COVALENT GROUP INC
Form PRER14A
September 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Covalent Group, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies: up to 9,275,171 shares of common stock of Covalent Group, Inc.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): $2.87 (representing the average of the high and low bid prices on September 8, 2006)

(4) Proposed maximum aggregate value of transaction: $30,619,740 (including $4,000,000 of cash consideration)

(5) Total fee paid: $3,276.31

¨ Fee paid previously with preliminary materials.

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

(1) Amount previously paid: $2,910.87

(2) Form, Schedule or Registration Statement No.: Schedule 14A (Preliminary)

(3) Filing party: Covalent Group, Inc.

(4) Date filed: August 4, 2006

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SUBJECT TO COMPLETION, SEPTEMBER 14, 2006

Covalent Group, Inc.

One Glenhardie Corporate Center, Suite 100

1275 Drummers Lane

Wayne, PA 19087

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON OCTOBER 20, 2006

To the Stockholders of Covalent Group, Inc.:

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

1. Approve the issuance of up to 9,275,171 shares of Covalent common stock, $0.001 par value per share, in connection with the consummation of the business combination between us and Remedium Oy, a corporation organized under the laws of Finland;

2. Elect four directors to serve until the 2007 annual meeting of stockholders;

3. Elect three additional directors to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders;

4. Approve an amendment to our Certificate of Incorporation changing our name to Encorium Group, Inc. ;

5. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of our common stock from 25,000,000 shares to 35,000,000 shares;

6. Approve the Covalent Group, Inc. 2006 Equity Incentive Plan;

7. Ratify the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the fiscal year ending December 31, 2006; and

8. Transact such other business as may properly come before the meeting.

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

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

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

By Order of the Board of Directors,

Lawrence R. Hoffman

Executive Vice President, General Counsel,

Secretary and Chief Financial Officer

September 14, 2006

Wayne, Pennsylvania

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PROXY STATEMENT

for Annual Meeting of Stockholders

October 20, 2006

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

Time and Place of the Annual Meeting

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

Purpose of the Meeting

At the meeting, our stockholders will be asked to:

1. Approve the issuance of up to 9,275,171 shares of Covalent common stock, $0.001 par value per share, in connection with the consummation of the business combination between us and Remedium Oy, a corporation organized under the laws of Finland;

2. Elect four directors to serve until the 2007 annual meeting of stockholders;

3. Elect three additional directors to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders;

4. Approve an amendment to our Certificate of Incorporation changing our name to Encorium Group, Inc.

5. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of our common stock from 25,000,000 shares to 35,000,000 shares;

6. Approve the Covalent Group, Inc. 2006 Equity Incentive Plan;

7. Ratify the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the fiscal year ending December 31, 2006; and

8. Transact such other business as may properly come before the meeting.

Record Date; Stock Entitled to Vote; Quorum

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

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

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Required Vote

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

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

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

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

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

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

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

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

Proxies; Voting and Revocation

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

Solicitation of Proxies

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

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

Other Matters

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

Principal Executive Office

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

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SUMMARY

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

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

The Companies (pages 62 and 87)

Covalent Group, Inc.

One Glenhardie Corporate Center

1275 Drummers Lane

Suite 100

Wayne, Pennsylvania 19087

Telephone Number: (610) 975-9533

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

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

Remedium Oy

Keilaranta 16

FIN-02150 Espoo

Finland

Tel. +358 20 751 8200

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

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

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

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

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

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

- if Remedium net revenue exceeds EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) $3,000,000 by (ii) the closing price; or
- if Remedium net revenue exceeds EUR 9,500,000 but is equal or less than EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) $2,000,000 by (ii) the closing price; or
- if Remedium net revenue exceeds EUR 8,300,000 but is equal or less than EUR 9,500,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) $1,000,000 by (ii) the closing price; or
- if Remedium net revenue is equal to or less than EUR 8,300,000, the Remedium stockholders are not entitled to any earn-out shares.

On March 30, 2007, Remedium stockholders are to receive an additional $1,500,000 in immediately available funds. Subject to adjustment, on the first anniversary of the closing of the business combination, Covalent will issue to the Remedium stockholders the number of shares of common stock of Covalent equal to the quotient obtained by dividing (i) $2,000,000 by (ii) the closing price. For a description of the adjustments applicable to the consideration we have agreed to pay, which may have the effect of increasing or decreasing the consideration paid pursuant to the combination agreement, see The Combination Agreement Consideration and Adjustment.

Reasons for the Business Combination (page 32)

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

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

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

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

the potential to increase competitiveness through synergies;

increase in revenue bulk;

diversification of business offerings; and

enhancement of management and sales capabilities

Board of Directors Recommendation (page 32)

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

Appraisal Rights (page 39)

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

Federal Income Tax Considerations (page 38)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Opinion of Financial Advisor to Covalent (page 33)

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

Ownership of Covalent After Business Combination (page 118)

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

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

Termination (page 46)

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

- by mutual written consent.
- by either party if the other party has failed to satisfy a condition to the closing of the transaction and such condition has not been waived.
- by either party if the combination agreement has not been consummated by November 30, 2006 (for any reason other than a breach or violation of any representation, warranty, covenant or agreement contained in the combination agreement by the party seeking such termination).
- by either party, if a governmental entity permanently restrains, enjoins or otherwise prohibits completion of the combination agreement.
- by either party, if at the meeting (including any adjournment or postponement), the requisite vote of the stockholders of Covalent in favor of Proposals One, Three, Four and Five shall not have been obtained (provided that the right to terminate the combination agreement under this section shall not be available to Covalent where the failure to obtain the approval of the Covalent stockholders is caused by the action or failure to act of Covalent and such action or failure constitutes a material breach by Covalent of the combination agreement).
- by the Remedium stockholders, if the board of directors of Covalent withdraws of modifies its recommendation that the Covalent stockholders vote in favor of Proposals One, Three, Four and Five.
- by either party if the other party files a petition in bankruptcy, reorganization, liquidation or receivership, or a petition in bankruptcy, reorganization, liquidation or receivership is filed on or before the closing of the transaction and is not withdrawn or dismissed on or before closing under the combination agreement.

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

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

Regulatory Matters (page 38)

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

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Accounting Treatment (page 37)

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

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QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION

Q: What is the business combination?

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

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

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

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

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

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

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

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

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

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

Q: Why are the companies proposing the business combination?

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

- the expansion of Covalent s geographic footprint to Eastern/Central Europe, Scandinavia and the Baltics;
- access to a desirable patient population for Covalent clinical trials;
- greater scale to better compete in the clinical research organization market;
- the potential to increase competitiveness through synergies;
- increase in revenue bulk;
- diversification of business offerings; and
- enhancement of management and sales capabilities.

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

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

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

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

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

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

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

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

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

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

if Remedium net revenue is equal to or less than EUR 8,300,000, the Remedium stockholders are not entitled to any earn-out shares.

On March 30, 2007, Remedium stockholders are to receive an additional $1,500,000 in immediately available funds. Subject to adjustment, on the first anniversary of the closing of the business combination, Covalent will issue to the Remedium stockholders the number of shares of common stock of Covalent equal to the quotient obtained by dividing (i) $2,000,000 by (ii) the closing price. For a description of the adjustments applicable to the consideration we have agreed to pay, which may have the effect of increasing or decreasing the consideration paid pursuant to the combination agreement, see The Combination Agreement Consideration and Adjustment.

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

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

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

Q: Who must approve the business combination?

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

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

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

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

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

Q: What do I need to do now?

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

Q: How do I vote?

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

Q: What happens if I do not vote?

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

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Q: Can I change my vote?

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

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

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

attend the meeting and vote in person.

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

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

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

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

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

Q: Who is paying for this proxy solicitation?

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

Q: When and where is the Covalent annual meeting?

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

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

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

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WHO CAN HELP ANSWER YOUR QUESTIONS

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

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

The Altman Group, Inc.

1200 Wall Street West, 3rd Floor

Lyndhurst, New Jersey 07071

Call toll-free: (800) 252-8173

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

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RISK FACTORS

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

Risks Associated With the Business Combination

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

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

- service offerings;
- marketing and business development efforts;
- management and other professional personnel; and
- operational systems of Covalent and Remedium.

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

- coordinating the efforts and managing the operation, facilities and decision-making process in a geographically distant organization with Covalent based in the United States and Remedium based in Europe;
- integrating organizations whose personnel have diverse business and cultural backgrounds; and
- combining different corporate cultures.

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

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

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

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

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

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

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

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

- we do not achieve the perceived benefits of the business combination as rapidly or to the extent anticipated by financial or industry analysts;
- the effects of the business combination on the businesses are not consistent with the expectations of financial or industry analysts; or
- investors react negatively to the effects of the business combination.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- our clients reduce their research and development expenditures or reduce the rate of growth in their research and development expenditures;
- consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for us;
- one or more significant studies are terminated as a result of the failure of the product to satisfy safety requirements, unexpected or undesired clinical results, or other reasons; or
- our clients businesses experience financial problems or are affected by a general economic downturn.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our backlog may not be indicative of future results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The general equity markets have also experienced significant fluctuations in value. This volatility and the market variability has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock.

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

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

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

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

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

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

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

We do not intend to pay dividends

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

Risks Relating to Remedium s Business

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

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

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

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

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

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

- its clients reduce their research and development expenditures or reduce the rate of growth in their research and development expenditures;
- consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for Remedium;
- one or more significant studies are terminated as a result of the failure of the product to satisfy safety requirements, unexpected or undesired clinical results, or other reasons; or
- Remedium s clients businesses experience financial problems or are affected by a general economic downturn.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remedium s backlog may not be indicative of future results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remedium depends upon its client s study sites and its facilities, as well as the ability to readily travel among these, for the continued operation of its business. It also depends upon the continuous, effective, reliable and secure operation of its computer hardware, software, networks, telecommunications networks, Internet servers and related infrastructure. Remedium has contingency plans in effect for natural disasters or other catastrophic events. However, catastrophic events, including terrorist attacks, could still disrupt Remedium s operations, those of its clients or study sites, or the ability to travel among these locations, which would also

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affect Remedium. Although Remedium carries business interruption insurance, it might suffer losses as a result of business interruptions that exceed the coverage available under its insurance policies. Any natural disaster or catastrophic event affecting Remedium s facilities could have a material and adverse affect on its business and results of operations.

Remedium s success depends on its ability to keep pace with rapid technological changes that could make its products and services less competitive or obsolete.

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

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

A vast majority of Remedium s net revenues have been derived from contracts denominated in the Euro. Remedium s financial statements are also denominated in the Euro. However, Remedium offers many of its services on a worldwide basis and it is therefore subject to risks associated with doing business internationally, including changes in foreign currency exchange rates. We anticipate that Remedium s net revenues from international operations may grow in the future and represent a greater percentage of Remedium s total net revenues. As a result, Remedium s future results could be negatively affected by a variety of factors, including: changes in a specific country s political or economic conditions; potential negative consequences from changes in tax laws; difficulty in staffing and managing widespread operations; fluctuations in exchange rates, and unfavorable labor regulations applicable to the international operations.

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BUSINESS COMBINATION

Background of the Business Combination

Covalent has been reviewing strategic alternatives in the form of a sale, merger or acquisition since the fall of 2003. In early 2005, Covalent became aware of Remedium as a potential acquisition target. In April 2005 there was an initial meeting initiated by Covalent between its Chief Executive Officer, Kenneth M. Borow, M.D., and Remedium s President and Chief Executive Officer, Dr. Kai Lindevall, where the parties discussed their strategic objectives and business offerings. Following the discussion, the parties agreed to consider in greater detail a possible business combination. Meetings between senior management of Covalent and Remedium and their financial advisors were held during early May 2005. Discussions continued telephonically regarding the feasibility of a possible business combination. In early July 2005 senior management of Covalent and Remedium and their financial advisors met to discuss strategic rationale and a potential transaction at which Messrs. Borow and Lindevall agreed to commence initial due diligence and exchange initial drafts of a combination agreement. Negotiation of the combination agreement continued at meetings held in early October 2005 and mid-January 2006 and were concluded with the unanimous approval of the original combination agreement by the board of directors of Covalent on March 2, 2006 and the execution of the original combination agreement March 2, 2006.

Subsequent to the execution of the original combination agreement on March 2, 2006, Remedium s independent accountants, conducted an audit of the financial statements of Remedium and its consolidated subsidiaries operating in eight countries for the fiscal year ended December 31, 2005. In accordance with the terms of the original combination agreement, Remedium s financial statements for its 2003, 2004 and 2005 fiscal years were required to be prepared in accordance with US GAAP. Historically, Remedium s financial statements had been prepared in accordance with Finnish GAAP.

Based on the receipt in May 2006 of Remedium s US GAAP audited financial statements and the results of both Remedium s and Covalent s operations for the three months ended March 31, 2006, both parties agreed that a change in the structure and terms of the original combination agreement was warranted. Discussions took place from mid- May through June 2006 and concluded with execution of an amended combination agreement on July 6, 2006 following the unanimous approval of the agreement by the board of directors of Covalent and the stockholders of Remedium.

Recommendati on of the Covalent Board of Directors

Following extensive discussion, Covalent s board of directors concluded that the potential benefits of the business combination outweigh the associated risks and that the business combination is fair to, and in the best interests of, Covalent and its stockholders. Covalent s board of directors unanimously recommends that the stockholders approve Proposal One, which relates to the issuance of up to 9,275,171 shares of Covalent common stock in connection with the business combination, Proposals Four and Five, which relate to two amendments to our certificate of incorporation to change our corporate name to Encorium Group, Inc. and increase our authorized common stock from 25,000,000 shares to 35,000,000 shares, and the election to our Board of Directors of the three nominees named in Proposal Three to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders, each of which actions is required in order for us to be able to satisfy our obligations under the combination agreement.

Reasons for the Business Combination

Expanding Global Presence. One of Covalent s strategic goals is to expand beyond North America and Western Europe in order to serve fully the needs of pharmaceutical and biotechnology companies operating in a global economy. With the increasing cost of drug development, pharmaceutical and biotechnology companies are attempting to maximize returns from a given drug by pursuing regulatory approvals in multiple countries simultaneously rather than sequentially. Pharmaceutical companies face increased pressure and competition to

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bring new drugs to market in the shortest time. The development time of a potential new drug is crucial to the competitive advantage and profitability of that drug because it determines the market exclusivity available to a pharmaceutical company to recoup its research and development expenditures. In order to expand the pool of potential patients to participate in a clinical trial, pharmaceutical companies are conducting more clinical trials outside of North America and Western Europe in order to accelerate the drug development process. Increases in global research and development expenditures by the major pharmaceutical and biotechnology companies requires us to have a strong presence in Northern, Central and Eastern Europe where an increasing amount of drug development is taking place. The business combination with Remedium is expected to significantly enhance our ability to conduct drug development activities throughout Northern, Central and Eastern Europe. Remedium has offices and/or other capabilities in Finland, Denmark, Sweden, Norway, Poland, Estonia, Latvia, Lithuania, Romania and Turkey. We believe a local presence is necessary in order to successfully conduct clinical trials in these countries.

The strategic combination of Remedium s capabilities in Northern, Central and Eastern Europe combined with Covalent s capabilities in North America and Western Europe will enable the combined entity to offer global solutions and professional services to a diverse group of pharmaceutical companies that are developing tomorrow s medicines that will improve the quality of life throughout the globe.

Access to New Clients and Business Development Opportunities. We have realized that our lack of a geographic footprint in Northern, Central and Eastern Europe was negatively impacting our ability to win new contracts for large multi-center global clinical trials that were to be conducted, at least in part, in Northern, Central and Eastern Europe. Without a strong presence in these regions, our ability to grow and obtain major contracts for clinical trials in these regions would be very difficult. The combination with Remedium is expected to significantly increase our chances of winning large multi-center global clinical trials that we previously were not able to win. Remedium has a large diverse client base many of which have never been our clients. We believe the combination allows us to cross sell North American drug development services to Remedium s clients which Remedium was unable to do because it lacked a presence in North America. Conversely, we expect to capitalize on Remedium s presence in Northern, Central and Eastern Europe with our North American clients so that we can expand our services to them.

Complementary Skills and Similar Culture. Covalent believes that Remedium s employee skill set will be complementary to Covalent s. Both companies provide drug development services to pharmaceutical and biotechnology companies in different regions of the world. Similar to Covalent, Remedium employs a number of highly qualified individuals with strong industry experience. Both companies have well trained people with experience in the local drug development regulatory process. Both companies have extensive networks and capabilities to ensure the timely start up and completion of clinical trials which are crucial to the drug development process.

Opinion of Financ ial Advisor to Covalent

By letter dated September 9, 2003 (the Engagement Letter) Covalent engaged a predecessor firm to Savvian Advisors, LLC (Savvian) to act as its exclusive financial advisor. Pursuant to the Engagement Letter, the board of directors of Covalent requested that Savvian deliver an opinion in connection with the business combination with Remedium. At a meeting of the Covalent board of directors on March 2, 2006, Savvian delivered an oral opinion that, on and as of the date of such opinion, and based on assumptions made, matters considered, and limits of review set forth in the opinion, the consideration to be paid by Covalent pursuant to the combination agreement was fair from a financial point of view to the then current holders of Covalent common stock. This oral opinion was subsequently confirmed in a written opinion dated as of March 2, 2006.

In connection with the amendment and restatement of the combination agreement, the board of directors of Covalent requested that Savvian deliver an updated opinion. At a meeting of the Covalent board of directors on June 29, 2006, Savvian delivered an oral opinion that, on and as of the date of such opinion, and based on

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assumptions made, matters considered, and limits of review set forth in the opinion, the consideration to be paid by Covalent pursuant to the combination agreement was fair from a financial point of view to the then current holders of Covalent common stock. This oral opinion was subsequently confirmed in a written opinion dated as of June 29, 2006. The June 29, 2006 written opinion supersedes the opinion provided by Savvian on March 2, 2006.

The full text of the Savvian written opinion dated June 29, 2006 is attached as Appendix A to this proxy statement and incorporated herein by reference. You are urged to, and should, read the Savvian opinion carefully and in its entirety. The Savvian opinion is directed to Covalent s board of directors, addresses only the fairness of the consideration paid, as of the date of the opinion, by Covalent pursuant to the combination agreement from a financial point of view to the then current holders of Covalent common stock and does not address any other aspect of the combination agreement or constitute a recommendation to any Covalent stockholder as to how to vote at the annual meeting. The following summary of the Savvian opinion is qualified in its entirety by reference to the full text of the Savvian opinion.

The Savvian opinion does not address Covalent s underlying decision to pursue the business combination, the relative merits of the business combination as compared with any alternative business strategies that might have existed for Covalent or the effects of any other transaction in which Covalent might engage. In addition, the Savvian opinion does not address, the fairness to, or any other consideration of, the holders of any other class of securities, creditors or other constituencies of Covalent and Savvian does not express any opinion as to the prices at which Covalent s common stock will trade following the announcement or consummation of the business combination.

In preparing its opinion to the Covalent board of directors, Savvian performed various financial and comparative analyses, including those described below. The summary set forth below does not purport to be a complete description of the analyses underlying Savvian s opinion or the presentations made by Savvian to the Covalent board of directors. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Savvian did not attribute any particular weight to any analysis or factor considered by it, but rather made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. Accordingly, Savvian believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors, or focusing on information presented in tabular format, without considering all of the analyses and factors or the narrative description of the analyses, would create a misleading or incomplete view of the process underlying its opinion.

In performing its analyses, Savvian made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Savvian, Covalent and Remedium. Any estimates contained in the analyses performed by Savvian are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by those analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which those businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, as described above, the opinion of Savvian was one of several factors taken into consideration by the Covalent board of directors in making its determination to approve the merger. Consequently, Savvian s analyses as described below should not be viewed as determinative of the decision of the Covalent board of directors with respect to the fairness from a financial point of view of the consideration to be paid by Covalent pursuant to the combination agreement.

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In connection with rendering its opinion, Savvian:

- reviewed the amended and restated combination agreement, and certain other related documents;
- reviewed the audited consolidated balance sheet and related consolidated statements of income (loss) of Remedium and its subsidiaries as of and for the twelve-month periods ended December 31, 2003, December 31, 2004, and December 31, 2005 and all related schedules and notes to the foregoing, prepared in accordance with Finnish GAAP and US GAAP;
- reviewed the unaudited consolidated condensed financial statements of Remedium and its subsidiaries as of and for the three months ended March 31, 2006, prepared in accordance with Finnish GAAP and US GAAP;
- reviewed the audited consolidated financial statements of Covalent and its subsidiaries as of and for the twelve-month periods ended December 31, 2003, December 31 2004 and December 31, 2005;
- reviewed the unaudited consolidated condensed financial statements of Covalent and its subsidiaries as of and for the three months ended March 31, 2006;
- reviewed certain reports filed by Covalent with the Securities and Exchange Commission;
- discussed the past and current operations and financial condition and the prospects of Covalent with senior executives of Covalent;
- reviewed and discussed with the senior management of Covalent certain alternatives to the Transaction;
- reviewed and discussed with Covalent management its view of the strategic rationale for the Transaction;
- compared the historical financial performance of Remedium with that of certain publicly-traded companies and their securities that it believed to be generally comparable to Remedium;
- reviewed the financial terms, to the extent publicly available, of certain transactions that it believed to be generally comparable or relevant;
- compared the historical financial performance of Covalent and Remedium as set forth in the financial statements of Covalent and Remedium provided to it;
- participated in discussions and negotiations among representatives of Covalent and Remedium; and
- performed such other analyses and considered such other factors as it deemed appropriate.

In preparing its opinion, Savvian assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied to or otherwise made available to, discussed with or reviewed by it.

While Savvian visited Remedium s offices and met with management of Remedium, Savvian did not conduct a physical inspection of the properties and facilities of Covalent or Remedium, nor did Savvian make or obtain any independent evaluation or appraisal of such properties and facilities or Covalent s or Remedium s assets or liabilities. In addition, Savvian assumed that the business combination will be consummated in accordance with the terms of the combination agreement (without any further amendments thereto), without waiver by any party of any rights under the combination agreement and that the representations and warranties made by the parties are true and correct. Its opinion is necessarily based on financial, economic, market, political, regulatory, and other conditions as they existed on and were known to and evaluated by Savvian as of the date of the opinion. This information, therefore, does not necessarily reflect current or future market conditions.

Savvian may have given various analyses and factors more or less weight than other analyses or factors, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described below should not be taken to be Savvian s view of the actual value of Remedium or Covalent. Selecting any portion of its analyses, without considering all analyses,

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would create an incomplete view of the process underlying the Savvian opinion. The analyses performed were prepared solely as part of Savvian s analysis of the fairness of the consideration to be paid by Covalent pursuant to the combination agreement from a financial point of view to Covalent and were conducted in connection with the delivery of the Savvian opinion to Covalent s board of directors. The analyses do not purport to be appraisals or to reflect the prices at which Remedium or Covalent might actually be sold. Savvian did not recommend the consideration to be paid by Covalent or that any consideration to be paid by Covalent constituted the only appropriate consideration for the business combination.

The following is a brief summary of certain analyses performed by Savvian in preparation of its opinion. The financial analyses summary includes information presented in tabular format. In order to understand fully the financial analyses used by Savvian, the table must be read together with the text of the summary. The table alone does not constitute a complete description of the financial analyses. The analyses include comparisons of Remedium with comparable companies and the transaction with certain precedent transactions. The facts and circumstances related to the comparable company performance and precedent transactions differ from those applicable to Remedium and the companies referenced in such analyses are not identical to Covalent or Remedium. In evaluating the strategic combination transactions, Savvian made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters, many of which are beyond the control of Remedium and Covalent, such as the impact of competition on the businesses of Remedium and Covalent and the industry generally, industry condition, and prospects of Remedium, Covalent or both.

Summary Valuation Detail

Analysis	Remedium Metrics	Selected Range Low	Selected Range High	Private Company Discount	Implied Enterprise Value Range Low	Implied Enterprise Value Range High
Comparable Company Analysis						
2005 Revenue	$ 9.6	1.6x	3.9x	10.0%	$ 13.6	$ 33.8
Precedent Transaction Analysis						
LTM Revenue	$ 9.6	1.6x	3.5x		$ 15.0	$ 33.0
Contribution Analysis						
Covalent	$ 31.2	48%	56%		$ 28.7	$ 39.0
Overall Mean					$ 19.1	$ 35.3

Publicly Traded Comparable Companies Analysis. Savvian reviewed the current valuation of 7 publicly traded companies in the Contract Research Organization sector, including: Covance, Inc., Icon PLC, Kendle International Inc., Parexel International Corporation, Pharmaceutical Product Development, Inc., PRA International, and Premier Research Group PLC that share certain characteristics with Remedium. Due to Remedium s lack of profitability in 2005, Savvian reviewed the enterprise value to revenues multiple measure of valuation. Based on this analysis, excluding the low and high, Savvian observed a range of multiples from 1.6x to 3.9x. Savvian then applied a 10% discount to these multiples in comparison to the proposed transaction due to the fact that Remedium is not publicly traded. Based on Remedium s metrics, the valuation range obtained through this analysis was $13.6 million $33.8 million.

