixed costs to variable costs. The CRO industry, by specializing in clinical trials management, is often able to perform the needed services with greater focus and at a lower cost than the client could perform internally.

Increasing Number of Large Long-Term Studies

We believe that to establish competitive claims and to encourage drug prescription by physicians in some large and competitive categories, more clients need to conduct outcome studies to demonstrate, for example, that mortality rates are reduced by certain drugs. To verify such outcomes, very large patient numbers are required and they must be monitored over long time periods. We believe that as these types of studies increase there will be a commensurate increase in demand for the services of CROs who have the ability to quickly assemble large patient populations, globally if necessary, and manage this complex process throughout its duration.

A focus on long-term product safety

High profile recalls for drugs in recent times have increased the emphasis on monitoring the health effects of long term drug usage. Historically the industry has not tracked what has happened to consumers of drugs over long periods. This is important given that people can potentially be taking a drug for 20 or 30 years, and may have no idea what side-effects it will have over that period of time. Registry studies are one method of collecting safety and efficacy data over an extensive patient population once a drug is on the market. Much of the information collected is voluntary by both physicians and patients as part of routine care. This data can provide an early warning if a patient were to experience a serious adverse reaction. With increasing regulation in the area of post marketing surveillance, we believe pharmaceutical firms will look to CROs for support in the design and rollout of major post marketing safety programs.

Increasing Regulatory Demands.

We believe that regulatory agencies are becoming more demanding with regard to the data required to support new drug approvals and are seeking more evidence that new drugs are safer and more effective than existing products. As a result, the complexity of clinical trials and the size of regulatory submissions are driving the demand for services provided by CROs.

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The ICON Strategy

ICON's mission is to provide flexible, superior quality, global pharmaceutical development services, that enable clients to expedite development, reduce costs and establish the benefits of treatments that enhance people's lives.

We provide these development services to clients on a stand-alone basis or as part of an integrated "full service" solution. Our primary approach is to use dedicated teams to achieve optimum results. While we believe that this operating model differentiates us from our competition in the CRO industry and enables us to deliver high quality services to our clients, we do retain the operational flexibility to implement a range of resourcing models to suit client requirements.

Our strategy is to continue to grow by penetrating further our existing client base and adding new clients within the Phase I-IV outsourced development services market. The aim being to ensure we will be considered by every company for every major Phase I - IV project.

We intend to implement our strategy by continuing to deliver high quality services, by increasing our geographic presence, expanding the scale and range of our services and, where appropriate, cross selling these services into clients. As needed we intend to supplement our internal growth with strategic acquisitions.

- ***Continue to Deliver High Quality Services and Customer Satisfaction.*** ICON's core competency is project management, built up over the last fifteen years managing complex projects and underpinned by comprehensive and consistent processes which conform to the ISO9001:2000 quality certification.

We have an extensive therapeutic and scientific knowledge residing in the organization and the capability to consistently solve the challenges that arise during clinical trials, each of which is the equivalent of a unique scientific study.

We believe our quality processes, extensive experience and dedicated team approach allows us to provide consistent high quality, timely and cost effective services. We believe that the resulting customer satisfaction and enhanced reputation in the industry will continue to enable us to penetrate our existing client base and add new clients.

- ***Expand Geographic Presence.*** In a highly fragmented industry, we are one of a small group of organizations with the capability and expertise to conduct clinical trials on a global basis. We believe that this capability to provide our services globally in most major and developing pharmaceutical markets enhances our ability to compete for new business from large multinational pharmaceutical, biotechnology and medical device companies. We have expanded geographically through the establishment of 49 offices in 30 countries and intend to continue expanding in regions that have the potential to increase our client base or increase our investigator and patient populations. We have most recently been expanding our presence in Eastern Europe and Latin America as well as parts of Asia including India and Japan.

- ***Increase Scale and Range of Services.*** We seek to enhance our competitive position by increasing the scale and range of our services. We intend to expand our clinical trials, central laboratory, digital imaging, IVRS (interactive voice recognition system), data management, statistical and consulting operations in order to capitalize further on the outsourcing opportunities currently available from our clients. The recent high profile withdrawal of several drugs from the market is also placing the spotlight on drug safety which will lead to greater emphasis, by all involved in drug development, on post-marketing safety monitoring. ICON's recent acquisition of Ovation has added additional capabilities to the organization in the areas of health economics, patient registries and outcomes research.

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Cross Sell Services: By building up a full range of development services, ICON can support clients through all stages of their product lifecycle. There are signs that certain client segments are looking to rationalize their supply base down to a small number of CROs who can provide this breadth of service. A core part of our business development strategy is to "cross sell" ICON's service portfolio. By developing and maintaining close relationships with clients, we gain repeat business and achieve lateral penetration of services with the client organization.

- ***Strategic acquisitions:*** Alongside organic growth, we will continue to seek strategic acquisitions that fall within and are complimentary to our existing service lines.

Services

ICON is a global provider of outsourced development services to the pharmaceutical, biotechnology and medical device industries. We specialize in the strategic development, management and analysis of programs that support Clinical Development - from compound selection to Phase I-IV clinical studies.

Our core Clinical Research business specializes in the planning, management, execution and analysis of Phase I - IV clinical trials, ranging from small studies to complex, multinational projects. Specific clinical research services offered include:

- Investigator Recruitment
- Study Monitoring and Data Collection
- Case Report Form ("CRF") Preparation
- Patient Safety Monitoring
- Clinical Data Management
- IVR (Interactive Voice Response)
- Medical Reporting
- Patient Registries
- Outcomes Research
- Health Economics
- Strategic Analysis and Data Operations
- Clinical Pharmacology
- Bioanalysis
- Pharmacokinetic and Pharmacodynamic analysis
- Study Protocol Preparation
- Regulatory Consulting
- Product Development Planning
- Strategic Consulting
- Medical Imaging
- Contract Staffing

An important element in monitoring patient safety during a clinical trial is the conduct of various laboratory tests on the patient's blood, urine and other bodily fluids at appropriate intervals during the trial. The analysis of these samples must be standardized and the results must be promptly transmitted to the investigator. ICON Central Laboratories provides global central laboratory services dedicated exclusively to clinical trials. Specific services offered by ICON Central Laboratories include:

- Sample analyses
- Safety testing
- Microbiology
- Custom flow cytometry
- Electronic transmission of test results

Organizational Structure

Name	*Country of incorporation*	*Group ownership*
ICON Clinical Research (UK) Limited	United Kingdom	100%
ICON Clinical Research Inc.	USA	100%
ICON Clinical Research Limited	Republic of Ireland	100%
ICON Japan K.K.	Japan	100%
ICON Clinical Research GmbH	Germany	100%
ICON Clinical Research Pty Limited	Australia	100%
ICON Clinical Research S.A.	Argentina	100%
ICON Clinical Research SARL	France	100%
ICON Clinical Research Pte.	Singapore	100%
ICON Clinical Research Israel Limited	Israel	100%
Medeval Group Limited	UK	100%
ICON Laboratories, Inc.	USA	100%
Managed Clinical Solutions, Inc.	USA	100%
ICON Clinical Research (Canada) Inc.	Canada	100%
GloboMax LLC	USA	100%
ICON Clinical Research Espana S.L.	Spain	100%
ICON Clinical Research Kft	Hungary	100%
Beacon Bioscience, Inc.	USA	70%
ICON Clinical Research India Private Limited	India	100%
ICON Clinical Research México, S.A. de C.V.	Mexico	100%
ICON Pesquisas Clinicas LTDA	Brazil	100%
Ovation Research Group Inc.	USA	100%
ICON Chile Limitada	Chile	100%

ICON Clinical Research Korea Yuhan Hoesa	Korea	100%

All shareholdings comprise ordinary shares.
All subsidiary undertakings are involved in the provision of contract research services to the pharmaceutical, biotechnology and medical device industries.

Information Systems

Our information technology strategy is built around deploying IT systems to enable the delivery of our business services in a global environment. The focus is to provide ease of access to information for our staff and clients globally. Our current information systems are built on open standards and leading commercial business applications from vendors including Microsoft, Oracle, EMC, BEA, Phase Forward and Medidata. IT expenditure is authorized by strict IT Governance policies requiring senior level approval of all strategic IT expenditure. All critical business systems are formally delivered following a structured project management and systems delivery life cycle approach. Critical clinical information systems, which manage clinical data, are validated in accordance with FDA regulations and those of other equivalent regulatory bodies throughout the world.

In Clinical Operations, we have deployed a suite of software applications that assist in the management and tracking of our clinical trials activities. These software applications are both internally developed and commercially available applications from leading vendors in the industry. These include a clinical trials management application that tracks all relevant data in a trial and automates all management and reporting processes. In our Data Management function, we have deployed leading clinical data management solutions plus Electronic Data Capture (EDC) solutions from leading industry vendors. Our state of the art workflow technology allows us to process clinical trials data seamlessly throughout the Company. We have also developed an interactive voice response system to increase the efficiency of clinical trials. This system provides features such as centralized patient randomization, drug inventory management, and patient diary collection and provides our clients with a fully flexible data retrieval solution which can be utilized via telephone, internet browser or a WAP enabled device.

Recognizing that each client has its own requirements and systems, we seek to ensure an entirely flexible approach to client needs. An example of this flexibility is in the provision of portal solutions that allows clients access to study related information via a secure web based environment. We also provide secure remote access to client systems for clients to require us to utilize their internal platforms.

ICON’s strategy of using technology to enhance our global process can be seen in our recent deployment of a new global SOP Document Management system and our current investment in WEB based training delivery solutions.

In our central laboratory, we utilize a comprehensive suite of software, including a laboratory information management system (LIMS), a kit/sample management system and a web interface system to allow clients to review results online.

Our IT systems are operated from two centralized hubs in Philadelphia and Dublin. Other offices are linked to these hubs through a resilient network that is outsourced to a leading tier one telecommunications provider. Traveling staff can also access all systems via secure remote dial up facilities. A global corporate intranet portal provides access to all authorized data and applications for our internal staff as well as providing an internal platform for company wide communication.

Sales and Marketing

Our global sales and marketing strategy is to focus our business development efforts on pharmaceutical, biotechnology and medical device companies whose development projects are advancing. By developing and maintaining close relationships with our clients, we gain repeat business, can leverage a full service portfolio and achieve lateral penetration into other therapeutic divisions where applicable. Simultaneously, we are actively establishing new client relationships.

While our sales and marketing activities are carried out locally by executives in each of the major locations, the sales and marketing process is coordinated centrally to ensure a consistent and differentiated market positioning for ICON.

In addition, all our business development professionals, senior executives and project team leaders share responsibility for the maintenance of key client relationships and business development activities.

Clients

In the year ended December 31, 2006, revenue was earned from over 350 clients, including all of the top 20 pharmaceutical companies as ranked by 2005 revenues.

We have expanded geographically in order to pursue larger multi-national clinical trials in markets worldwide and have expanded through acquisition to offer a broader range of services. In the year ended December 31, 2006, 58.4% of our net revenue was generated in the United States, 35.8% in Europe and 5.8% in Rest of World.

We have in the past and may in the future derive a significant portion of our net revenue from a relatively limited number of major projects or clients. During the fiscal year ended May 31, 2004, we received 17% of our net revenue from Astra Zeneca. No other client contributed more than 10% of net revenues in the fiscal year ended May 31, 2004. During the fiscal year ended May 31, 2005, we received 12% of our net revenue from Astra Zeneca. No other client contributed more than 10% of net revenues in the fiscal year ended May 31, 2005. In the transition period ended December 31, 2005, no client contributed more than 10% of net revenues. During the year ended December 31, 2006, 35% of our net revenue was derived from our top five clients and no one client contributed more then 10% of net revenues. We believe that the importance of certain clients reflects our success in penetrating our client base. The loss of, or a significant decrease in business from one or more of these key clients could result in a material adverse effect.

Contractual Arrangements

We are generally awarded contracts based upon our response to requests for proposals received from pharmaceutical, biotechnology and medical device industries.

Most of our revenues are earned from contracts which are fixed price, based on certain activities and performance specifications. Payment terms usually provide either for payments based on the achievement of certain identified milestones or activity levels or monthly payments according to a fixed payment schedule over the life of the contract. Where clients request changes in the scope of a trial or in the services to be provided by us, a change order or amendment is issued often resulting in additional revenues for us. We also contract on a "fee-for-service," or "time and materials" basis, but this accounts for a small portion of overall project activities.

Contract terms may range from several weeks to several years depending on the nature of the work to be performed. In most cases, a portion of the contract fee, typically 10% to 20%, is paid at the time the study or trial is started. The balance of the contract fee payable is generally payable in installments over the study or trial duration and may be based on the achievement of certain performance targets or "milestones" or, to a lesser extent, on a fixed monthly payment schedule. For instance, installment payments may be based on patient enrollment or delivery of the database. Reimbursable expenses are typically estimated and budgeted within the contract and invoiced on a monthly basis. Reimbursable expenses include payments to investigators, travel and accommodation costs and various other direct costs incurred in the course of the clinical trial which are fully reimbursable by the client.

Most of our contracts are terminable immediately by the client with justifiable cause or with 60 days notice without cause. In the event of termination, we are entitled to all sums owed for work performed through the notice of termination and certain costs associated with termination of the study. Some of our contracts provide for an early termination fee. Termination or delay in the performance of a contract occurs for various reasons, including, but not limited to, unexpected or undesired results, production problems resulting in shortages of the drug, adverse patient reactions to the drug, the client's decision to de-emphasize a particular trial or inadequate patient enrollment or investigator recruitment.

Backlog

Our backlog consists of potential net revenue yet to be earned from projects awarded by clients.

At December 31, 2006, we had a backlog of approximately $872 million, compared with approximately $633 million at December 31, 2005. We believe that our backlog as of any date is not necessarily a meaningful predictor of future results, due to the potential for cancellation or delay of the projects underlying the backlog, and no assurances can be given that we will be able to realize this backlog as net revenue.

Competition

The CRO industry is highly fragmented, consisting of several hundred small, limited-service providers and a limited number of medium-sized and large CROs with global operations. We primarily compete against in-house departments of pharmaceutical companies and other CROs with global operations. Some of these competitors have substantially greater capital, technical and other resources than us. CROs generally compete on the basis of previous experience, the quality of contract research, the ability to organize and manage large-scale trials on a global basis, the ability to manage large and complex medical databases, the ability to provide statistical and regulatory services, the ability to recruit suitable investigators, the ability to integrate information technology with systems to improve the efficiency of contract research, an international presence with strategically located facilities, financial viability, medical and scientific expertise in specific therapeutic areas and price. We believe that we compete favorably in these areas. Our principal CRO competitors are Quintiles Transnational Corporation, Covance Inc., PAREXEL International Corp., Kendle International Inc., i3 Research. (United Health Group Incorporated), Omnicare, Inc., PRA International Inc., MDS Inc, PharmaNet Development Group, Inc. and Pharmaceutical Product Development, Inc. The trend toward CRO industry consolidation has resulted in heightened competition among the larger CROs for clients and acquisition candidates.

Government Regulation

Regulation of Clinical Trials

The clinical investigation of new drugs is highly regulated by government agencies. The standard for the conduct of clinical research and development studies is Good Clinical Practice, which stipulates procedures designed to ensure the quality and integrity of data obtained from clinical testing and to protect the rights and safety of clinical subjects.

Regulatory authorities, including the FDA, have promulgated regulations and guidelines that pertain to applications to initiate trials of products, the approval and conduct of studies, report and record retention, informed consent, applications for the approval of drugs and post-marketing requirements. Pursuant to these regulations and guidelines, service providers that assume the obligations of a drug sponsor are required to comply with applicable regulations and are subject to regulatory action for failure to comply with such regulations and guidelines. In the United States and Europe, the trend has been in the direction of increased regulation by the applicable regulatory authority.

In providing our services in the United States, we are obligated to comply with FDA requirements governing such activities. These include ensuring that the study is approved by an appropriate independent review board (IRB)/Ethics Committee, obtaining patient informed consents, verifying qualifications of investigators, reporting patients' adverse reactions to drugs and maintaining thorough and accurate records. We must maintain critical documents for each study for specified periods, and such documents may be reviewed by the study sponsor and the FDA during audits.

The services we provide outside the United States are ultimately subject to similar regulation by the relevant regulatory authority, including the Medicines Control Agency in the United Kingdom and the Bundesinstitut für Arzneimittel und Medizinprodukte in Germany. In addition, our activities in Europe are affected by the European Medicines Evaluation Agency, which is based in London, England.

We must retain records for each study for specified periods for inspection by the client and by the applicable regulatory authority during audits. If such audits document that we have failed to comply adequately with applicable regulations and guidelines, it could result in a material adverse effect. In addition, our failure to comply with applicable regulation and guidelines, depending on the extent of the failure, could result in fines, debarment, termination or suspension of ongoing research or the disqualification of data, any of which could also result in a material adverse effect.

Potential Liability and Insurance

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

We believe that the risk of liability to patients in clinical trials is mitigated by various regulatory requirements, including the role of institutional review boards and the need to obtain each patient's informed consent. The FDA requires each human clinical trial to be reviewed and approved by the institutional review board at each study site. An institutional review board is an independent committee that includes both medical and non-medical personnel and is obligated to protect the interests of patients enrolled in the trial. After the trial begins, the institutional review board monitors the protocol and measures designed to protect patients, such as the requirement to obtain informed consent.

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

Description of Property

We lease all but one of our facilities under operating leases.

Our principal executive offices are located in South County Business Park, Leopardstown, Dublin, Republic of Ireland, where we own an office facility of approximately 3,900 square meters on approximately four and a half acres. We currently lease an additional office facility of approximately 2,300 square meters in the same business park.