Selected Precedent Industry Acquisitions Analysis. Using publicly available information, Savvian reviewed 9 recent precedent transactions involving companies in the Contract Research Organization sector that shared some characteristics with the business combination. Savvian reviewed publicly available financial information including the enterprise value to the latest 12-month revenue, which was obtainable for 7 such transactions. Savvian observed an aggregate value to latest 12-month revenue multiple range of 1.6x to 3.5x with a mean of 2.1x and median of 1.9x for the precedent transactions. Based on Remedium s metrics, the valuation range obtained through this analysis was $15.0 million $33.0 million.

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Contribution Analysis. Savvian analyzed the pro forma contribution of Remedium and Covalent revenues to the revenues of the combined company assuming completion of the business combination. Due to Covalent s lack of profitability from 2003-2005, Savvian reviewed historical revenue of Covalent and Remedium, to measure contribution. The analysis showed in terms of historical revenue that for fiscal years ended 2004 and 2005 and the three month period ended March 31, 2006, Remedium would have contributed between 48 percent and 56 percent of the total revenues to the combined company. The Remedium valuation range obtained through this valuation method was $28.7 million $39.0 million.

Savvian did not take into account or rely upon in any way upon financial forecast information prepared by Covalent or Remedium due to the historical volatility in the revenue and earnings of each of Covalent and Remedium and the inherent difficulty in accurately estimating future performance resulting from such volatility. In performing its analyses, Savvian assumed an aggregate merger consideration of approximately $23.6 million which equates to the consideration payable by Covalent if all deferred amounts owed under the combination agreement are paid in full, without discount for the payment deferral and assuming that the average price per share of Covalent common stock for purposes of calculating the purchase price was $2.74 per share, which is the weighted average price of Covalent stock over the period from June 15, 2006 (the beginning of the measurement period for the Covalent stock price set forth in the combination agreement) through the close of trading on June 27, 2006.

In addition, Savvian s opinion was one of the many factors taken into consideration by Covalent s board of directors in making its determination to recommend approval of the business combination. Consequently, the Savvian analyses described above should not be viewed as determinative of the opinion of Covalent s board of directors with respect to the consideration paid in connection with the business combination or whether Covalent s board of directors would have been willing to agree to a different consideration. The consideration to be paid by Covalent pursuant to the purchase agreement was determined through arm s length negotiations between Remedium and Covalent and was approved by Covalent s board of directors.

Covalent engaged Savvian to advise it on strategic alternatives and to provide the Savvian opinion because of its experience and expertise. Savvian is a recognized investment banking and advisory firm. Savvian, as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and valuations for corporate and other purposes. Savvian, and its principals have provided ongoing advice to the Covalent board of directors with respect to potential strategic alternatives since September 2003, both at Savvian and at a prior firm. Savvian was paid a fee upon delivery of the above mentioned fairness opinion. Upon the consummation of the business combination, Savvian will receive an additional fee for its services. In addition, Savvian will be reimbursed for its expenses, including outside counsel. Covalent has agreed to indemnify Savvian and its affiliates, their directors, officers, agents and employees and each person, if any, controlling Savvian, or any of its affiliates, against certain liabilities and expenses, including liabilities under federal securities laws, in connection with Savvian s engagement.

Accounting Treatment

The business combination will be accounted for as a purchase for financial reporting and accounting purposes under generally accepted accounting principles. Under the purchase method of accounting, the purchase price (including direct costs of the business combination) paid by Covalent for the capital stock of Remedium will be allocated to the identifiable assets and liabilities of Remedium based upon the fair value of Remedium s identifiable assets and liabilities, as of the effectiveness of the business combination with the excess of the purchase price over the fair value of net identifiable assets being allocated to goodwill. After the business combination, the financial condition and results of operations of Remedium will be included in the consolidated financial condition and results of operations of Covalent.

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Regulatory Matters

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

Closing of Business Combination

Under the terms of the combination agreement, the business combination is to close no later than November 30, 2006. The closing will occur as soon as practicable following, but no earlier than, satisfaction or waiver of the conditions to the completion of the business combination described in the combination agreement. If at the meeting Proposals One, Four and Five are approved, and the nominees named in Proposal Three are elected to our Board of Directors to serve from the consummation of the business combination between us and Remedium Oy until the 2007 annual meeting of stockholders, we currently anticipate that the closing will occur on or about November 1, 2006.

Federal Income Tax Considerations

The following is a summary of certain of the material federal income tax consequences that may affect Covalent or its stockholders, resulting from the acquisition by Covalent of the Remedium stock (the Transaction) as described in this proxy statement. The summary is based upon the Internal Revenue Code of 1986, as amended (the Code), rules and regulations (the Regulations) promulgated thereunder, published rulings and court decisions, all as in effect on the date of this proxy statement, and all of which are subject to change, either prospectively or retroactively. This summary does not discuss all of the tax consequences that may be relevant to the Transaction or to any particular stockholder. No advance rulings have been or will be sought from the Internal Revenue Service regarding any matter discussed in this proxy statement nor has Covalent sought written opinions of counsel as to any specific matter. Accordingly, stockholders are urged to consult their own tax advisors to determine the federal, state, local and foreign income and other tax consequences to them, if any, of the Transaction.

The Transaction should be treated as a taxable acquisition by Covalent of the outstanding capital stock of Remedium for cash and Covalent common stock. Neither Covalent, nor its stockholders, should recognize any gain or loss for federal income tax purposes as a result of this purchase. A stockholder of Remedium who is also a stockholder of Covalent could have taxable gain or loss but only in its capacity as a stockholder of Remedium. Nothing in this proxy statement is intended to discuss further any income tax effects of the Transaction on the stockholders of Remedium.

As a consequence of the purchase of the Remedium stock from the Remedium stockholders, Covalent should have an income tax basis in its Remedium stock equal to the amount of cash paid and the fair market value of the Covalent stock transferred to the Remedium stockholders. At the time of any future disposition of the Remedium stock by Covalent this income tax basis will be available, in whole or in part, to offset the proceeds received in such disposition in determining gain or loss for federal income tax purposes.

Upon acquisition of all of the outstanding Remedium stock, Remedium will become a wholly owned subsidiary of Covalent. Covalent will not be able to file a consolidated return with Remedium, however, because Remedium is a foreign corporation.

Remedium will be treated, for federal income tax purposes, as a controlled foreign corporation (a CFC). The CFC provisions of the Internal Revenue Code, while extremely complicated, in general, set forth a set of rules pursuant to which undistributed income of a CFC will be required to be taken into account by certain of its

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United States stockholders, even though not distributed to them. Upon consummation of the Transaction, Covalent will become a United States stockholder to whom income may pass through under the CFC provisions. So long as Remedium continues to operate its present business outside the United States, servicing customers other than Covalent or parties related to Covalent, these provisions should not result in the taxation of undistributed income from Remedium to Covalent. It is possible that there could be a pass through of undistributed income if a substantial amount of Remedium s income in the future should come from so-called passive sources, if Remedium changes its mode of operations to provide goods or services to Covalent or other related parties, if Remedium should invest its accumulated earnings in certain types of United States assets, or if Remedium should conduct certain other types of activities referred to in the CFC provisions. It is not at present contemplated that Remedium will carry on any of the activities which might result in the pass through of income under the CFC provisions.

On the return of income earned outside the United States, dividend income to Covalent paid by Remedium will not be eligible for the dividend exclusion normally allowed under the Internal Revenue Code to corporate recipients, except to the extent that such dividends are derived from United States source income. Dividends passed through or paid from Remedium to Covalent should qualify for foreign tax credits, in whole or in part, for foreign taxes paid by Remedium.

Appraisal Rights

Covalent is a Delaware corporation. Under Delaware law, a Covalent stockholder will not be entitled to dissenter s rights or an appraisal of the holder s shares in connection with the business combination because, among other things, a Covalent stockholder will not exchange or otherwise relinquish any shares of Covalent capital stock in the transaction or as a result of the matters submitted for approval at the meeting.

Federal Securities Laws Consequences

Pursuant to the combination agreement, if the business combination is consummated, we have agreed to file with the Securities and Exchange Commission one or more registration statements covering the resale of the shares of our common stock that are received by the Remedium stockholders in the business combination.

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MATERIAL PROVISIONS OF THE COMBINATION AGREEMENT

The following is a brief summary of the material provisions of the combination agreement, a copy of which is attached as Appendix B to this proxy statement and incorporated in this document by reference. This summary is qualified in its entirety by reference to the full text of the combination agreement. You are urged to read the combination agreement carefully and in its entirety.

General Description of the Combination Agreement

On March 2, 2006, Covalent entered into a combination agreement with the stockholders of Remedium Oy, a corporation organized under the laws of Finland. On July 6, 2006 the combination agreement was amended and restated in its entirety, and all references in this proxy statement to the agreement or the combination agreement are to the combination agreement as amended and restated on July 6, 2006, unless the context otherwise requires. Pursuant to the combination agreement, Covalent has agreed to purchase all of the issued and outstanding shares of capital stock of Remedium, subject to the terms and conditions of the combination agreement.

Set forth below is a list of Remedium stockholders together with the respective number of Remedium shares held by each stockholder:

Stockholder Name	Number of shares(1)
Riitta Korpela	629 shares
Jan Lilja	2,875 shares
Agneta Lindevall(2)	625 shares
Kai Lindevall (3)	6,675 shares
Vesa Manninen(4)	65 shares
NTGLT Pharma BVBA(5)	962 shares
Sven-Erik Nilsson (6)	3,215 shares
Oksanen Seppo	825 shares
Heikki Vapaatalo	879 shares

(1) Includes the shares that have been acquired in connection with a EUR 1,000,000 capital investment in Remedium that was required to be completed prior to the closing of the business confirmation.
(2) Kai Lindevall s wife
(3) Founder, President, Chief Executive Officer and Director of Remedium
(4) Petri Manninen s father
(5) Entity controlled by Petri Manninen
(6) Director of Remedium

As a result of the transaction, Remedium will become a wholly-owned subsidiary of Covalent and the Remedium stockholders will become stockholders of Covalent. The consummation of the business combination is subject to a number of conditions, including the taking by our stockholders of the following actions at the meeting:

approval to issue up to 8,839,779 shares of our common stock to the stockholders of Remedium in the business combination, included in Proposal One;

the election of the three nominees named in Proposal Three to serve as directors of Covalent from the consummation of the business combination until the 2007 annual meeting of stockholders;

the approval of Proposal Four to change Covalent s name to Encorium Group, Inc. ; and

the approval of an increase in our authorized common stock which we are seeking with Proposal Five.

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Considera tion and Adjustments

Consideration Before Post Closing Adjustments

At the closing of the business combination, the Remedium stockholders will receive $2,500,000 in immediately available funds, which we refer to as the closing cash consideration and the number of shares of common stock of Covalent equal to the quotient obtained by dividing $11,000,000 by:

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

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

On or prior to April 7, 2007 (or at a later date if the dispute resolution provisions of the combination agreement are required to determine the number of shares), the Remedium stockholders will be entitled to receive an additional number of shares of our common stock, which we refer to as the earn-out shares , based on Remedium s net revenue for the fiscal year ending December 31, 2006, calculated under U.S. GAAP consistently applied with prior fiscal years of Remedium s U.S. GAAP consolidated financial statements, which we refer to as Remedium s net revenue , as follows:

- if Remedium net revenue exceeds EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) 3,000,000 by (ii) the closing price; or
- if Remedium net revenue exceeds EUR 9,500,000 but is equal or less than EUR 10,700,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) 2,000,000 by (ii) the closing price; or
- if Remedium net revenue exceeds EUR 8,300,000 but is equal or less than EUR 9,500,000, the Remedium stockholders are to receive the number of earn-out shares equal to the quotient obtained by dividing (i) 1,000,000 by (ii) the closing price; or
- if Remedium net revenue is equal to or less than EUR 8,300,000, the Remedium stockholders are not entitled to any earn-out shares.

On March 30, 2007, the Remedium stockholders are to receive an additional $1,500,000 in immediately available funds. Subject to adjustment, as described below, on the first anniversary of the closing of the business combination, Covalent will issue to the Remedium stockholders an additional number of shares of common stock of Covalent equal to the quotient obtained by dividing (i) 2,000,000 by (ii) the closing price, which we refer to as the anniversary stock payment.

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Post-Closing Adjustments

The consideration payable to the Remedium stockholders described under Consideration Before Post-Closing Adjustments, above is subject to the following post closing adjustments:

In the event Remedium has any liability for borrowed money, after deducting up to $150,000 of transaction expenses (as defined in the combination agreement) at the closing date, then, at the option of each stockholder, (i) the amount of such debt allocable to that stockholder under the combination agreement shall be reduced from the closing cash consideration allocable to that stockholder under the combination agreement, or (ii) a portion of the anniversary stock payment or earn-out stock payment allocable to that stockholder under the combination agreement shall be reduced by the quotient obtained by dividing (A) the amount of such debt allocable to that stockholder under the combination agreement by (B) the closing price. If Remedium stockholders choose to have their stock payment reduced, Covalent may elect whether to reduce the anniversary stock or the earn-out stock payment due to the Remedium stockholder.

If Remedium s net worth (excluding up to $300,000 in fees and expenses incurred by Remedium for legal, accounting and investment banking services directly related to the consummation of the transactions contemplated by the combination agreement) as of the closing date is less than $1,527,958, then the number of shares otherwise issuable as the anniversary stock payment will be reduced by the quotient obtained by dividing (i) the difference between Remedium s net worth as of the closing date and $1,527,958 by (ii) the closing price, unless such deficiency is otherwise paid by the Remedium stockholders, at their option, by a transfer of immediately available funds.

Pursuant to the terms of the combination agreement, within 60 days of the closing of the business combination, Covalent shall prepare and deliver to the Remedium stockholders a balance sheet setting forth Covalent s closing net worth (as defined in the combination agreement). In the event Covalent s net worth, as determined in accordance with the combination agreement, is less than $6,974,689, the deficiency is payable by Covalent, at its option, by (i) wire transfer to the Remedium stockholders of immediately available funds in the amount of the deficiency or (ii) by the issuance of additional shares of Covalent common stock equal to the quotient obtained by dividing (i) the amount of the deficiency by (ii) the closing price. Any payment or issuance of stock due on account of a deficiency in Covalent s net worth as of the closing date will be due within 5 business days from the expiration of the 60 day period referred to above or within 5 business days following the resolution of any disputed amounts as provided for in the combination agreement.

The net effect of the post-closing adjustments discussed above may be to increase or decrease the number of shares of common stock ultimately issued to the Remedium stockholders. While the impact of these provisions currently cannot be determined, they could increase the cost to Covalent of the acquisition of Remedium.

For a description of each party s indemnification liabilities pursuant to the combination agreement see Material Provisions of the Combination Agreement- Indemnification.

Conditions to the Completion of the Business Combination

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The board of directors of Covalent must have been expanded to add the following three directors (for a total of seven directors), Kai Lindevall, currently president and chief executive officer of Remedium, Petri Manninen, currently a director of Remedium, and Dr. Jyrki Mattila.

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

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

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

Covenants

The combination agreement contains the following significant covenants which are customary for a transaction similar to the business combination:

Each party has agreed:

that it will conduct its business in the usual, ordinary course in substantially the same manner as previously conducted, and shall use reasonable efforts to preserve intact its current business organization, maintain relations and good will with suppliers, customers, landlords, creditors, employees, agents and others having business relationships with such party and pay all of its obligations to suppliers, creditors and others in a timely manner subject to good faith disputes.

to promptly notify the other party in writing if such party becomes aware of any fact or condition that causes or constitutes an inaccuracy in, or the breach or violation of, any of the representations, warranties, covenants or agreements of such party under the combination agreement.

to afford the other party (and its attorneys, accountants, representatives and agents) during normal business hours, upon reasonable advance notice, with full and free access to its premises, accounts, books and records, personnel, properties, assets, contracts, financial and tax information, and such other documents, data and information as such party may reasonably request.

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that it will not (or, in the case of the Remedium stockholders, will cause Remedium not to) induce or attempt to induce any person employed by Remedium or Covalent, as the case may be, or one of their affiliates to leave the employ of such entity or in anyway interfere adversely with the relationship between such person and such entity, or induce or attempt to induce any employee of Remedium or Covalent, as the case may be, or one of their affiliates to work for render services or provide advice to or supply confidential business information or trade secrets of such entity to any third person, firm or corporation

to consult with the other party before issuing any press release or otherwise making any public statement with respect to the transactions contemplated by the combination agreement, or with respect to anything involving or referring to the other party.

to use reasonable efforts to avoid taking (or failing to take) any action which it knows or should know would result in the inaccuracy of, or the breach or violation of, any of the representations, warranties, covenants and agreements of such party set forth in the combination agreement.

The Remedium stockholders have agreed:

to effect a capital investment in Remedium of at least EUR 1,000,000 in cash, which has been completed.

that they will not take any action to cause Remedium to pay any dividend or otherwise make any cash distribution or payment to the Remedium stockholders.

that they will not take any action to cause Remedium, without the written consent of Covalent, to undertake any capital expenditures in excess of $100,000 in the aggregate or make any payments outside the ordinary cause of business.

Covalent has agreed:

that as soon as reasonably practicable after the execution of the agreement, to take all action necessary to call, give notice of and convene a stockholders meeting to obtain the stockholder approvals necessary in connection with the business combination. In connection therewith, Covalent has agreed to prepare and file with the U.S. Securities and Exchange Commission this proxy statement and use its commercially reasonable efforts to have this proxy statement cleared by the SEC as promptly as practicable after such filing.

that, should any of three directors appointed by Remedium pursuant to the combination agreement cease to be a director of Covalent for any reason during the first 18 months after the closing of the combination agreement, such vacancy shall be filled by the election by the board of directors of a candidate recommended by Kai Lindevall, except that the board of directors shall have the right to reject a particular candidate so recommended if it determines, after consulting with counsel, that the election of such candidate would constitute a breach of the board s fiduciary duties.

that for a period of one year following the closing of the combination agreement, without the consent of the Remedium stockholders, it shall not cause Remedium and its subsidiaries to adversely affect the compensation and benefits (not including equity compensation) of all individuals employed by Remedium or its subsidiaries as of the date of the combination agreement.

that for purposes of a fair determination of the earn-out shares, it will maintain and operate Remedium as a wholly-owned subsidiary in the ordinary course of business until December 31, 2006, and unless agreed to by Remedium stockholders, keep intact Remedium s subsidiaries, contracts, assets, new business opportunities, and personnel.

to register with the SEC the Covalent stock issued to Remedium stockholders to permit the resale thereof.

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Termination

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

- by mutual written consent.
- by either party if the other party has failed to satisfy a condition to the closing of the transaction and such condition has not been waived.
- by either party if the combination agreement has not been consummated by November 30, 2006 (for any reason other than a breach or violation of any representation, warranty, covenant or agreement contained in the combination agreement by the party seeking such termination).
- by either party, if a governmental entity permanently restrains, enjoins or otherwise prohibits completion of the combination agreement.
- by either party, if at the meeting (including any adjournment or postponement), the requisite vote of the stockholders of Covalent in favor of Proposals One, Three, Four and Five shall not have been obtained (provided that the right to terminate the combination agreement under this section shall not be available to Covalent where the failure to obtain the approval of the Covalent stockholders is caused by the action or failure to act of Covalent and such action or failure constitutes a material breach by Covalent of the combination agreement).
- by the Remedium stockholders, if the board of directors of Covalent withdraws of modifies its recommendation that the Covalent stockholders vote in favor of Proposals One, Three, Four and Five.
- by either party if the other party files a petition in bankruptcy, reorganization, liquidation or receivership, or a petition in bankruptcy, reorganization, liquidation or receivership is filed on or before the closing of the transaction and is not withdrawn or dismissed on or before closing under the combination agreement.

The combination agreement provides that termination will not release any party from liability for any breach of the purchase agreement existing at the time of termination.

Fees and Expenses

Each party to the combination agreement will pay its and its representatives fees, expenses and disbursements incurred in connection with the preparation, execution, delivery and performance of the combination agreement and the transactions contemplated by the combination agreement.

Indemnification

The Remedium stockholders, severally in proportion to their respective percentage ownership of Remedium, have agreed to indemnify and hold harmless Covalent and its successors and assigns and its officers, directors, shareholders and agents, and Covalent has agreed to indemnify and hold harmless the Remedium stockholders and their respective successors and assigns, from, against and in respect of the amount of any and all liabilities, losses, claims, expenses costs, fines, fees, penalties, settlement payments, obligations or injuries incurred by such party resulting from (i) any misrepresentation, breach of any representation or warranty, or any non-fulfillment of any representation, warranty, covenant or agreement of the part such party contained in the combination agreement and (ii) any and all actions, suits, proceedings, demands, assessments, penalties, liabilities, judgments, reasonable attorneys fees, costs expenses and interest incident to the foregoing. Each indemnifying party has

agreed to pay the amount of any established deficiency (or, in the case of the Remedium stockholders, the indemnifying party s allocable share) to the indemnified party within five business days after the final establishment thereof. Interest shall accrue at the prime rate as published from time to time in The Wall Street Journal on all amounts not paid when due. At the option of the indemnifying party, the payment for any established deficiency can be made in cash or shares of common stock of Covalent which shall be valued at the

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closing stock value. With certain exceptions, (i) there shall be no liability unless and until the aggregate of all deficiencies attributed to the Remedium stockholders cumulatively or to Covalent, whichever is applicable, exceeds $200,000 in which event there shall be liability for all deficiencies; (ii) neither Covalent, on the one hand, and the Remedium stockholders, on the other hand, shall be liable or otherwise responsible for that portion of deficiencies that exceeds an amount equal to $8,000,000; and (iii) no claim shall be asserted or brought under the combination agreement after the second anniversary of the closing thereunder.

Dispute Resolution

In an event of a dispute between the parties, including indemnification claims, the parties shall first promptly attempt to resolve such dispute for a period of not less than 30 calendar days. If such good faith efforts are not successful within such 30-day period, any party may give the other party a notice of dispute and the parties shall attempt in good faith to agree on the appointment of an independent mediator. Should the parties agree on a mediator the matter shall be referred to such mediator for resolution in accordance with the usual practices and procedures of such mediator. If the parties cannot agree on the selection of a mediator within 20 calendar days after the delivery of a notice of dispute, or if the dispute is not resolved by the mediator then the dispute shall be determined by arbitration in Wilmington, Delaware by a single arbitrator in accordance with the rules of the American Arbitration Association or any other rules agreed upon by the parties, provided certain conditions are met. The arbitration shall be governed by the substantive laws of the State of Delaware applicable to contracts made and to be performed therein, without regards to conflict of laws rules.

Lock-Up Agreement

In connection with the consummation of the combination agreement, each of the Remedium stockholders will enter into a lock-up agreement with Covalent providing that they will not sell or otherwise transfer any of the shares of common stock of Covalent that they receive in the business combination until nine calendar months after the closing date of the business combination, subject to the following exceptions (i) the transfer of any or all of the shares by gift, will or intestacy or to any trust for the direct or indirect benefit of the stockholder making such transfer or the immediate family of the stockholder, provided that any such transfer shall not involve a disposition for value and (ii) the pledge of the shares; provided, however, that in any such case it shall be a condition to the transfer that the transferee or pledgee, as applicable, execute an agreement stating that the transferee or pledge, as applicable, is receiving and holding the shares subject to the provisions of the lock-up agreement.

Employment Agreement

In connection with the consummation of the combination agreement, Kai Lindevall, currently the President and Chief Executive Officer of Remedium, will enter into an employment agreement with Covalent. Under the terms of the agreement Dr. Lindevall will serve as Covalent s and Remedium s President, European and Asian Operations, for a term of three years. Pursuant to the employment agreement, Dr. Lindenvall will receive an initial base salary at an annual rate of $275,000; provided, however, that the annual rate of base salary for each 12 month period beginning on or after the first anniversary of the effective date of the employment agreement will increase, from the annual rate of base salary in effect for the immediately preceding twelve month period, by an amount equal to the annual percentage increase in the CPI (as defined in the employment agreement) for the immediately preceding calendar year. In addition, Dr. Lindevall will be (i) eligible to receive an annual bonus, not to exceed $200,000 per annum, upon the achievement of specified corporate financial goals, (ii) entitled to participate in any benefit plans or arrangements sponsored or maintained by Covalent, subject to the terms and conditions of such plans, arrangements and mandatory Finnish law, and (iii) entitled to equity-based compensation as determined in the sole discretion of Covalent s board of directors.

Pursuant to the employment agreement, in the event of the termination of Dr. Lindevall s employment by Covalent without Cause (as defined in the agreement) or by Dr. Lindevall for Good Reason (as defined in the agreement) Dr. Lindevall will be entitled to (i) the payment of all accrued but unpaid base salary and benefits

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through the date of such termination, (ii) the payment of any accrued but unpaid bonus payable under the agreement with respect to a fiscal year of the company ending prior to such termination, (iii) a continuation of group health coverage during the term of the agreement for Dr. Lindevall (and, to the extent covered immediately prior to the date his termination, his dependents); (iv) monthly severance payments equal to one-twelfth of his base salary as of the date of such termination continuing until the end of the term, and (v) vesting of all of Dr. Lindevall s stock options, to the extent not already vested.

If Dr. Lindevall s employment with Covalent is terminated during the term for Cause (as defined in the agreement) or as a result of his death or disability, then Covalent s obligation to Dr. Lindevall will be limited solely to the payment of (i) all accrued but unpaid base salary and benefits through the date of such termination, and (ii) the payment of any accrued but unpaid bonus payable under the agreement with respect to a fiscal year of Covalent ending prior to such termination.

The employment agreement contains certain restrictive covenants that prohibit Dr. Lindevall from disclosing information that is confidential to Covalent and will generally prohibit him, during the term of the agreement and for one year thereafter, from:

- engaging or participate in any Competing Business (as defined in the agreement);
- becoming interested in (as owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent or consultant) any person, firm, corporation, association or other entity engaged in any Competing Business;
- soliciting or calling on any customer with whom Covalent shall have dealt or any prospective customer that the Covalent shall have identified and solicited at any time during Dr. Lindevall s employment by Covalent;
- influencing or attempt to influence any supplier, customer or potential customer of Covalent to terminate or modify any written or oral agreement or course of dealing with the Covalent; and
- soliciting or hiring the employees, consultants, agents or distributors of Covalent.

In connection with the employment agreement, Dr. Lindenvall will enter into an executive severance agreement with the company in the event his employment with us is terminated in connection with a change of control as set forth therein. Such agreement provides, generally, that in the event Dr. Lindevall s employment with us is terminated in connection with a change of control (as defined therein) Dr. Lindevall shall be entitled to (i) an amount equal to three times his annual base salary; (ii) the continuation of all benefits pursuant to any and all welfare plans under which he or his family is eligible to receive benefits or coverage for a period of three years; (iii) reasonable Covalent paid outplacement assistance for a period of up to twelve months or for a longer period as Covalent may agree; and (iv) the immediate vesting and exercisability of all stock options or other equity incentives grated to Dr. Lindevall that are not otherwise vested or exercisable.

Option Exchange Agreement

Six employees and two non-employee directors of Remedium currently hold options to purchase an aggregate of 660 shares of Remedium capital stock at an exercise price of EUR 750 per Remedium share. Options to purchase 360 Remedium shares are currently exercisable and options to purchase 300 Remedium shares become exercisable on December 1, 2006. In connection with the execution of the combination agreement, all of the holders of the Remedium options have entered into an option exchange agreement with Covalent pursuant to which the holders have agreed not to exercise any of their options prior to the date of the closing under the combination agreement. The options, which have an expiration date of January 31, 2009, will remain outstanding after the closing, and the shares of Remedium stock otherwise issuable upon the exercise of a Remedium option after the closing of the combination agreement will automatically convert into the number of Covalent shares equal to the number of Remedium shares otherwise issuable upon exercise of the option, multiplied by a fraction, (i) the numerator of which is the sum of (A) the aggregate final adjusted number of Covalent shares to be received by the Remedium stockholders under the combination agreement, and (B) the number of shares resulting from dividing (x) the aggregate cash price to be paid to the Remedium stockholders

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under the combination agreement, by (y) the price per share at which Remedium stockholders receive Covalent shares at closing under the combination agreement, and (ii) the denominator of which is the number of Remedium shares issued and outstanding at closing; provided, however, that (I) any option holder that would otherwise be entitled to receive a fractional share of Covalent stock (after aggregating all shares of Covalent stock issuable to such option holder) will receive an aggregate number of Covalent shares rounded to the nearest whole number, and (II) the number of Covalent shares issuable will be subject to appropriate adjustment in the event of any stock dividend paid in Covalent shares or stock split, reverse stock split or reclassification of the Covalent shares subsequent to the date of the option exchange agreement. There are 16,750 Remedium shares currently outstanding. Assuming 16,750 Remedium shares are outstanding on the closing date, the number of Covalent shares we will be required to issue upon the exercise of the Remedium options if they are all exercised in full will range from a minimum of 278,466 (or approximately 422 Covalent shares for each Remedium share otherwise issuable upon the exercise of a Remedium option) to a maximum of 435,392 (or approximately 660 Covalent shares for each Remedium share otherwise issuable upon the exercise of a Remedium option), depending on the closing price and the number of earn-out shares we are required to issue pursuant to the combination agreement, assuming we are not required to pay additional consideration for the Remedium shares, whether in cash or shares, in settlement of any obligations we may incur pursuant to post-closing adjustments relating to Covalent s net worth as of the closing date or as a result of our breach of our representations, warranties or other obligations under the combination agreement, and before giving effect to the provision for the elimination of fractional shares.

Registration Rights

We have agreed, at our expense, to prepare and file with the SEC by the later of 15 days following the closing of the business combination or November 30, 2006, a registration statement covering the resale from time to time by the Remedium stockholders of the shares they receive in the business combination. In the event any of the shares issued subsequent to the closing are not included in the shares covered by the registration statement, we will be obligated to subsequently amend the registration statement or file a new registration statement to register the excluded shares. Each registration statement is to be on a form that permits registration of the shares for resale by the Remedium stockholders in accordance with the methods of distribution elected by them and set forth in the registration statement. We will be obligated to use our commercially reasonable efforts to cause each registration statement to be declared effective under the Securities Act as promptly as is practicable but, in the case of the initially filed registration statement, by the date on which the initial nine-month lock-up period under the lock-up agreements expires, and to keep each registration statement continuously effective under the Securities Act until the earlier of the sale of all of the shares covered thereby and the second anniversary of the last issuance of any of the shares covered thereby. None of our security holders other than the Remedium stockholders will have the right to include any of their Covalent shares in any registration statement filed pursuant to the combination agreement without the express written consent of Remedium stockholders holding at least 85% of the shares covered by such registration statement. If a registration statement ceases to be effective for any reason at any time during the period we are required to maintain its effectiveness, we will be obligated to use our commercially reasonable efforts to obtain the prompt withdrawal of any order suspending the effectiveness, or file another registration statement for the shares covered by the suspended registration statement. If we issue to the Remedium stockholders a notice that a registration statement is unusable due to the pendency of an announcement of a material corporate transaction, or such a notice is required under applicable securities laws to be issued by us, and the aggregate number of days in any consecutive twelve-month period for which the registration statement is not usable due to all such notices issued or required to be issued exceeds 60 days in the aggregate, then the period the registration statement is otherwise required to be effective will be extended by the number of days its use has been unavailable.

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Limited Purpose of Representations and Warranties

The foregoing description is a summary of certain material provisions of the combination agreement and does not purport to be complete or restate the combination agreement in its entirety. A copy of the combination agreement is included as Appendix B to this proxy statement. Except for its status as the contractual document between the parties with respect to the transaction described therein, the combination agreement is not intended to provide factual information about the parties. The representations and warranties contained in the combination agreement were made only for purposes of the combination agreement and as of specific dates, were solely for the benefit of the parties to the combination agreement, and may be subject to limitations agreed to by the parties, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the combination agreement instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the parties that differ from those applicable to investors. Accordingly, these representations and warranties should not be relied on by investors as statements of factual information.

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PROPOSAL ONE- APPROVAL OF THE ISSUANCE OF UP TO 9,275,171 SHARES OF

COVALENT COMMON STOCK IN CONNECTION WITH THE BUSINESS COMBINATION

WITH REMEDIUM

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

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

With this Proposal One, we are asking our stockholders to approve the issuance of up to 9,275,171 shares of Covalent common stock, representing approximately 69.5% of the number of shares of our common stock currently outstanding, in connection with our business combination with Remedium. Included in the 9,275,171 shares are:

up to 8,839,779 shares (before giving effect to post-closing adjustments) that may be issued to the Remedium stockholders in exchange for all of the shares of Remedium that are issued and outstanding on the closing date; and

up to 435,392 shares (before giving affect to post-closing adjustments) that may be issued upon the exercise of currently outstanding options to purchase shares of Remedium that will become exercisable for shares of Covalent common stock upon the consummation of the business combination with Remedium.

Our agreement to acquire Remedium includes, as a condition to the consummation of the business combination, a requirement that our stockholders approve the issuance of up to 8,839,779 shares of Covalent common stock (before giving effect to post-closing adjustments), which represents the maximum number of shares of Covalent common stock issuable to the Remedium stockholders as consideration for their Remedium shares under the combination agreement, provided Covalent s net worth (as defined) on the date of closing of the business combination is at least $6,974,689 and provided we do not become obligated to pay additional consideration as a result of our breach of our representations, warranties or other obligations under the combination agreement and elect to pay the additional consideration in shares of Covalent common stock. For purposes of the preceding sentence, net worth means the amount by which the sum of the book value of the assets of Covalent and its subsidiaries on a consolidated basis before giving effect to the business combination exceeds the sum of the book value of the liabilities of Covalent and such subsidiaries on a consolidated basis, all as recognized, calculated and determined in accordance with U.S. GAAP consistently applied with prior periods. See Material Provisions of the Combination Agreement- Consideration and Adjustment.

Six employees and two non-employee directors of Remedium currently hold exercisable options to purchase an aggregate of 660 shares of Remedium capital stock at an exercise price of EUR 750 per Remedium share. Options to purchase 360 Remedium shares are currently exercisable and options to purchase 300 Remedium shares become exercisable on December 1, 2006. In connection with the execution of the combination agreement, all of the holders of the Remedium options have entered into an option exchange agreement with Covalent pursuant to which the holders have agreed not to exercise any of their options prior to the date of the closing under the combination agreement. The options, which have an expiration date of January 31, 2009, will remain outstanding after the closing, and the shares of Remedium stock otherwise issuable upon the exercise of a Remedium option after the closing of the combination agreement will automatically convert into the number of Covalent shares equal to the number of Remedium shares otherwise issuable upon exercise of the option, multiplied by a fraction, (i) the numerator of which is the sum of (A) the aggregate final adjusted number of

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Covalent shares to be received by the Remedium stockholders under the combination agreement, and (B) the number of shares resulting from dividing (x) the aggregate cash price to be paid to the Remedium stockholders under the combination agreement, by (y) the price per share at which Remedium stockholders receive Covalent shares at closing under the combination agreement, and (ii) the denominator of which is the number of Remedium shares issued and outstanding at closing; provided, however, that (I) any option holder that would otherwise be entitled to receive a fractional share of Covalent stock (after aggregating all shares of Covalent stock issuable to such option holder) will receive an aggregate number of Covalent shares rounded to the nearest whole number, and (II) the number of Covalent shares issuable will be subject to appropriate adjustment in the event of any stock dividend paid in Covalent shares or stock split, reverse stock split or reclassification of the Covalent shares subsequent to the date of the option exchange agreement. There are 16,750 Remedium shares currently outstanding. Assuming 16,750 Remedium shares are outstanding on the closing date, the number of Covalent shares we will be required to issue upon the exercise of the Remedium options if they are all exercised in full will range from a minimum of 278,466 (or approximately 422 Covalent shares for each Remedium share otherwise issuable upon the exercise of a Remedium option) to a maximum of 435,392 (or approximately 660 Covalent shares for each Remedium share otherwise issuable upon the exercise of a Remedium option), depending on the closing price and the number of earn-out shares we are required to issue pursuant to the combination agreement, assuming we are not required to pay additional consideration for the Remedium shares, whether in cash or shares, in settlement of any obligations we may incur pursuant to post-closing adjustments relating to Covalent s net worth as of the closing date or as a result of our breach of our representations, warranties or other obligations under the combination agreement, and before giving effect to the provision for the elimination of fractional shares. Based on the foregoing assumptions, the EUR 750 exercise price per Remedium share would represent an exercise price per Covalent share ranging from approximately $1.44 to approximately $2.25, based on the exchange rate into the U.S. Dollar of the Euro designated by the Federal Reserve Bank of New York as of September 8, 2006. For information concerning historical exchange rates between the U.S. Dollar and the Euro, see Selected Historical Financial Data of Remedium Information Regarding Exchange Rates.

Under the terms of the combination agreement, the number of shares that we may ultimately issue to the Remedium stockholders could exceed by an indeterminate number the 8,839,779 shares for which we are seeking approval in this Proposal One and/or the number of shares that we may ultimately issue upon the exercise of currently outstanding options to purchase shares of Remedium could exceed by an indeterminate number the 435,392 shares for which we are seeking approval in this Proposal One. In either case, this could happen as a result of a post-closing adjustment to the amount of consideration we must pay to the Remedium stockholders if Covalent s net worth as of the closing date is less than $6,974,689 and the additional shares delivered pursuant to this post-closing adjustment exceeds the sum of any reductions in the number of shares to be delivered as a result of two other post-closing adjustments that may reduce the consideration paid for the acquisition of Remedium. It could also happen if we breach our representations, warranties or other obligations under the combination agreement and we become obligated to pay additional consideration on account of such breach. However, unless the total number of shares we issue in connection with our business combination with Remedium exceeds the number of shares for which we are seeking approval pursuant to this Proposal One by a number that would require an additional approval of our stockholders under the Nasdaq rule which is requiring us to seek stockholder approval of this Proposal One, or requires us to issue shares that will cause our outstanding shares to exceed the number permitted if Proposal Four is approved, no additional approval of our stockholders will be required in order to consummate the business combination, even if the total number of shares required to be issued in connection with our business combination with Remedium exceeds the number approved by our stockholders approval of this Proposal One.

Dr. Lindevall, a nominee for director named in Proposal Three, is one of the Remedium stockholders. Dr. Lindevall and his wife will hold, in the aggregate, 7,300 shares of Remedium common stock immediately prior to the closing of the business combination. If the business combination is consummated, Dr. Lindevall and his wife will receive for their Remedium shares, in the aggregate, from approximately 1,460,074 to approximately 3,009,720 shares of common stock of Covalent, depending on the closing price and the number of

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earn-out shares, if any, we are required to issue, before giving effect to any additional shares we may issue to settle any post-closing obligations under the combination agreement. In addition, Dr. Lindevall holds currently exercisable options to purchase 120 Remedium shares that, upon consummation of the business combination, will become exercisable for up to 79,162 shares of Covalent common stocks, as more fully described under Material Provisions of the Combination Agreement Option Exchange Agreement. An entity controlled by Mr. Manninen, also a nominee for director named in Proposal Three, will hold 962 shares of Remedium common stock immediately prior to the closing of the business combination. If the business combination is consummated, the entity controlled by Mr. Manninen will receive for its Remedium shares from approximately 274,071 to approximately 522,427 shares of common stock of Covalent, depending on the closing price and the number of earn-out shares, if any, we are required to issue, before giving effect to any additional shares we may issue to settle any post-closing obligations under the combination agreement. In addition, Mr. Manninen holds currently exercisable options to purchase 120 Remedium shares that, upon consummation of the business combination, will become exercisable for up to 79,162 shares of Covalent common stock, as more fully described under Material Provisions of the Combination Agreement Option Exchange Agreement. Mr. Manninen s father will also hold 65 shares of Remedium common stock immediately prior to the closing of the business combination. If the business combination is consummated, Mr. Manninen s father will receive for his Remedium shares from approximately 18,388 to approximately 35,097 shares of common stock of Covalent, depending on the closing price and the number of earn-out shares, if any, we are required to issue, before giving effect to any additional shares we may issue to settle any post-closing obligations under the combination agreement.

We intend to take steps to assure that the shares of Covalent common stock issued in connection with the consummation of the business combination will be eligible for trading on NASDAQ.

The terms of, reasons for and other aspects of the combination agreement are described in detail in this proxy statement under the heading Material Provisions of the Combination Agreement. The Covalent board of directors has approved the combination agreement, including the issuance of the shares of Covalent common stock required by the terms of the combination agreements to be issued in connection with the business combination with Remedium.

The approval of Proposal One requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock present in person or by proxy and entitled to vote the matter.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

APPROVAL OF PROPOSAL ONE.

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Covalent Group, Inc.

UNAUDITED PRO FORMA CONDENSED COMBINED

CONSOLIDATED FINANCIAL STATEMENTS

Introduction to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements

The following Unaudited Pro Forma Condensed Combined Consolidated Financial Statements combine the historical consolidated balance sheets and statements of operations of Covalent and Remedium, giving effect to the acquisition using the purchase method of accounting.

On July 6, 2006, Covalent Group, Inc. (the Company) (NASDAQ:CVGR) entered into an Amended and Restated Combination Agreement (the Amended Agreement) with Kai Lindevall, Jan Lilja, Sven-Erik Nilsson, Vesa Manninen, Seppo Oksanen, Heikki Vapaatalo, Riitta Korpela, Agneta Lindevall, and NTGLT PHARMA BVBA (the Stockholders), constituting all of the stockholders of Remedium Oy, a corporation organized under the laws of Finland (Remedium), which amends and restates the Combination Agreement entered into on March 2, 2006 (the Agreement), the terms of which are described in the Company s Current Report on Form 8-K filed on March 3, 2006. Pursuant to the Amended Agreement, at the closing , the Company will purchase all of the issued and outstanding shares of capital stock of Remedium (the Shares).

The consideration to be paid at closing of the Amended Agreement for the Shares will consist of (i) shares of Common Stock of the Company with a value of $11,000,000; and (ii) $2,500,000 in cash. An additional cash payment of $1,500,000 will be paid to the Stockholders on March 30, 2007. The Company intends to fund the cash portion of the purchase price with internal resources. Subject to certain purchase price adjustments, on the first anniversary of the closing of the Amended Agreement, the Company will issue to the Stockholders additional shares of Common Stock of the Company with a value of $2,000,000. Additional consideration consisting of shares of Common Stock of the Company with a value of up to $3,000,000 may also be paid to the Stockholders upon the attainment of certain revenue targets described in the Amended Agreement.

The closing is subject to customary closing conditions, including the approval of the Company s stockholders. The transaction is expected to close on or about November 1, 2006.

The Company and its affiliates have no material relationship with Remedium, the stockholders, or their affiliates, other than pursuant to the Agreement and the Amended Agreement.

Summary Selected Unaudited Pro Forma Condensed Combined Consolidated Financial Data

The Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations for the six months ended June 30, 2006 and the year ended December 31, 2005 and the Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet as of June 30, 2006 are based on the historical financial statements of Covalent and Remedium, after giving effect to the acquisition of Remedium

The Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations are presented as if the combination had taken place on January 1, 2005. The Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet is presented to give effect to the acquisition as if it occurred on June 30, 2006, and combines the balance sheet for Covalent as of June 30, 2006 with the balance sheet of Remedium as of June 30, 2006 and reflects the allocation of the purchase price to the Remedium assets acquired and liabilities assumed. The consideration payable to the Remedium stockholders is subject to certain post closing adjustments. The net effect of the post closing adjustments may be to increase or decrease the number of shares of common stock ultimately issued to the Remedium stockholders. While the impact of these provisions currently can not be determined, they may increase the cost of the acquisition of Remedium for Covalent. In addition, the price per share of Covalent common stock that will be utilized to determine the number of shares to be issued to the Remedium stockholders can not be determined at this time since the pricing period commences on June 18, 2006 and ends the third trading day prior to the closing date of the combination agreement.

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The Unaudited Pro Forma Condensed Combined Consolidated Financial Statements are based on the estimates and assumptions set forth in the accompanying notes to such statements. The Unaudited Pro Forma Condensed Combined Consolidated Financial Statements are prepared for illustrative purposes only and are not necessarily indicative of the results that would have been achieved had the transaction been consummated as of the date indicated or that may be achieved in the future.

The Unaudited Pro Forma Condensed Combined Consolidated Financial Statements should be read in conjunction with the historical financial statements of Covalent included in Covalent s Form 10-K for the year ended December 31, 2005, its quarterly report on Form 10-Q for the six months ended June 30, 2006 and the historical financial statements of Remedium for the year ended December 31, 2005 and the six months ended June 30, 2006.

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Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet

as of June 30, 2006

	Historical Covalent	Historical Remedium	Pro Forma Adjustments	Pro Forma Combined
Assets				
Current assets:				
Cash and cash equivalents	$ 6,797,317	$ 275,471	$ (4,000,000)(a)	$ 3,072,788
Accounts receivable, net	2,648,297	2,024,827		4,673,124
Deferred tax assets		184,955	(184,955)(b)	
Other current assets	1,528,511	767,434		2,295,945
Total current assets	10,974,125	3,252,687	(4,184,955)	10,041,857
Property and equipment, net	749,169	263,454		1,012,623
Deferred acquisition costs	800,754		(800,754)(c)	
Goodwill		349,448	(349,448)(d)	13,442,163
			13,442,163(e)	
Other intangibles, net		74,010	(74,010) (d)	4,166,667
			5,000,000(e)	
			(833,333)(j)	
Deferred tax assets		94,608	(94,608)(b)	
Restricted Cash		212,363		212,363
Other assets	21,665			21,665
Total assets	$ 12,545,713	$ 4,246,570	$ 12,105,055	$ 28,897,338
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$ 1,233,609	$ 258,629		$ 1,492,238
Short-term borrowings		537,535		537,535
Accrued expenses	279,476	2,184,003	1,500,000(e)	2,629,117
			(800,754)(c)	
			(68,869)(g)	
			(464,739)(h)	
Obligations under capital leases	27,722			27,722
Billings in excess of related costs and estimated earnings on uncompleted contracts	2,126,389	292,178		2,418,567
Customer advances	2,042,790			2,042,790
Total current liabilities	5,709,986	3,272,345	165,638	9,147,969
Obligations under capital leases	19,972			19,972
Pension		213,367		213,367
Other liabilities	407,198			407,198
Total liabilities	6,137,156	3,485,712	165,638	9,788,506
Common stock	13,501	28,591	(28,591)(f)	19,104
			5,603(e)	
Additional paid-in capital	12,243,663	174,880	(174,880)(f)	25,238,060
			12,994,397(e)	
Accumulated surplus/(deficit)	(5,525,912)	562,676	(562,676)(f)	(5,825,637)
			68,869(g)	
			464,739(h)	
			(833,333)(j)	

Accum. other comprehensive income	136,279	(5,289)	5,289(f)	136,279
	6,867,531	760,858	11,939,417	19,567,806
Less: Treasury stock	(458,974)			(458,974)
Total Stockholder s Equity	6,408,557	760,858	11,939,417	19,108,832
Total Liabilities and Stockholders Equity	$ 12,545,713	$ 4,246,570	$ 12,105,055	$ 28,897,338

(See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements)

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Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations

for the Six Months Ended June 30, 2006

	Historical Covalent	Historical Remedium	Pro Forma Adjustments	Pro Forma Combined
Net Revenue	$ 5,593,546	$ 5,526,726	$	$ 11,120,272
Reimbursement Revenue	769,703	724,783		1,494,486
Total revenue	6,363,249	6,251,509		12,614,758
Direct	3,704,074	3,685,790		7,389,864
Reimbursement out-of-pocket	769,703	724,783		1,494,486
Selling, general and administrative	1,960,618	2,445,906	68,869(g)	4,010,654
			(464,739)(h)	
Depreciation and amortization	182,822	55,832	(11,505)(i)	1,060,482
			833,333(j)	
Total operating expenses	6,617,217	6,912,311	425,958	13,955,486
Loss from operations	(253,968)	(660,802)	(425,958)	(1,340,728)
Interest income	149,308	976		150,284
Interest expense	(3,137)	(36,380)		(39,517)
Net interest income (expense)	146,171	(35,404)		110,767
Loss before income taxes	(107,797)	(696,206)	(425,958)	(1,229,961)
Income tax benefit		214,279	(214,279)(b)	
Net loss	$ (107,797)	$ (481,927)	$ (640,237)	$ (1,229,961)
Net loss per common share, Basic and diluted	$ (0.01)			$ (0.06)
Weighted average shares used in computing net loss per common share, basic and diluted	13,348,401		5,603,448	18,951,849

(See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements)

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Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations

for the Year Ended December 31, 2005

	Historical Covalent	Historical Remedium	Pro Forma Adjustments	Pro Forma Combined
Net Revenue	$ 10,403,079	$ 9,553,565	$	$ 19,956,644
Reimbursement Revenue	2,323,921	1,075,558		3,399,479
Total revenue	12,727,000	10,629,123		23,356,123
Direct	7,441,145	5,517,457		12,958,602
Reimbursement out-of-pocket	2,323,921	1,075,558		3,399,479
Selling, general and administrative	4,076,696	4,465,355	136,189(g)	8,384,516
			(122,000)(k)	
			(171,724)(h)	
Depreciation and amortization	510,338	98,509	(19,777)(i)	2,255,737
			1,666,667(j)	
Total operating expenses	14,352,100	11,156,879	1,489,355	26,998,334
Loss from operations	(1,625,100)	(527,756)	(1,489,355)	(3,642,211)
Interest income	150,112	31,693		181,805
Interest expense	(9,751)	(20,116)		(29,867)
Net interest income (expense)	140,361	11,577		151,938
Loss before income taxes	(1,484,739)	(516,179)	(1,489,355)	(3,490,273)
Income tax expense		36,364	(3,897)(l)	32,467
Net loss	$ (1,484,739)	$ (552,543)	$ (1,485,458)	$ (3,522,740)
Net loss per common share, Basic and diluted	$ (0.11)			$ (0.19)
Weighted average shares used in computing net loss per common share, basic and diluted	13,346,915		5,603,448	18,950,363

(See Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements)

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Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements

Purchase Price Allocation

The estimated purchase price of $18,500,000 consists of (i) shares of Common Stock of the Company with a value of $11,000,000; (ii) $2,500,000 in cash; and an additional cash payment of $1,500,000 that will be paid to the Stockholders on March 30, 2007; (iii) Earn-Out Shares with a value of up to $3,000,000 may also be paid to the Stockholders upon the attainment of certain revenue targets described in the Amended Agreement for the fiscal year ending December 31, 2006. For pro forma purposes only $2,000,000 of the Earn-Out Shares have been included in the purchase price based on current estimates of achieving the revenue targets and are subject to change upon evaluation of the revenue targets on or prior to February 28, 2007; (iv) Estimated direct transaction costs of $1,500,000 to be incurred by Covalent related principally to investment banking fees, legal, consulting, accounting, regulatory fees and taxes and other miscellaneous direct costs associated with the acquisition.