In February 2006, we began building an extension to the development which comprises four 4 storey office blocks linked to the existing building. The four additional blocks will extend the premises by approximately 11,900 square meters, bringing the entire development when completed to approximately 15,800 square meters. The new development is due for completion on a phased basis from June 2007 to October 2008.

We also maintain two U.S. offices in each of the following cities: New York, Chicago, Philadelphia and San Francisco, and one US office in each of the following cities: Irvine, Nashville, Houston, Wilmington, Raleigh, Baltimore, Tampa, San Diego and Salt Lake City. Our European subsidiaries maintain offices in Southampton, Frankfurt, Paris, Moscow, Amsterdam, Marlow, Manchester, Tel Aviv, Stockholm, Riga, Budapest, Milan, Barcelona, Vilinius and Warsaw. Our Rest of World offices are located in Tokyo, Singapore, Sydney, Chennai, Buenos Aires, Johannesburg, Montréal, Hong Kong, Mexico City, Taipei, São Paulo, Bangkok, Seoul, Santiago, Beijing and Bangalore.

Item 5.*Operating and Financial Review and Prospects.*

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements, accompanying notes and other financial information, appearing in Item 18. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States.

Overview

We are a contract research organization ("CRO"), providing outsourced development services on a global basis to the pharmaceutical, biotechnology and medical device industries. We specialize in the strategic development,

management and analysis of programs that support Clinical Development - from compound selection to Phase I-IV clinical studies. We have the operational flexibility to provide development services on a stand-alone basis or as part of an integrated “full service” solution. Our primary approach is to use dedicated teams to achieve optimum results, but we can implement a range of resourcing models to suit client requirements.

In a highly fragmented industry, we are one of a small number of companies with the capability and expertise to conduct clinical trials in all major therapeutic areas on a global basis. Currently, we have approximately 4,300 employees, in 49 locations in 30 countries, providing Phase I - IV Clinical Trial Management, Drug Development Support Services, Data Management and Biostatistics and Central Laboratory and Imaging Services. For the year ended December 31, 2006 we derived approximately 58.4%, 35.8% and 5.8% of our net revenue in the United States, Europe and Rest of World, respectively.

Revenue consists primarily of fees earned under contracts with third-party clients. In most cases, a portion of the contract fee is paid at the time the study or trial is started, often upon the signing of a letter of intent, and the balance of the contract fee is generally payable in installments over the study or trial duration, based on the achievement of certain performance targets or "milestones". Revenue for contracts is recognized on the basis of the relationship between time incurred and the total estimated duration of the trial or on a fee-for-service basis according to the particular circumstances of the contract. As is customary in the CRO industry, we subcontract with third party investigators in connection with clinical trials. All subcontractor costs and certain other costs where reimbursed by clients, are, in accordance with industry practice, deducted from gross revenue to arrive at net revenue. As these costs vary from contract to contract, we view net revenue as our primary measure of revenue growth.

Direct costs consist primarily of compensation and associated fringe benefits for project-related employees, other direct project driven costs and share based compensation expense. Selling, general and administrative expenses consist of compensation and related fringe benefits for selling and administrative employees, professional services, advertising costs, all costs related to facilities and information systems and share based compensation expense.

Our backlog consists of potential net revenue yet to be earned from projects awarded by clients. At December 31, 2006, we had a backlog of approximately $872 million, compared with approximately $633 million at December 31, 2005. We believe that our backlog as of any date is not necessarily a meaningful predictor of future results, due to the potential for cancellation or delay of the projects underlying the backlog, and no assurances can be given that we will be able to realize this backlog as net revenue.

As the nature of ICON's business involves the management of projects having a typical duration of one to three years, the commencement or completion of projects in a fiscal year can have a material impact on revenues earned with the relevant clients in such years. In addition, as we typically work with some, but not all, divisions of a client, fluctuations in the number and status of available projects within such divisions can also have a material impact on revenues earned from such clients from year to year.

Although we are domiciled in Ireland, we report our results in U.S. dollars. As a consequence the results of our non-U.S. based operations, when translated into U.S. dollars, could be materially affected by fluctuations in exchange rates between the U.S. dollar and the currencies of those operations.

In addition to translation exposures, we are also subject to transaction exposures because the currency in which contracts are priced can be different from the currencies in which costs relating to those contracts are incurred. We have 17 operations operating in U.S. dollars, 6 trading in Euros, 3 in pounds Sterling, 2 in Indian Rupee and 1 each in Australian dollars, Singapore dollars, Yen, Israeli New Shekels, Latvian Lats, Swedish Krona, Argentine Peso, South African Rand, Russian Rouble, Canadian dollar, Hungarian Forint, Hong Kong dollar, Taiwan dollar, Mexican Peso, Brazilian Real, Chilean Peso, South Korean Won, Thai Baht, Polish Zloty, Chinese Yuan Renminbi and Lithuanian Litas. Our operations in the United States are not materially exposed to such currency differences as the majority of our revenues and costs are in U.S. dollars. However, outside the United States the multinational nature of our activities means that contracts are usually priced in a single currency, most often pounds Sterling, U.S. dollars or Euros, while costs arise in a number of currencies, depending, among other things, on which of our offices provide staff for the contract, and the location of investigator sites. Although many such contracts benefit from some degree of natural hedging due to the matching of contract revenues and costs in the same currency, where costs are incurred in

currencies other than those in which contracts are priced, fluctuations in the relative value of those currencies could have a material effect on ICON's results of operations. We regularly review our currency exposures and hedge a portion of these, using forward exchange contracts, where they are not covered by natural hedges.

We have received capital and revenue grants from Enterprise Ireland, an Irish government agency. We record capital grants as deferred income, which are credited to income on a basis consistent with the depreciation of the relevant asset. Grants relating to operating expenditures are credited to income in the period in which the related expenditure is charged. The capital grant agreements provide that in certain circumstances the grants received may be refundable in full. These circumstances include sale of the related asset, liquidation of ICON or failing to comply in other respects with the grant agreements. The operating expenditure grant agreements provide for repayment in the event of a downsizing calculated by reference to any reduction in employee numbers. We have not recognized any loss contingency having assessed as remote the likelihood of these events arising. Up to December 31, 2006, we have received $2,695,280 and $2,003,315 under capital grants and operating grants, respectively. Pursuant to the terms of the grant agreements, we are restricted from distributing some of these amounts by way of dividend or otherwise.

As we conduct operations on a global basis, our effective tax rate has depended and will depend on the geographic distribution of our revenue and earnings among locations with varying tax rates. ICON's results of operations therefore may be affected by changes in the tax rates of the various jurisdictions. In particular, as the geographic mix of our results of operations among various tax jurisdictions changes, our effective tax rate may vary significantly from period to period.

Operating Results

The following table sets forth for the periods indicated certain financial data as a percentage of net revenue and the percentage change in these items compared to the prior comparable period. The trends illustrated in the following table may not be indicative of future results.

	May 31, 2005	Transition Period June 1, 2005 to Dec 31, 2005	Jan 1, 2006 to Dec 31, 2006	Transition Period June 1, 2005 to Dec 31, 2005	Jan 1, 2006 to Dec 31, 2006
	Percentage of Net Revenue			Percentage Increase/ (Decrease)	
Net revenue	100%	100%	100%	(38.2%)	125.6%
Costs and expenses:					
Direct costs	55.0%	56.5%	56.2%	(36.5%)	124.8%
Selling, general and administrative	31.8%	30.8%	30.0%	(40.0%)	119.3%
Depreciation and amortization	4.1%	4.0%	3.3%	(39.3%)	84.7%
Share based compensation	-	3.0%	-	100%	(100.0%)
Other charges	3.4%	-	-	(100%)	-
Income from operations	5.7%	5.7%	10.5%	(37.9%)	313.9%

Year ended December 31, 2006 compared to Seven Month Transition Period Ended December 31, 2005

Note: Results below compare a 12 month accounting period ended December 31, 2006 to a 7 month accounting period ended December 31, 2005

Net revenue increased by $253.7 million, or 125.6%, from $201.9 million to $455.6 million. Revenues in the United States, Europe and the Rest of World increased by 125%, 139% and 70% respectively. In the year ended December 31, 2006, net revenue from our central laboratory business increased by 160%, from $18.2 million, to $47.2 million, while our clinical research segment improved by 122%, from $183.8 million to $408.4 million, over the prior period. This increase in net revenue has resulted from a combination of increased business from existing clients, business won from new clients, increased use of outsourcing by the pharmaceutical, biotechnology and medical device industries, an underlying increase in research and development spending and consolidation in the CRO industry.

Direct costs increased by $142.3 million, or 124.8%, from $114.0 million to $256.3 million. Direct costs as a percentage of net revenue decreased from 56.5% in the seven month transition period ended December 31, 2005, to 56.2% in the year ended December 31, 2006. A comparative period analysis shows an increase in direct costs primarily due to increased staff numbers needed to support increased project related activity. In addition, $2.3m can be attributed to the share based compensation expense arising from the adoption of SFAS123R Share Based Payments in 2006.

Selling, general and administrative expenses increased by $74.3 million, or 119.3%, from $62.3 million to $136.6 million. As a percentage of net revenue, selling, general and administrative expenses, decreased from 30.8% in the seven month transition period ended December 31, 2005, to 30% for the year ended December 31, 2006. A comparative period analysis shows an increase in SG&A costs due to the continued expansion of our operations. In addition, $1.8m can be attributed to the share based compensation expense arising from the adoption of SFAS123R Share Based Payments in 2006.

The total share based compensation expense during 2006 amounted to $4.1m.

Depreciation and amortization expense increased by $6.9 million, or 84.7%, from $8.1 million to $14.9 million. As a percentage of net revenue, depreciation and amortization decreased from 4% of net revenues in the seven month transition period ended December 31, 2005, to 3.3% for the year ended December 31, 2006. A comparative period analysis shows an increase in depreciation as a result of continued investment in facilities and information technology to support the growth in activity and in providing for future capacity.

Income from operations increased by $36.3 million, or 313.9%, from $11.6 million to $47.8 million. As a percentage of net revenue, income from operations increased from 5.7% of net revenues in the seven month transition period ended December 31, 2005, to 10.5% for the year ended December 31, 2006. The year ended December 31, 2006, saw a continued improvement in the performance of the central laboratory business, from a loss from operations, as a percentage of net revenue of 16.7% for the seven month transition period ended December 31, 2005, to an operating profit of 4.9% for the year ended December 31, 2006. The central laboratory constitutes approximately 10.4% of our business revenues for the year ended December 31, 2006. Operating margins for our clinical research segment increased to 11.1% in the year ended December 31, 2006, from 7.9% for the seven month transition period ended December 31, 2005.

Net interest income for the year ended December 31, 2006, was $3.6 million, an increase of $2.4 million from the seven month transition period ended December 31, 2005. Higher interest rates in 2006 over the 2005 transition period contributed to the increased interest income.

ICON plc's effective tax rate for the year ended December 31, 2006, was 25% compared with 42% for the seven month transition period ended December 31, 2005. The decrease in the effective tax rate is due to a number of factors, including the release of $3.04 million of the valuation allowance against the losses forward in ICON Laboratories, Inc. In addition, in the seven month period ended December 31, 2005, there had been a once off tax disallowance of the compensation expense amounting to $6.024 million in respect of the gift of 64,000 and 80,000 ADSs made by Dr. Ronan Lambe and Dr. John Climax to Mr. Peter Gray, the Company's Chief Executive Officer.

Seven Month Transition Period Ended December 31, 2005 Compared to Fiscal Year Ended May 31, 2005

Note: Results below compare a 7 month accounting period ended December 31, 2005 to a 12 month accounting period ended May 31, 2005.

Net revenue decreased by $124.8 million, or 38.2%, from $326.7 million to $201.9 million. Revenues in the United States, Europe and the Rest of World fell by 36.6%, 44.1% and 14.9% respectively. In the transition period to December 31, 2005, net revenue from our central laboratory business decreased by 28.6% from $25.5 million to $18.2 million, while our clinical research segment declined by 39.0% from $301.2 million to $183.8 million over the prior period. If the figures above were analyzed with a comparative period, they would show a general improvement through a combination of increased business from existing clients, business won from new clients, increased use of outsourcing by the pharmaceutical, biotechnology and medical device industries, an underlying increase in research and development spending and consolidation in the CRO industry.

Direct costs decreased by $65.7 million, or 36.5%, from $179.7 million to $114.0 million. Direct costs as a percentage of net revenue increased from 55.0% in the twelve months to May 31, 2005 to 56.5% in the 2005 transition period ending December 31, 2005. A comparative period analysis shows an increase in direct costs primarily due to increased staff numbers needed to support increased project related activity.

Selling, general and administrative expenses decreased by $41.5 million, or 40.0%, from $103.8 million to $62.3 million. As a percentage of net revenue, selling, general and administrative expenses, decreased from 31.8% in the twelve months to May 31, 2005 to 30.8% for the transition period ended December 31, 2005. A comparative period analysis shows an increase in SG&A costs due to the continued expansion of our operations.

Depreciation and amortization expense decreased by $5.2 million, or 39.3%, from $13.3 million to $8.1 million. As a percentage of net revenue, depreciation and amortization decreased from 4.1% of net revenues in the twelve months to May 31, 2005, to 4.0% for the transition period ended December 31, 2005. A comparative period analysis shows an increase in depreciation as a result of continued investment in facilities and information technology to support the growth in activity and in providing for future capacity.

In the transition period an amount of $6.2 million was expensed in relation to share based compensation (See Item 7: Major Shareholders and Related Party Transactions).

The principal items classified as other charges in the year ended May 31, 2005 were asset impairments, computer software write-off and lease termination and exit costs.

Income from operations decreased by $7.0 million, or 37.9%, from $18.6 million to $11.6 million. As a percentage of net revenue, income from operations remained static at 5.7% of net revenues for the transition period ended December 31, 2005 when compared to the twelve months to May 31, 2005. For the transition period ended December 31, 2005, losses from operations, as a percentage of net revenue for the central laboratory decreased to 16.7%, from 59.9%, in the twelve month period ending May 31, 2005. The loss for the year to May 31, 2005 included the effects of other charges. The central laboratory constitutes approximately 9.0% of our business revenues for the period ended December 31, 2005. Operating margins for our clinical research segment decreased to 7.9% in the transition period ended December 31, 2005 from 11.3% for the twelve month period ending May 31, 2005.

Net interest income for the transition period ended December 31, 2005, was $1.3 million, an increase of $0.3 million on the year ended May 31, 2005. Higher interest rates in the 2005 transition period over fiscal 2005 contributed to the increased interest income.

ICON plc's effective tax rate for the transition period ended December 31, 2005, was 42.0% compared with 29.9% for the year ended May 31, 2005.

Fiscal Year Ended May 31, 2005 Compared to Fiscal Year Ended May 31, 2004

Net revenue increased by $29.7 million, or 10.0%, from $296.9 million to $326.7 million. This improvement arose through a combination of increased business from existing clients, business won from new clients and revenues from acquisitions not included in the comparative period. The additional revenues from acquisitions amounted to $9.1 million for the fiscal year ended May 31, 2005. Including the impact of acquisition, revenues in the United States, Europe and the Rest of World grew by 0.9%, 20.1% and 73.5%, respectively. In the twelve months to May 31, 2005, net revenue from our central laboratory business decreased by 5.2% from $26.9 million to $25.5 million while our clinical research segment grew by 11.5% from $270.0 million to $301.2 million over the comparable period. The decrease in net revenue in our central laboratory segment is primarily due to lower testing volumes in fiscal 2005. The growth in net revenue in our clinical research segment is due to the expansion of our services to both existing and new clients, increased use of outsourcing by the Pharmaceutical, Biotechnology and Medical Device industries, an underlying increase in research and development spending and consolidation in the CRO industry.

Direct costs increased by $17.1 million, or 10.5%, from $162.6 million to $179.7 million, primarily due to increased staff numbers needed to support increased project related activity and increased costs arising from acquisitions amounting to $4.3 million. Direct costs as a percentage of net revenue increased from 54.7% in the twelve months to May 31, 2004 to 55.0% in fiscal 2005.

Selling, general and administrative expenses increased by $15.0 million, or 16.9%, from $88.8 million to $103.8 million. The increase in costs is due to the continued expansion of our operations and additional selling, general and administrative costs from acquisition of $3.3 million not included in the comparative period. As a percentage of net revenue, selling, general and administrative expenses, increased from 29.9% in the twelve months to May 31, 2004 to 31.8% for the fiscal year ended May 31, 2005.

Depreciation and amortization expense increased by $2.1 million, or 19.3%, from $11.2 million to $13.3 million. This increase is due to the continued investment in facilities and information technology to support the growth in activity and in providing for future capacity and increased costs arising from acquisition of $0.4 million. As a percentage of net revenue, depreciation and amortization increased from 3.8% of net revenues in the twelve months to May 31, 2004, to 4.1% for the fiscal year ended May 31, 2005.

Other charges of $11.3 million were incurred during the year ended May 31, 2005. The principal items classified as other charges include asset impairments, computer software write-off and lease termination and exit costs, as outlined in Note 14 to the Consolidated Financial Statements.

Income from operations decreased by $15.8 million, or 45.9%, from $34.4 million to $18.6 million, including acquisitions. As a percentage of net revenue, income from operations decreased from 11.6% for the twelve months to May 31, 2004 to 5.7% of net revenues for the fiscal year ended May 31, 2005. For the fiscal year 2005, losses from operations, as a percentage of net revenue for the central laboratory increased to 59.9%, or 25.6% excluding other charges, from 12.2%, in fiscal 2004 due to an expanded cost base. The central laboratory constitutes approximately 7.8% of our business revenues in the year ended May 31, 2005. Operating margins for our clinical research segment decreased from 13.9% in the twelve months to May 31, 2004, to 11.3% for the fiscal year ended May 31, 2005.