In addition, the Amended Agreement contains provisions regarding $2,000,000 of Holdback Shares subject to the achievement of certain financial objectives as of the closing date. At this time it is not possible to predict if those objectives will be achieved, accordingly, the pro forma balance sheet and estimated purchase price do not reflect the distribution of the $2,000,000 of Holdback Shares .

The purchase price will be allocated to Remedium s assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition. The allocation will also take into consideration intangible assets, and pre-acquisition contingencies, if any, acquired at closing. Any remaining unallocated acquisition cost will be considered goodwill. Pre-acquisition contingencies that are settled within one year of the closing may result in further adjustments to recorded goodwill. Covalent is currently gathering the data necessary for determining the fair value of intangible assets.

The total estimated amount of identifiable intangible assets and goodwill is approximately $5,000,000 and $13,442,163, respectively. The average useful life of identifiable intangible assets is assumed to be 3 years. Because the valuation analysis has not been completed, the actual amount of goodwill and identifiable intangible assets and the related average useful life over which the intangible assets are amortized could vary from these assumptions.

The pro forma components and allocation of the estimated purchase price, based on presumed fair values at June 30, 2006, is as follows:

Consideration and direct transaction costs:		
Cash	$ 4,000,000	(i)
Covalent common stock issued	13,000,000	(i)
Estimated direct transaction costs	1,500,000	(ii)
Total purchase price	$ 18,500,000	
Preliminary estimate of the allocation of purchase price:		
Cash and cash equivalents	$ 275,471	(iii)
Current assets	2,792,261	(iii)
Long term assets	475,817	(iii)
Liabilities assumed	(3,485,712)	(iii)
Intangible assets	5,000,000	(iv)
Goodwill	13,442,163	(iv), (v)
Total purchase price	$ 18,500,000	

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Assumptions:

(i) The pro forma presentation reflects the cash payment of $4,000,000, the issuance of approximately 5,603,448 shares of Covalent s common stock at $2.32 per share. The actual number of shares that are eventually issued may vary as explained in the Amended and Restated Combination Agreement (the Amended Agreement) under the subheading Exchange Price; Adjustment. In addition, for accounting purposes the eventual share price used to value Covalent s stock may differ from the $2.32 estimate in accordance with certain specified terms described in the Amended Agreement and in accordance with Statement of Financial Accounting Standards No. 141 (SFAS No. 141), Business Combinations and Emerging Issues Task Force No. 99-12, (EITF 99-12), Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination.

The $13 million includes $11 million due at closing plus $2 million (from a potential value of $3 million) on the assumption that Remedium will achieve certain revenue earn out targets.

(ii) Estimated direct transaction costs of $1,500,000 to be incurred by Covalent relate principally to investment banking fees, legal, consulting, accounting, regulatory fees and taxes and other miscellaneous direct costs associated with the acquisition. Through June 30, 2006, Covalent has incurred $800,754 of those costs. The remaining $699,246 is included within accrued expenses as of June 30, 2006.

(iii) Assets acquired and liabilities assumed are based on estimated fair values and assumptions as of June 30, 2006, the assumed acquisition date. For purposes of this pro forma presentation, except with respect to Remedium s intangible assets (see pro forma adjustment (c) below), recorded book values are assumed to approximate fair values. Actual fair values to be assigned to assets and liabilities will likely differ as of the date of closing of the transaction, and recorded assets and liabilities will likely differ from their recorded values.

(iv) The intangible assets of $5,000,000 that are assumed for purposes of the pro forma presentation are assumed to be amortized over a 3 year life on a straight-line basis. The amount attributed to intangible assets represents a preliminary estimate only as Covalent has not completed its valuation assessment of intangible assets. In arriving at this estimate, Covalent first allocated the total purchase price to acquired assets and liabilities and assumed that $5,000,000 of the remaining unallocated purchase price is attributable to intangible assets with the remainder being attributable to goodwill. Acquired intangible assets are expected to primarily relate to customer relationships, acquired contracts and backlog, all being subject to final valuation determination upon completion of the acquisition. Covalent attributes goodwill that will be recorded to several principal factors including Remedium s professional staff and clinical research experience, Remedium s sales force and potential cross-selling synergies that are expected to result from its broader presence in European markets, and the potential of Covalent to generate future economic benefit not otherwise captured in the measurement of Remedium s developed products, intellectual property, and other identified intangibles.

(v) In accordance with the provisions of Statement of Financial Accounting Standard No. 142 Goodwill and Other Intangible Assets, the estimated excess of purchase consideration over net identifiable assets acquired (the Goodwill) is not amortized in the accompanying unaudited pro forma condensed combined consolidated financial statements.

Pro Forma Adjustments

Pro forma adjustments giving effect to the acquisition in the unaudited pro forma condensed consolidated combined financial statements are as follows:

(a) To reflect the consideration to be paid at closing of $2,500,000 in cash. An additional cash payment of $1,500,000 will be paid to the Stockholders on March 30, 2007.

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(b) To establish a full valuation allowance for Remedium s deferred tax assets due to uncertainty regarding the realization of these assets. The allowance is a consequence of the business combination between Covalent and Remedium. This is partly due to local tax laws in mainly Finland and Denmark, where some open tax issues exist concerning what implications a change of ownership in Remedium will have on the carry forward of losses incurred before the combination.

(c) To reclassify $800,754 of costs incurred by Covalent related to the Remedium acquisition to accrued expenses. These costs were capitalized and presented on the balance sheet as Deferred Acquisition Costs during the six months ended June 30, 2006. This amount is included in the $1.5 million of estimated direct transaction costs.

(d) To eliminate Remedium s goodwill and intangibles.

(e) To reflect the purchase price adjustments resulting from the cash consideration in (a) above, the par value and additional paid-in capital related to the issuance of common stock, the goodwill origination, the allocation of intangibles and the estimated transactions costs related to the acquisition

(f) To eliminate Remedium s stockholders equity.

(g) To reflect additional compensation expense resulting from the employment agreement with Remedium s Chief Executive Officer compared with his current salary arrangement. The new employment agreement becomes effective at the completion of the transaction.

(h) To reverse acquisition costs appropriately expensed by Remedium during the period as required under FAS 141.

(i) To reverse amortization of Remedium s intangibles.

(j) To reflect amortization for intangibles with a three year life acquired by Covalent. If the acquired intangibles were assigned a two year rather than a three life the charge to earnings would have been $1,250,000 rather than $833,333. Likewise, if the intangible were assigned a value of $6 million rather than $5 million the charge to earnings would have been $1,000,000 and $1,500,000, respectively, using a three year and two year assumption period.

(k) To eliminate acquisition costs incurred by Covalent during the twelve months ended December 31, 2005 pertaining to its acquisition of Remedium. These costs were originally expensed due to the uncertainty, at that time, that the transaction would be completed.

(l) To reflect the pro forma tax effects due to the adjustments to Remedium s income statement for additional compensation, the elimination of acquisition related costs and the elimination of the amortization of intangibles.

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BUSINESS OF COVALENT

General

We are a CRO which is a leader in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. Our mission is to provide our clients with high quality, full-service support for their clinical trials. We offer therapeutic expertise, experienced team management and advanced technologies. Our headquarters is in Wayne, Pennsylvania and our International operations are based in London, England.

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

We were initially incorporated in August 1998 in Nevada. In June 2002, we changed our state of incorporation to Delaware.

Industry Overview

The CRO industry provides independent clinical trial and product development services for the pharmaceutical, biotechnology and medical device industries. Companies in these industries often outsource product development services to CROs in order to manage the drug development process more efficiently and cost-effectively. Outsourcing also enables these companies to access expertise and experience beyond their organizations. Historically, many companies in the pharmaceutical, biotechnology and medical device industries have performed the majority of their product development internally. Outsourcing drug development activities to CROs provides these companies with a variable cost alternative to the fixed costs associated with internal drug development. Companies no longer need to staff for peak periods and can benefit from a CRO s technical resources, therapeutic expertise, and the global infrastructure required to conduct clinical trials on a worldwide basis.

At the present time, we believe that the percentage of services required for product development that are being outsourced is increasing and will continue to increase in the future because of numerous factors, including cost containment pressures, attempts to overcome limitations on internal capacity, a desire to improve the timeline for evaluating and developing new drugs and/or devices; the desire to increase the percentage of development costs that are variable as compared to fixed costs, the need to perform research relating to new drugs in multiple countries simultaneously, the response to increasingly stringent government regulations in various countries, and the desire to use external expertise to supplement internal design and development capabilities.

As the investment required to develop new drugs continues to increase, an opportunity is created to help speed the drug development process or make this process more efficient.

Our Strategy

Our strategy is to be a leader in the design and management of complex clinical trials by providing our clients with exceptional performance ensuring that they achieve their goals on-time, on- budget and with superlative quality. Our competitive advantage is based upon our ability to deliver a knowledge-based and intellectually rich level of service that provides our clients with a well-conceived protocol design and operational

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plan intended to maximize their return on investment. We believe that many of the reported regulatory delays or rejections for prospective drugs can be directly attributed to underlying issues in protocol design and development. Our company is led by experienced executives with significant prior success in the drug development and regulatory approval process. Unlike larger, more conventional CROs, we provide a value-added approach to the design and management of clinical trials. We believe that our leadership in the design of complex clinical trials, our application of innovative technologies, our therapeutic expertise and our commitment to quality offer clients a means to more quickly and cost-effectively develop products through the clinical trial process.

A significant aspect of our strategy is to expand our geographic presence and add to our clinical development capabilities in existing new therapeutic areas or service offerings. Upon our consummation of the business combination, we intend to manage all our current and future European and Asian clinical studies from Remedium s facility in Espoo, Finland. We intend to continue to manage our North American and South American clinical trial studies from our Wayne, Pennsylvania facility. Our worldwide headquarters will remain in Wayne, Pennsylvania.

With our wholly-owned international subsidiary, Covalent Group, Ltd., we are able to meet many of the global drug development needs of our clients. In 2003, we formed strategic partnerships with several highly experienced regional CROs to broaden our geographic reach. These regional CROs share our vision and values, and are known to produce quality deliverables. They are based in Moscow, Russia, Sofia, Bulgaria, Sao Paulo, Brazil and Sydney, Australia regions that were specifically targeted because we believe they have or will achieve strategic prominence over the next several years with respect to clinical trials. Overall, these partnerships have substantially increased the number of operational personnel that we can employ on global trials and allow us to better service the needs of the pharmaceutical and biotechnology industries. These strategic partnerships also complement our proposed acquisition of Remedium since they are based in locations in which Remedium does not conduct major operations.

Recognizing the dynamic nature of the pharmaceutical and medical device development process, our experience and capabilities enables us to adapt our services to fit our clients specific needs. The distinguishing features of our services include the following:

Experienced Management. We are an established company led by a senior management team who average greater than 20 years of clinical research experience from both the CRO and pharmaceutical/biotechnology industry perspective. Our company includes four individuals who hold a Ph.D. or M.D. degree. For example, our President and Chief Executive Officer, Dr. Kenneth M. Borow, is a Harvard-trained physician with nearly 30 years of medical, academic and clinical trials experience at Merck, the University of Chicago School of Medicine, Brigham and Women s Hospital, Boston Children s Hospital, and Covalent. Our Senior Vice President, Global Operations, Alison O Neill has worked in the pharmaceutical industry for 24 years, 18 of these in clinical research for both pharmaceutical and CRO employers.

Credibility in the Clinical Research Marketplace. We have a strong client base with a high rate of repeat business. We have gained the confidence of our clients as demonstrated by their entrusting us with broad responsibilities, including designing and implementing global clinical research programs for some of their most important products. We provide leadership in a wide variety of therapeutic areas including cardiovascular, endocrinology/metabolism, diabetes, nephrology, immunology, vaccines, infectious diseases, gastroenterology, dermatology, hepatology, women s health, and respiratory medicine.

Global Capabilities. In 2000, Covalent Group, Ltd., our wholly-owned international subsidiary, commenced operations, providing us with a strategically important international presence. Covalent Group, Ltd. has an international client base with their own clinical trials, but also assists us in conducting clinical trials in Western Europe, Eastern Europe, Scandinavia and elsewhere for our clients. During 2003, we established proprietary strategic partnerships with several highly experienced regional CROs in order to strengthen and broaden our

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global offerings and our geographic reach. We have made a determined effort to broaden and diversify our client list. This has resulted in an attractive mix of pharmaceutical and biotechnology companies and we will continue to focus on expanding our capabilities both in the United States and internationally. We believe that these capabilities better positions us to meet our clients global clinical trial requirements. Once the proposed Remedium acquisition is completed, the management of our European and Asian operations will be based at Remedium s offices in Espoo, Finland.

Our Bioterrorism Vaccine Program. During 2003 and 2004, we began the process of conducting a global Counter-Bioterrorism program focused on the development of vaccines against biological agents with potential military and terrorism applications. This program offers clients an inter-disciplinary group of clinical development professionals with extensive experience working with vaccines, recombinant technology and immunotherapy products. During 2005, we continued to win additional business focusing on the development of counter-bioterrorism vaccines for a new client. In total, we managed four separate clinical trials in 2005 in this particular therapeutic area.

Our Services

We offer our clients on a global basis a broad range of clinical research and development services supporting Phase I through Phase IV clinical trials. Our services include study protocol design, clinical trials management, global data management services, biostatistics, medical and regulatory affairs, and quality assurance and compliance.

Study Protocol Design

We specialize in complex clinical trials with a particular focus on understanding conceptual issues and creating practical solutions. Much of the conceptual value-added work focuses on the design of an effective development program which includes individual clinical trial protocols. The study protocol is the critical document provided to the study investigators that defines the study and details the procedures which must be followed for the proper conduct of the trial. The protocol defines the medical issues the study seeks to examine and the statistical tests that will be conducted. The protocol also defines the frequency and type of laboratory and clinical measurements to be performed, tracked and analyzed. Also defined is the number of patients required to produce a statistically meaningful result, the period of time over which they must be tracked, and the frequency and dosage of drug administration.

A properly designed protocol targets the correct primary efficacy variable (i.e. the key outcome being studied, such as a reduction in sitting diastolic or systolic blood pressure), is statistically sound, effectively incorporates strategic marketing and product positioning issues, and proactively conforms to regulatory guidelines. We believe that many of the reported regulatory delays or rejections for prospective drugs can be directly attributed to underlying issues in protocol design and study process. A significant value we provide to our clients is in designing the initial study protocol or in significantly enhancing the protocol s design.

Clinical Trials Management

We serve our clients needs by conducting clinical trials through a project team. A project manager leads and facilitates all aspects of the conduct of the clinical trial. Other members of our project team typically include representatives from clinical trials management, global data services, regulatory affairs, information services, quality assurance, medical writing and field monitoring. Within this project-oriented structure, we can manage every aspect of clinical trials conducted in Phases I through Phase IV of the drug development process. Many of our current projects involve Phase II, Phase III or Phase IIIb clinical trials, which are generally larger, longer and more complex than Phase I trials.

We have adopted global standard operating procedures intended to satisfy global regulatory requirements and serve as tools for controlling and enhancing the quality of our clinical trials. All of our standard operating

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procedures are designed and maintained in compliance with GCP requirements and the International Conference on Harmonization (ICH) standards. The FDA and the European union have adopted these standards. We compile, analyze, interpret and submit data generated during clinical trials in report form to our clients, as well as, at our client s request, directly to the FDA or other relevant regulatory agencies for purposes of obtaining regulatory approval.

Clinical trials represent one of the most expensive and time-consuming parts of the overall drug development process. The information generated during these trials is critical for gaining marketing approval from the FDA or other regulatory agencies. We assist our clients with one or more of the following steps:

Case Report Form Design. Once the study protocol has been finalized, the Case Report Form (CRF) must be developed. The CRF is the document for collecting the necessary clinical data as defined by the study protocol. The CRF for a single patient in a study may consist of 100 or more pages.

Investigator Recruitment. The success of a clinical trial is dependent upon finding experienced investigators who are capable of performing clinical trials in accordance with the highest ethical and scientific standards. During clinical trials, physicians (who are also referred to as investigators) at hospitals, clinics or other locations, supervise administration of the drug or study product to patients or normal subjects. We recruit investigators who contract directly with either us or our clients to participate in clinical trials. Our global investigator database includes thousands of physician-investigators specializing in a multitude of therapeutic areas.

Patient Enrollment. The investigators find and enroll patients suitable for the study. The speed at which trials can be completed is significantly affected by the rate at which patients are enrolled. Prior to participating in a clinical trial, patients are required to review information about the study medication and its possible side effects, and sign an informed consent form to record their knowledge and acceptance of potential side effects. Patients also undergo a medical examination by the investigator to determine whether they meet the requirements of the study protocol. Patients then receive the study medication and are examined by the investigator as specified by the study protocol.

Study Monitoring and Data Collection. As patients are examined and tests are conducted in accordance with the study protocol, data is recorded on CRFs. CRFs are reviewed or monitored by specially trained clinical research associates or field monitors. Field monitors visit study sites regularly to ensure that the CRFs are completed correctly and that the data specified in the protocol are obtained. The field monitors send completed CRFs to a data management group where they are reviewed for consistency and accuracy before the data are entered into a database. An alternative data flow process utilizes remote data entry technology and a fax based system that frequently enhances the timeliness of clinical data collection while achieving cost savings to the Sponsor. We are currently involved in studies using both types of data flow processes.

Data Management Services

We have automated the data management process associated with clinical trial management through our use and customization of industry standard software known as clinical trials management systems. We license Oracle Clinical® and Datafax as our clinical trials management systems. The software assists us in the collection, validation and reporting of clinical results to our clients. Our data management professionals provide CRF review and tracking, data entry, integrated clinical/statistical reports, as well as writing manuscripts for publication.

Biostatistics

Typically, biostatisticians assist clients with all phases of drug development, including biostatistical consulting, database design, data analysis and statistical reporting. These professionals help develop and review protocols, design appropriate analysis plans and design report formats to address the objectives of the study protocol, as well as the client s individual objectives.

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Medical and Regulatory Affairs

Typically, before a drug, biologic, or medical device can be sold in a particular country, it must be approved by the regulatory agency in that country. We provide comprehensive regulatory product registration services for pharmaceutical, biotechnology products and medical devices in the United States and Europe. These services include regulatory strategy formulation, New Drug Application (NDA) and Biologic License Application document preparation and review, quality assurance and liaison with the FDA and other regulatory agencies.

Quality Assurance and Compliance

We conduct field inspections that include investigator audits, pre-submission protocol compliance audits and GCP audits. Our staff also provides training sessions to our personnel, as well as to study site employees. Finally, our Quality Assurance and Compliance group performs audits of study documents as well as data contained in our clinical trials databases.

Report Writing

The statistical analysis findings for data collected during the trial, together with other clinical data, can be included in a final study report to be included in a regulatory filing or as a final deliverable to the client.

Patient Registries

Patient Registries are becoming an essential, emerging tactic for all brand marketers and therapeutic categories. They provide an opportunity to rapidly populate databases with real-world, patient-derived information that can be analyzed and disseminated in multiple formats. This has become particularly important considering the recent issues that have come to the forefront regarding long-term patient safety associated with FDA approved and commercially marketed drugs. Data collection, analysis and reporting requirements for Registries are significantly less stringent than for traditional phase IIIb and IV studies. Their success is independent of investigator experience. Therefore, a Registry is an ideal tool for reaching out to the primary care population in a clinically meaningful and credible way. In addition, Registries facilitate and improve relationship building between biopharmaceutical companies and regional/local opinion leaders and high volume providers. They increase access to these important community based physicians while creating a credible, necessary, real-world decision database that provides multiple patient safety, commercialization, communication and education opportunities for stakeholders in the healthcare environment.

Clients and Marketing

We provide a broad range of clinical research and consulting services to the pharmaceutical, biotechnology and medical device industries. Our clients consist of many of the largest companies in the pharmaceutical, biotechnology and medical device industries. In 2005, we provided services to 23 different clients covering 41 separate studies or projects. We have in the past derived, and may in the future derive, a significant portion of our revenues from a core group of major clients. We are likely to continue to experience client concentration in future years. For the six months ended June 30, 2006, net revenue from our largest clients amounted to 73% of our net revenue, with the largest clients representing 23%, 15%, 13%, 12% and 10% of net revenue, respectively. For the six months ended June 2005, net revenue from our largest clients amounted to 88% of our net revenue, with the largest clients representing 32%, 19%, 17%, 10% and 10% of net revenue, respectively.

In 2005, our four largest clients accounted for 83 % of our net revenues, with the four largest representing 27%, 26%, 17% and 13% of our net revenues, respectively. In 2004, our three largest clients accounted for 57% of our net revenues, with the three largest representing 23%, 19% and 15% of our net revenues, respectively. In 2003, our three largest clients accounted for 69% of our net revenues, with the three largest representing 41%, 21%, and 7%, respectively. Our largest clients for any one year period may not represent the same customers as in a prior year period.

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We are generally awarded contracts based upon our response to requests for proposals received from pharmaceutical, biotechnology and medical device companies. Our business development and marketing strategy is based on expanding our relationships with our existing clients as well as gaining new clients. Our senior executives and project team leaders all share responsibility for maintaining and enhancing client relationships and business development activities. Our business development program is supported by a marketing and communications program that includes selective advertising in trade publications, management of the corporate web site, development of marketing materials, and related activities.

Contractual Arrangements

Most of our contracts with our clients are based on a fixed price with the option for additional variable components (i.e. change of scope). Therefore, we generally bear the risk of cost overruns, but we may also benefit if the costs are lower than we anticipated. Contracts may range from a few months to several years depending on the nature of the work performed. In general, for multi-year contracts, a portion of the contract fee, typically 10-15%, is paid at the time the trial is started, with the balance of the contract fee payable in installments over the trial duration. In some cases, the installments are tied to meeting specific performance milestones, while others have an agreed upon fixed payment plan independent of performance milestones. For example, installment payments for clinical trial projects may be related to investigator recruitment or patient enrollment. Several of our older contracts contain payment schedules that are weighted towards the later stages of the contract. As is typical in the CRO industry, when a client requests a change in the scope of a trial or in the services to be provided by us, we prepare a work order. An executed work order becomes an amendment to the original contract. Work orders resulting from changes of scope often produce additional revenue for us. We are at risk for any work performed outside the scope of the study or in advance of signing a new work order. We attempt to negotiate contract amendments with the client to cover any services provided outside the terms of the original contract. There can be no assurance that the client will agree to the proposed amendments, and we ultimately bear the risk of cost overruns.