Net interest income for the year ended May 31, 2005, was $1.0 million, an increase of $0.7 million on the year ended May 31, 2004. Higher average level of funds invested and higher interest rates in fiscal 2005 over fiscal 2004 contributed to the increased interest income.

ICON plc's effective tax rate for the year ended May 31, 2005, was 29.9% compared with 25.8% for the comparable period in the previous year. The increase in the effective rate was primarily due to a change in the geographic distribution of pre-tax earnings.

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Liquidity and Capital Resources

The CRO industry generally is not capital intensive. Since our inception, we have financed our operations and growth primarily with cash flows from operations, net proceeds of $49.1 million raised in our initial public offering in May 1998 and net proceeds of $44.3 million raised in our public offering in August 2003. Our principal cash needs are payment of salaries, office rents, travel expenditures and payments to investigators. The aggregate amount of employee compensation, excluding stock compensation expense, paid by us and our subsidiaries for the two years ended May 31, 2004 and 2005, the seven month transition period ending December 31, 2005 and the year ended December 31, 2006, amounted to $174.5 million, $194.1 million, $121.4 million and $274.6 million, respectively. Investing activities primarily reflect capital expenditures for facilities, information systems enhancements, the purchase of short-term investments and acquisitions.

Our clinical research and development contracts are generally fixed price with some variable components and range in duration from a few weeks to several years. Revenue from contracts is generally recognized as income on the basis of the relationship between time incurred and the total estimated contract duration or on a fee-for-service basis. The cash flow from contracts typically consists of a down payment of between 10% and 20% paid at the time the contract is entered into, with the balance paid in installments over the contract's duration, in some cases on the achievement of certain milestones. Accordingly, cash receipts do not correspond to costs incurred and revenue recognized on contracts.

As of December 31, 2006, our working capital was $160.3 million, compared to $132.3 million at December 31, 2005 and $125.3 million at May 31, 2005. The most significant influence on our operating cash flow is revenue outstanding, which comprises accounts receivable and unbilled revenue, less payments on account. The dollar values of these amounts and the related days revenue outstanding can vary due to the achievement of contractual milestones, including contract signing, and the timing of cash receipts. The number of days revenue outstanding was 53 days at December 31, 2006, 65 days at December 31, 2005, and 63 days at May 31, 2005.

Net cash provided by operating activities was $50.5 million in the year ended December 31, 2006, compared with $13.8 million in the transition period ended December 31, 2005, $25.2 million in fiscal year ended May 31, 2005, and $43.6 million in the fiscal year ended May 31, 2004.

Net cash used in investing activities was $55.3 million in the year ended December 31, 2006, compared with $16.3 million in the seven month period ended December 31, 2005, $25.7 million in the year ended May 31, 2005 and $47.3 million in the year ended May 31, 2004. The increase in net cash used in the year ended December 31, 2006, over the seven month transition period ended December 31, 2005 is due principally to the commencement of the construction of the new facility head office building located in Dublin, Republic of Ireland, the acquisition of Ovation and the investment in short term investments.

Net cash provided by financing activities was $7.7 million in the year ended December 31, 2006, compared with $6.6 million in the seven month transition period ended December 31, 2005, $0.9 million in the year ended May 31, 2005 and $42.5 million in the fiscal year ended May 31, 2004.

As a result of these cash flows, cash and cash equivalents increased by $3.5 million in the year ended December 31, 2006 compared to $3.2 million in the transition period ended December 31, 2005, $0.7 million in the year ended May 31, 2005 and $37.4 million in the year ended May 31, 2004.

The Company has short-term bank loan facilities as follows:

On July 3, 2003, we entered into a facility agreement (the "Facility Agreement") for the provision of a term loan facility of U.S.$40 million, multi-currency overdraft facility of $5 million and revolving credit facility of $15 million (the "Facilities") with The Governor and Company of the Bank of Ireland and Ulster Bank Ireland Limited (the "Banks"). Our obligations under the Facilities are secured by certain composite guarantees and indemnities and pledges in favor of each of the banks. The term loan facility bears interest at an annual rate equal to the Banks' prime rate plus one percent. The multi-currency overdraft facility and the revolving credit facility bear interest at an annual rate equal to the Banks' prime rate plus three quarters of one percent. ICON plc and its subsidiaries are entitled to make borrowings under a term loan facility of $40 million and a multi currency overdraft facility of $5 million. As at December 31, 2006, $15 million of the term loan facility was available to be drawn down, while the entire $5 million multi currency overdraft had been drawn down. The multi currency overdraft facility will become payable on demand if the Company defaults under its obligations as specified in the loan agreement. The reduction in the term loan facility is due to amortization terms in the facility agreement. The term loan facility will reduce by a further $5 million dollars at six monthly intervals until the facility expires on June 30, 2008. ICON Clinical Research, Inc. (a subsidiary of ICON plc) is entitled to make borrowings under the revolving credit facility of $15 million. As at December 31, 2006, the full amount of this facility was available to be drawn down.

We entered into an overdraft agreement with Allied Irish Banks, plc ("AIB") whereby the Company guarantees any overdraft of its subsidiary ICON Clinical Research GmbH up to an amount of €120,000 (U.S.$157,645). As of December 31, 2006, the full facility was available to be drawn down.

On July 10, 2006, we acquired 100% of the common stock of Ovation Healthcare Research 2 Inc. ("Ovation"), based in Illinois, USA, for an initial cash consideration of U.S.$6.6 million, excluding costs of acquisition. Working capital provisions were built into the acquisition contract requiring the potential payment of additional deferred consideration up to a maximum of U.S.$1.4 million. On October 27, 2006, $0.18 million was paid to the former Shareholders of Ovation in full and final settlement of the working capital provisions.

On July 1, 2004, we completed the acquisition of 70% of Beacon Biosciences, Inc. for an initial cash consideration of U.S.$9.9 million.

On December 1, 2004, we acquired the workforce of Biomines Research Solutions Private Limited for a total cash consideration of U.S. $0.25 million. The workforce is engaged in the business of clinical trial data management and statistical analysis services and has been transferred to our existing Indian operation.

Contractual obligations table

The following table represents our contractual obligations and commercial commitments as of December 31, 2006:

		Payments due by period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More then 5 years
		(U.S.$ in millions)			
Capital lease obligations	$ 0.4	$ 0.2	$ 0.2	$ -	$ -
Bank credit lines and loans facilities	5.0	5.0	-	-	-
Operating lease obligations	160.7	26.1	43.7	34.8	56.1
Building construction commitments	44.7	44.7	-	-	-
Total (U.S.$ in millions)	$ 210.8	$ 76	$ 43.9	$ 34.8	$ 56.1

Excluding the expenditure in relation to the building construction, we expect to spend approximately $16 million in the next twelve months on further investments in information technology, the expansion of existing facilities and the addition of new offices and expect to increase this level of spending in subsequent years. We believe that we will be

able to fund our additional foreseeable cash needs for the next twelve months from cash flow from operations and existing cash balances. In the future, we will consider acquiring businesses to enhance our service offerings and global presence. Any such acquisitions may require additional external financing and we may from time to time seek to obtain funds from public or private issues of equity or debt securities. There can be no assurance that such financing will be available on terms acceptable to us.

Critical Accounting Policies

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

We base our estimates and judgments on historical experience and on the other factors that we believe are reasonable under current circumstances. Actual results may differ from these estimates if these assumptions prove to be incorrect or if conditions develop other than as assumed for the purposes of such estimates. The following is a discussion of the accounting policies used by us, which we believe are critical in that they require estimates and judgments by management.

Revenue Recognition

Significant management judgments and estimates must be made and used in connection with the recognition of revenue in any accounting period. Material differences in the amount of revenue in any given period may result if these judgments or estimates prove to be incorrect or if management's estimates change on the basis of development of the business or market conditions. To date there have been no material differences arising from these judgments and estimates.

We earn revenues by providing a number of different services to our clients. These services include clinical trials management, biometric activities, consulting and laboratory services. We recognize biometric, consulting and laboratory revenues on a fee-for-service basis. Our laboratory service contracts are multiple element arrangements, with laboratory kits and laboratory testing representing the contractual elements. We determine the fair values for these elements, each of which can be sold separately, based on objective and reliable evidence of their respective fair values. Our laboratory contracts entitle us to receive non-refundable set-up fees and we allocate such fees as additional consideration to the contractual elements based on the proportionate fair values of the elements. We recognize revenues for the elements on the basis of the number of deliverable units completed in a period.

We recognize clinical trials revenue on the basis of the relationship between time incurred and the total estimated duration of the contract as this represents the most accurate pattern over which our contractual obligations are fulfilled. We invoice our customers upon achievement of specified contractual milestones. This mechanism, which allows us to receive payment from our customers throughout the duration of the contract, is not reflective of revenue earned. We recognize revenues over the period from the awarding of the customer's contract to study completion and acceptance. This requires us to estimate total expected revenue, time inputs, contract costs, profitability and expected duration of the clinical trial. These estimates are reviewed periodically and, if any of these estimates change or actual results differ from expected results, then an adjustment is recorded in the period in which they become readily estimable.

If we do not accurately estimate the resources required or the scope of the work to be performed, or do not manage our projects properly within the planned cost or satisfy our obligations under the contracts, then future results may be significantly and negatively affected.

Goodwill

The principal judgments and uncertainties affecting our accounting for goodwill relate to carrying values. The carrying values of purchased goodwill are assessed annually, using discounted cash flows and net realizable values. The estimates and judgments used to assess carrying values include those relating to commercial risk, revenue and cost projections, our intention with respect to the acquired goodwill, the impact of competition, the impact of any

reorganization or change of our business focus, the level of third party interest in our operations and market conditions.

If the implied fair value of reporting unit goodwill is lower then its carrying amount, goodwill is impaired and written down to its implied fair value. If we were to use different estimates or judgments, particularly with respect to expected revenue and cost projections or the impact of any reorganization or change of business focus, a material impairment charge to the statement of operations could arise. We believe that we have used reasonable estimates and judgments in assessing the carrying value of our goodwill. For further information, refer to Note 14 to the Consolidated Financial Statements.

Inflation

We believe that the effects of inflation generally do not have a material adverse impact on our operations or financial conditions.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Correction (SFAS No. 154). SFAS No.154 is a replacement of APB Opinion No. 20, Accounting Changes (APB Opinion No. 20), and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. The statement applies to all voluntary changes in accounting principle, and changes the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires retrospective application to prior period financial statements of a voluntary change in accounting principle unless it is impracticable to do so. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, and the correction of an error. SFAS No. 154 does not change the provisions of any existing accounting pronouncements, including those that are in a transition phase at the effective date of the statement. The Company adopted the provisions of SFAS No. 154 on January 1, 2006, and the adoption of the new standard did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of the tax position taken in a tax return. It also provides guidance on de-recognition classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the company has not yet issued financial statements, including interim financial statements, in the period Interpretation No. 48 is adopted. The Company does not expect the adoption of Interpretation No. 48 to have a material impact on the financial statements.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides guidance on how prior year financial statement misstatements should be considered when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB No. 108 is effective for fiscal years ending after November 15, 2006, and as such, the Company adopted SAB No. 108 in the year ended December 31, 2006. The adoption of SAB No. 108 did not have a material impact on the Company's consolidated results of operations or financial position.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47. In accordance with FASB Interpretation 47 companies must recognize a liability for the fair value of a legal obligation to perform asset-retirement activities that are conditional on a future event if the amount can be reasonably estimated. The Interpretation provides guidance on whether the fair value is reasonably estimable. The premise underlying the Interpretation is a need for more uniform application of Statement 143 "Accounting for Asset Retirement Obligations". Companies must adopt the Interpretation no later than the end of the fiscal year ending after December 15, 2005. The adoption of FASB Interpretation No 47 has not had a material impact on our financial position or results of operations.

In December 2004, the FASB issued Statement No. 123R, "Share-Based Payment" - An Amendment of FASB Statements No. 123 and 95 ("SFAS No.123R"), which is effective for public companies in periods beginning after June

15, 2005. We implemented the standard on January 1, 2006. SFAS No. 123R addresses the accounting for transactions in which an enterprise receives goods and services in exchange for: (a) equity instruments of the enterprise; or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for using a fair-value based method. Equity classified awards are measured at grant date at fair value and are not subsequently re-measured. Liability classified awards are re-measured at fair value at each balance sheet date until the awards are settled. We adopted the Black-Scholes model to derive fair values.

In November 2004, the FASB issued statement No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" (“SFAS No. 151”), which is effective for public companies prospectively for inventory costs incurred in periods beginning after June 15, 2005. This Statement amends the guidance in ARB No. 43, Chapter 4 “Inventory Pricing”, to clarify that accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) should be recognized as a current period change and to require the allocation of fixed production overhead to the costs of conversion based on normal capacity of the production facilities. The adoption of SFAS No. 151 has not had a material impact on our financial position or results of operations.

In December 2004, the FASB issued Statement No. 153, “Exchanges of Nonmonetary assets - an amendment of APB Opinion No. 29” (“SFAS No. 153”), which is effective for public companies in periods beginning after June 15, 2005. The guidance in APB opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS No. 153 has not had a material impact on our financial position or results of operations.

In November 2003 and March 2004, the Emerging Issues Task Force (EITF) reached partial consensus on EITF 03-1, “The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments,” (“EITF 03-1”). EITF 03-1 addresses the meaning of other then temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities” and investments accounted for under the cost method. The EITF agreed on certain quantitative and qualitative disclosures about unrealized losses pertaining to securities classified as available-for-sale or held-to-maturity. In addition, EITF 03-1 requires certain disclosures about cost method investments. The recognition and measurement provisions of EITF 03-1 have been deferred until additional guidance is issued.

Item 6. ***Directors, Senior Management and Employees.***

Directors and Senior Management

The following table and accompanying biographies set forth certain information concerning each of ICON plc's directors, officers and other key employees as of December 31, 2006.

Name	Age	Position
Dr. John Climax (1)(5)	54	Executive Chairman of the Board, Director
Peter Gray (1)(5)	52	Chief Executive Officer, Director
Ciaran Murray (1)(5)	44	Chief Financial Officer
Sean Leech (1)	36	Executive Vice President Commercial and Organization Development
Dr. Ronan Lambe (5)	67	Director
Thomas Lynch (2)(3)(4)	50	Director
Edward Roberts (2)(3)(4)	72	Director
Shuji Higuchi	66	Director
Dr. Bruce Given (2)(3)(4)	52	Director
William Taaffe	58	President Corporate Development
Dr. John Hubbard	50	President and Chief Operating Officer, ICON Clinical Research - U.S.
Dr. Peter Sowood	53	President of ICON Clinical Research - Europe
Robert Scott-Edwards	53	President of ICON Laboratories
Dr. Dan Weng	44	President of ICON Clinical Research - Rest of World
Dr. Thomas Frey	54	President Strategic Drug Development
Josephine Coyle	49	Vice President for Corporate Quality Assurance
Malcolm Burgess	55	Chief Operating Officer, U.S. Operations
Alan Morgan	42	Vice President, Process Development

(1) Executive Officer of the Company.
(2) Member of Compensation Committee.
(3) Member of Audit Committee.
(4) Member of Nomination Committee.
(5) Member of Executive Committee.

Dr. John Climax, one of the Company's co-founders, has served as a director of the Company and its subsidiaries since June 1990. Dr. Climax served as Chief Executive Officer from June 1990 to October 2002 and was appointed Executive Chairman of the Board in November 2002. Dr. Climax has over 21 years of experience in the contract research industry in both Europe and the United States. Dr. Climax received his primary degree in pharmacy in 1977 from the University of Singapore, his masters in applied pharmacology in 1979 from the University of Wales and his PhD. in pharmacology from the National University of Ireland in 1982.

Peter Gray has served as the Chief Executive Officer of ICON and its subsidiaries since November 2002. He served as the Group Chief Operating Officer of ICON and its subsidiaries from June 2001, and was Chief Financial Officer from June 1997 to June 2001. He has been a director of the Company since June 1997. Mr. Gray has over 16 years experience in the pharmaceutical services industry and has also worked in the engineering and food sectors. Mr. Gray received a degree in Law from Trinity College Dublin in 1977 and became a chartered accountant in 1980.

Ciaran Murray was appointed as Chief Financial Officer of ICON and its subsidiaries in October 2005. Mr. Murray developed his experience in senior financial positions in the technology and food sectors, in such companies as Kraft foods and Novell. Prior to joining ICON, Mr. Murray served as the CFO of Codec Systems from 1999 to 2005, a technology company headquartered in Ireland. Mr. Murray is a business graduate of University College Dublin. He trained as a chartered accountant with PricewaterhouseCoopers and is a Fellow of the Institute of Chartered Accountants in Ireland.

Sean Leech has served as Executive Vice President Commercial and Organization Development since October 2005. In this role Mr. Leech is responsible for providing support and assistance to the divisions of the Company as they grow and develop. Prior to this Mr. Leech served as the Chief Financial Officer of ICON and its subsidiaries since June 2001 and previously as Group Vice President of Finance from June 1999. Mr. Leech was Group Financial Controller of Jones Group plc, a shipping, manufacturing and fuel distribution company based in Ireland, from 1997 to 1999. Mr. Leech is an associate member of the Chartered Institute of Management Accountants.