Most of our contracts may be terminated by the client at any time with prior notice. Our contracts frequently entitle us to receive the costs of winding down the terminated project, as well as all fees earned by us up to the time of termination. Contracts may be terminated or delayed for several reasons, including unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug, budget constraints of clients or decisions by the client to de-emphasize or terminate a particular trial, development efforts on a particular drug, or our failure to properly perform our obligations.

Backlog

Our backlog consists of anticipated net revenue from uncompleted projects which have been authorized by the client, through a written contract, verbal commitment or letter of intent. Many of our studies and projects are performed over an extended period of time, which may be several years. Amounts included in backlog have not yet been recognized as net revenue in our consolidated statements of operations. Once contracted work begins, net revenue is recognized over the life of the contract on a proportional performance basis. The recognition of net revenue reduces our backlog while the awarding of new business increases our backlog. For the six months ended June 30, 2006 we obtained approximately $11.6 million of new business awards as compared to approximately $10.7 million for the six months ended June 30, 2005. Our backlog was approximately $27 million as of June 30, 2006 as compared to $20 million as of June 30, 2005. In 2005, we obtained $19.1 million of new business awards as compared to $21.5 million in 2004, an 11% decrease. Our backlog was $22.7 million at December 31, 2005, compared to $15 million at December 31, 2004.

We believe that our backlog as of any date may not necessarily be a meaningful predictor of future results because backlog can be affected by a number of factors including the size and duration of contracts, many of which are performed over several years. Additionally, contracts may be subject to early termination by the client

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or delay for many reasons, as described above. Also, the scope of a contract can change during the course of a study. For these reasons, we might not be able to fully realize our entire backlog as net revenue.

Competition

The contract research organization industry is highly fragmented, consisting of several hundred small, limited-service providers and a limited number of mid-sized and large CROs with global capabilities.

Newer, smaller firms with specialty focuses, such as those aligned with a specific disease or therapeutic area, may compete against established CROs for clients. We primarily compete against full-service and limited service contract research organizations, mid-sized CROs, in-house research and development departments of pharmaceutical and biotechnology companies and, to a lesser extent, universities and teaching hospitals. CROs generally compete on the basis of a number of factors, including the following: expertise and experience in specific therapeutic areas; the ability to design sound protocols or enhance the design; reputation for on-time quality performance; scope of service offerings; price; ability to enroll patients and recruit investigators; data management capabilities; strengths in various geographic markets; technological expertise and efficient drug development processes; the ability to acquire, process, analyze and report data in a timely and accurate manner; the ability to manage large-scale clinical trials both domestically and internationally; and organizational size. Although there can be no assurance that we will continue to do so, we believe that we compete favorably in these areas.

Some of our largest competitors include Quintiles Transnational Corporation, Covance, Inc., Parexel International Corporation, Pharmaceutical Product Development, Inc., Icon Clinical Research and Kendle International, Inc. In general, the CRO industry is not capital-intensive and the financial costs of entry into the industry are relatively low. Newer, smaller entities with specialty focuses, such as those aligned to a specific disease or therapeutic area, may compete aggressively against us for clients. Furthermore, clients may also choose to limit the CROs with whom they are willing to work. Increased competition might lead to heightened price and other forms of competition that may adversely affect our operating results.

Government Regulation

The development and clinical research of new drugs is highly regulated by government agencies. The standards for the conduct of clinical research and development studies are embodied in governmental regulations and in guidelines such as the ICH s Guideline on GCP. The standards stipulate procedures designed to ensure the quality and integrity of data obtained from clinical testing and to protect the rights and safety of clinical subjects. The FDA and similar regulatory authorities require that test results submitted to such authorities be based on studies conducted in accordance with GCP and regulations providing protections for research participants.

Our obligations under GCP may include, but are not limited to, the following: assuring the selection of investigators who are qualified and have adequate staff and facilities to conduct the trial properly and safely; obtaining specific written commitments from the investigators; verifying that adequate informed consent of trial subjects has been obtained; monitoring clinical trials to ensure that the rights and well-being of trial subjects are protected and that the reported trial data are accurate, complete, and verifiable from source documents; ensuring that adverse drug reactions are medically evaluated and reported; verifying drug or device accountability; implementing quality assurance and quality control systems; instructing investigators and study staff to maintain proper records and reports; and permitting appropriate governmental authorities access to source documents for their review. We must also maintain reports for each study for specified periods for auditing by the study sponsor and by the FDA or similar regulatory authorities. Noncompliance with GCP can result in disqualification of the data collected during the clinical trial and we could be required to redo the trial under the terms of our contract at no further cost to our client, but at substantial cost to us. CROs are also typically contractually obligated to comply with GCP and other patient protection regulations. Failure to comply could expose the CRO to contractual liability to its clients.

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Development of New Drugs

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 focuses on the FDA approval process. Similar procedures must be followed for clinical trials in other countries as well as for the approval of biologics and medical devices. The following provides a broad summary of the stages of this development process:

Preclinical Research (1 to 4 years). This phase includes in vitro (test tube) and animal studies to establish the relative toxicity of the drug over a wide range of doses and to detect any potential to cause any serious adverse effects. If results warrant continuing development of the drug, the sponsor of the drug will file for an Investigational New Drug Application, upon which the FDA may grant permission to begin human clinical trials.

Clinical Trials (4 to 6 years).

Phase I (6 months to 2 years). Phase I includes basic safety and pharmacology testing in approximately 20 to 80 human subjects, usually healthy volunteers. Phase I work also includes studies to determine metabolic and pharmacologic action of the drug in humans, 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). Phase II trials test basic efficacy (effectiveness) and potential dosing ranges in approximately 100 to 200 patients afflicted with the specific disease or condition for which the study medication is intended for use. Phase II trials help to determine the best effective dose, determine frequency of dosing, establish that the study medication has at least some effect, and provide additional safety data. If the Phase II study yields satisfactory results and no hold is placed by the FDA on further studies, a Phase III study of the drug may begin.

Phase III (2 to 4 years). Phase III trials are larger, more complex and more expensive than earlier phase studies and involve properly powered efficacy and safety evaluations in hundreds to thousands of patients afflicted with a specific disease or condition. These patients receive their medical care during the clinical trials at investigational sites, typically hospitals, clinics, or private practice settings. The objective of the Phase III study is to collect enough data for a statistically valid test of safety and effectiveness as required by the FDA, and to provide a basis for the labeling of the drug. The studies may be placebo-controlled trials, in which the study medication under investigation is compared with a sugar pill, or active-comparator studies that test the safety and effectiveness of the study medication against one or more drugs with established safety and efficacy profiles in the same therapeutic category.

The FDA receives reports on the progress of each phase of clinical testing and may require the modification, suspension, or termination of clinical trials if, among other things, an unreasonable risk is presented to patients or if the design of the trial is insufficient to meet its stated objective.

NDA Preparation and Submission. Upon the completion of the Phase III trials, the sponsor of the study medication assembles the statistically analyzed data from all phases of development into a single large submission: the NDA. An NDA may be submitted as a paper document (which may contain tens of thousands of pages) or in an electronic format.

FDA Review and Approval (approximately 12 months). The staff of the FDA will carefully scrutinize the data from all phases of development to confirm that the applicant has complied with regulations and that the drug is safe and effective for the specific use or indication under study. The FDA may refuse to accept the NDA for filing and substantive review if certain administrative and content criteria are not satisfied. After accepting the submission for review, the FDA may require additional testing or information before approval of an NDA. The FDA will deny approval of the NDA if applicable regulatory requirements are not ultimately satisfied.

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Post-Marketing Surveillance and Phase IV Studies. Federal regulation requires the marketer of the drug to collect and periodically report to the FDA additional safety and efficacy data on the drug for as long as the drug is marketed (post-marketing surveillance). If the drug is marketed outside the United States, the reports must include data from all countries in which the drug is sold. Phase IV (post-FDA approval) studies may be undertaken after initial approval to find new uses for the drug (broadening the label), to test new dosage formulations, or to confirm selected non-clinical benefits (e.g. increased cost-effectiveness or improved quality of life). Product approval may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing.

In providing our clinical research services to our clients, we are obligated to comply with regulatory requirements governing the drug development process. We have established standard operating procedures that are designed to comply with regulations and guidelines appropriate to the region and the nation where the clinical trials will be conducted. We strive to perform all clinical research in accordance with the GCP and ICH guidelines and the requirements of the applicable country. From an international perspective, we have implemented common standard operating procedures across regions to assure consistency wherever appropriate to do so.

Intellectual Property

We have developed certain computer software and technically derived procedures that provide separate services and are intended to maximize the quality and effectiveness of our services. Our intellectual property rights are important to us. We also believe that factors such as technical expertise, knowledge, ability and experience of our professionals are important and provide significant benefits to our clients.

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 Covalent does not believe it is 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 may be held liable for errors and 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 (IRBs) and the need to obtain each patient s informed consent. The FDA requires each human clinical trial to be reviewed and approved by the IRB at each study site. An IRB 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 IRB monitors the protocol and measures designed to protect patients, such as the requirement to obtain informed consent.

We attempt to reduce our risk through contractual indemnification provisions with clients and investigators, insurance maintained by clients, investigators and us, and various regulatory requirements, including the use of IRBs and the procurement of each patient s informed consent to participate in the study. However, the contractual indemnifications generally do not protect us against certain of our own actions such as negligence. In addition, 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 professional liability 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. Our operating results and financial position could be materially and 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 in the event that an indemnifying party does not fulfill its indemnification obligations.

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Employees

At June 30, 2006**,** we employed 72 full time and two part time personnel, of which five were based outside of the United States. Of our staff, four held Ph.D. or M.D. degrees and approximately 14 held masters or other post graduate degrees. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good. In addition, during 2005, we supplemented our employee base with contractors on an as-needed basis.

PROPERTIES OF COVALENT

We lease approximately 34,026 square feet of administrative and corporate offices from an independent landlord in Wayne, Pennsylvania, under a lease expiring in December 2009. The rent in 2005, including the payment of operating expenses such as utilities and maintenance, was approximately $89,000 per month.

We lease approximately 1,100 square feet of office space from an independent landlord for our international operations in London, England. This lease, which is for a three-year period commencing in December 2005, provides for annual rent of £26,500 (or approximately $48,500 per year based on an exchange rate of $1.83 USD per 1.00 GBP at July 12, 2006). The lease will expire in December 2008 and contains certain break points, which allows us to terminate the lease prior to December 2008 without penalty.

LEGAL PROCEEDINGS OF COVALENT

As of the date of this proxy statement, neither Covalent nor any of its subsidiaries is a party in any legal proceeding which is material to Covalent and its subsidiaries.

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MARKET PRICES AND DIVIDENDS FOR COVALENT COMMON STOCK

Covalent s common stock is quoted in the NASDAQ Capital Market under the symbol CVGR. The following table states the high and low bid prices per share for our common stock for each of the quarterly periods indicated.

	High Bid	Low Bid
2004		
First Quarter	4.15	2.49
Second Quarter	4.31	3.06
Third Quarter	4.19	2.20
Fourth Quarter	3.09	2.05
2005		
First Quarter	2.37	2.12
Second Quarter	2.42	2.25
Third Quarter	2.60	2.45
Fourth Quarter	2.20	1.19
2006		
First Quarter	2.68	1.99
Second Quarter	3.10	2.17
Third Quarter (through September 12)	2.99	2.54

The high and low bid prices per share for our common stock on September 12, 2006 were $2.86 and $2.70, respectively.

As of September 12, 2006, there were approximately 612 holders of record of our common stock, however, we believe that there are approximately 2,000 additional beneficial owners who hold their shares in street name in various brokerage accounts.

For information concerning the effect of the business combination with Remedium on the beneficial ownership of certain beneficial owners of our common stock, see Principal Stockholders .

We have never declared a cash dividend on our common stock and do not anticipate paying cash dividends in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION FOR COVALENT

The following table details information regarding Covalent s existing equity compensation plans as of December 31, 2005:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,362,873	2.50	706,026
Equity compensation plans not approved by security holders			
Total	1,362,873	2.50	706,026

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SELECTED HISTORICAL FINANCIAL DATA OF COVALENT

Covalent s selected historical consolidated financial data presented below for and as of the end of the years ended December 31, 2005, 2004, 2003, 2002 and 2001 are derived from Covalent s audited consolidated financial statements. The selected historical financial data for the six months ended June 30, 2006 and 2005 are derived from Covalent s unaudited quarterly consolidated financial statements and, in the opinion of management, includes all adjustments (consisting of normal recurring items) necessary for the fair presentation of the results for such periods. The selected data should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes to the financial statements included elsewhere in this proxy statement. The results of operations for the six months ended June 30, 2006 may not be indicative of the results of operations to be expected for the full fiscal year.

	Year Ended December 31					Six Months Ended June 30,	
	2005	2004	2003	2002	2001	2006	2005
	(in thousands, except per share data)						
Net revenue (1)	$ 10,403	$ 13,590	$ 20,836	$ 24,677	$ 18,353	$ 5,594	$ 5,542
Operating expenses (1)	12,028	19,061	21,946	20,607	14,804	5,840	6,157
Income (Loss) from operations	(1,625)	(5,471)	(1,110)	4,070	3,549	(254)	(615)
Other income (expense)	140	3	4	(11)	(56)	146	33
Income (Loss) before income taxes	(1,484)	(5,468)	(1,106)	4,060	3,493	(108)	(582)
Income tax provision (benefit)		(1,245)	(544)	1,605	1,458		
Net income (loss)	($ 1,484)	($ 4,223)	($ 562)	$ 2,454	$ 2,035	$ (108)	$ (582)
Net income (loss) per common share:							
Basic	($ 0.11)	($ 0.32)	($ 0.04)	$ 0.19	$ 0.16	$ (0.01)	$ (0.04)
Diluted	($ 0.11)	($ 0.32)	($ 0.04)	$ 0.19	$ 0.16	$ (0.01)	$ (0.04)
Weighted average common and common equivalent shares outstanding							
Basic	13,347	13,239	12,747	12,591	12,420	13,348	13,345
Diluted	13,347	13,239	12,747	13,199	12,963	13,348	13,345
Consolidated Balance Sheet Data:							
Cash and cash equivalents	$ 7,104	$ 3,166	$ 2,070	$ 2,121	$ 3,455	$ 6,797	$ 4,766
Working capital (2)	5,896	7,111	10,511	10,772	7,898	5,264	6,676
Total assets	9,843	12,823	20,385	20,836	15,113	12,546	12,080
Long term debt	37	63	87	3	62	20	51
Total liabilities	3,530	5,014	9,043	9,108	6,223	6,137	4,857
Shareholders equity	6,313	7,809	11,342	11,728	8,889	6,409	7,222

(1) Excludes the impact of reimbursement for out-of-pocket expenses.
(2) Working capital is calculated as current assets minus current liabilities.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND

FINANCIAL CONDITION OF COVALENT

Forward Looking Statements

When used in this proxy statement and in other public statements, both oral and written, by the Company and Company officers, the words estimate, project, expect, intend, believe, anticipate and similar expressions are intended to identify forward-looking statements regarding and trends that may affect our future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially. Such factors include, among others: (i) our success in attracting new business and retaining existing clients and projects; (ii) the size, duration and timing of clinical trials we are currently managing may change unexpectedly; (iii) the termination, delay or cancellation of clinical trials we are currently managing could cause revenues to decline unexpectedly; (iv) the timing difference between our receipt of contract milestone or scheduled payments and our incurring costs to manage these trials; (v) outsourcing trends in the pharmaceutical, biotechnology and medical device industries; (vi) the ability to maintain profit margins in a competitive marketplace; (vii) our ability to attract and retain qualified personnel; (viii) the sensitivity of our business to general economic conditions; (ix) other economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices; (x) announced awards received from existing and potential customers are not definitive until fully negotiated contracts are executed by the parties and (xi) our backlog may not be indicative of future results and may not generate the revenues expected; (xii) our ability to successfully complete the business combination with Remedium and integrate the business of Remedium and Covalent; and (xiii) the performance of the combined businesses to operate successfully and generate growth. You should not place undue reliance on any forward-looking statement. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

Overview

We are a clinical research organization which we believe is a leader in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. Our mission is to provide our clients with high quality, full-service support for their clinical trials. We offer therapeutic expertise, experienced team management and advanced technologies. Our headquarters is in Wayne, Pennsylvania and our international operations are based in London, United Kingdom.

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

General

The information set forth below and discussed below for years ended December 31, 2005, 2004, 2003, 2002 and 2001 are derived from Covalent s audited Consolidated Condensed Financial Statements included elsewhere herein. The information set forth and discussed below for the six months ended June 30, 2006 and 2005 is derived from the Consolidated Condensed Financial Statements included elsewhere herein. The financial information set forth and discussed below for the six months ended June 30, 2006 and 2005 is unaudited but, in the opinion of management, reflects all adjustments (primarily consisting of normal recurring adjustments) necessary for a fair presentation of such information. The results of our operations for a particular quarter may not be indicative of results expected during the other quarters or for the entire year.

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Our annual and quarterly results can fluctuate as a result of a number of factors, including our success in attracting new business, the size and duration of clinical trials, the timing of client decisions to conduct new clinical trials or to cancel or delay ongoing trials, changes in cost estimates to complete ongoing trials, and other factors, many of which are beyond our control. The following discussion should be read in conjunction with the Company s consolidated financial statements and notes thereto.

Net revenue is derived principally from the design, management and monitoring of clinical research studies. Clinical research service contracts generally have terms ranging from several months to several years. A portion of the contract fee is generally payable upon execution of the contract, with the balance payable in installments over the life of the contract. The majority of our net revenue is recognized from fixed-price contracts on a proportional performance basis. To measure the performance, we compare actual direct costs incurred to estimated total contract direct costs, which we believe is the best indicator of the performance of the contract obligations as the costs relate to the labor hours incurred to perform the service. Total direct costs are incurred for each contract and compared to estimated total direct costs for each contract to determine the percentage of the contract that is completed. This percentage is multiplied by the estimated total contract value to determine the amount of net revenue recognized.

Contracts generally may be terminated by clients immediately or with short notice. Clinical trials may be terminated or delayed for several reasons including, among others, unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug, client budget constraints or decisions by the client to de-emphasize or terminate a particular trial or development efforts on a particular drug. Depending on the size of the trial in question, a client s decision to terminate or delay a trial in which we participate could have a material and adverse effect on our backlog, future revenue and results from operations.

Critical Accounting Policies and Estimates

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make certain estimates, judgments 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 periods presented. On an ongoing basis, management evaluates its judgments and estimates. Management bases its judgments and estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management considers the following policies to be most critical in understanding the more complex judgments that are involved in preparing our consolidated financial statements and the uncertainties that could affect our results of operations and financial condition.

Revenue Recognition

The majority of our net revenue is recognized from fixed price contracts on a proportional performance method based on assumptions regarding the estimated completion of the project. This method is used because management considers total costs incurred to be the best available measure of progress on these contracts.

Each month costs are accumulated on each project and compared to total estimated cost to complete to determine the degree of completion for that particular project. This determines the percentage of completion for the project. This percentage of completion is multiplied by the contract value to determine the amount of revenue to be recognized. As the work progresses, original estimates may be adjusted due to revisions in the scope of work or other factors and a contract modification may be negotiated with the customer to cover additional costs. Our accounting policy for recognizing revenue for changes in scope is to recognize revenue when the Company has reached agreement with the client, the services pursuant to the change in scope have been performed, the

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price has been set forth in the change of scope document and collectibility is reasonably assured based on our course of dealings with the client. We bear the risk of cost overruns on work performed absent a signed contract modification. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the cost estimates used will change in the near term and may have a material adverse impact on our financial performance.

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. These unanticipated additional costs occurred on several long term contracts which we completed or substantially completed during 2004. These contracts spanned a period of three to six years. We may experience similar situations in the future although our current contracts in process are of a shorter duration and subject to less cost volatility. Should our estimated costs on fixed price contracts prove to be low in comparison to actual costs, future margins could be reduced, absent our ability to negotiate a contract modification.

Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. Accordingly, cash receipts, including the receipt of up front payments and performance based milestone payments, do not necessarily correspond to costs incurred and revenue recognized on contracts. A contract s payment structure generally requires an up front payment of 10% to 15% of the contract value at or shortly after the initiation of the clinical trial, a series of periodic payments over the life of the contract and, in certain instances, milestone payments based on the achievement of certain agreed upon performance criteria. The up front payments are deferred and recognized as revenues as services are performed under the proportional performance method. Periodic payments, including, performance based milestone payments, are invoiced pursuant to the terms of the contract once the agreed upon performance criteria have been achieved. Milestone payments are generally included in the total value of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain deliverables separately but as an integrated, full service arrangement in connection with the development of the drug. Examples of performance based milestones and interim deliverables include, but are not limited to, the completion of patient enrollment into the clinical trial, completion of the database and acceptance by the client of the final study report.

Clients generally may terminate a contract on short notice which might cause unplanned periods of excess capacity and reduced revenues and earnings. Client initiated delays or cancellations for ongoing clinical trials can come suddenly and may not be foreseeable. To offset the effects of early termination of significant contracts, we attempt to negotiate the payment of an early termination fee as part of the original contract. Generally, we have not been successful in negotiating such fees. Our contracts typically require payment to us of expenses incurred to wind down a study and fees earned to date. Therefore, revenue recognized prior to cancellation does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a fixed price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

Our accounting policy for recognizing revenue for terminated projects requires us to perform a reconciliation of study activities versus the activities set forth in the contract. We negotiate with the client, pursuant to the terms of the existing contract, regarding the wind up of existing study activities in order to clarify which services the client wants us to perform. Once we and the client agree on the reconciliation of study activities and the agreed upon services have been performed by us, we would record the additional revenue provided collectibility is reasonably assured.

Our operations have experienced, and may continue to experience, period-to-period fluctuations in net service revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenues in any period is directly related to the number of employees and the number of hours worked by those employees during that period. Our results of operations in any one quarter

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can fluctuate depending upon, among other things, the number of weeks in the quarter, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the quarter, the mix of revenue, the extent of cost overruns, employee hiring, employee utilization, vacation patterns, exchange rate fluctuations and other factors.

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board Emerging Issues Task Force Rule No. 01-14 (EITF 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred , out-of-pocket costs are included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

As is customary in the industry, we exclude from revenue and expense in the Consolidated Statement of Operations fees paid to investigators and the associated reimbursement since we act as agent on behalf of our clients with regard to investigators. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were $1.2 million, $5.1 million, and $10.5 million for the years ended December 31, 2005, 2004, and 2003 respectively and $217 and $1.1 million for the six months ended June 30, 2006 and 2005, respectively.

Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical, biotechnology and medical device industries. The significant majority of this exposure is to established pharmaceutical and biotechnology companies. Credit losses have historically been minimal. As of June 30, 2006, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $3.8 million. Of this amount, the exposure to our largest clients was 69% of the total, with the largest clients representing 24%, 23%, 12% and 11% of total exposure, respectively. As of June 30, 2005, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $4.7 million. Of this amount, the exposure to our three largest clients was 79% of the total, with the three largest clients representing 45%, 20%, and 14% of total exposure, respectively. As of December 31, 2005, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $1.5 million. Of this amount, the exposure to our three largest clients was 84% of the total, with the three largest clients representing 42%, 29%, and 13% of total exposure, respectively. As of December 31, 2004, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $6.9 million. Of this amount, the exposure to our three largest clients was 55% of the total, with the three largest clients representing 34%, 11%, and 10% of total exposure, respectively.

Operating Expenses

Direct expenses include amounts incurred during the period that are directly related to the management or completion of a clinical trial or related project and generally include direct labor and related benefit charges, other direct costs and certain allocated expenses. Direct costs as a percentage of net revenues fluctuate from one period to another as a result of changes in the mix of services provided and the various studies conducted during any time period. Selling, general and administrative expenses include the salaries, wages and benefits of all administrative, finance and business development personnel, and all other support expenses not directly related to specific contracts.

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Stock-Based Compensation

The Company adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants.

Effective January 1, 2006, we adopted SFAS No. 123R using the Modified Prospective Approach. SFAS 123(R) revises SFAS No. 123, Accounting for Stock Based Compensation (SFAS No. 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires the costs for all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values at grant date, or the date of later modification, over the requisite period. In addition, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite period.

The estimated annual increase in share-based compensation expense relating to the adoption of SFAS No. 123R for the twelve months ended December 31, 2006 is expected to be $391 thousand. The Company recognized stock-based compensation expense of $107 thousand and $215 for the three and six months ended June 30, 2006, respectively, or $0.01 and $0.02 on a basic and diluted earning per share basis.

Results of Operations

The following table sets forth amounts for certain items in our consolidated statements of operations expressed as a percentage of net revenue. The following table excludes revenue and costs related to reimbursable out-of-pocket expenses because they are not generated by the services we provide, do not yield any gross profit to us, and do not have any impact on our net income. We believe this information is useful to our investors because it presents the net revenue and expenses that are directly attributable to the services we provide to our clients and provides a more accurate picture of our operating results and margins.

Percentage of Net Revenue, Excluding Reimbursable Out-of-Pocket Expenses

	Year Ended December 31,			Six months ended June 30,	
	2005	2004	2003	2006	2005
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses					
Direct	71.5%	98.3%	74.0%	66.2%	68.3%
Selling, general and administrative	39.2%	36.4%	27.1%	35.1%	37.9%
Depreciation	4.9%	5.6%	4.2%	3.3%	4.9%
Loss from Operations	(15.6)%	(40.3)%	(5.3)%	(4.5)%	(11.1)%
Net Loss	(15.6)%	(31.1)%	(2.7)%	(1.9)%	(10.5)%

Six Months Ended June 30, 2006 Compared With the Six Months Ended June 30, 2005

Net revenue for the six months ended June 30, 2006 increased 1% to $5.6 million as compared to $5.5 million for the six months ended June 30, 2005. The increase of $52 thousand reflects an increase in the number of contracts and related contract values of clinical trials being managed by us in 2006. New business awards and changes of scope for the six months ended June 30, 2006 were approximately $11.6 million as compared to approximately $10.7 million for the six months ended June 30, 2005. For the six months ended June 30, 2006, net revenue from our largest clients amounted to 73% of our net revenue, with the largest clients representing 23%, 15%, 13%, 12% and 10% of net revenue, respectively. For the six months ended June 30, 2005, net revenue from our largest clients amounted to 88% of our net revenue, with the largest clients representing 32%, 19%, 17%, 10% and 10% of net revenue, respectively.

Reimbursement revenue consisted of reimbursable out-of-pocket expenses incurred on behalf of our clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.

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Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by $84 thousand to $3.7 million for the six months ended June 30, 2006 from $3.8 million for the six months ended June 30, 2005. The decrease in direct expenses resulted principally from a reduction in the use of subcontractors and the addition of personnel associated with the increased level of clinical trial activities during the second quarter of 2006 as compared to same prior year period. Direct expenses as a percentage of net revenue were 66% for the six months ended June 30, 2006 as compared to 68% for the six months ended June 30, 2005. The improvement in the gross margin was principally due to a modest increase in revenues combined with a sight decrease in direct expenses.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel and all other support expenses not directly related to specific contracts. Selling, general and administrative expenses for the six months ended June 30, 2006 were $2.0 million, or 35% of net revenue, as compared to $2.1 million, or 38% of net revenue, for the six months ended June 30, 2005. The decrease of $139 thousand resulted principally from a reduction of professional fees incurred and a decrease in operating costs related to our international operations as compared to the same prior year period.

Depreciation and amortization expense decreased to $183 thousand for the six months ended June 30, 2006 from $270 thousand for the six months ended June 30, 2005, primarily as a result of a reduction in fixed asset additions during 2005 and 2006 compared with prior years. The reduction in fixed asset additions has resulted in reduced charges for depreciation expense for the six months ended June 30, 2006 compared with the prior year period. There was $35 thousand in fixed asset additions during the six months ended June 30, 2006.

Loss from operations decreased by $361 thousand to $254 thousand for the six months ended June 30, 2006 primarily for the reasons noted in the preceding paragraphs. Net interest income for the six months ended June 30, 2006 was $146 thousand compared to net interest income of $33 thousand for the six months ended June 30, 2005 due to an increase in the amount of cash on hand and in the rate of interest earned on these deposits.

There was no income tax provision or income tax benefit for the six months ended June 30, 2006 and 2005. Net operating losses incurred in 2006 and 2005 are being carried forward and may be applied against future taxable income subject to certain limitations set forth in the Internal Revenue Code. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, deferred tax assets have been fully reserved as of June 30, 2006.

Net loss for the six months ended June 30, 2006 was $108 thousand, or $(0.01) per diluted share as compared to net loss of $582 thousand, or $(0.04) per diluted share for the six months ended June 30, 2005.

Year Ended December 31, 2005 Compared With Year Ended December 31, 2004

Net revenue for 2005 decreased $3.2 million to $10.4 million as compared to $13.6 million for 2004 a decline of 24%. The decline in net revenues for 2005 was due to the completion of several major clinical studies that were in process at the beginning of 2005, combined with delays in starting new clinical studies that were signed in the second half of 2005. Approximately 61% of net revenue for 2005 was attributable to completed studies that were in process at the beginning of 2005. The Company experienced delays in starting several new studies signed in the second half of 2005, due primarily to unforeseen regulatory issues. We were awarded several new business contracts late in the fourth quarter of 2005 which are not expected to generate any significant revenues until 2006. Our backlog at the end of 2005 increased significantly as a result of these new business signings. At the end of 2005, backlog increased by $7.7 million to $22.7 million compared to $15 million at the end of 2004.

In 2004, net revenue was adversely affected by cost increases approximating $1.4 million or 8.8 % in the cost to complete for two legacy projects that were winding down as they entered the final stage of their development schedules. These legacy projects experienced significant increases in their costs to complete

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without a corresponding increase in revenue in 2004 resulting in lower gross margins and reduced profitability on these projects. The changes in cost estimates and related revenue adjustments for these legacy projects had a material impact on our net income for 2004. In 2005, there was no material impact on net revenue related to the completion of these legacy projects

We may experience similar annual cost increases in the future in our ongoing clinical projects without a corresponding increase in revenues. To the extent the actual estimated cost to complete utilized at the end of 2005 were higher by 5% and 10%, respectively, than the estimates actually utilized, the Company s 2005 reported revenues would have been reduced by $92,000 and $183,000, respectively. The Company s consolidated net loss for 2005 would have increased by the same amount as the decline in revenues. This assumes that the Company would have been unsuccessful in negotiating change orders during 2005 that would provide for reimbursement of the excess costs. For periods beyond 2005, the impact on the Company s net income and financial position would depend upon the actual costs incurred to complete the project and whether the Company was successful in negotiating change orders for reimbursement of the excess costs. See Footnote No. 2, Revenue Recognition, for the Company s revenue recognition accounting policies.

Reimbursement revenue consisted of reimbursable out-of-pocket expenses incurred on behalf of our clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by $5.9 million to $7.4 million for the year ended December 31, 2005 from $13.4 million for the year ended December 31, 2004. The decrease in direct expenses resulted principally from a reduction in the level of clinical trial studies conducted by the Company during 2005. Direct expenses as a percentage of net revenue were 72% for the year ended December 31, 2005 as compared to 98% for the year ended December 31, 2004. The improvement was principally due to a significant decrease in the existing base of fixed direct expenses due to headcount reductions as well as reductions in the use of outside independent contractors.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel and all other support expenses not directly related to specific contracts. Selling, general and administrative expenses for the year ended December 31, 2005 were $4.1 million, or 39% of net revenue, as compared to $4.9 million, or 36% of net revenue, for the year ended December 31, 2004. The decrease of $866,000 primarily reflected a reduction in administrative staffing levels and the utilization of outside contractors. The increase as a percentage of net revenue generally reflects the significant decrease in net revenues in 2005 compared with 2004 which was greater than the percentage reduction in selling, general and administrative expenses.

Depreciation and amortization expense decreased to $510,000 for the year ended December 31, 2005 from $759,000 for the year ended December 31, 2004, primarily as a result of a reduction in fixed asset additions during 2005 compared with 2004.

We realized the full year impact in 2005 from the workforce rationalization and efficiency program implemented in 2004. On August 30, 2004, the Company announced that it had initiated a workforce rationalization and efficiency program to reduce its workforce and cost of operations. The program was completed in the third quarter of 2004 for a one time cost of approximately $151,000 which we charged in the third quarter of 2004. The annualized cost reduction benefit of the restructuring is approximately $1.1 million.

Loss from operations decreased by $3.8 million to $1.5 million, primarily for the reasons noted in the preceding paragraphs.

Net interest income for the year ended December 31, 2005 was $140,000 compared to net interest income of $3,000 for the year ended December 31, 2004. This increase resulted from us having more cash on hand combined with a higher rate of interest earned on invested cash deposits.

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The effective income tax rate (benefit) for the year ended December 31, 2005 and 2004 was 0% and (22.8)%, respectively. The Company s effective tax rate in 2004 was negatively affected by the increased loss from operations and a valuation allowance against excess net operating losses that the Company was unable to carryback against prior years. The Company recorded a valuation allowance of $1,068,400 for certain net income tax operating loss carryforwards.

The net loss for the year ended December 31, 2005 decreased to $(1.5) million, or $(.11) per diluted share, as compared to $(4.2) million, or $(.32) per diluted share for the year ended December 31, 2004, primarily for the reasons noted above.

Year Ended December 31, 2004 Compared With Year Ended December 31, 2003

Net revenue for 2004 decreased $7.2 million to $13.6 million as compared to $20.8 million for 2003 a decline of 35%. The decline in net revenues was due to an overall slowdown in new business signings especially in the second half of the year and delays in starting new projects that were signed in the first half of the year. Net revenue was also adversely affected by cost increases approximating $1.4 million or 8.8 % in the cost to complete for two legacy projects that were winding down as they entered the final stage of their development schedules. These legacy projects experienced significant increases in their costs to complete without a corresponding increase in revenue in 2004 resulting in lower gross margins and reduced profitability on these projects. The changes in cost estimates and related revenue adjustments for these legacy projects had a material impact on our net income for 2004.

We may experience similar annual cost increases in the future in our ongoing clinical projects without a corresponding increase in revenues. To the extent the actual estimated cost to complete utilized at the end of 2004 were higher by 5% and 10%, respectively, than the estimates actually utilized, the Company s 2004 reported revenues would have been reduced by $157,000 and $303,000, respectively. The Company s consolidated net loss for 2004 would have increased by the same amount as the decline in revenues. This assumes that the Company would have been unsuccessful in negotiating change orders during 2004 that would provide for reimbursement of the excess costs. For periods beyond 2004, the impact on the Company s net income and financial position would depend upon the actual costs incurred to complete the project and whether the Company was successful in negotiating change orders for reimbursement of the excess costs. See Footnote No. 2, Revenue Recognition, for the Company s revenue recognition accounting policies.

Reimbursement revenue consisted of reimbursable out-of-pocket expenses incurred on behalf of our clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by $2.0 million to $13.4 million for the year ended December 31, 2004 from $15.4 million for the year ended December 31, 2003. The decrease in direct expenses resulted principally from a reduction in the level of clinical trial studies conducted by the Company during 2004. Direct expenses as a percentage of net revenue were 98% for the year ended December 31, 2004 as compared to 74% for the year ended December 31, 2003. The increase in the ratio was principally due to the lower level of net revenue reported during 2004 against an existing base of fixed direct expenses.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel and all other support expenses not directly related to specific contracts. Selling, general and administrative expenses for the year ended December 31, 2004 were $4.9 million, or 36% of net revenue, as compared to $5.7 million, or 27% of net revenue, for the year ended December 31, 2003. The decrease of $708,000 primarily reflected a reduction in staffing levels. The increase as a percentage of net revenue generally reflects the impact of increased rent expense against a lower level of net revenue.

Depreciation and amortization expense decreased to $759,000 for the year ended December 31, 2004 from $878,000 for the year ended December 31, 2003, primarily as a result of a reduction in fixed asset additions during 2004.

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On August 30, 2004, the Company announced that it had initiated a workforce rationalization and efficiency program to reduce its workforce and cost of operations. The program was completed in the third quarter for a one time cost of approximately $151,000 which was incurred in the third quarter. The annualized benefit of the restructuring is approximately $1.1 million.

Loss from operations increased by $4.4 million to $5.5 million, primarily for the reasons noted in the preceding paragraphs.

Net interest income for the year ended December 31, 2004 was $3,000 compared to net interest income of $4,000 for the year ended December 31, 2003, largely the result of having more cash to invest.

The effective income tax rate (benefit) for the year ended December 31, 2004 and 2003 was (22.8)% and (49.2)%, respectively. The Company s effective tax rate in 2004 was negatively affected by the establishment of a valuation allowance against excess net operating losses that the Company was unable to carryback against prior years. The Company recorded a valuation allowance of $704,357 for certain net income tax operating loss carryforwards.

The net loss for the year ended December 31, 2004 increased to $(4.2) million, or $(.32) per diluted share, as compared to $(562,000), or $(.04) per diluted share for the year ended December 31, 2003, primarily for the reasons noted above.

Liquidity and Capital Resources

The clinical research organization industry is generally not considered capital intensive. We expect to continue to fund our operations from existing cash resources and cash flow from operations. We expect that our principal cash requirements on both a short and long-term basis will be for the funding of our operations and capital expenditures. We expect to continue expanding our operations through internal growth, expansion of our existing services, and the development of new products and services for the pharmaceutical, biotechnology and medical device industries. We believe that our existing cash resources and cash generated from operations will provide sufficient liquidity for the foreseeable future. However, in the event that we make significant acquisitions in the future, we may need to raise additional funds through additional borrowings or the issuance of debt or equity securities.

Our contracts usually require a portion of the contract amount to be paid at the time the contract is initiated. Additional payments are generally made upon completion of negotiated performance milestones, or on a regularly scheduled basis, throughout the life of the contract. Accordingly, cash receipts do not necessarily correspond to costs incurred and revenue recognized. For terminated studies, our contracts frequently entitle us to receive the costs of winding down the terminated project, as well as all fees earned by us up to the time of termination.

Net revenue is recognized on a proportional performance basis. We typically receive a low volume of large-dollar receipts. As a result, the number of days net revenue outstanding in accounts receivable, costs and estimated earnings in excess of related billings, customer advances, and billings in excess of related costs will fluctuate due to the timing and size of billings and cash receipts. At June 30, 2006, the net days revenue outstanding was (37) days compared to 49 days at December 31, 2005. This decrease was primarily due to the change in billing schedules as well as upfront payments received on recently signed contracts. Compared to December 31, 2005, accounts receivable increased $1.5 million to $2.6 million at June 30, 2006, primarily due to the timing of billings and progress payments for clinical trials.

Compared to December 31, 2005, costs and estimated earnings in excess of related billings on uncompleted contracts increased $747 thousand to $1.1 million at June 30, 2006. The increase primarily represents timing differences between the net revenue recognized on the trials being managed and the billing of milestones or

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payment schedules contained in the contracts with our clients. The balance at June 30, 2006 primarily consisted of 4 clinical trials. The top four balances constituted 28%, 17%, 12% and 10% of the balance. This balance is mostly attributable to a delay in the timing of billings compared to when the work was performed. The $755 thousand increase in the liability account, billings in excess of related costs and estimated earnings on uncompleted contracts, to $2.1 million as of June 30, 2006 from $1.3 million as of December 31, 2005, resulted primarily from the signing of several contracts which included large up front payments. Customer advances increased by approximately $1.0 million to $2.1 million as of June 30, 2006 from $1.0 million as of December 31, 2005. This increase resulted primarily from an increase in the amount and value of upfront payments received from clients for payment of investigator fees and pass through costs.

Our net cash provided by operating activities was $556 thousand for the six months ended June 30, 2006, compared to net cash provided by operating activities of $1.7 million for the six months ended June 30, 2005. The primary difference is related to the $1.5 million increase in accounts receivable for the six months ended June 30, 2006 compared with a decrease of $1.2 million in accounts receivable for the six months ended June 30, 2005. Net cash used by investing activities for the six months ended June 2006 was $836 thousand principally as a result of costs associated with the proposed Remedium acquisition, which have been capitalized and presented on the balance sheet as deferred acquisition costs. This compares to net cash used by investing activities of $47 thousand for the six months ended June 30, 2005, which consisted principally of capital equipment purchases. Net cash used by financing activities was $16 thousand for the six months ended June 30, 2006, compared with $1 thousand for the six months ended June 30, 2005. The primary difference related to cash received from the exercise of employee stock options during 2005.

As a result of these cash flows, our cash and cash equivalents balance at June 30, 2006 was $6.8 million as compared to $7.1 million at December 31, 2005.

We purchased approximately $35 thousand of equipment for six months ended June 30, 2006. We anticipate capital expenditures of approximately $65,000 $165,000, exclusive of the proposed Remedium acquisition, during the remainder of 2006, primarily for leasehold improvements, software applications, workstations, personal computer equipment and related assets.

Off Balance Sheet Financing Arrangements

As of December 31, 2005 and June 30, 2006 we did not have any off-balance sheet financing arrangements or any equity ownership interests in any variable interest entity or other minority owned ventures.

Contractual Obligations and Commitments

For 2005 and 2004, we entered into no new capital lease obligations as compared to $123,000 in new capital lease obligations in 2003. These leases were recorded as assets and in general were for peripheral office equipment. We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment.

Below is a summary of our future payment commitments by year under contractual obligations as of December 31, 2005. Actual amounts paid under these agreements could be higher or lower than the amounts shown below as a result of changes in volume and other variables:

	Total	1 Year	2-3 Years	4-5 Years	>5 Years
Obligations under capital leases	$ 63,309	$ 26,314	$ 36,995	$	$
Operating leases	3,917,549	966,619	1,981,189	969,741	
Employment agreement	86,000	86,000			
Service agreements	934,286	338,077	449,285	146,924	
Total	$ 5,001,144	$ 1,417,010	$ 2,467,469	$ 1,116,665	$

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We did not enter into any capital lease obligations during the three and six months ended June 30, 2006 and 2005. We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment.

Below is a summary of our future payment commitments by year under contractual obligations. Actual amounts paid under these agreements could be higher or lower than the amounts shown below as a result of changes in volume and other variables:

	2006	2007	2008	2009	Thereafter	Total
Obligations and under capital leases	$ 26,314	$ 29,204	$ 7,791	$	$	$ 63,309
Operating leases	966,619	982,860	998,329	969,741		3,917,550
Employment agreements	86,000					86,000
Service agreements	647,131	189,432	94,317	82,281	64,643	1,077,804
Total	$ 1,726,064	$ 1,201,496	$ 1,100,437	$ 1,052,022	$ 64,643	$ 5,144,662

In 2006, we anticipate capital expenditures of approximately $100,000 to $200,000 for leasehold improvements, software applications, workstations, personal computer equipment and related assets exclusive of any capital expenditures related to the proposed Remedium acquisition. A significant portion of our service agreement commitments, which are primarily comprised of investigator payments, are expected to be reimbursed under agreements with clients.

Recently Issued Accounting Standards

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123R) using the Modified Prospective Approach. See Note 7 to Covalent s Consolidated Condensed Financial Statements for the three-months ended March 31, 2006 included elsewhere in this proxy statement for further detail regarding the adoption of this standard.

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statement No. 133 and 140 (SFAS No. 155). SFAS 155 allows financial instruments that contain an embedded derivative that otherwise would require bifurcation to be accounted for as a whole on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. We do not expect that the adoption of SFAS 155 will have a material impact on our consolidated financial statements or results of operations.

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 . SFAS 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes and obligation to service financial assets by entering into a servicing contract. This statement is effective for all transactions beginning in the first fiscal year that begins September 15, 2006. We do not expect that the adoption of SFAS 156 will have a material impact on our consolidated financial statements or results of operations.

In March 2005, the FASB issued Financial Interpretation Number (FIN) 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS 143 (Asset Retirement Obligations)*. FIN 47 addresses diverse accounting practices that have developed with regard to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective for fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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In June 2005, the FASB issued Financial Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109*. FIN 48 prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation provides guidance regarding derecognition of income tax assets and liabilities, interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective as of January 1, 2007. We are currently evaluating the impact of FIN 48 on our financial statements.

In January 2003, the FASB issued Financial Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities. In December 2003, the FASB then issued FIN 46(R), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51, which replaced FIN 46. Application of FIN 46(R) was required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities for all other types of entities are required in financial statements for periods ending after March 15, 2004. The Company had adopted both FIN 46 and FIN 46(R), and the adoption had no impact on the Company s financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The provisions of SFAS No. 149 that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The Company has not entered into any derivative transactions and therefore the adoption of this standard has not had a material impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 has not had a material impact on our financial statements. .

In December 2004, the FASB issued SFAS 123(R), Share-Based Payment SFAS No. 123(R) revises SFAS 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance. SFAS 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements. The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact from this standard on its future results of operations and financial position.

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Quantitative and Qualitative Disclosure about Market Risk

Market Risk

The fair values of cash and cash equivalents, restricted cash, accounts receivable, costs and estimated earnings in excess of related billings on uncompleted contracts, accounts payable, accrued expenses and billings in excess of related costs and estimated earnings on uncompleted contracts were not materially different than their carrying amounts as reported at are not materially different than their carrying amounts as reported at December 31, 2005 and June 30, 2006.

As of June 30, 2006, the Company was not a counterparty to any forward foreign exchange contracts or any other transaction involving a derivative financial instrument.

Foreign Currency Exchange Risk

We are exposed to foreign currency exchange risk through its international operations. For the year ended December 31, 2005, approximately 7% of our net revenue was derived from contracts denominated in other than U.S. Dollars. Our financial statements are denominated in U.S. Dollars. As a result, factors associated with international operations, including changes in foreign currency exchange rates, could affect our results of operations and financial condition. Contracts entered into in the U.S. are denominated in U.S. Dollars. Contracts entered into by our international subsidiary are generally denominated in pounds sterling or Euros. To date, we have not engaged in any derivative or contractual hedging activities related to our foreign exchange exposures. We believe that these exposures are limited by virtue of their size relative to our overall operations as well as the partial natural hedge afforded by our local currency expenditures to service these local currency contracts.

Assets and liabilities of our international operations are translated into U.S. Dollars at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the quarter. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The cumulative translation adjustment included in other comprehensive income for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was ($23,000), $45,000 and $99,000, respectively.

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

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BUSINESS OF REMEDIUM

General

Remedium Oy, a corporation organized under the laws of the Republic of Finland in 1996 (Remedium), is a privately owned CRO offering clinical trial services to the pharmaceutical and medical device industries. Its headquarters is in Espoo, Finland. Remedium has a strong Northern and Eastern European presence with offices in Turku, Tampere, Oulu and Seinäjoki (Finland), Copenhagen (Denmark), Tallinn (Estonia), Vilnius (Lithuania), Stockholm (Sweden), Bucharest (Romania), Warsaw (Poland), and Ankara (Turkey). To expand its Northern and Eastern European dimension, Remedium also utilizes independent contractor relationships in Riga (Latvia) and Oslo (Norway), .

Customers

Remedium s customers consist of many of the largest companies in the pharmaceutical and medical device industries. It has the resources to directly implement or manage Phase I through Phase IV clinical trials and has clinical trial experience across a wide variety of therapeutic areas, such as vaccines, cardiovascular, immunology, oncology, dermatology, rheumatology, urology, ophthalmology, respiratory medicine, infectious diseases, hematology, and endocrinology. Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of Remedium s project work, although the mix of projects is subject to change from year to year. In fiscal 2004, approximately 72% of Remedium s revenue came from multiple projects of one major customer. In fiscal 2005, its revenue base was more diversified, with 30% of revenue coming from multiple projects of the same customer and 19% of revenue coming from multiple projects of another customer.

Services

Remedium offers its customers a broad range of clinical research and development services supporting Phase I through Phase IV clinical trials. The services include strategic trial planning, clinical trials management, monitoring, data management and biostatistics, pharmacovigilance, medical writing, quality assurance, outsourcing of clinical staff, and medical device certification in the European Union.

Remedium has adopted standard operating procedures intended to satisfy applicable regulatory requirements and serve as tools for controlling and enhancing the quality of our clinical trials. All of Remedium s standard operating procedures are designed and maintained in compliance with Good Clinical Practice (GCP) requirements and the International Conference on Harmonization (ICH) standards. Remedium is also compliant with the U.S. Food and Drug Administration s (FDA) Electronic Record Rule (21 CFR Part 11).