Dr. Ronan Lambe, one of the Company's co-founders, served as Chairman of the Board of the Company from June 1990 to November 2002. Dr. Lambe has over 24 years of experience in the contract research industry in Europe. Dr. Lambe attended the National University of Ireland where he received his bachelor of science degree in chemistry in 1959, his masters in biochemistry in 1962 and his PhD. in pharmacology in 1976. Dr. Lambe continues to serve as a director of the Company.

Thomas Lynch has served as an outside director of the Company since January 1996. Mr. Lynch served as a director of Nanogen Inc., from 1996 to 2000. Mr. Lynch is currently the Chairman of Amarin Corporation plc, a director of Royal Opera House (Covent Garden) and a non-executive director of IDA Ireland. In the period from May 1993 to July 2004, Mr. Lynch held several senior positions in Elan Corporation, plc, a specialty pharmaceutical company, including Executive Vice President, Chief Financial Officer, Vice Chairman and Senior Advisor to the Chairman of the Board of Elan Corporation plc. Mr. Lynch was a partner at KPMG from May 1990 to May 1993.

Edward Roberts has served as an outside director of the Company since February 1998. Mr. Roberts was Managing Director of the Pharmaceutical Division of Merck KGaA from 1990 to 1998. Prior to that, he held a number of senior management positions with Eli Lilly International in Europe and the United States. Mr. Roberts has over 40 years of experience in the pharmaceutical industry. He has been a partner in Global Health Care Partners since June 1998, and also serves as Chairman of Biopartners and Chairman of the Advisory Board of Merz & Co. GmbH.

Mr. Shuji Higuchi has served as an outside director of the Company since September 2004. Dr. Higuchi has over 40 years of experience in the pharmaceutical industry. Dr. Higuchi is currently Director of R&D and Corporate Integration, Kyoto University Hospital, Japan. Prior to this Dr. Higuchi has served as President of Takeda Pharma GmbH from 1983 to 1992, President of Takeda Europe R&D Centre, Frankfurt / London from 1992 to 2002, and served as a Corporate Officer of Takeda Chemical Industries Limited, Japan from 1999 to 2002.

Dr. Bruce Given has served as an outside director of the Company since September 2004. Since March 2002, he has served as President and Chief Executive Officer of Encysive Pharmaceuticals Inc. Previously, Dr. Given has held various positions in Johnson & Johnson group companies. Dr. Given obtained his doctorate from the University of Chicago in 1980.

William Taaffe has served as President Corporate Development since April 2005. Prior to this Mr. Taaffe served as President and Chief Executive Officer of ICON Clinical Research - U.S. since 1993. Mr. Taaffe has over 30 years of experience in the contract research and pharmaceutical industries in Ireland, Canada and the United States. Mr. Taaffe received his bachelor of science degree in 1970 from University College Dublin.

Dr. John W. Hubbard has served as President of ICON Clinical Research - U.S. since April 2005 and currently also serves as Chief Operating Officer, U.S Operations, a position he has held since October 1999. Dr. Hubbard has more than 20 years of experience in pharmaceutical research and development. He has held positions of increasing responsibility at Revlon Health Care Group, Hoechst Marion Roussel Pharmaceuticals, Parexel International Corporation, and from July 1997 until joining ICON, he held the position of Senior Vice President of Clinical Research Operations at Clinical Studies, an industry leading site management organization and division of Innovative Clinical Solutions, Ltd.. Dr. Hubbard received a B.S. in Psychology/Biology from the University of Santa Clara, a Ph.D. in Cardiovascular Physiology from the University of Tennessee, and was a NIH Postdoctoral Fellow in

Cardiovascular Pharmacology at the University of Texas Health Sciences Center.

Dr. Peter Sowood, has served the Company as President of ICON Clinical Research Europe since November 2003. Prior to joining the Company, Dr. Sowood held various positions at Covance Clinical and Periapproval Services Ltd., including the position of Vice-President Clinical Research. Dr. Sowood was educated at the University of Cambridge in Medical Sciences and followed on to Oxford University where he took Medical Degrees before joining the RAF as a Medical Officer. Dr. Sowood obtained his PhD in 1988 and his MBA in 1993.

Robert Scott-Edwards, has served the Company as President of ICON Laboratories since August 2004, having previously held the position of Vice President, Sales & Marketing for ICON Laboratories since June 2000. Prior to joining ICON, Mr. Scott-Edwards held various senior positions at Bristol-Myers Squibb from 1979 through 1997. Mr. Scott-Edwards began his career in the pharmaceutical industry in 1971 at Wyeth.

Dr. Dan Weng, has served as President of ICON Clinical Research Rest of World since April 2004, having previously held the position of Senior Vice President of ICON Clinical Research Rest of World since joining the Company in January 2003. Dr. Weng previously worked in the Asia Pacific region for both Pharmanet and Quintiles. Prior to joining the CRO industry in 1997, Dr. Weng worked in the US at the Harvard Medical School and at UCSF. Educated as a physician in China, Dr. Weng subsequently obtained an MBA and a PhD in the UK.

Dr. Thomas Frey has served as Chief Operating Officer for ICON Clinical Research Europe since June 2001 and previously served as Vice President of ICON Clinical Operations Europe from January 2000 to May 2001. Dr. Frey has 18 years of experience in pharmaceutical research and development. He started his career in 1987 with Hoechst Pharmaceuticals. From 1995 to the end of 1999 he was Senior Director of Clinical Development Europe at Hoechst Marion Roussel. Dr. Frey received his medical degree in 1980 from the University of Heidelberg.

Josephine Coyle has served as Vice President for Corporate Quality Assurance since April 2000. Ms. Coyle has held positions of increasing responsibility in ICON since August 1992 and previously held the position of Director of Quality Assurance.

Malcolm Burgess has served as Chief Operating Officer, US Operations since April 2006, and previously served as Senior Vice President, Biometrics, and Data Management & Interactive Technologies since December 2002. He has nearly thirty years experience within the Pharmaceutical sector having held senior positions within Novartis, Hoechst Marion Roussel and SmithKline Beecham. Dr Burgess holds a BSC in Chemistry from University College, London and a PhD. in Biochemistry and Physiology from Bath University, UK.

Alan Morgan has served as the Vice President of Process Development for ICON plc since August 2006. He has over 17 years experience in the Pharmaceutical services industry, having joined ICON from MDS Pharma Services Inc where he held the position of Global General Manager of the Phase II-IV business from August 2005. He joined MDS in September 2002 as General Manager of their European, Latin American and Asian Clinical Development operations. Previous to MDS Pharma Services Inc he held a number of senior positions in Covance Clinical and Periapproval Services, Ltd. including General Manager of their Phase II-IV business in Europe, Asia and Latin America.

Board of Directors

ICON's Articles of Association provide that, unless otherwise determined by ICON at a general meeting, the number of directors shall not be more than 15 nor less than 3. At each annual general meeting, one third of the directors who are subject to retirement by rotation, rounded down to the next whole number if it is a fractional number, shall retire from office. The directors to retire shall be those who have been longest in office, but as between persons who became or were last re-appointed on the same day, those to retire shall be determined, unless otherwise agreed, by lot. Accordingly, at the annual general meeting of ICON to be held in 2007, it is anticipated that two directors will retire by rotation and offer themselves for re-election, such directors to be determined, unless otherwise agreed, by lot. Any additional director appointed by us shall hold office until the next annual general meeting and will be subject to

re-election at that meeting.

Board committees

We established a compensation committee and an audit committee in 1998 and a nomination committee in 2004, and an executive committee in 2005, all of which are committees of the Board of Directors and are composed mainly of non-executive directors of ICON plc.

Compensation Committee
The Compensation Committee comprises Thomas Lynch (Chairman), Edward Roberts, and Dr. Bruce Given. It deals with all aspects of senior executive remuneration. The committee aims to ensure that remuneration packages are competitive so that individuals are appropriately rewarded relative to their responsibility, experience and value to ICON.

Annual bonuses for executive directors are determined by the committee based on the achievement of ICON's objectives.

Audit Committee
The Audit Committee comprises Edward Roberts (Chairman), Thomas Lynch and Dr. Bruce Given. It reviews the annual report, the quarterly earnings releases, the effectiveness of the system of internal controls, compliance with our ethical code and legal requirements, and approves the appointment and removal of the external auditors. It also addresses all issues raised and recommendations made by the external auditors
and pre-approves all auditor services.

Nomination Committee
The Nomination Committee comprises Thomas Lynch, Edward Roberts and Dr. Bruce Given. On an ongoing basis it reviews the membership of the board of directors and board committees. It identifies and recommends individuals to fill any vacancy that is anticipated or arises on the board of directors. It reviews and recommends the corporate governance principles of the Company.

Executive Committee
The Executive Committee comprises Dr. John Climax, Peter Gray, Dr. Ronan Lambe and Ciaran Murray. Established in March 2005, this Committee is responsible for the direction of the business and the affairs of the Company in intervals between meetings of the Board and exercises business judgment to act in what the Committee members reasonably believe to be in the best interest of the Company and its shareholders. All powers exercised by the Executive Committee are ratified at board meetings. This Committee convenes as often as it determines to be necessary or appropriate.

The aggregate compensation paid by ICON to all persons who served in the capacity of director or executive officer in the 2006 (9 persons) was approximately $3.2 million, but does not include expenses reimbursed to directors and executive officers (including business travel, professional and business association dues and expenses). As of December 31, 2006, options granted to directors and executive officers of ICON to purchase an aggregate of 274,800 of our ordinary shares were outstanding. The options are exercisable at prices between $9.00 and $22.00 and expire between February 14, 2008 and February 3, 2014.

In addition, our officers are eligible to participate in ICON's Incentive Share Option Scheme. See Note 10 to the Consolidated Financial Statements.

Employees

We employed 4,290, 3,036, 2,713 and 2,432 people for the year ended December 31, 2006, the seven month period ended December 31, 2005, and the years ended May 31, 2005 and May 31, 2004 respectively. Our employees are not unionized and we believe that our relations with our employees are good.

Share Ownership

The following table sets forth certain information regarding beneficial ownership of our ordinary shares (including ADSs) as of February 12, 2007 by all of our current directors and executive officers. Unless otherwise indicated below, to our knowledge, all persons listed below have sole voting and investment power with respect to their ordinary shares, except to the extent authority is shared by spouses under applicable law.

Name of Owner or Identity of Group	No. of Shares (1)	% of total Shares	No. of Options (2)	Exercise price	Expiration Date
Dr. John Climax	1,953,784	6.9%	10,000	$ 14.50	January 11, 2010
			10,000	$ 14.00	January 21, 2011
			10,000	$ 17.75	February 4, 2012
			6,000	$ 22.00	February 3, 2014
Dr. Ronan Lambe	888,940	3.1%	6,000	$ 14.50	January 11, 2010
			3,000	$ 14.00	January 21, 2011
			3,000	$ 17.75	February 4, 2012
			2,000	$ 17.20	February 24, 2013
			2,000	$ 22.00	February 3, 2014
Mr. Peter Gray	316,440	1.1%	10,000	$ 14.50	January 11, 2010
			10,000	$ 14.00	January 21, 2011
			10,000	$ 17.75	February 4, 2012
			6,000	$ 22.00	February 3, 2014
Mr. Ciaran Murray	-	-	30,000	$ 20.84	January 17, 2014
			9,000	$ 22.00	February 3, 2014
Mr. Sean Leech	-	-	3,200	$ 9.00	February 14, 2008
			1,600	$ 10.63	January 29, 2009
			6,000	$ 14.50	January 11, 2010
			16,000	$ 14.00	January 21, 2011
			10,000	$ 17.75	February 4, 2012

			60,000	$ 17.20	February 7, 2013
			8,000	$ 17.20	February 24, 2013
			6,000	$ 22.00	February 3, 2014
Mr. Thomas Lynch	2	-	3,000	$ 14.50	January 11, 2010
			3,000	$ 14.00	January 21, 2011
			3,000	$ 17.75	February 4, 2012
			2,000	$ 17.20	February 24, 2013
			2,000	$ 22.00	February 3, 2014
Mr. Edward Roberts	8,002	-	3,000	$ 14.50	January 11, 2010
			3,000	$ 14.00	January 21, 2011
			3,000	$ 17.75	February 4, 2012
			2,000	$ 17.20	February 24, 2013
			2,000	$ 22.00	February 3, 2014
Mr. Shugi Higuchi	-	-	3,000	$ 17.75	February 4, 2012
			2,000	$ 17.20	February 24, 2013
			2,000	$ 22.00	February 3, 2014
Dr. Bruce Given	-	-	2,000	$ 17.20	February 24, 2013
			2,000	$ 22.00	February 3, 2014

(1) As used in this table, each person has the sole or shared power to vote or direct the voting of a security, or the sole or shared investment power with respect to a security (*i.e.* the power to dispose, or direct the disposition, of a security). A person is deemed as of any date to have "beneficial ownership" of any security if that such person has the right to acquire such security within 60 days after such date.

(2) The title of securities covered by all of the above options are non-revenue qualified.

Employee Share Option Schemes

On January 17, 2003, we adopted the Share Option Plan 2003, or the 2003 Plan, pursuant to which the Compensation Committee of the Board may grant options to employees of the Company or its subsidiaries for the purchase of ordinary shares. Each option will be either an incentive stock option, or ISO, described in Section 422 of the Internal Revenue Code or an employee stock option, or NSO. Each grant of an option under the 2003 Plan will be evidenced by a Stock Option Agreement between the optionee and the Company. The exercise price will be specified in each Stock Option Agreement, however option prices for an ISO will not be less than 100% of the fair market value of an ordinary share on the date the option is granted.

An aggregate of 3 million ordinary shares have been reserved under the 2003 Plan; and, in no event will the number of ordinary shares that may be issued pursuant to options awarded under the 2003 Plan exceed 10% of the outstanding shares, as defined in the 2003 Plan, at the time of the grant. Further, the maximum number of ordinary shares with respect to which options may be granted under the 2003 Plan during any calendar year to any employee shall be 200,000 ordinary shares.

No options can be granted after January 17, 2013.

Executive Officers and Directors Remuneration

Compensation Discussion & Analysis

Overview
The Compensation Committee (the Committee) seeks to achieve the following goals with the Company's executive compensation programs: to attract, motivate and retain key executives and to reward executives for value creation. The Committee seeks to foster a performance-oriented environment by tying a significant portion of each executive's cash and equity compensation to the achievement of performance targets that are important to the Company and its shareholders.

The Company's executive compensation program has three elements: base salary, a bonus plan and equity incentives in the form of stock option awards granted under the Share Option Plan 2003 (the "2003 Plan"). All elements of executive compensation are determined by the Committee based on the achievement of ICON's objectives.

In the year ended December 31, 2006 the officers earned a bonus and the Company awarded executive officers equity incentives in the form of stock options.

Base Salary and Bonus Incentive
Total cash compensation is divided into a base salary portion and a bonus incentive portion. Base salary is established based on peer group and is adjusted based on individual performance and experience. The Committee targets total cash compensation at the peer group median of comparable Irish companies and peer CRO companies, adjusted upward or downward based on individual performance and experience. The Committee believes that the higher the executive's level of responsibility within the Company, the greater the percentage of the executive's compensation that should be tied to the Company's performance. Target bonus incentive ranges from approximately 60% to 80% of base salary of executive officers.

For fiscal 2006, based upon the Company's income performance relative to the targets set by the Committee, and Company business unit, and individual objectives approved by the Committee, the Company's named executive officers, excluding the Chief Executive Officer, earned an aggregate bonus of $722,079.

Equity Incentive

The Company's executive officers are eligible to receive stock options granted under the Company's equity incentive plans. If executive officers receive equity incentive grants, they are awarded annually at the first regularly scheduled meeting of the Committee in the fiscal year. Newly hired executive officers may receive sign-on grants, if approved by the Committee. In addition, the Committee may, in its discretion, issue additional equity incentive awards to executive officers if the Committee determines the awards are necessary for retention.

The Company granted equity incentive awards to executive officers in its fiscal year ended December 31, 2006. On February 3, 2006, the Company granted performance-based stock options to executive officers. The purpose of these grants is to align management and shareholder interests as measured by revenue growth and the stock markets' assessment of the Company's performance. The number of equity awards granted to each participant is determined primarily based on an award range determined by the Committee at the start of each year. The extent of existing options is not generally considered in granting equity awards, except that the Company sometimes grants an initial round of equity awards to newly recruited executives to provide them with some stake in the Company's success from the commencement of their employment.

Chief Executive Officer Compensation
The Committee uses the same factors in determining the compensation of the Chief Executive Officer as it does for the other participants. The Chief Executive Officer's base salary for the year ended December 31, 2006 was $435,200. The Chief Executive Officer received a cash incentive payment for fiscal 2006 totaling $284,797.

Executive Compensation Section

Summary compensation table

Name & principal position	Year	Salary ($)	Bonus ($)	Option awards ($)	Company contribution to pension ($)	All other compensation ($)	Total ($)
Peter Gray, Chief Executive Officer	2006	435,200	305,509	54,283	44,274	47,267	886,533
Ciaran Murray, Chief Financial Officer	2006	246,190	148,871	106,198	27,670	19,934	548,863
John Climax, Executive Chairman	2006	611,666	433,668	54,283	18,674	62,340	1,180,631
Sean Leech, Executive VP Commercial & Organization Development	2006	282,652	139,540	229,391	10,686	27,461	689,730
Total		1,575,708	1,027,588	444,155	101,304	157,002	3,305,757

There were two employees who had total compensation higher than the lowest paid Named Executive Officer. The aggregate remuneration received by these two executives totaled $1,332,973 in the year ended December 31, 2006.

Director compensation table

Name	Year	Salary ($)	Option awards ($)	Company contribution to pension ($)	All other compensation ($)	Total ($)
John Climax	2006	611,666	54,283	18,674	496,008	1,180,631
Peter Gray	2006	435,200	54,283	44,274	352,776	886,533
Ronan Lambe	2006	183,500	23,839	31,124	57,551	296,014
Thomas Lynch	2006	35,000	21,645	-	-	56,645
Edward Roberts	2006	50,000	19,665	-	-	69,665
Shuji Higuchi	2006	30,000	11,585	-	-	41,585
Bruce Given	2006	35,000	6,620	-	-	41,620
Total		1,380,366	191,920	94,072	906,335	2,572,693

Grant of Plan-Based Awards - Fiscal 2006
With the exception of the bonus element of compensation mentioned above, there were no plan based awards for any of the named executive officers in fiscal 2006.

Outstanding Equity Interests Received as Compensation

Outstanding Equity Awards Table
The following table sets forth information concerning stock options held by the Named Executive Officers at December 31, 2006:

Name	Option awards				
	No of securities underlying unexercised options -exercisable	No of securities underlying unexercised options - unexercisable	Equity incentive plan awards: No of securities underlying unexercised unearned options	Option exercise price ($)	Option expiration date
Peter Gray	10,000	-	-	$ 14.50	Jan 11, 2010
	6,000	4,000	-	$ 14.00	Jan 21, 2011
	4,000	6,000	-	$ 17.75	Feb 4, 2012
	-	6,000	-	$ 22.00	Feb 3, 2014

Ciaran Murray	-	30,000	-	$ 20.84	Jan 17, 2014
	-	9,000	-	$ 22.00	Feb 3, 2014
John Climax	10,000	-	-	$ 14.50	Jan 11, 2010
	6,000	4,000	-	$ 14.00	Jan 21, 2011
	4,000	6,000	-	$ 17.75	Feb 4, 2012
	-	6,000	-	$ 22.00	Feb 3, 2014
Sean Leech	3,200	-	-	$ 9.00	Feb 14, 2008
	1,600	-	-	$ 10.63	Jan 29, 2009
	6,000	-	-	$ 14.50	Jan 11, 2010
	8,000	8,000	-	$ 14.00	Jan 21, 2011
	4,000	6,000	-	$ 17.75	Feb 4, 2012
	-	60,000	-	$ 17.20	Feb 7, 2013
	1,600	6,400	-	$ 17.20	Feb 24, 2013
	-	6,000	-	$ 22.00	Feb 3, 2014

All information in this table relates to nonqualified stock options. The Company has not granted any stock appreciation rights ("SARs") in fiscal year 2006. Substantially all options become exercisable in five equal installments each year beginning on the first anniversary of the grant date.

Options Exercised Table
There were no options exercised during fiscal 2006 by any of the Named Executive Officers.

Retirement Plans & Other Post-Employment Payments & Benefits

Pension Plan
All named executive officers are eligible to participate in a defined contribution plan (the "Plan"). The Company matches each participant's contributions up to a percentage of their annual compensation. Contributions to this plan are recorded, as expense in the Consolidated Statement of Operations. Total company contributions for the named executive officers for the year ended December 31, 2006 was $101,304.

The Company's United States operations maintain a retirement plan (the "U.S. Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. In addition one of the Company's subsidiaries which was acquired during the 2003 fiscal year, Medeval Group Limited, operates a defined benefit pension plan in the United Kingdom for its employees. None of the named executive officers are participants in the U.S. Plan or the defined benefit pension plan.

Information regarding the Company's retirement plans can be found in Note 9 to the Consolidate Financial Statements "Employee Benefits".

New Non-qualified Defined Contributions and Deferred Compensation Plans

None of the Named Executive Officers are involved in any non-qualified defined contribution plan or receives any nonqualified deferred compensation.

Disclosure of compensation agreements

Employment Contracts, Termination of Employment and Change in Control Arrangements
The Company does not have any Termination or Change of Control Agreements with its named executive officers.

Directors' and Executive Officers' service agreements and letters of engagement

Mr. Peter Gray
Mr. Peter Gray has served as the Chief Executive Officer since November 2002. He served as the Chief Operating Officer of the Company from June 2001 to November 2002 and as an Executive Director of the Company since June 1997. The service agreement with Mr. Gray is terminable on 6 months notice by either party. He is entitled to receive a bonus to be agreed by the Committee. He is also entitled to receive a pension contribution, company car and medical insurance cover for himself and his dependants. He has previously been granted 36,000 ordinary share options at exercise prices ranging from U.S.$14.00 to U.S.$22.00 per share. His service agreement requires him to devote his full time and attention to his duties for the Company. The agreement includes certain post termination clauses including non-disclosure, non-competition and non-solicitation provisions.

Mr. Ciaran Murray
Mr. Ciaran Murray has served as the Chief Financial Officer since October 2005. The service agreement with Mr. Murray is terminable on 6 months notice by either party. He is entitled to receive a bonus to be agreed by the Committee. He is also entitled to receive a pension contribution, a company car and medical insurance cover for himself and his dependants. He has previously been granted 39,000 ordinary share options at exercise prices ranging from U.S.$20.84 to U.S.$22.00 per share. His service agreement requires him to devote his full time and attention to his duties for the Company. The agreement includes certain post termination clauses including non-disclosure, non-competition and non-solicitation provisions.

Dr. John Climax

Dr. John Climax, one of the Company's co-founders, has served as a Director since June 1990, and Chief Executive Officer from June 1990 to October 2002. He was appointed Chairman of the Board in November 2002. The service agreement with Dr. Climax is terminable on 6 months notice by either party. He is entitled to receive a bonus to be agreed by the Committee. He is entitled to receive a pension contribution, company car and medical insurance cover for himself and his dependants. He has previously been granted 36,000 ordinary share options at exercise prices ranging from U.S.$14.00 to U.S.$22.00 per share. His service agreement requires him to devote his full time and attention to his duties for the Company. The agreement includes certain post termination clauses including non-disclosure, non-competition and non-solicitation provisions.

Mr. Sean Leech
Mr. Sean Leech has served as Executive Vice President Commercial and Organization Development since October 2005. Prior to this Mr. Leech served as the Chief Financial Officer of ICON and its subsidiaries since June 2001 and previously as Group Vice President of Finance from June 1999. The Company has a service agreement with Mr. Leech which is terminable on 6 months notice by either party. He is entitled to receive a bonus to be agreed by the Committee. He is also entitled to receive a pension contribution, a company car and medical insurance cover for himself and his dependants. He has previously been granted 110,800 ordinary share options at exercise prices ranging from U.S.$9.00 to U.S.$22.00 per share. His service agreement requires him to devote his full time and attention to his duties for the Company. The agreement includes certain post termination clauses including non-disclosure, non-competition and non-solicitation provisions.

Item 7. ***Major Shareholders and Related Party Transactions.***

(a) ICON plc, is not directly or indirectly, owned or controlled by another corporation or by any government.

(b) The following table sets forth certain information regarding beneficial ownership of ICON's ordinary shares (including ADSs) as of February 12, 2007 (i) by each person that beneficially owns more than 5% of the outstanding ordinary shares, based upon publicly available information; and (ii) by all of our current directors and executive officers as a group. Unless otherwise indicated below, to our knowledge, all persons listed below have sole voting and investment power with respect to their ordinary shares, except to the extent authority is shared by spouses under applicable law.

Name of Owner or Identity of Group	No. of Shares (1)	Percent of Class
Fidelity Group Companies (3)	3,498,762	12.3%
Dr. John Climax (2)	1,989,784	6.9%
Wasatch Group Companies (3)	1,621,109	5.7%
All directors and officers as a group (4)	3,866,378	13.6%

(1) As used in this table, each person has the sole or shared power to vote or direct the voting of a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose, or direct the disposition, of a security). A person is deemed as of any date to have "beneficial ownership" of any security if that such person has the right to acquire such security within 60 days after such date. Note that all figures have been amended to reflect the Bonus Issue which took place with an effective date of October 13, 2006.

(2) Includes 1,953,784 ADSs held by Poplar Limited, a Jersey company controlled by Dr. Climax, and options to purchase 36,000 ADSs.

(3) Neither the Company nor any of its officers, directors or affiliates hold any voting power in this entity.

(4) Includes 699,210 ordinary shares issuable upon the exercise of stock options granted by the Company.

Related Parties

On December 6, 2005, Dr. Ronan Lambe and Dr. John Climax gifted 64,000 and 80,000 ADSs, respectively, to Mr. Peter Gray, the Company's Chief Executive Officer. ICON has accounted for these transfers of equity instruments from shareholders to Mr. Gray as share based payment transactions, and recorded a compensation expense of $6,023,520 in its Statement of Operations, measured by reference to the fair value of the ADSs on the grant date. As this transaction is a transfer of already issued stock between officers and directors of the Company, the expense recorded had no cash flow impact on the Company and created no dilution of ordinary shares outstanding. The fair value of the ADSs on the date of gift was determined by reference to market price.

NuPathe Inc. ("NuPathe") is a specialty pharmaceutical company specializing in the acquisition and development of therapeutic products in the area of neuroscience. During the year ending December 31, 2006, NuPathe engaged ICON Clinical Research Limited (a wholly owned subsidiary of ICON), in consulting and clinical trial related activities. ICON recognized a total of $0.16 million of revenue in relation to these activities. As of December 31, 2006, Dr. John Climax's and Dr. Ronan Lambe's respective holdings in NuPathe were 6.8% and 6.5% of the issued share capital. Dr. Climax also serves as a non-executive director and chairman of the compensation committee on the Board of NuPathe.

AGI Therapeutics Limited ("AGI") is a specialty pharmaceutical company focused on developing drug therapies for gastrointestinal diseases and disorders. ICON is engaged in conducting a series of clinical trials on behalf of AGI. In January 2006, Dr. Ronan Lambe was appointed a non-executive director of AGI and took up the position of non-executive Chairman from February 2006. During September 2004, AGI contracted ICON Clinical Research Limited (a wholly owned subsidiary of ICON), to conduct a clinical trial on its behalf. The total potential value of this study is $2.8m. During the year ended December 31, 2006 the Company recognized $0.5m revenue relating to the AGI contract. At December 31, 2006, $0.4m was outstanding to be received from AGI on this trial. As of December 31, 2006, Dr. Ronan Lambe and Sunninghill Limited (a company controlled by Dr. John Climax) held 0.9 million and 0.3 million shares, respectively, in AGI. This holding equates to approximately 0.1% and 0.05%, respectively of AGI's issued share capital.

Amarin Corporation plc ("Amarin") is a neuroscience company focused on the research, development and commercialization of drugs for the treatment of central nervous system disorders. During the fiscal year ending May 31, 2005, Amarin contracted ICON Clinical Research Limited (a wholly owned subsidiary of ICON), to conduct a clinical trial on its behalf. The total potential value of this study is $8m. As at December 31, 2006, Amarin Investment Holding Company Limited (a company controlled by Mr. Thomas Lynch), Sunninghill Limited (a company controlled by Dr. John Climax) and Dr. Ronan Lambe held 10 million, 6.4 million and 1.6 million shares, respectively, in Amarin. These respective holdings equate to approximately 11%, 7.8% and 1.4%, respectively, of Amarin's issued share capital. Thomas Lynch also serves as chairman and non-executive director on the Board of Amarin. During the year ended December 31, 2006, the Company recognized $2.4m revenue relating to the Amarin contract. At December 31, 2006, $1.4m was outstanding to be received from Amarin on this trial.

On February 6, 1998, ICON entered into an Option Agreement ("The Put Option") with Rosa Investment Limited ("Rosa"). Rosa's sole activity was to hold an investment in Clear Investments Limited ("Clear"), the sole activity of which was to hold Mr. Gray's 54,000 ordinary share options. Mr. Gray is a director of Rosa and Clear. Rosa is owned by a trust of which Mr. Gray is a beneficiary. On April 21, 2004, Mr. Gray acquired Clear from Rosa and exercised the Put Option in accordance with the terms of the Option Agreement. On April 22, 2004, pursuant to the Option Agreement, ICON purchased the outstanding share capital in Clear from Mr. Gray, the consideration for the acquisition being the issuance of 54,000 fully paid ordinary shares in ICON, to Mr. Gray, such a sale being the economic equivalent of Mr. Gray exercising his stock options.

Encysive Pharmaceuticals Inc. (“Encysive”) is a biopharmaceutical company specializing in the development and commercialization of synthetic, small molecule compounds. During the year ending December 31, 2006, Encysive engaged ICON Clinical Research Limited (a wholly owned subsidiary of ICON), in consulting and clinical trial related activities. ICON recognized a total of $0.3 million of revenue in relation to these activities. As of December 31, 2006, Dr. Bruce Given’s holdings in Encysive were 0.4% of the issued share capital. Dr. Bruce Given also serves as the President and Chief Executive Officer of Encysive.

Item 8.*Financial Information.*

Financial Statements

See Item 18.

Legal Proceedings

ICON is not party to any litigation or other legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, results of operations and financial condition.

Dividends

We have not paid cash dividends on our ordinary shares and do not intend to pay cash dividends on our ordinary shares in the foreseeable future.

Item 9. *The Offer and the Listing.*

ICON's ADSs are traded on the NASDAQ National Market under the symbol "ICLR". Our Depository for the ADSs is The Bank of New York. ICON also has a secondary listing on the Official List of the Irish Stock Exchange. No securities of ICON are traded in any other market. The following table sets forth the trading price for the dates indicated for ICON plc's ADSs as reported by NASDAQ.

Year Ending	High Sales Price During Period	Low Sales Price During Period
May 31, 2002	$ 19.79	$ 11.47
May 31, 2003	$ 16.44	$ 7.44
May 31, 2004	$ 23.03	$ 12.94
May 31, 2005	$ 22.46	$ 15.13
December 31, 2005 (7 month transition period)	$ 25.25	$ 15.05
December 31, 2006	$ 40.36	$ 20.50

Quarter Ending	High Sales Price During Period	Low Sales Price During Period
Aug 31, 2003	$ 18.40	$ 12.94
Nov 30, 2003	$ 22.52	$ 15.60
Feb 29, 2004	$ 23.03	$ 16.52
May 31, 2004	$ 21.75	$ 14.87
Aug 31, 2004	$ 22.46	$ 15.88
Nov 30, 2004	$ 19.70	$ 15.52
Feb 28, 2005	$ 19.50	$ 16.89
May 31, 2005	$ 19.48	$ 15.13
Aug 31, 2005	$ 20.95	$ 15.05
Nov 30, 2005	$ 25.25	$ 18.18
Mar 31, 2006	$ 24.50	$ 20.50
Jun 30, 2006	$ 28.66	$ 23.35
Sept 30, 2006	$ 36.00	$ 27.25
Dec 31, 2006	$ 40.36	$ 33.57

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Month Ending	High Sales Price During Period	Low Sales Price During Period
July 31, 2006	$ 34.00	$ 27.25
Aug 31, 2006	$ 36.00	$ 32.13
Sept 30, 2006	$ 35.98	$ 33.13
Oct 31, 2006	$ 38.86	$ 34.29
Nov 30, 2006	$ 40.36	$ 33.57
Dec 31, 2006	$ 38.23	$ 34.63

All comparative figures above have been amended to reflect the Bonus Issue which took place with an effective date of October 13, 2006.

Item 10. Additional Information.

Exchange Controls and Other Limitations Affecting Security Holders.

Irish exchange control regulations ceased to apply from and after December 31, 1992. Except as indicated below, there are no restrictions on non-residents of Ireland dealing in domestic securities, which includes shares or depository receipts of Irish companies. Except as indicated below, dividends and redemption proceeds also continue to be freely transferable to non-resident holders of such securities.

The Financial Transfers Act, 1992 gives power to the Minister for Finance of Ireland to make provision for the restriction of financial transfers between Ireland and other countries and persons. Financial transfers are broadly defined, and include all transfers which would be movements of capital or payments within the meaning of the treaties governing the European Communities. The acquisition or disposal of ADSs or ADRs representing shares issued by an Irish incorporated company and associated payments may fall within this definition. In addition, dividends or payments on redemption or purchase of shares and payments on a liquidation of an Irish incorporated company would fall within this definition. At present, the Financial
Transfers Act, 1992 prohibits financial transfers involving certain persons connected with the former regime in Iraq, certain persons indicted by the International Criminal Tribunal for the former Yugoslavia and certain associated persons, Zimbabwe, the Taliban of Afghanistan, Osama bin Laden and Al-Qaeda, Liberia, Burma/Myanmar, Uzbekistan, Sudan, Cote D'Ivoire, the Democratic Republic of Congo, President Lukashenko and certain other officials of Belarus, and countries that harbor certain terrorist groups, without the prior permission of the Central Bank of Ireland.

Any transfer of, or payment in respect of an ADS involving the government of any country or any person which is currently the subject of United Nations sanctions, any person or body controlled by any of the foregoing, or by any person acting on behalf of the foregoing, may be subject to restrictions pursuant to such sanctions as implemented into Irish law. The following countries and persons are currently the subject of such sanctions: Somalia, Sudan, Cote D'Ivoire, Democratic Republic of Congo, Liberia, the Taliban of Afghanistan, Osama bin Laden and Al-Qaeda. There are no restrictions under the Company's Articles of Association, or under Irish Law that limit the right of non-residents or foreign owners to hold or vote the Company's ordinary shares or ADSs.

Memorandum and Articles of Association

We hereby incorporate by reference the description of our Memorandum and Articles of Association located under the heading "Description of the Memorandum and Articles of Association of the Company" in our Form 6K filed with the Securities Exchange Commission on January 31, 2003.