Strategic Trial Planning

Before initiating a clinical trial for its customers, Remedium will carry out a feasibility study on behalf of its customers which typically includes:

- Contacting the right caliber of investigators to establish their interest in conducting the trial and reviewing the protocol either in draft or final version with them;
- Checking patient populations and prevalence of disease in different countries depending on the study;
- Establishing the most current regulatory requirements of each country where the trial will be conducted and anticipating timelines;
- Checking contractual issues with hospitals, health institutions and investigators;
- Establishing communication with third party vendors, for example, central laboratories, and checking timelines, workload and cost savings;

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Quality assurance of potential short listed investigative sites or third-party vendors; and

Assistance in developing an effective drug or medical device development program, including the study design and the protocol for the clinical study. The protocol defines the medical issues the study seeks to examine and the statistical tests that will be conducted. The protocol also defines the frequency and type of laboratory and clinical measurements to be performed, tracked and analyzed. Also defined is the number of patients required to produce a statistically.

Project Management

Remedium can manage its customers clinical trials from beginning to end. Each clinical trial is assigned an experienced project manager who is responsible for managing the trial and forming the best possible team for that trial. The project manager becomes involved with each trial already in the strategic trial planning phase. The information generated during these trials is critical for gaining marketing approval from regulatory agencies. Remedium assists its customers with one or more of the following steps in the clinical trials process:

Feasibility Stage. Investigator selection, protocol review, regulatory requirements, and assessment of the availability of personnel for the trial and their relevant experience.

Proposal/Budget Stage. Putting together and reviewing the proposal and budget**,** briefing the proposed clinical team selected for the study, and explaining the budget to the customers.

Pre-Study Stage. Identifying each country s specific regulatory set up; developing a communication plan with the customer; working with our customer as a direct link to evaluate the investigators and set up contracts with hospitals, health institutions and investigators; preparing study specific guidelines; setting out schedules, timelines and allocation of responsibilities with the customer; taking part in an investigator meeting covering both training and planning function; and attending and overseeing initiation visits.

Clinical Stage. Providing continuous status reports of patient recruitment, Case Report Form (CRF) retrieval rates and adverse events; controlling the standardization and quality of monitoring via co-monitoring of it s clinical research associates (CRAs); developing in-house training specific to the protocol and therapeutic area; and providing a continuous communication link between all departments involved in the study keeping them informed of the customer s needs. Remedium compiles, analyzes, interprets and submits data generated during clinical trials in report form to its customers.

Close-out Stage: Remedium stays with the project until the end to assist in ensuring that all study sites are properly closed at the project end and all documentation has been returned to the customer.

Monitoring

Ensuring that the clinical trial is conducted and recorded in accordance with the protocol, Standard Operating Procedures, Good Clinical Practice and applicable laws and regulations is the cornerstone of clinical research. Remedium has over 50 clinical research associates (CRAs) with different backgrounds and experience years in the clinical research working for it. From this staff Remedium can select the right monitoring team for each clinical project. Remedium provides monitoring services as part of a clinical trial or as a stand-alone service.

Data Management and Biostatistics Services

Remedium provides its customers with data management and biostatistics services. It uses Clintrial , Clintrace , WHO-DD and MedDRA as its data management and medical coding systems.

Remedium s data management services include CRF design, database design, data entry, data validation, data tracking and reporting, medical and clinical coding, quality control and good design control.

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In addition, Remedium has an in-house statistician who is able to provide biostatistics services, including statistical consultancy and analysis planning, randomization listings, support in protocol development, and statistical analysis and reports.

Remedium believes it has one of the largest and most effective data management and biostatistics services team in Northern Europe. Remedium provides these services as part of a clinical trial or as a stand-alone service.

Pharmacovigilance

Pharmacovigilance means the proactive monitoring and reporting on the safety of drugs. Remedium s pharmacovigilance or drug safety group consists of two drug safety managers and two medical advisors, all with several years of experience in drug safety. These individuals are continuously following the evolving situation all over Europe.

Remedium offers its customers safety database services, serious adverse effect (SAE)/adverse drug reaction (ADR) report management, electronic transmission of expedited safety reports, and periodic safety update reports. These services are provided as part of a clinical trial or as a stand-alone service.

Medical Writing

Remedium offers its customers medical writing services for protocol development, medical reports, safety reports. investigator s brochures, manuscript preparation for publication and other expert reports. It provide this service by using its in-house medical writer and its established partnership with a writer located in the United Kingdom. These services are provided as part of a clinical trial or as a stand-alone service.

Quality Assurance

Quality is an important factor at all stages of clinical research, and the only successful approach is to build in quality from the outset. Remedium offers its customers quality assurance and quality audit services for all phases of their clinical trials process, including system audits, project audits, facilities assessments, subcontractor audits, third party audits and for-cause audits.

Remedium also offers a standard operating procedure (SOP) consulting service where it can support its customers operational staff in designing their SOPs or even in managing the entire SOP process. Clinical research SOPs are developed in compliance with ICH-GCP and applicable regulatory guidelines and laws as well as specific customer requirements. These services are provided as part of a clinical trial or as a stand-alone service.

Outsourcing of Staff

Remedium offers staff outsourcing services to its customers. When a customer does not want or does not have the possibility to hire its own personnel, Remedium can outsource its employees to be placed at Remedium s or the customer s premises on a short or long term basis. Based on the qualifications specified by the customer, Remedium provides resumes of potential candidates for the customer to review. The customer also has the possibility to interview the candidates face to face or by telephone and choose the person that suits its needs. The types of people Remedium outsources include project managers, clinical research associates (CRA), clinical trial assistants (CTA), and data entry operators (DEO).

Medical Devices

All medical devices sold in the EU have to demonstrate minimum standards of safety and efficacy. These are the Essential Requirements set forth in the directives of the European Union. Once these criteria have been established, a device obtains a CE-mark and can then be marketed in all of the 19 countries in the European Economic Area. Remedium assists its customers at various stages of their obtaining a CE-marking of medical devices in Europe.

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Backlog

Remedium s backlog consists of anticipated net revenue from uncompleted projects which have been authorized by the customer through a written contract, verbal commitment or letter of intent. Amounts included in backlog have not yet been recognized as net revenue in Remedium s consolidated statements of operations. The majority of Remedium s revenue is recognized from the outsourcing of personnel to our clients. This revenue is recognized based on actual hours incurred at the agreed upon contract rate. Remedium also has revenue which is recognized from fixed-price contracts on a proportional performance basis. The recognition of net revenue reduces backlog while the awarding of new business increases backlog. Remedium s backlog was 7,841,452 Euros at December 31, 2005, compared to 5,275,247 Euros at December 31, 2004. Remedium expects most of its backlog at December 31, 2005 will be recognized in 2006 subject to, among other things, the factors referred to in the next paragraph.

Remedium s backlog as of any date may not necessarily be a meaningful predictor of future results because backlog can be affected by a number of factors including the size and duration of contracts, many of which are performed over several months, even years. Additionally, contracts may be subject to early termination by the client or delay for many reasons. Also, the scope of a contract can change during the course of a study. For these reasons, Remedium might not be able to fully realize its entire backlog as net revenue.

Management and Employees

Remedium s directors and officers as of the date hereof are:

Name	Age	Principal Occupation
Dr. Kai Lindevall	54	Founder, President, CEO and Director of Remedium.
Ms. Annika Suni	33	Chief Financial Officer of Remedium.
Dr. Jan Quistgaard	57	Director of Remedium; President, CEO and Director of Egalet A/S in Denmark.
Mr. Petri Manninen	36	Director of Remedium; Owner of Lakituki Oy, a legal services firm in Finland.
Mr. Sven-Erik Nilsson	65	Director of Remedium; Private investor.

Tomas Granqvist, 34, will assume the position of Chief Financial Officer of Remedium effective September 15, 2006.

As of December 31, 2005, Remedium had 125 employees, all with experience from varied backgrounds, such as medics, pharmacists, study nurses, scientists. Remedium believes its relations with its employees are good.

ABSENCE OF MARKET FOR AND DIVIDENDS ON REMEDIUM CAPITAL STOCK AND

RELATED STOCKHOLDER MATTERS

Remedium is a privately held company with nine stockholders, and there is no established public trading market for its stock.

Remedium was incorporated on January 10, 1996 in the Republic of Finland. Under its Finnish Articles of Incorporation, Remedium s minimum capital is 8,000 Euros and its maximum capital is 80,000 Euros. The capital of Remedium may be increased or decreased within these limits without having to amend the Articles of Incorporation. Currently, Remedium has 16,750 shares outstanding and the nominal value per share under its Articles of Incorporation is 1.70 Euros.

Each of Remedium s shares confers the right to one vote. Each of the shares confers equal rights to share in Remedium s profits, and in any surplus in the event of Remedium s liquidation. Under the Finnish Companies Act, a shareholder whose holding exceeds nine-tenths of the total number of shares or voting rights in Remedium may buy out all the shares of the minority in accordance with the purchase procedure (including the price determination) set forth in the Finnish Companies Act.

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Pre-emptive Rights; Rights of First Refusal

In connection with any offering of shares, Remedium s existing stockholders have a pre-emptive right to subscribe for the shares offered in proportion to the amount of shares in their possession. However, a general meeting of stockholders may vote, by a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting, to waive this pre-emptive right provided that, from the company s perspective, important financial grounds exist.

Under Remedium s Articles of Incorporation, each Remedium stockholder has a right of first refusal in connection with each sale by another stockholder of their Remedium stock. All of the Remedium stockholders have waived their respective rights of first refusal in connection with the business combination.

Dividends

In recent years, Remedium has paid annual dividends to its stockholders. Under the Finnish Companies Act, Remedium may distribute retained earnings on its shares only upon a stockholders resolution, on the basis of its annual accounts on a consolidated and individual basis, as approved by its stockholders and, subject to limited exceptions, in the amount proposed by its board of directors. The amount of any distribution is limited to, among other things, the lower of our retained earnings on a consolidated and individual basis, in each case as available at the end of the preceding fiscal year pursuant to the annual accounts as approved by the stockholders. Subject to exceptions relating to the right of minority stockholders to request otherwise, the distribution may not exceed the amount proposed by the board of directors. The Finnish Companies Act, which provides for distribution of earnings, is currently subject to a major reform expected to become effective in the latter part of 2006. The provisions on the distribution of a company s profits and other funds are proposed to be supplemented by a provision to the effect that no funds may be distributed if, when making the decision on the distribution, the persons knew or should have known that the company was insolvent or that it would become insolvent due to the distribution of the funds.

The following table states the dividends paid by Remedium for each of the quarterly periods indicated:

	Dividend
2004	
First Quarter	768.490
Second Quarter	0
Third Quarter	0
Fourth Quarter	768.490
2005	
First Quarter	1.038.500
Second Quarter	167.500
Third Quarter	0
Fourth Quarter	0
2006	
First Quarter	0
Second Quarter	0
Third Quarter (1)	0

(1) The combination agreement includes a covenant of the Remedium stockholders to the effect that during the period between the date of the combination agreement and the closing of the business combination Remedium shall not, and the Remedium stockholders shall not take any action to cause Remedium to, pay any dividend or otherwise make any cash distribution or payment to the Remedium stockholders, other than regular payments pursuant to existing employment agreements.

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Ownership of Remedium

The following table sets forth, as of the date hereof, certain information as to the beneficial ownership of Remedium s shares by (i) each director and officer individually, (ii) all executive officers and directors s a group, and (iii) each person that owns five percent or more of the outstanding Remedium shares:

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares
Kai Lindevall	7,420(1)	44.0%
Sven-Erik Nilsson	3,215	19.2%
Jan Lilja	2,875	17.2%
Petri Manninen	1,147(2)	6.8%
Jan Quistgaard	120(3)	*
Annika Suni	0	*
All officers and directors as a group (five persons)	11,902(4)	69.6%

* Less than 1% of the outstanding Remedium shares.

(1) Includes 625 shares owned by Dr. Lindevall s wife. Also includes 120 shares that may be acquired by Dr. Lindevall pursuant to an outstanding option.

(2) Includes 65 shares owned by Mr. Manninen s father and 962 shares owned by an entity in which Mr. Manninen exercises control. Also includes 120 shares that may be acquired by Mr. Manninen pursuant to an outstanding option.

(3) These are shares that may be acquired by Mr. Quistgaard pursuant to an outstanding option.

(4) Includes 360 Remedium shares that may be acquired pursuant to outstanding options. Tomas Granqvist, who will assume the position of Chief Financial Officer of Remedium effective September 15, 2006, does not beneficially own any Remedium shares.

EQUITY COMPENSATION PLAN INFORMATION FOR REMEDIUM

The following table details information regarding Remedium s existing equity compensation plans as of the date hereof:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	660	750 Euros	60
Equity compensation plans not approved by security holders			
Total	660	750 Euros	60

Remedium has a stock option plan under which there are 660 options currently outstanding. Each option entitles the holder thereof to purchase one Remedium share. Of the 660 outstanding options, 360 options became exercisable on December 1, 2005 and the remaining options will become exercisable on December 1, 2006. All optionees are either Remedium employees or non-employee directors of Remedium.

All of Remedium s outstanding options will remain outstanding following the consummation of the transactions contemplated by the combination agreement, but will cease to be exercisable for Remedium shares and will, instead, become exercisable for shares of Covalent

common stock. All of Remedium s outstanding options that are not exercised will expire on January 31, 2009. See Material Provisions of the Combination Agreement- Option Exchange Agreement for a description of the treatment of the Remedium options in connection with the business combination.

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SELECTED HISTORICAL FINANCIAL DATA OF REMEDIUM

The following tables represent Remedium s selected historical consolidated financial data. The first table represents Remedium s statement of operations data for the years ended December 31, 2005, 2004 and 2003 and balance sheet data at December 31, 2004 and 2005, derived from Remedium s audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) included elsewhere in this report. The second table represents Remedium s statement of operations data for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 and the balance sheet data at December 31, 2005, 2004, 2003, 2002, and 2001, derived from Remedium s consolidated financial statements prepared in conformity with accounting principles generally accepted in Finland (Finnish GAAP), not included in this report. The historical results are not necessarily indicative of the operating results to be expected in the future. The selected data should be read together with Remedium s Management s Discussion and Analysis of Financial Condition and Results of Operations and Remedium s financial statements and notes to the financial statements.

	US GAAP 2005	US GAAP 2004	US GAAP 2003
		(in thousands)	
Net revenue(1)	7,669	11,571	9,932
Operating expenses(1)	8,092	8,031	7,776
(Loss) Income from operations	(424)	3,540	2,156
Net financial income	9	10	81
(Loss) Income before income taxes and minority interest	(414)	3,550	2,238
Income tax provision (benefit)	29	1,071	660
Minority Interest, net			36
Net (loss) income	(444)	2,479	1,614

(1) Net revenue and operating expenses do not include reimbursement revenue of 863,351, 858,572 and 853,515 Euros, respectively, for the years ended December 31, 2005, 2004 and 2003.

	2005	2004
	US GAAP	US GAAP
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	187	632
Working capital	328	1,890
Total assets	3,659	4,213
Long term debt		22
Total liabilities	2,677	1,608
Stockholders equity	983	2,605

	Finnish GAAP 2005	Finnish GAAP 2004	Finnish GAAP 2003	Finnish GAAP 2002	Finnish GAAP 2001
			(in thousands)		
Turnover	8,485	12,353	10,849	6,714	2,848
Operating expenses	9,065	8,889	8,673	4,439	2,648
(Loss) Income from operations	(580)	3,464	2,176	2,275	200
Other income (expense)	3	14	51	7	(11)
(Loss) Income before income taxes and minority interest	(577)	3,478	2,227	2,282	189
Income tax provision (benefit)	(17)	1,066	710	663	59
Minority Interest, net			29		

Net (loss) income	(560)	2,412	1,546	1,619	130

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	2005	2004	2003	2002	2001
	Finnish GAAP	Finnish GAAP	Finnish GAAP	Finnish GAAP	Finnish GAAP
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	373	812	476	487	257
Working capital	427	2,088	1,152	2,209	707
Total assets	3,079	3,918	3,307	3,844	1,512
Long term debt	675				10
Total liabilities	2,339	1,390	1,642	1,341	572
Stockholders equity	740	2,528	1,665	2,503	940

Information Regarding Exchange Rates

Remedium s consolidated financial statements and selected financial information are presented in Euros, the common currency of the European Economic and Monetary Union. The exchange rate into the U.S. Dollar of the Euro designated by the Federal Reserve Bank of New York as of September 8, 2006 was 1.2673.

Set forth below for each of the periods indicated are (i) the exchange rate into the U.S. Dollar of the Euro on the last day of the period; (ii) the average exchange rate into the U.S. Dollar of the Euro, calculated for each period by using the average of such exchange rates designated by the Federal Reserve Bank of New York on the last day of each month during the period; and (iii) the high and low exchange rates into the U.S. Dollar of the Euro designated by the Federal Reserve Bank of New York during the period:

	Year Ended December 31,					Six Months Ended
	2001	2002	2003	2004	2005	June 30, 2006
Period end exchange rate	0.8901	1.0485	1.2597	1.3538	1.1842	1.2779
Average exchange rate	0.8954	0.9495	1.1411	1.2478	1.2400	1.2409
High exchange rate	0.9535	1.0485	1.2597	1.3625	1.3476	1.2953
Low exchange rate	0.8370	0.8594	1.0361	1.1801	1.1667	1.1860

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS OF REMEDIUM

This management s discussion and analysis of Remedium s financial condition and results of operation is a discussion of the selected historical consolidated financial data that is presented in US GAAP.

Forward Looking Statements

When used by Remedium in this proxy statement, the words estimate, project, expect, intend, believe, anticipate and similar expressions a intended to identify forward-looking statements regarding events and trends that may affect our future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially. Such factors include, among others: (i) our success in attracting new business and retaining existing clients and projects; (ii) the size, duration and timing of clinical trials; (iii) the termination, delay or cancellation of clinical trials; (iv) the timing difference between our receipt of contract milestone or scheduled payments and our incurring costs to manage these trials; (v) outsourcing trends in the pharmaceutical, biotechnology and medical device industries; (vi) the ability to maintain profit margins in a competitive marketplace; (vii) our ability to attract and retain qualified personnel; (viii) the sensitivity of our business to general economic conditions; and (ix) other economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices.

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Remedium O verview

Remedium is a privately owned clinical research organization (CRO) offering clinical trial services to the pharmaceutical and medical device industries. Its mission is to offer its customers confidence, quality, honesty, flexibility, trust and expertise through a personalized service every time Remedium is selected as a partner to develop a clinical pipeline. Remedium s headquarters is in Espoo, Finland. Remedium has a strong Northern and Eastern European presence with offices in Turku, Tampere, Oulu and Seinäjoki (Finland), Copenhagen (Denmark), Tallinn (Estonia), Vilnius (Lithuania), Stockholm (Sweden), Bucharest (Romania), Warsaw (Poland), and Ankara (Turkey). To expand its Northern and Eastern European dimension, Remedium also utilizes independent contractor relationships in Riga (Latvia) and Oslo (Norway).

Remedium was incorporated in the Republic of Finland in 1996. The following discussion should be read in conjunction with Remedium s consolidated financial statements and notes thereto.

Historically, projects in the fields of cardiovascular, oncology, immunology, vaccines, medical devices as well as clinical staff outsourcing have represented 50-75% of Remedium s project work, although the mix of projects is subject to change from year to year. The majority of Remedium s revenue is recognized from the outsourcing of personnel to its clients. This revenue is recognized based on actual hours incurred at the agreed upon contract rate. Remedium also has revenue which is recognized from fixed-price contracts on a proportional performance basis.

Remedium s consolidated financial statements are presented in Euro and accordingly, references to EUR, euro or are to the common currency o the European Economic and Monetary Union, or EMU. Solely for the convenience of the reader, the exchange rate between the Euro and the US Dollar was 1.1842 US dollars per Euro on December 31, 2005, equaling the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the amounts have been, could have been or could be converted into US dollars at the rates indicated or at any other rates.

Certain Differences between Finnish GAAP and U.S. GAAP

Consolidation

The general principle under Finnish GAAP is that all subsidiaries where an entity has voting majority, or the right to appoint or dismiss the majority of the board of directors, should be consolidated. In exceptional cases, such as a subsidiary with virtually no operations, ownership in the subsidiary is temporary, or the subsidiary s financial statements cannot be obtained without unreasonable costs, the subsidiary need not to be consolidated. Under U.S. GAAP, majority-owned subsidiaries, in which the entity has a controlling financial interest, are required to be consolidated.

In addition, under Finnish GAAP, certain associated companies that have no impact or have an immaterial impact on the entity s results of operations and the financial position on its consolidated financial statements may be accounted for using the cost method. Under U.S. GAAP, all companies, where the entity exercises significant influence over the investee s operating and financing policies, are required to be accounted for using the equity method of accounting.

Under Finnish GAAP, jointly controlled entities are consolidated using either the equity method of accounting or by applying the proportionate consolidation method. Under U.S. GAAP, jointly controlled entities are consolidated using the equity method of accounting. Proportionate consolidation is prohibited except in certain specific industries, such as oil and gas, construction and mining industries.

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Business Combinations

Under the purchase method in both Finnish GAAP and U.S. GAAP, the cost of a company acquired in a purchase business combination includes direct costs of the acquisition. Furthermore, the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets, based upon the fair value of the assets acquired less liabilities assumed, should be recorded as goodwill. However, the concept of fair value in assigning amounts to assets acquired and liabilities assumed is less comprehensive under Finnish GAAP. In addition, any restructuring-related costs may not be considered in purchase price allocation under Finnish GAAP. Under Finnish GAAP, Goodwill arising from a purchase business combination is amortized to income over five years, unless a longer amortization period, not to exceed 20 years, can be justified. Under U.S. GAAP, goodwill and other intangible assets for which the useful life is indefinite are not amortized at all since January 1, 2002, but rather are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Deferred Income Taxes

In consolidated financial statements, Finnish GAAP allows recognition of deferred income taxes using three alternative methods: (1) the income statement approach, by which deferred income taxes are mainly recognized based on timing differences arising through the income statement only; (2) the full liability method approach, whereby deferred tax liabilities and assets are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates; or (3) a combination of the two preceding methods. U.S. GAAP requires recognition of deferred income taxes using the liability method. Under this method, deferred tax liabilities and assets are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is established to extent that it is more likely than not that the company will not realize a tax benefit.

Currently in Finland, companies are permitted to reduce or increase taxable income by establishing or releasing voluntary reserves without recording the deferred income tax effect. In order to qualify for a tax deduction under Finnish law, changes in voluntary reserves must be recorded in the separate stand-alone financial statements. Such voluntary reserves would be presented in the mezzanine section of the balance sheet. However, such voluntary reserves are reallocated between deferred income taxes and non-distributable stockholders equity in consolidated financial statements. Under U.S. GAAP, such voluntary reserves are not recorded in the financial statements.

Leases

In the consolidated financial statements, Finnish GAAP allows, but does not require, leases to be accounted for as capital leases if substantially all the benefits and risk of ownership have been transferred to the lessee. Under U.S. GAAP, a lease agreement that transfers substantially all the benefits and risks of ownership is accounted for as an acquisition of an asset and the incurrence of a liability by the lessee (a capital lease) and as a sale or financing by the lessor (a sales-type, direct financing, or leveraged lease). Other leases are accounted for as operating leases. U.S. GAAP is also restrictive on the recognition of gains arising from sale and leaseback transactions.

Pensions and Other Post-Retirement Benefits

Finnish GAAP does not specifically address the accounting for pensions and other post-retirement benefits, such as healthcare. Generally, companies account for various pension schemes in accordance with local conditions. In Finland, pension schemes, either defined benefit or defined contribution plans, with retirement, disability, death and termination benefits are accounted for as defined contribution plans and are generally funded through payments to insurance companies or to trustee-administered pension funds. Under U.S. GAAP, pensions and other post-retirement benefits that are defined benefit plans are calculated and recorded based on specific actuarial calculations using prescriptive methods and assumptions.

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Research and Development Costs

Under Finnish GAAP, research and development costs may either be capitalized or expensed. Under U.S. GAAP, research and development costs are expensed as incurred.

Stock Options

Finnish GAAP does not address the accounting for stock options. When shares are then issued due to the exercise of stock options, the proceeds are recorded in share capital and paid-in capital in the same manner than any share issue. Under U.S. GAAP, for periods beginning after January 1, 2006, SFAS No. 123R requires the costs for all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values at grant date, or the date of later modification, over the requisite period. In addition, SFAS No. 123R requires unrecognized cost related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite period.