On September 29, 2006, at ICON's Extraordinary General Meeting, the Articles of Association of ICON plc were amended to increase the authorized share capital. The following amendments were made:

"That the authorized share capital of the Company be increased from €1,200,000 divided into 20,000,000 Ordinary Shares of €0.06 each, to €2,400,000 divided into 40,000,000 Ordinary Shares of €0.06 each."

Taxation

General

The following discussion is based on existing Irish tax law, Irish court decisions and the practice of the Revenue Commissioners of Ireland, and the convention between the United States and Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital gains (the "Treaty"). This discussion does not purport to deal with the tax consequences of owning the ordinary shares for all categories of investors, some of which may be subject to special rules. Prospective purchasers of ordinary shares are advised to consult their own tax advisors concerning the overall tax consequences arising in their own particular situations under Irish law. Each prospective investor should understand that future legislative, administrative and judicial changes could modify the tax consequences described below, possibly with retroactive effect.

As used herein, the term "U.S. Holder" means a beneficial owner of ordinary shares that (i) owns the ordinary shares as capital assets; (ii) is a U.S. citizen or resident, a U.S. corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust that meets the following two tests: (A) a U.S. court is able to exercise primary supervision over the administration of the trust, and (B) one or more U.S. persons have the authority to control all substantial decisions of the trust; and for purposes of the discussion under Irish Taxation of U.S. Holders (A) is not a resident of, or ordinarily resident in, Ireland for the purposes of Irish tax; and (B) is not engaged in trade or business in Ireland through a permanent establishment.

AS USED HEREIN, REFERENCES TO THE ORDINARY SHARES SHALL INCLUDE ADSs REPRESENTING SUCH ORDINARY SHARES AND ADRs EVIDENCING OWNERSHIP OF SUCH ADSs.

Irish Taxation

Irish corporation tax on income
ICON is a public limited company incorporated and resident for tax purposes in Ireland.

For Irish tax purposes, the residence of a company is in the jurisdiction where the central management and control of the company is located. Subject to certain exceptions, all Irish incorporated companies are deemed to be Irish tax resident. Companies which are resident in the Republic of Ireland are subject to Irish corporation tax on their total profits (wherever arising and, generally, whether or not remitted to the Republic of Ireland). The question of residence, by virtue of management and control, is essentially one of fact. It is the present intention of the company's management to continue to manage and control the Company from the Republic of Ireland, so that the Company will continue to be resident in the Republic of Ireland.

The standard rate of Irish corporation tax on trading income (with certain exceptions) is currently 12.5%.

Patent exemption is available to Irish resident companies whose income derives from qualifying royalties or license fees paid in respect of qualifying patents. The main requirement to qualify for the exemption is that the research, planning, processing, experimentation, testing, devising, designing, developing or similar activity leading to the invention which is the subject of the patent is carried out in Ireland. Under Irish law, income from such qualifying patents is disregarded for taxation purposes. From January 1, 2008 there will be an annual limit of 5 million Euro placed on qualifying patent income. To the extent that income arises above this threshold, it will be subject to Irish corporation tax.

To the extent that the company is involved in the "manufacture" of goods in Ireland, income from this activity, in respect of its data processing operations carried out in Ireland (which is deemed to be manufacturing for Irish tax purposes) , can qualify for a 10% rate of tax. This relief is available until December 31, 2010 and thereafter the

income will be taxed at the standard rate applicable to trading income which is currently 12.5%.

Corporation tax is charged at the rate of 25% on a company's non-trading income and certain types of trading income not eligible for the lower rates discussed above.

Capital gains arising to an Irish resident company are liable to tax at 20%. However, a capital gains tax exemption has been introduced in Ireland in respect of disposals of certain shareholdings. The exemption applies with retrospective effect to disposals occurring on or after February 2, 2004.

The exemption from capital gains tax on the disposal of shares by an Irish resident company will apply where certain conditions are met. These conditions principally are:

- The company claiming the exemption must hold (directly or indirectly) at least 5% of the ordinary share capital of the company in which the interest is being disposed of, for a period of at least one year, within the two year period prior to disposal.

- The shares being disposed of must be in a company, which at the date of disposal, is resident in an EU Member State or in a state with which Ireland has a double tax agreement.

- The shares must be in a company which is primarily a trading company or else the company making the disposal together with its "5% plus subsidiaries" should be primarily a trading group.

- The shares must not derive the greater part of their value from land or mineral rights in the State.

Taxation of Dividends

Unless exempted, all dividends paid by ICON, other than dividends paid entirely out of exempt patent income (subject to conditions), will be subject to Irish withholding tax at the standard rate of income tax in force at the time the dividend is paid, currently 20%. An individual shareholder who is neither resident nor ordinarily resident for tax purposes in Ireland, but is resident in a country with which Ireland has a double tax treaty, which includes the United States, or in a member state of the European Union, other than Ireland (together a "Relevant Territory"), will be exempt from withholding tax provided he or she makes the requisite declaration. No dividend withholding tax will apply on the payment of a dividend from an Irish resident company to its Irish resident 51% parent company. Where the Irish company receiving the dividend does not hold at least 51% of the shares of the paying company, the dividend will be exempt if the Irish corporate shareholder makes the requisite declaration.

Non-Irish resident corporate shareholders that:

- are ultimately controlled by residents of a Relevant Territory;

- are resident in a Relevant Territory and are not controlled by Irish residents;

- have the principal class of their shares, or shares of a 75% parent, substantially and regularly traded on one or more recognized stock exchanges in a Relevant Territory or Territories; or

- are wholly owned by two or more companies, each of whose principal class of shares is substantially and regularly traded on one or more recognized stock exchanges in a Relevant Territory or Territories;

will be exempt from withholding tax on the production of the appropriate certificates and declarations.

U.S. Holders of ordinary shares (as opposed to ADSs: see below) should note, however, that these documentation requirements may be burdensome. As described below, these documentation requirements do not apply in the case of ADSs.

Special arrangements are available in the case of an interest in shares held in Irish companies through American depositary banks using ADSs. The depositary bank will be allowed to receive and pass on a dividend from the Irish

company without any deduction for withholding tax in the following circumstances:

- the depositary has been authorized by the Irish Revenue Commissioners as a qualifying intermediary and such authorization has not expired or been revoked; and either
  - the depositary bank's ADS register shows that the beneficial owner has a U.S. address on the register; or

- if there is a further intermediary between the depositary bank and the beneficial owner, where the depositary bank receives confirmation from the intermediary that the beneficial owner's address in the intermediary's records is in the U.S.

Income Tax
Under certain circumstances, non-Irish resident shareholders will be subject to Irish income tax on dividend income. This liability is limited to tax at the standard rate and therefore, where withholding tax has been deducted, this will satisfy the tax liability.

However, a non-Irish resident shareholder will not have an Irish income tax liability on dividends from the company if the holder is neither resident nor ordinarily resident in the Republic of Ireland and the holder is:

- an individual resident in the U.S. (or any other country with which Ireland has concluded a double taxation treaty);

- a corporation that is ultimately controlled by persons resident in the U.S. (or any other country with which Ireland has concluded a double taxation treaty);

- a corporation whose principal class of shares (or its 75% or greater parent's principal class of shares) is substantially and regularly traded on a recognized stock exchange in an EU country or a country with which Ireland has concluded a double taxation treaty;

- a corporation resident in another EU member state or in a country with which Ireland has concluded a double taxation treaty, which is not controlled directly or indirectly by Irish residents; or

- a corporation that is wholly owned by two or more corporations each of whose principal class of shares is substantially and regularly traded on a recognized stock exchange in an EU country or a country with which Ireland has concluded a double taxation treaty.

U.S. Holders that do not fulfill the documentation requirements or otherwise do not qualify for the withholding tax exemption may be able to claim treaty benefits under the treaty. U.S. Holders that are entitled to benefits under the treaty will be able to claim a partial refund of the 20% withholding tax from the Irish Revenue Commissioners.

Taxation of Capital Gains
A person who is not resident or ordinarily resident in Ireland, has not been an Irish resident within the past five years and who does not carry on a trade in Ireland through a branch or agency will not be subject to Irish capital gains tax on the disposal of ordinary shares or ADSs, so long as the ordinary shares or ADSs, as the case may be, are either quoted on a stock exchange or do not derive the greater part of their value from Irish land or mineral rights. There are provisions to subject a person who disposes of an interest in a company while temporarily being non-Irish resident, to Irish capital gains tax. This treatment will apply to Irish domiciled individuals -:

- who cease to be Irish resident;

- who own the shares when they cease to be resident;

- if there are not more than 5 years of assessment between the last year of Irish tax residence prior to becoming temporarily non-resident and the tax year that he/she resumes Irish tax residency;

- who dispose of an interest in a company during this temporary non-residence; and

- the interest disposed of represents 5% or greater of the share capital of the company or is worth at least €500,000.

In these circumstances the person will be deemed, for Irish capital gains tax purposes, to have sold and immediately reacquired the interest in the company on the date of his or her departure and will be subject to tax at 20% of the taxable gain.

Irish Capital Acquisitions Tax
Irish capital acquisitions tax (referred to as CAT) applies to gifts and inheritances.

Where a gift or inheritance is taken under a disposition made after December 1, 1999, it will be within the charge to CAT:

- to the extent that the property of which the gift or inheritance consists is situated in the Republic of Ireland at the date of the gift or inheritance;
- where the person making the gift or inheritance is or was resident or ordinarily resident in the Republic of Ireland at the date of the disposition under which the gift or inheritance is taken;
- in the case of a gift taken under a discretionary trust where the person from whom the gift is taken was resident or ordinarily resident in the Republic of Ireland at the date he made the settlement, or at the date of the gift or, if he is dead at the date of the gift, at his death; or
- where the person receiving the gift or inheritance is resident or ordinarily resident in the Republic of Ireland at the date of the gift or inheritance.

Where a gift or an inheritance is taken under a disposition made prior to December 1, 1999, CAT is chargeable in the following circumstances:

- to the extent that the property of which the gift or inheritance consists is situated in the Republic of Ireland at the date of the gift or inheritance;
- where the person making the gift or inheritance is or was domiciled in Ireland at the date of the disposition under which the gift or inheritance is taken;
- in the case of a gift taken under a discretionary trust, where the disponer, who is usually the settlor, in relation to that trust was domiciled in Ireland at the date he made the settlement, or at the date of the gift or, where the gift is taken after his death, at the date of his death.

The person who receives the gift or inheritance is primarily liable for CAT. A person is secondarily liable if he is the donor, his personal representative or an agent, trustee or other person in whose care the property constituting the gift or inheritance or the income therefrom is placed. Taxable gifts or inheritances received by an individual since December 5, 1991 from donors in the same threshold class are aggregated and only the excess over a specified tax-free threshold is taxed. The tax-free
threshold is dependent on the relationship between the donor and the donees and the aggregation since December 5, 1991 of all previous gifts and inheritances, within the same tax threshold.

The tax-free threshold amounts currently in force are:

- €23,908 in the case of persons who are not related to one another;
- €47,815 in the case of gifts or inheritances received from inter alia a brother or sister or from a brother or sister of a parent or from a grandparent; and
- €478,155 in the case of gifts and inheritances received from a parent (or from a grandparent by a minor child of a deceased child) and specified inheritances received by a parent from a child.

Gifts and inheritances passing between spouses are exempt from CAT.

A gift or inheritance of ordinary shares or ADSs will be within the charge to Irish capital acquisitions tax, notwithstanding that the person from whom or by whom the gift or inheritance is received is domiciled or resident outside Ireland.

The Estate Tax Convention between Ireland and the United States generally provides for Irish capital acquisitions tax paid on inheritances in Ireland to be credited against U.S. federal estate tax payable in the United States and for tax paid in the United States to be credited against tax payable in Ireland, based on priority rules set forth in the Estate Tax Convention. The Estate Tax Convention does not apply to Irish capital acquisitions tax paid on gifts.

Irish Probate Tax
Irish probate tax was abolished under the Finance Act, 2001. No probate tax will arise on any assets passing in respect of a death occurring on or after December 6, 2000.

Irish Stamp Duty - Ordinary Shares
Irish stamp duty, which is a tax on certain documents, including CREST operator instructions, is payable on all transfers of the ordinary shares (other than between spouses) whenever a document of transfer is executed. Where the transfer is attributable to a sale, stamp duty will be charged at a rate of 1%, rounded to the nearest Euro. The stamp duty is calculated on the amount or value of the consideration (i.e. purchase price) or, if the transfer is by way of a gift (subject to certain exceptions) or for consideration less than the market value, on the market value of the shares. Where the consideration for the sale is expressed in a currency other than Euro, the duty will be charged on the Euro equivalent calculated at the rate of exchange prevailing on the date of the transfer.

Transfers of ordinary shares between associated companies (broadly, companies within a 90% group relationship, and subject to the satisfaction of certain conditions) are exempt from stamp duty in the Republic of Ireland. In the case of transfers of ordinary shares where no beneficial interest passes (e.g. a transfer of shares from a beneficial owner to his nominee), no stamp duty arises where the transfer contains the appropriate certificate and, in the absence of such certificate, a flat rate of €12.70 (the nominal rate) will apply.

Irish Stamp Duty - ADSs Representing Ordinary Shares
A transfer by a shareholder to the depositary or custodian of ordinary shares for deposit under the deposit agreement in return for ADSs and a transfer of ordinary shares from the depositary or the custodian upon surrender of ADSs for the purposes of the withdrawal of the underlying ordinary shares in accordance with the terms of the deposit agreement will be stampable at the ad valorem rate if the transfer relates to a sale or contemplated sale or any other change in the beneficial ownership of such ordinary shares. However, it is not certain whether the mere withdrawal of ordinary shares in exchange for ADSs or ADSs for ordinary shares would be deemed to be a transfer of or change in the beneficial ownership which would be subject to stamp duty at the ad valorem rate. Where the transfer merely relates to a transfer where no change in the beneficial ownership in the underlying ordinary shares is effected or contemplated, no stamp duty arises where the transfer contains the appropriate certificate and, in the absence of such certificate, the nominal rate stamp duty of €12.70 applies.

Transfers of ADSs are exempt from Irish stamp duty as long as the ADSs are dealt in on the NASDAQ National Market or any recognized stock exchange in the United States or Canada.

The person accountable for payment of stamp duty is the transferee or, in the case of a transfer by way of gift, or for a consideration less than the market value, all parties to the transfer. A late or inadequate payment of stamp duty will result in a liability to pay interest, penalties and fines.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and file reports and other information with the SEC. You may read and copy any of our reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 100F Street N.E., Washington, D.C. 20549. In addition, the SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We “incorporate by reference” information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this report and more recent information automatically updates and supersedes more dated information contained or incorporated by reference in this report. Our SEC file number for Exchange Act reports is 333-8704.

As a foreign private issuer, we are exempt from the rules under the Exchange Act, prescribing the furnishing and content of proxy statements to shareholders.

We will provide without charge to each person, including any beneficial owner, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this report (not including exhibits to such incorporated information that are not specifically incorporated by reference into such information). Requests for such copies should be directed to us at the following address: ICON plc, South County Business Park, Leopardstown, Dublin 18, Ireland, Attention: Ciaran Murray, telephone number: (353) 1 291 2000.

Exemptions From Corporate Governance Listing Requirements Under the NASDAQ Marketplace Rules

NASDAQ may provide exemptions from the NASDAQ corporate governance standards to a foreign private issuer when those standards are contrary to a law, rule or regulation of any public authority exercising jurisdiction over such issuer or contrary to generally accepted business practices in the issuer's country of domicile, except to the extent that such exemptions would be contrary to United States federal securities laws. ICON, as a foreign private issuer, was granted an exemption in 1998 from provisions set forth in NASDAQ Rule 4350(f), which requires each issuer to provide for a quorum in its by-laws for any meeting of the holders of common stock, which shall in no case be less than 33.33% of the outstanding shares of the issuer's outstanding voting stock. ICON's Articles of Association require that only 3 members be present at a shareholder meeting to constitute a quorum. This quorum requirement is in accordance with Irish law and generally accepted business practices in Ireland.

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk.***

Qualitative Disclosure of Market Risk. The principal market risks (i.e. risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- Interest rate changes on short term investments (available for sale) in the form of floating rate notes and medium term minimum "A" rated corporate securities, and
- Foreign currency risk on non-U.S. dollar denominated cash and non-U.S. dollar denominated debt.

We use derivative financial instruments solely to hedge exposure to these market risks and we do not enter into these instruments for trading or speculative purposes.

Our primary foreign currency exchange risk relates to movements in rates between the U.S. dollar, Sterling and the Euro. At December 31, 2006, we had cash denominated in non-U.S. dollar denominated currencies. In order to reduce the foreign currency exchange risk, we may enter into certain derivative instruments to reduce our exposure to adverse changes in exchange rates. At December 31, 2006 we held no foreign exchange forward contracts.

Quantitative disclosure of Market Risk. The analysis below presents the sensitivity of the market value, or fair value of our financial instruments to selected changes in market rates and prices. The changes chosen represent our view of changes that are reasonable over a one year period.

The hypothetical changes in fair value are estimated based on the same methodology used by the third party financial institutions to calculate the fair value of the original instruments, keeping all variables constant except the relevant exchange rate, as the case may be, which has been adjusted to reflect the hypothetical change. Fair value estimates by their nature are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined precisely.

Foreign Currency Exchange Risk

The sensitivity analysis below represents the hypothetical change in fair value based on an immediate 10% movement in the exchange rates.

	Fair value at December 31, 2006 (in thousands)	Fair value Change +10% movement in foreign exchange rate (in thousands)	Fair value Change -10% movement in foreign exchange rate (in thousands)
Non-U.S. Dollar denominated cash	$ 21,044	$ 2,104	($2,104)
Non-U.S. Dollar denominated short term debt	($5,000)	($500)	$ 500

Item 12. *Description of Securities Other than Equity Securities.*

Not applicable.

Part II

Item 13. *Defaults, Dividend Arrearages and Delinquencies.*

None.

Item 14.*Material Modifications to the Rights of Security Holders and Use of Proceeds.*

We hereby incorporate by reference the description of the amendment to our Memorandum and Articles of Association described under the heading “Memorandum and Articles of Association” from Item 10 of this Form 20F.

Item 15. *Controls and Procedures*

(a) Evaluation of disclosure controls and procedures.

An evaluation was carried out under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures as at December 31, 2006. Based on that evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.

There were no changes in our internal controls over financial reporting that occurred during the period covered by this Form 20-F that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Item 16. *Reserved.*

Item 16A. Audit Committee Financial Expert

Mr. Thomas Lynch acts as the Audit Committee financial expert serving on our Audit Committee and Board of Directors. Mr. Lynch is independent and serves as one of our non-executive directors.

Item 16B. Code of Ethics

Our Board of Directors adopted a code of ethics in 2003 that applies to the Chief Executive Officer, the Chief Financial Officer and any persons performing similar functions, if any, of the Company.

There are no material modifications to, or waivers from, the provisions of such code, which are required to be disclosed.

This code is available on our website at the following address:

http://www.iconclinical.com

Item 16C. Principal Accountant Fees and Services

Our principal accountants for the year ended December 31, 2006 and the seven month transition period ended December 31, 2005 were KPMG.

The table below summarizes the fees for professional services rendered by KPMG for the audit of our annual financial statements for the year ended December 31, 2006 and the seven month 2005 transition period ended December 31, 2005 and fees billed for other services rendered by KPMG.

		7 month transition period ending December 31, 2005			**12 month period ending December 31, 2006**	
(in thousands)						
Audit fees (1)	$	673	80%		1,076	81%
Audit related fees (2)		21	3%		99	7%
Tax fees (3)		144	17%		162	12%
Total	$	838	100%	$	1,337	100%

(1) Audit fees include annual audit fees for ICON plc and its subsidiaries.

(2) Audit related fees principally consisted of fees for financial due diligence services and fees for audit of financial statements of employee benefit plans.

(3) Tax fees are fees for tax compliance and tax consultation services.

The Audit Committee pre-approves on an annual basis the audit and non-audit services provided to ICON plc by its auditors.

Such annual pre-approval is given with respect to particular services. The Audit Committee, on a case-by-case basis, may approve additional services not covered by the annual pre-approval, as the need for such services arises.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16 E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

Part III

Item 17. *Financial Statements.*

Not applicable.

Item 18. *Financial Statements.*

Reference is made to pages 53 to 91 of this Form 20-F.

Item 19. *Financial Statements and Exhibits.*

Financial statements of ICON plc and subsidiaries

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as at May 31, 2005, December 31, 2005 and December 31, 2006.

Consolidated Statements of Operations for the years ended May 31, 2004, and 2005, the transition period ended December 31, 2005 and the year ended December 31, 2006.

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended May 31, 2004, and 2005, the transition period ended December 31, 2005, and the year ended December 31, 2006.

Consolidated Statements of Cash Flows for the years ended May 31, 2004, and 2005, the transition period ended December 31, 2005, and the year ended December 31, 2006.

Notes to the Consolidated Financial Statements.

Exhibits of ICON plc and subsidiaries

Significant subsidiaries. (Incorporated by reference in item 4)

Section 302 certifications.

Section 906 certifications.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's executive and financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitation due to, for example, the potential for human error or circumvention of control, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based upon the assessment performed, we determined that, as of December 31, 2006, the Company's internal control over financial reporting was effective based on the COSO criteria.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Shareholders of ICON plc

We have audited the accompanying consolidated balance sheets of ICON plc and subsidiaries as of December 31, 2006 and 2005, and May 31, 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the year ended December 31, 2006, the seven-month period ended December 31, 2005, and the years ended May 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Ireland and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ICON plc and subsidiaries as of December 31, 2006, December 31, 2005, May 31, 2005 and the consolidated results of their operations and their cash flows for the year ended December 31, 2006, the seven-month period ended December 31, 2005, and the years ended May 31, 2005 and 2004 in conformity with U.S. generally accepted accounting principles.

As described in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company has changed its method of accounting for stock-based compensation upon adoption of Statement of Financial Accounting Standard No. 123R *Share Based Payments*.

KPMG

Dublin, Ireland
February 12, 2006

ICON plc
CONSOLIDATED BALANCE SHEETS

	May 31, 2005	December 31, 2005	December 31, 2006
		(in thousands)	
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 56,341	$ 59,509	$ 63,039
Short term investments - available for sale (Note 3)	22,034	22,809	39,822
Accounts receivable	80,486	71,450	108,216
Unbilled revenue	56,762	62,270	89,977
Other receivables	5,662	6,435	7,468
Deferred tax asset (Note 13)	2,637	1,554	6,028
Prepayments and other current assets	10,717	11,089	14,335
Total current assets	234,639	235,116	328,885
Other Assets:			
Property, plant and equipment, net (Note 6)	45,286	47,652	68,208
Goodwill (Note 4)	67,440	65,731	78,717
Non-current deferred tax asset (Note 13)	-	452	531
Intangible assets (Note 5)	188	116	-
Total Assets	$ 347,553	$ 349,067	$ 476,341
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 10,379	$ 7,575	$ 9,691
Payments on account	52,583	50,211	90,394
Other liabilities (Note 7)	39,890	33,184	51,956
Deferred tax liability (Note 13)	310	682	538
Bank credit lines and loan facilities	-	4,856	5,000
Income taxes payable	6,189	6,296	10,985
Total current liabilities	109,351	102,804	168,564
Other Liabilities:			
Long term government grants (Note 11)	1,257	1,160	1,170
Long term finance leases	248	152	163
Non-current deferred tax liability (Note 13)	2,747	2,499	2,586
Minority interest	884	894	1,120
Shareholders' Equity:			
Ordinary shares, par value 6 euro cents per share; 40,000,000 shares authorized, 27,798,192 shares issued and outstanding at May 31, 2005 and 28,036,184 shares issued and outstanding at December 31, 2005 and 28,517,852 shares issued and outstanding at December 31, 2006 (Note 12)	2,047	2,063	2,100
Additional paid-in capital	113,385	122,263	133,996
Accumulated other comprehensive income	11,229	3,409	14,515
Retained earnings	106,405	113,823	152,127

Total Shareholders' Equity		233,066		241,558		302,738
Total Liabilities and Shareholders' Equity	$	347,553	$	349,067	$	476,341

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

ICON plc
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended May 31, 2004	2005	Seven Month Period Ended December 31, 2005	Year Ended December 31, 2006
	(in thousands, except share and per share data)			
Revenue:				
Gross revenue	$ 443,875	$ 469,583	$ 275,586	$ 649,826
Subcontractor costs	(146,952)	(142,925)	(73,636)	(194,229)
Net revenue	296,923	326,658	201,950	455,597
Costs and expenses:				
Direct costs	162,562	179,661	114,004	256,263
Selling, general and administrative	88,807	103,784	62,276	136,569
Depreciation and amortization	11,171	13,331	8,094	14,949
Stock compensation (Note 10)	-	-	6,024	-
Other charges (Note 14)	-	11,275	-	-
Total costs and expenses	262,540	308,051	190,398	407,781
Income from operations	34,383	18,607	11,552	47,816
Interest income	490	1,208	1,294	3,765
Interest expense	(202)	(229)	(22)	(125)
Income before provision for income taxes	34,671	19,586	12,824	51,456
Provision for income taxes (Note 13)	(8,929)	(5,852)	(5,396)	(12,924)
Minority interest	-	(189)	(10)	(228)
Net income	$ 25,742	$ 13,545	$ 7,418	$ 38,304
Net income per ordinary share:				
Basic	$ 0.97	$ 0.49	$ 0.27	$ 1.35
Diluted	$ 0.94	$ 0.48	$ 0.26	$ 1.33
Weighted average number of ordinary shares outstanding:				

Basic (Note 2)	26,535,062	27,720,406	27,940,212	28,314,985
Diluted (Note 2)	27,406,326	28,306,890	28,495,084	28,863,334

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

ICON plc
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at May 31, 2003*	23,683,114	$ 1,759	$ 60,246	$ 7,787	$ 67,118	$ 136,910
Comprehensive Income:						
Net income					25,742	25,742
Currency translation adjustment				2,197		2,197
Total comprehensive income						27,939
Exercise of share options	993,838	70	5,288			5,358
Shares issued	3,000,000	208	45,497			45,705
Share issue costs			(1,428)			(1,428)
Tax benefit on exercise of options			2,276			2,276
Balance at May 31, 2004*	27,676,952	$ 2,037	$ 111,879	$ 9,984	$ 92,860	$ 216,760
Comprehensive Income:						
Net income	-	-	-	-	13,545	13,545
Currency translation adjustment	-	-	-	1,245	-	1,245
Total comprehensive income						14,790
Exercise of share options	121,240	10	1,397	-	-	1,407
Share issue costs	-	-	(60)	-	-	(60)
Tax benefit on exercise of options	-	-	169	-	-	169
Balance at May 31, 2005*	27,798,192	$ 2,047	$ 113,385	$ 11,229	$ 106,405	$ 233,066
Comprehensive Income:						
Net income	-	-	-	-	7,418	7,418
Currency translation adjustment	-	-	-	(6,049)	-	(6,049)
Minimum pension liability adjustment	-	-	-	(1,771)	-	(1,771)
Total comprehensive income						(402)
Exercise of share options	237,992	16	1,895	-	-	1,911
Stock compensation expense	-	-	6,249	-	-	6,249
Share issue costs	-	-	(24)	-	-	(24)
Tax benefit on exercise of options	-	-	758	-	-	758
Balance at December 31, 2005*	28,036,184	$ 2,063	$ 122,263	$ 3,409	$ 113,823	$ 241,558

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Balance at December 31, 2005*	28,036,184	$ 2,063	$ 122,263	$ 3,409	$ 113,823	$ 241,558
Comprehensive Income:						
Net income	-	-	-	-	38,304	38,304
Currency translation adjustment	-	-	-	11,482	-	11,482
Minimum pension liability adjustment	-	-	-	(376)	-	(376)
Total comprehensive income						49,410
Exercise of share options	481,668	37	6,642	-	-	6,679
Stock compensation expense	-	-	4,066	-	-	4,066
Share issue costs	-	-	(84)	-	-	(84)
Tax benefit on exercise of options	-	-	1,109	-	-	1,109
Balance at December 31, 2006*	28,517,852	$ 2,100	$ 133,996	$ 14,515	$ 152,127	$ 302,738

*Comparative figures have been amended to reflect the Bonus Issue which took place with an effective date of October 13, 2006.
The accompanying notes are an integral part of these consolidated financial statements.

ICON plc
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2004	2005	Seven Month Period Ended December 31, 2005	Year Ended December 31, 2006
Cash flows from operating activities:		(in thousands)		
Net income	$ 25,742	$ 13,545	$ 7,418	$ 38,304
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss on disposal of property, plant and equipment	222	66	43	186
Depreciation and amortization	11,171	13,331	8,094	14,949
Amortization of grants	(569)	(199)	(105)	(114)
Stock compensation expense	-	-	6,249	4,066
Deferred taxes	985	(532)	717	(1,887)
Minority interest	-	189	10	228
Other charges	-	11,275	-	-
Changes in assets and liabilities:				
(Increase)/decrease in accounts receivable	4,089	(4,930)	7,487	(32,893)
(Increase)/decrease in unbilled revenue	(15,329)	3,071	(6,522)	(24,178)
Decrease/(increase) in other receivables	4,307	1,383	(1,530)	5,089
Increase in prepayments and other current assets	(778)	(994)	(703)	(2,477)
Increase/(decrease) in payments on account	14,228	(9,515)	(1,579)	35,605
Increase/(decrease) in other liabilities	(1,654)	(446)	(4,324)	10,699
Increase in income taxes payable	2,237	1,420	1,125	1,532
Increase/(decrease) in accounts payable	(1,009)	(2,455)	(2,599)	1,343
Net cash provided by operating activities	43,642	25,209	13,781	50,452
Cash flows from investing activities:				
Purchase of property, plant and equipment	(13,097)	(15,595)	(12,128)	(31,516)
Purchase of intangible asset	-	(250)	-	-
Purchase of subsidiary undertakings and acquisition costs	(11,258)	(10,052)	-	(7,017)
Cash acquired with subsidiary undertakings	891	1,658	-	341
Deferred payments in respect of historical acquisitions	(1,733)	(2,514)	(3,374)	(96)
Sale of short term investments	-	12,022	14,016	3,008
Purchase of short term investments	(23,085)	(10,971)	(14,791)	(20,021)
Receipt of government grant	945	-	-	-
Net cash used in investing activities	(47,337)	(25,702)	(16,277)	(55,301)
Cash flows from financing activities:				
(Repayment)/drawdown of bank overdraft	(7,126)	-	4,833	112

Proceeds from exercise of share options	5,358	1,407	1,911	6,679
Proceeds from the issuance of share capital	45,705	-	-	-
Share issuance costs	(1,182)	(197)	(24)	(84)
Tax benefit from exercise of share options	-	-	-	1,109
Repayment of other liabilities	(230)	(272)	(96)	(114)
Net cash provided by financing activities	42,525	938	6,624	7,702
Effect of exchange rate movements on cash	(1,463)	218	(960)	677
Net increase in cash and cash equivalents	37,367	663	3,168	3,530
Cash and cash equivalents at beginning of year	18,311	55,678	56,341	59,509
Cash and cash equivalents at end of year	$ 55,678	$ 56,341	$ 59,509	$ 63,039

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

ICON plc
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of business

ICON plc and subsidiaries ("The Company") is a contract research organization ("CRO"), providing outsourced development services on a global basis to the pharmaceutical, biotechnology and medical device industries. The Company specializes in the strategic development, management and analysis of programs that support Clinical Development - from compound selection to Phase I-IV clinical studies.

The Company's primary approach is to use dedicated teams to achieve optimum results, but the Company can implement a range of resourcing models to suit client requirements.

In a highly fragmented industry, we are one of a select group of companies with the capability and expertise to conduct clinical trials in all major therapeutic areas on a global basis. Currently, the Company have approximately 4,300 employees, in 49 locations, in 30 countries, providing Phase I - IV Clinical Trial Management, Drug Development Support Services, Data Management and Biostatistics and Central Laboratory and Imaging Services. The Company has the operational flexibility to provide development services on a stand-alone basis or as part of an integrated "full service" solution.

Headquartered in Dublin, Ireland, we began operations in 1990 and have expanded our business through internal growth and strategic acquisitions. For the year ended December 31, 2006, we derived approximately 58.4%, 35.8% and 5.8% of our net revenue in the United States, Europe and Rest of World, respectively.

On July 27, 2005 the Board of Directors of ICON approved a change of the Company's fiscal year end from a twelve-month period ending on May 31 to a twelve-month period ending on December 31. The Company made this change in order to align our fiscal year end with the majority of other contract research organizations. As a requirement of this change, ICON reported results for the seven-month period from June 1, 2005 to December 31, 2005 as a separate transition period. As of January 1, 2006, ICON's fiscal year now begins on January 1 and ends on December 31 and its fiscal quarters end on the last day of March, June, September and December.

On September 29, 2006, ICON's shareholders approved a bonus issue of ordinary shares (the "Bonus Issue") to shareholders of record as of the close of business on October 13, 2006 (the "Record Date"). The Bonus Issue provided for each shareholder to receive one bonus ordinary share for each ordinary share held as of the Record Date, effecting the equivalent of a 2-for-1 stock split. The Bonus shares were issued on October 16, 2006 to Ordinary Shareholders and on October 23, 2006 to holders of American Depositary Shares ("ADSs"). NASDAQ adjusted the trading price of ICON's ADSs to effect the Bonus Issue prior to the opening of trading on October 24, 2006. All outstanding ordinary share amounts referenced in the consolidated financial statements and the notes thereto have been retrospectively restated to give effect to the Bonus Issue as if it had occurred as of the date referenced.

2. Significant Accounting Policies

The accounting policies noted below were applied in the preparation of the accompanying financial statements of the Company and are in conformity with accounting principles generally accepted in the United States.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. All significant intercompany profits, transactions and account balances have been eliminated. The results of subsidiary undertakings acquired in the period are included in the consolidated statement of operations from the date of acquisition.

(b) Use of estimates

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

(c) Revenue recognition

The Company primarily earns revenues by providing a number of different services to its customers. These services include clinical trials management, biometric activities, consulting and laboratory services. Contracts range in duration from a number of months to several years.

Clinical trials management revenue is earned on the basis of the relationship between time incurred and the total estimated duration of the trial. Biometrics revenue is recognized on a fee-for-service method on the basis of the number of units completed in a period as a percentage of the total number of contracted units. Consulting revenue is recognized on a fee-for-service basis as the related service is performed. Laboratory service revenue is recognized on a fee-for-service basis. The Company accounts for laboratory service contracts as multiple element arrangements, with contractual elements comprising laboratory kits and laboratory testing, each of which can be sold separately. Fair values for contractual elements are determined by reference to objective and reliable evidence of their fair values. Non-refundable set-up fees are allocated as additional consideration to the contractual elements based on the proportionate fair values of each of these elements. Revenues for contractual elements are recognized on the basis of the number of deliverable units completed in the period.

Contracts generally contain provisions for renegotiation in the event of changes in the scope, nature, duration, volume of services or conditions of the contract. Renegotiated amounts are recognized as revenue by revision to the total contract value arising as a result of an authorized customer change order. Provisions for losses to be incurred on contracts are recognized in full in the period in which it is determined that a loss will result from performance of the contractual arrangement.

The difference between the amount of revenue recognized and the amount billed on a particular contract is included in the balance sheet as unbilled revenue. Normally, amounts become billable upon the achievement of certain milestones, in accordance with pre-agreed payment schedules included in the contract or on submission of appropriate billing detail. Such cash payments are not representative of revenue earned on the contract as revenues are recognized over the period in which the specified contractual obligations are fulfilled. Amounts included in unbilled revenue are expected to be collected within one year and are included within current assets. Advance billings to customers, for which revenue has not been recognized, are recognized as payments on account within current liabilities.

In the event of contract termination, if the value of work performed and recognized as revenue is greater than aggregate milestone billings at the date of termination, cancellation clauses ensure that the Company is paid for all work performed to the termination date.

(d) Subcontractor costs

Subcontractor costs comprise investigator payments and certain other costs which are reimbursed by clients under terms specific to each contract and are deducted from gross revenue in arriving at net revenue. Investigator payments are accrued based on patient enrollment over the life of the contract. Investigator payments are made based on predetermined contractual arrangements, which may differ from the accrual of the expense. Payments to investigators in excess of the accrued expense are classified as prepaid expenses and accrued expense in excess of amounts paid are classified as accounts payable.

(e) Direct costs

Direct costs consist of compensation and associated employee benefits for project-related employees, other direct project-related costs and stock based compensation.

(f) Advertising costs

All costs associated with advertising and promotion are expensed as incurred. The advertising and promotion expense was U.S.$1,596,000, U.S.$2,401,000 and U.S.$1,453,000 for the years ended May 31, 2004, and 2005, and the seven month period ended December 31, 2005, and US$2,687,345 for the year ended December 31, 2006 respectively.

(g) Foreign currencies and translation of subsidiaries

The Company's financial statements are prepared in United States dollars. Transactions in currencies other than United States dollars are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are translated into United States dollars at exchange rates prevailing at the balance sheet date. Adjustments resulting from these translations are charged or credited to income. For the years ended May 31, 2004, and 2005, and the seven month period ending December 31, 2005 amounts (credited)/charged to income amounted to, (U.S.$2,445,000), U.S.$433,000 and U.S.$408,000 respectively. For the year ended December 31, 2006 amounts charged to income amounted to U.S. $1,538,386.

The financial statements of subsidiaries with other functional currencies are translated at period end rates for the balance sheet and average rates for the income statement. Translation gains and losses arising are reported as a movement on accumulated other comprehensive income.

(h) Disclosure about fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each material class of financial instrument:

Cash, cash equivalents, unbilled revenue, other receivables, short term investments, prepayments and other current assets, accounts receivable, accounts payable, investigator payments, payments received on account, accrued liabilities, accrued bonuses, bank overdraft and taxes payable have carrying amounts that approximate fair value due to the short term maturities of these instruments.

Long-term debt and other liabilities carrying amounts approximate fair value based on net present value of estimated future cash flows.

(i) Leased Assets

Costs in respect of operating leases are charged to the statement of operations on a straight line basis over the lease term.

Assets acquired under capital finance leases are included in the balance sheet at the present value of the future minimum lease payments and are depreciated over the shorter of the lease term and their remaining useful lives. The corresponding liabilities are recorded in the balance sheet and the interest element of the capital lease rental is charged to interest expense.

(j) Goodwill

Goodwill represents the excess of the cost of acquired entities over the net of amounts assigned to assets acquired and liabilities assumed. Goodwill is stated net of any provision for impairment. The Company tests goodwill annually for any impairments or whenever events occur which may indicate impairment. The first step is to compare the carrying amount of the reporting units' assets to the fair value of the reporting unit. If the carrying amount exceeds the fair value then a second step is completed which involves the fair value of the reporting unit being allocated to each asset and

liability with the excess being implied goodwill. The impairment loss is the amount by which the recorded goodwill exceeds the implied goodwill. The Company's annual test for impairment performed for the year ended May 31, 2005 identified an impairment charge to be taken against the central laboratory segment. For further information, refer to Note 14 to the Consolidated Financial Statements. No impairment was recognized as a result of the impairment testing carried out as at December 31, 2006.

(k) Other intangible assets

Other intangible assets are amortized on a straight line basis over their estimated useful life.

(l) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with initial maturities of three months or less and are stated at cost, which approximates market value.

(m) Short term investments - available for sale

The Company has classified short-term investments as available for sale in accordance with the terms of SFAS No.115 “Accounting for Certain Investments in Debt and Equity Securities”. Realized gains and losses are determined using specific identification. The investments are reported at fair value, with unrealized gains or losses reported in a separate component of shareholders’ equity. Any differences between the cost and fair value of the investments are represented by accrued interest.

(n) Inventory

Inventory is valued at the lower of cost and net market value and after provisions for obsolescence. Cost in the case of raw materials comprises the purchase price and attributable costs, less trade discounts. As at the year ended December 31, 2006 the carrying value of inventory on the balance sheet was $2.6 million (2005: $1.7 million).

(o) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is computed using the straight line method based on the estimated useful lives of the assets as listed below:

	Years
Building	40
Computer equipment and software	4
Office furniture and fixtures	8
Laboratory equipment	5
Motor vehicles	5

Leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter.

(p) Income taxes

The Company applies Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes," which requires the asset and liability method of accounting for income taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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(q) Government grants

Government grants received relating to capital expenditure are shown as deferred income and credited to income on a basis consistent with the depreciation policy of the relevant assets.

Grants relating to categories of operating expenditures are credited to income in the period in which the expenditure to which they relate is charged.

Under the grant agreements amounts received may become repayable in full should certain circumstances specified within the grant agreements occur, including downsizing by the Company, disposing of the related assets, ceasing to carry on its business or the appointment of a receiver over any of its assets.

The Company has not recognized any loss contingency having assessed as remote the likelihood of these events arising.

(r) Pension costs

The Company contributes to defined contribution plans covering all eligible employees. The Company contributes to these plans based upon various fixed percentages of employee compensation and such contributions are expensed as incurred.

The Company operates, through a subsidiary, a defined benefit plan for certain of its United Kingdom employees. The Company accounts for the costs of this plan using actuarial models required by SFAS No.87, “Employers Accounting for Pensions”. Disclosures are presented in accordance with the requirements of SFAS No.158 “Employers’ Accounting for Defined Benefit Pensions and Other Post-retirement Plans”.

(s) Net income per ordinary share

Basic net income per ordinary share has been computed by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted net income per ordinary share is computed by adjusting the weighted average number of ordinary shares outstanding during the period for all potentially dilutive ordinary shares outstanding during the period and adjusting net income for any changes in income or loss that would result from the conversion of such potential ordinary shares.

There is no difference in net income used for basic and diluted net income per ordinary share. The reconciliation of the number of shares used in the computation of basic and diluted net income per ordinary share is as follows:

	Year Ended May 31,		Seven month Period Ended December 31,	Year Ended December 31,
	2004	2005	2005	2006
Weighted average number of ordinary sharesoutstanding for basic net income per ordinary share	26,535,062	27,720,406	27,940,212	28,314,985
Effect of dilutive share options outstanding	871,264	586,484	554,872	548,349
Weighted average number of ordinary shares outstanding for diluted net income per ordinary share	27,406,326	28,306,890	28,495,084	28,863,334

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(t) Share-based compensation

The Company accounts for its share options in accordance with the provisions of SFAS No. 123R, "Share Based Payment". SFAS 123R requires that all share based payments to employees, including stock options granted, be recognized in the financial statements based on their grant date fair values over the requisite service period. The Company adopted SFAS 123R with effect from January 1, 2006, with the Black-Scholes method of valuation being used to calculate the fair value of options granted. The Company adopted SFAS 123R using the modified-prospective transition method. Under that transition method compensation cost recognized in the year ended December 31, 2006, includes; (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation cost for all share based payments granted subsequent to January 1, 2006, based on grant date fair values estimated in accordance with the provisions of SFAS 123R and the estimated number of awards that are expected to vest. Results for prior periods have not been restated.

The following table illustrates the effect on net income and earnings per share as if the fair value method of SFAS No. 123R had been applied to all outstanding and unvested stock options in each period.

	Year ended May 31, 2004 *	Year ended May 31, 2005 *	Seven-month ended December 31, 2005 *
	(in thousands) (except per share data)		
Net income, as reported	$ 25,742	$ 13,545	$ 7,418
Add: Stock compensation expense	-	-	225
	25,742	13,545	7,643
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,358)	(2,729)	(1,248)
Pro forma net income	$ 23,384	$ 10,816	$ 6,395
Earnings per share (in $):			
Basic - as reported *	$ 0.97	$ 0.49	$ 0.27
Basic - pro forma *	0.88	0.39	0.23
Diluted - as reported *	$ 0.94	$ 0.48	$ 0.26
Diluted - pro forma *	0.85	0.38	0.22

* Comparative figures have been amended to reflect the Bonus Issue which took place with an effective date of October 13, 2006

(u) Impairment of long-lived assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs.

(v) Reclassifications

Certain amounts in the consolidated financial statements have been reclassified where necessary to conform to the current year presentation.

3. Short term investments - available for sale

The Company has classified its entire investment portfolio comprising floating rate and medium term minimum "A" rated corporate securities, as available for sale. The investments are reported at fair value, with unrealized gains or losses reported in a separate component of shareholders' equity. In the years to May 31, 2004, 2005 and the seven month period ended December 31, 2005 and in the year ended December 31, 2006 no unrealized gains or losses arose. Any differences between the cost and fair value of the investments are represented by accrued interest.

4. Goodwill

		May 31, 2005		December 31, 2005		December 31, 2006
				(in thousands)		
Opening Goodwill	$	64,226	$	67,440	$	65,731
Arising during the year		8,463		-		9,005
Arising on earn-out (prior year acquisitions)		1,856		-		96
Goodwill impairment (Note 14)		(7,017)		-		-
Foreign exchange movement		(88)		(1,709)		3,885
Closing Goodwill	$	67,440	$	65,731	$	78,717

The distribution of goodwill by business segment was as follows:

		May 31, 2005		December 31, 2005		December 31, 2006
				(in thousands)		
Central laboratory (Note 14)	$	-	$	-	$	-
Clinical research		67,440		65,731		78,717
Total	$	67,440	$	65,731	$	78,717

(a) Acquisition of Medeval Group Ltd

On January 24, 2003, the Company acquired 100% of the outstanding shares of Medeval Group Limited ("Medeval"), a company based in Manchester, England, for an initial cash consideration of Stg£9.5 million (U.S.$15.5 million), excluding costs of acquisition which amounted to U.S.$1million. Earn-out provisions have been built into the acquisition contract requiring the potential payment of additional deferred consideration up to a maximum of Stg£4.3 million (U.S.$6.9 million) depending on the performance of Medeval over the period to May 31, 2004. Such additional consideration has been accounted for as goodwill.

On May 31, 2003, an amount of Stg£1.4 million (U.S.$2 million) was accrued in relation to the Medeval acquisition, as the first earn-out target identified in the acquisition contract was reached on this date. It was provided in the applicable acquisition agreement that the form of the earn-out would consist of cash payable to one specific named selling shareholder, with the balance due to the other selling shareholders being in the form of guaranteed loan notes. These guaranteed loan notes have a repayment date of three years from the date of issue but are exercisable six months

from that date. On September 30, 2003, Stg£0.472 million (U.S.$0.8 million) was paid in cash to a specific named selling shareholder. On the same date, Stg£0.753 million (U.S.$1.403 million) of guaranteed loan notes were issued to the remaining selling shareholders and were included in other liabilities. The guaranteed loan note holders issued redemption notices to the Company, which required the Company to redeem all the guaranteed loan notes on June 30, 2004, in consideration for a cash payment of Stg£0.753 million (U.S.$1.380 million), the total amount of which was accrued at May 31, 2004.

On September 30, 2004, cash consideration of Stg£0.54 million (U.S.$0.97 million) was paid to a number of the former shareholders of Medeval and guaranteed loan notes with a value of Stg£1.08 million (U.S.$1.93 million) were issued to the remaining selling shareholders. At May 31, 2004, Stg£1.37 million (U.S.$2.5 million) of this amount had been provided, therefore an additional Stg£0.253 million (U.S.$0.452 million) was provided and accounted for under goodwill as at May 31, 2005. These guaranteed loan notes have a repayment date of three years from the date of issue but are exercisable nine months from the date of issue. The guaranteed loan note holders issued redemption notices to the Company, which required the Company to redeem all the guaranteed loan notes on June 30, 2005, in consideration of a cash payment of Stg£1.08 million (U.S.$1.93 million), the total amount of which was accrued for at May 31, 2005.

The acquisition of Medeval has been accounted for as a purchase in accordance with SFAS No. 141, “Business Combinations”. The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

		(in thousands)
Property, plant and equipment	$	1,632
Goodwill		22,824
Current assets		2,738
Pension liabilities		(2,588)
Other current liabilities		(3,113)
Purchase Price	$	21,493

The results of Medeval have been included in the consolidated financial statements from January 24, 2003.

(b) Acquisition of GloboMax LLC

On September 9, 2003, the Company acquired 100% of the outstanding shares of GloboMax LLC, based in Maryland, USA, for an initial cash consideration of U.S.$10.9 million, excluding costs of acquisition. Earn-out provisions have been built into the acquisition contract requiring the potential payment of additional deferred consideration up to a maximum of U.S.$4 million depending on the performance of GloboMax over the period from date of acquisition to May 31, 2006. Such potential additional consideration will be accounted for as goodwill. The total amount of goodwill is expected to be tax deductible.

On August 26, 2005, cash consideration of U.S.$1.4 million was paid to the former shareholders of GloboMax in respect of the first earn-out target which was reached on May 31, 2005, The total amount of this earn-out was accrued at May 31, 2005.

On May 31, 2006, an amount of U.S.$0.96 million was paid to the former shareholders of GloboMax. This U.S.$0.96 million was withheld from an earn-out payment made on August 31, 2005 due to an outstanding customer debt arising prior to the acquisition of GloboMax. This customer debt has subsequently been recovered and the U.S.$0.96 million in turn became due to the former shareholders of GloboMax. This payment has been accounted for as goodwill. No further payments are anticipated.

The acquisition of GloboMax has been accounted for as a purchase in accordance with SFAS No. 141, “Business Combinations”. The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

		(in thousands)
Property, plant and equipment	$	352
Goodwill		14,634
Cash		891
Other current assets		2,487
Current liabilities		(5,539)
Purchase Price	$	12,825

The results of GloboMax have been included in the consolidated financial statements from September 9, 2003.

(c) Acquisition of Beacon Biosciences, Inc

On July 1, 2004, the Company acquired 70% of the outstanding shares of Beacon Biosciences, inc. (“Beacon”), based in Pennsylvania, USA, for an initial cash consideration of U.S.$9.9 million, excluding costs of acquisition.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

		(in thousands)
Property, plant and equipment	$	792
Goodwill		8,463
Cash		1,658
Other current assets		935
Current liabilities		(718)
Long term liabilities		(352)
		10,778
Minority interest		(695)
Purchase Price	$	10,083

The results of Beacon have been included in the consolidated financial statements from July 1, 2004

(d) Acquisition of Ovation

On July 10, 2006, the Company acquired 100% of the common stock of Ovation Healthcare Research 2 Inc. (“Ovation”), based in Illinois, USA, for an initial cash consideration of U.S.$6.6 million, excluding costs of acquisition. Working capital provisions were built into the acquisition contract requiring the potential payment of additional deferred consideration up to a maximum of U.S.$1.4 million. On October 27, 2006, $0.18 million was paid to the former shareholders of Ovation in full and final settlement of the working capital provisions.

The acquisition of Ovation has been accounted for as a purchase in accordance with SFAS No. 141, “Business Combinations”. The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition.

		(in thousands)
Property, plant and equipment	$	384
Goodwill		9,005
Cash		341
Other current assets		4,381
Current liabilities		(6,952)

Long term liabilities		(124)
Purchase Price	$	7,035

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5. Intangible Assets

On December 1, 2004, the Company acquired the workforce of Biomines Research Solutions Private Limited, ("Biomines"), based in Chennai, India, for a cash consideration of U.S.$250,000.

	December 1, 2004 (in thousands)
Acquired workforce - intangible asset	$ 250
Purchase Price	$ 250

The cost of the acquired workforce is being amortized over 24 months in line with the life of the non-compete service contracts of the acquired employees. U.S.$250,000 has been amortized in the period since the date of acquisition.

	May 31, 2005	December 31, 2005 (in thousands)	December 31, 2006
Cost	$ 250	$ 250	$ 250
Accumulated amortization	(62)	(134)	(250)
Net book value	$ 188	$ 116	$ -

6. Property, Plant and Equipment, net

	May 31, 2005	December 31, 2005 (in thousands)	December 31, 2006
Cost			
Land	$ 780	$ 3,477	$ 3,771
Building	11,358	12,625	28,131
Computer equipment and software	51,867	53,768	68,353
Office furniture and fixtures	20,031	19,889	24,639
Laboratory equipment	5,538	6,820	8,525
Leasehold improvements	5,684	5,679	5,674
Motor vehicles	39	73	110