Under U.S. GAAP, stock plans can also be variable plans when either the exercise price or the number of shares, or both, are not known at the grant date. In this case, the intrinsic value at each balance sheet date must be determined and recognized as compensation expense based on the percentage vested until the exercise date. If stock options are issued to non-employees, the fair value method is required to be applied.

Comprehensive Income

U.S. GAAP requires presentation of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. A company is required to classify items of other comprehensive income, by their nature, in the accounts and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a balance sheet. There is no such requirement under Finnish GAAP.

Revenue Recognition

Under U.S GAAP revenue from fixed-price contracts is recognised on a proportional performance basis. To measure the performance, we compare actual direct costs incurred to estimated total contract direct costs, which is the best indicator of the performance of the contract obligations as the costs relate to the labour hours incurred to perform the service. Total direct costs are incurred for each contract and compared to estimated total direct costs for each contract to determine the percentage of the contract that is completed. This percentage is multiplied by the estimated total contract value to determine the amount of net revenue recognized. The guidance under Finnish GAAP is not as specific as under U.S. GAAP which can give rise to timing differences in revenue recognition.

Under Finnish GAAP reimbursement of out of pocket expenses is included in net revenue whereas under U.S. GAAP this revenue is reported separately.

Financial Assets Available for sale investments

Under Finnish GAAP, Remedium s marketable debt comprising of an investment in a Sampo Bank Interest Rate Fund is recorded at cost and classified as other securities.

Under US GAAP, such investments having a determinable market value are classified as available-for-sale investments. The fair value gains and losses of these investments are shown as a separate component of shareholders equity. When the investment is disposed of, the related accumulated fair value changes are released from shareholders equity and recognised in the income statement.

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Critical Accounting Policies and Estimates

Remedium s consolidated financial statements included in this report have been prepared in conformity with U.S. GAAP. Historically, Remedium s consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 have been prepared under Finnish GAAP and those financial statements for the years ended December 31, 2005, 2004 and 2003 have been converted into US GAAP for inclusion in this report. The preparation of these financial statements requires Remedium s management to make certain estimates, judgments 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 periods presented. On an ongoing basis, management evaluates its judgments and estimates. Management bases its judgments and estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Remedium s management considers the following policies to be most critical in understanding the more complex judgments that are involved in preparing Remedium s consolidated financial statements and the uncertainties that could affect Remedium s results of operations and financial condition:

Revenue Recognition

A significant portion of Remedium s revenue is recognized from the outsourcing of its personnel to clients. This revenue is recognized based on actual hours incurred at the agreed upon contract rate.

Remedium also has revenue which is recognized from fixed-price contracts on a proportional performance basis. To measure the performance, Remedium compares actual direct costs incurred to estimated total contract direct costs, which is the best indicator of the performance of the contract obligations as the costs relate to the labour hours incurred to perform the service. Total direct costs are incurred for each contract and compared to estimated total direct costs for each contract to determine the percentage of the contract that is completed. This percentage is multiplied by the estimated total contract value to determine the amount of net revenue recognized. A formal project review process takes place at period end although most projects are evaluated on an ongoing basis. Management reviews the estimated total direct costs on each contract to determine if estimated amounts are correct, and estimates are adjusted as needed. If Remedium determines that a loss will result from the performance of a fixed-price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made. Because of the inherent uncertainties in estimating direct costs required to complete a project, particularly complex, multi-year studies, it is possible that the estimates used will change and could result in a material change to the estimates. Original estimates might also be changed due to changes in the scope of work. Remedium attempts to negotiate contract amendments with the client to cover these services provided outside the terms of the original contract. There can be no assurance that the client will agree to the proposed amendments, and Remedium ultimately bears the risk of cost overruns. Accordingly no change in estimate is made to a contract s total value until the client has formally approved the contract amendment. Changes to the estimated total contract direct costs result in a cumulative adjustment to the amount of revenue recognized.

Costs and estimated earnings in excess of related billings on uncompleted contracts represents net revenue recognized to date that is currently unbillable to the client pursuant to contractual terms. In general, amounts become billable upon the achievement of milestones or in accordance with predetermined payment schedules set forth in the contracts with clients. Billings in excess of related costs and estimated earnings on uncompleted contracts represent amounts billed in excess of net revenue recognized at the balance sheet date.

Contracts generally may be terminated by clients immediately or with short notice. Clinical trials may be terminated or delayed for several reasons including, among others, unexpected results or adverse patient reactions to the drug, inadequate patient enrollment or investigator recruitment, manufacturing problems resulting in shortages of the drug, client budget constraints or decisions by the client to de-emphasize or terminate a particular trial or development efforts on a particular drug. Depending on the size of the trial in question, a client s decision to terminate or delay a trial in which Remedium participates could have a material and adverse effect on Remedium s backlog, future revenue and results from operations.

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Goodwill

The excess of the purchase price of a business acquired over the fair value of net tangible assets, identifiable intangible assets and acquired in-process research and development costs at the date of the acquisition has been assigned to goodwill. In accordance with SFAS 142, Goodwill and Other Intangible Assets , goodwill is evaluated for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Determining whether an impairment has occurred requires the valuation of the reporting unit being tested, which we estimate using a discounted cash flow method. In applying this methodology, we rely on a number of factors, including actual operating results but also future business plans, economic projections and market data which requires management to exercise judgment and make assumptions.

Income Taxes

Remedium accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. SFAS No. 109 requires income taxes to be accounted for under the asset and liability method. 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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those 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.

The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. The determination of the ability of the Company to utilize tax loss carryforwards to offset future income tax payable requires management to exercise judgment and make assumptions about the future performance of the company. Management is required to assess whether the Company is more likely than not to benefit from these tax losses. Changes in economic conditions and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Results of Operations

Year Ended December 31, 2005 Compared With Year Ended December 31, 2004

The following table sets forth amounts for certain items in Remedium s consolidated statements of operations expressed as a percentage of net revenue. The following table excludes revenue and costs related to reimbursable out-of-pocket expenses because they are not generated by the services Remedium provides, do not yield any gross profit to Remedium, and do not have any impact on Remedium s net income. Remedium believes this information is useful to its investors because it presents the net revenue and expenses that are directly attributable to the services Remedium provides to its clients and provides a more accurate picture of Remedium s operating results and margins.

	Year Ended December 31,		
	2005	**2004**	**2003**
Net revenue	100%	100%	100%
Operating Expenses			
Direct	58%	43%	55%
Selling, general and administrative	47%	24%	22%
Depreciation and Amortization	1%	2%	1%
(Loss) / Income from Operations	(6)%	31%	22%
Net (Loss) / Income	(6)%	21%	16%

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Net revenue for 2005 decreased EUR 3.9 million to EUR 7.7 million as compared to EUR 11.6 million for 2004 a decline of 34%. The decline in net revenues for 2005 was due the scheduled termination of the contract with Remedium s biggest customer during 2005. The bulk of the revenue from that contract was received in 2004 and accounted for 72% of Remedium s net revenue in 2004. While Remedium successfully replaced much of the anticipated loss in revenue in 2005, it was not able to replace all of that revenue. At the end of 2005, backlog increased by EUR 2.5 million to EUR 7.8 million compared to EUR 5.3 million at the end of 2004.

Reimbursement revenue consisted of out-of-pocket expenses incurred on behalf of our clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by EUR 0.6 million to EUR 4.4 million for the year ended December 31, 2005 from EUR 5.0 million for the year ended December 31, 2004. The decrease in direct expenses resulted principally from a reduction in the dollar volume of clinical trial studies conducted by Remedium during 2005.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel, all other support expenses not directly related to specific contracts, and costs related to the establishment of Remedium s foreign subsidiaries. Selling, general and administrative expenses for the year ended December 31, 2005 were EUR 3.6 million, or 47% of net revenue, as compared to EUR 2.8 million, or 24% of net revenue, for the year ended December 31, 2004. The increases primarily reflected the establishment of new subsidiaries in Romania and Poland, a branch office in Turkey, and the related costs to recruit international staff to manage these new foreign operations, and transaction costs related to the Combination Agreement.

Depreciation and amortization expense decreased to EUR 79,000 for the year ended December 31, 2005 from EUR 178,000 for the year ended December 31, 2004, primarily as a result of fixed assets that were fully depreciated in 2004.

Remedium experienced a loss from operations of EUR 424,000 in 2005 as compared to income from operations of EUR 3.5 million for 2004, primarily for the reasons noted in the preceding paragraphs.

Net financial income remained relatively stable and was EUR 9,000 for the year ended December 31, 2005 compared to net financial income of EUR 10,000 for the year ended December 31, 2004. For the year 2005, financial income consisted of interest income of EUR 9,000 and gain on the sale of available for sale investments of EUR 17,000, off set by an interest expense of EUR 13,000 and a foreign exchange loss of EUR 3,000. For the year 2004, financial income consisted of interest income of EUR 4,000 and gain on the sale of available for sale investments of EUR 14,000, off set by an interest expense of EUR 7,000 and a foreign exchange loss of EUR 2,000.

The effective income tax rate for the year ended December 31, 2005 and 2004 was (7)% and 30%, respectively. The statutory income tax rate for Remedium was 26% in 2005 and 29% in 2004. Remedium s effective tax rate in 2004 and 2005 was negatively affected by increases in valuation allowances on deferred tax assets in loss making foreign subsidiaries. Effective January 1, 2005 the Finnish corporate tax rate was reduced by 3 percentage points from 29% to 26%.

The net loss for the year ended December 31, 2005 was EUR 444,000, as compared to the net income of EUR 2.5 million for 2004, primarily for the reasons noted above. In addition, Remedium s profitability was negatively affected in 2005 because Remedium had a larger number of smaller projects in 2005 than in 2004. Remedium s profitability was also negatively affected in 2005 by the continued losses from its subsidiary in Sweden and the costs to establish two new subsidiaries in Poland and Romania and a branch office in Turkey.

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Year Ended December 31, 2004 Compared With Year Ended December 31, 2003

Net revenue for 2004 increased EUR 1.7 million to EUR 11.6 million as compared to EUR 9.9 million for 2003, an increase of 17%. The increase in net revenues for 2004 was due to the bulk of the revenue from Remedium s biggest customer contract being earned in 2004. This customer accounted for 72% of Remedium s revenue in 2004. In addition, other project work also increased in 2004 as a result of the efforts of Remedium s new business development team.

Reimbursement revenue consisted of out-of-pocket expenses incurred on behalf of clients. Reimbursements are made at cost, without mark-up or profit, and therefore have no impact on net income.

Direct expenses included compensation and other expenses directly related to conducting clinical studies. These costs decreased by EUR 0.5 million to EUR 5.0 million for the year ended December 31, 2004 from EUR 5.5 million for the year ended December 31, 2003. The primary reason for this decrease was a reduction in Remedium s clinical research staff in Finland in 2004 compared to 2003.

Selling, general, and administrative expenses included the salaries, wages and benefits of all administrative, financial and business development personnel, all other support expenses not directly related to specific contracts, and costs related to the establishment of Remedium s foreign subsidiaries. Selling, general and administrative expenses for the year ended December 31, 2004 were EUR 2.8 million, or 24% of net revenue, as compared to EUR 2.2 million, or 22% of net revenue, for the year ended December 31, 2003. The increase in selling, general and administrative expenses primarily reflected the costs to establish a subsidiary in Sweden, increased marketing costs as a new business development team was ramping up its efforts, and a peak in the number of employees employed by Remedium in 2004.

Depreciation and amortization expense increased by EUR 43,000 to EUR 178,000 for the year ended December 31, 2004 from EUR 135,000 for the year ended December 31, 2003, primarily as a result of investment in fixed assets in newly established subsidiaries and as a result of additional depreciation of fixed assets in 2004.

Income from operations increased by EUR 1.3 million, or 59%, from EUR 2.2 million in 2003 to EUR 3.5 million in 2004, primarily for the reasons noted in the preceding paragraphs.

Net financial income decreased by EUR 71,000 from EUR 81,000 for the year ended December 31, 2003 to EUR 10,000 for the year ended December 31, 2004. For the year 2004, financial income consisted of interest income of EUR 4,000 and gain on sale of available for sale investments of EUR 14,000 , off set by an interest expense of EUR 7,000 and a foreign exchange loss of EUR 2,000. For the year 2003, financial income consisted of interest income of EUR 28,000, gain on sale of available for sale investments of EUR 57,000 and a foreign exchange gain of EUR 3,000, off set by an interest expense of EUR 7,000.

The effective income tax rate for the year ended December 31, 2004 and 2003 was 30% and 29%, respectively. The statutory income tax rate for Remedium was 29% in 2004 and 2003.

The net income increased by EUR 0.9 million, or 56%, from EUR 1.6 million for the year ended December 31, 2003 to EUR 2.5 million for the year ended December 31, 2004, primarily for the reasons noted above.

Liquidity and Capital Resources

Remedium s primary cash needs are for the payment of salaries and fringe benefits, hiring and recruiting expenses, business development costs, capital expenditures, payment to subcontractors, and facilities related expenses. Remedium s principal source of cash is from contracts with clients. If Remedium is unable to generate

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new contracts with existing and new clients and/or if the level of contract cancellations increases, revenues and cash flow will be adversely affected. Absent a material adverse change in the level of Remedium s new business bookings or contract cancellations, Remedium believes that its existing capital resources together with cash flow from operations will be sufficient to meet its foreseeable cash needs for the next twelve months. However, if Remedium continues to incur a loss from operations Remedium may need to raise additional funds through borrowings or the sale of equity securities in order to keep operating its business.

The majority of Remedium s revenue is recognized based on actual hours incurred at the agreed upon contract rate. Remedium also has revenue which is recognized from fixed-price contracts on a proportional performance basis. Remedium s contracts usually require a portion of the contract amount to be paid at the time the contract is initiated. Additional payments are generally made upon completion of negotiated performance milestones or deliverables, or on a regularly scheduled basis, throughout the life of the contract. Accordingly, cash receipts do not necessarily correspond to costs incurred and revenue recognized. For studies terminated early, Remedium s contracts frequently entitle it to receive the costs of winding down the terminated project, as well as all fees earned by it up to the time of termination.

In 2005, costs and estimated earnings in excess of related billings on uncompleted contracts were EUR (261,000) compared to EUR (17,000) in 2004. The change is primarily due to a larger number of contracts where payments are weighted toward the end of the contract.

Remedium s net cash used by operating activities was EUR 1.4 million for the year ended December 31, 2005, compared with net cash provided by operating activities of EUR 2.5 million for the year ended December 31, 2004. The primary factors underlying this increase in net cash used was the operating losses and large increase in accounts receivable at year end.

Net cash generated by investing activities was EUR 1.5 million for the year ended December 31, 2005, compared with net cash used by investing activities of EUR 598,000 for the year ended December 31, 2004. The change is the result of the purchase by Remedium, in 2004, of the minority interest in its Danish subsidiary and the investment in excess cash in short term available for sale investments.

Net cash used by financing activities was EUR 598,000 for the year ended December 31, 2005, compared with net cash used by financing activities of EUR 1.5 million for the year ended December 31, 2004. The decrease in net cash used in financing activities results from the payment of lower dividends to Remedium stockholders in 2005 as compared to 2004 and higher borrowings in 2005 compared to 2004.

Remedium has two significant lines of credit. The first credit facility amounting to 500,000 is with Svenska Handelsbanken AB with interest charged at Handelsbanken Avista +0.9%, which at June 30, 2006 was approximately 2.8%. The second significant line of credit, instituted in 2006, amounting to 300,000 is with Sampo Bank Oyj with interest charged at Sampo O/N +1% which at June 30, 2006 was approximately 3.5%. As a result, Remedium is exposed to interest rate risk with respect to amounts drawn on these credit lines. The aggregate amount of borrowings under Remedium s credit lines was 675,000 at December 31, 2005 compared to 45,000 at December 31, 2004. The total amount of such indebtedness at June 30, 2006 was 428,000.

Remedium incurred a loss in 2005. However, Remedium s management believes Remedium will be able to return to being a profitable business as a result of a continued effort to diversify its client base and the effort of Remedium s business development team. At the end of 2005, backlog increased by EUR 2.5 million to EUR 7.8 million compared to EUR 5.3 million at the end of 2004. Remedium s management believes that cash on hand and cash from operations will be sufficient to meet Remedium s obligations for the foreseeable future. In the event that Remedium is not able to develop new business or existing contracts are terminated, there is a potential risk that Remedium will not achieve profitability and, accordingly, might not be able to meet future cash obligations. There can be no assurance that anticipated new business will be obtained and if such business is not obtained Remedium s financial results and cash flow could be adversely and materially affected.

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Off Balance Sheet Financing Arrangements

As of December 31, 2005, Remedium did not have any off-balance sheet financing arrangements or any equity ownership interests in any variable interest entity or other minority owned ventures.

Contractual Obligations and Commitments

Remedium is obligated under noncancellable operating leases expiring at various dates through 2009 relating to its operating facilities and certain equipment. The following table sets out the operating lease commitments:

	2006	2007	2008	2009	Total
Operating Lease - equipment	396,871	396,871	396,871	167,139	1,357,752
Operating Lease - facilities	553,493	399,735	318,477	13,441	1,285,146
Total	950,364	796,606	715,348	180,580	2,642,898

Remedium has pledged assets to a value of 917,000 to financial institutions in accordance with the terms of their financing arrangements.

Remedium s management does do not believe that Remedium has material funding requirements for its domestic defined benefit pension plans. Remedium s foreign subsidiaries operate defined contribution pension plans and have therefore not included such benefit payments in the table above.

Remedium s management does not anticipate the need for any significant capital expenditures in 2006.

Recently Issued Accounting Standards

In November 2005, The FASB issued Staff Position No. (FSP) 115-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. FSP 115-1 provides accounting guidance for identifying and recognizing other-than-temporary impairments of debt and equity securities, as well as cost method investments in addition to disclosure requirements. FSP 115-1 is effective for reporting periods beginning after December 15, 2005. As Remedium has no investments in debt or equity securities, the adoption of FSP 115-1 will not have a material impact on its financial condition or results or operations.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which (SFAS 123R), which will be effective for Remedium on January 1, 2006. The adoption of SFAS 123R will increase operating expenses and therefore negatively affect income from operations. The increase in costs is expected to be approximately EUR 31,000 in 2006. All outstanding options will be fully vested by December 31, 2006. Remedium does not plan to issue any new options in 2006.

Additional Information

Remedium is not required to present quarterly or semi-annual financial information in this proxy statement. Remedium believes, however, that Covalent stockholders would benefit from the disclosure of a summary of Remedium s unaudited financial statements for the quarter ended June 30, 2006 and the six-month period ended June 30, 2006. The following table presents selected unaudited historical consolidated financial data for the quarter ended June 30, 2006 and the six month- period ended June 30, 2006. It is subject to year-end adjustments. Comparable quarter-end or six-month end financial information for Remedium is not available for the respective prior year periods for purpose of comparison. The historical results are not necessarily indicative of the operating results to be expected in the future. Readers should be cautioned that this financial data is presented in this proxy statement without the benefit of any comparison or explanation of the financial results represented in these tables and without the inclusion of the corresponding quarterly and six-month financial statements in this proxy statement.

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(in thousands)	US GAAP 6 months ended June 30, 2006 Unaudited	FINNISH GAAP 6 months ended June 30, 2006 Unaudited	US GAAP 3 months ended June 30, 2006 Unaudited	FINNISH GAAP 3 months ended June 30, 2006 Unaudited
Net revenue (1)	4,488	5,138	2,409	2,814
Operating expenses (1)	5,034	5,663	2,485	2,908
(Loss) Income from operations	(546)	(525)	(76)	(94)
Net (Loss) income	(400)	(562)	(25)	(114)

(1) Net revenue and operating expenses under US GAAP do not include reimbursement revenue of 587,000 for the 6 months ended June 30, 2006 and 340,000 for the 3 months ended June 30, 2006.

(in thousands)	US GAAP June 30, 2006 Unaudited	FINNISH GAAP June 30, 2006 Unaudited
Consolidated Balance Sheet Data:		
Cash and cash equivalents	219	389
Working capital	(16)	344
Total assets	3,383	2,530
Bank overdrafts (2)	428	0
Long term loans (2)	0	428
Total liabilities	2,777	2,330
Shareholders equity	606	199

(2) Bank overdrafts treated as long term loans according to Finnish GAAP.

Quantitative And Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

To date, changes in foreign currency exchange rates have not materially affected Remedium s results of operations and financial condition, as a vast majority of its revenue is denominated in Euros. Assets and liabilities of its international operations are translated into Euros at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The cumulative translation adjustment included in other comprehensive income for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was (5,000), (6,000), and (1,000), respectively.

Remedium s management believes that the effects of inflation generally have not had a material adverse impact on Remedium s operations or financial condition.

Interest Rate Risk

Remedium has two significant lines of credit. The first credit facility amounting to 500,000 is with Svenska Handelsbanken AB with interest charged at Handelsbanken Avista +0.9%, which at June 30, 2006 was approximately 2.8%. The second significant line of credit, instituted in 2006, amounting to 300,000 is with Sampo Bank Oyj with interest charged at Sampo O/N +1% which at June 30, 2006 was approximately 3.5%. As a result, Remedium is exposed to interest rate risk with respect to amounts drawn on these credit lines. The aggregate amount of borrowings under Remedium s credit lines was 675,000 at December 31, 2005 compared to 45,000 at December 31, 2004. The total amount of such indebtedness at June 30, 2006 was 428,000.

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PROPOSAL TWO- ELECTION OF FOUR DIRECTORS TO SERVE UNTIL THE 2007

ANNUAL MEETING OF STOCKHOLDERS

This Proposal Two relates to the election of four individuals, each to serve as a member of Covalent s board of directors until the next annual meeting of stockholders and until his successor shall have been elected and qualified. The nominees named below are presently members of the board of directors. In case any of the nominees should become unavailable for election for any reason not presently known or contemplated, the persons named on the proxy card will have discretionary authority to vote pursuant to the proxy for a substitute nominee nominated by the board of directors.

The board of directors has determined that, other than Dr. Borow, each of the following members of the board of directors is independent as defined by the Nasdaq listing standards.

Name	Age	Director Since	Principal Occupation
Kenneth M. Borow, M.D.	57	1998	President and Chief Executive Officer of the Company
Earl M. Collier, Jr.	57	2002	Executive Vice President, Genzyme Corporation
Scott M. Jenkins	50	2001	President of S.M. Jenkins & Co., General Partner, Jenkins Partners, L.P.
Christopher F. Meshginpoosh	38	2005	Director of Business Advisory Services, Kreischer Miller

Kenneth M. Borow, M.D. has been President and Chief Executive Officer and a Director since 2000 and joined Covalent in 1997 as Vice President of Operations and Chief Medical Officer. For the four years prior to joining Covalent, Dr. Borow was Senior Director, Medical Research Associates Department, Merck Research Laboratories, where he directed clinical research operations for 163 different protocols, and developed a Merck-based contract group consisting of field monitors, data coordinators and statisticians. Previously, he was a Professor of Medicine and Pediatrics at the University of Chicago, and originator of a worldwide clinical research program in cardiac function which included investigative sites in the United States, United Kingdom, Norway, Israel and South Africa. Dr. Borow graduated from the Temple Medical School in 1974. Dr. Borow is a Harvard-trained Internist, Pediatrician, Adult Cardiologist and Pediatric Cardiologist.

Earl M. Collier, Jr. has been a director since March 2002. Mr. Collier is currently Executive Vice President, Genzyme Corporation. Prior to joining Genzyme in 1997, Mr. Collier was President of Vitas Healthcare Corporation, the largest provider of hospice services in the United States. Previously, Mr. Collier was a partner with the Washington, D.C. based law firm of Hogan and Hartson. He also served as Deputy Administrator for the Health Care Financing Administration during the Carter Administration. Mr. Collier earned a B.A. at Yale University and a J.D. at the University of Virginia Law School.

Scott M. Jenkins has been a director since October 2001. He is currently President of S. M. Jenkins & Co., which he founded in 1991. S. M. Jenkins & Co. provides a wide range of financial and consulting services to private companies, wealthy family groups and a variety of businesses. In addition, Mr. Jenkins is the General Partner of Jenkins Partners, L.P., which has invested in many early stage, private and public companies. Prior to founding S. M. Jenkins & Co., Mr. Jenkins was with Goldman Sachs & Co., where he worked from 1984 until 1990 when he joined First Boston Corporation. Mr. Jenkins has also served in the not-for-profit healthcare sector as the Chair of the Board of Trustees of the Presbyterian Medical Center of Philadelphia Foundation, which is now part of the University of Pennsylvania Health System.

Christopher F. Meshginpoosh has been a director since April 2005. He is currently Director of Business Advisory Services for Kreischer Miller, one of the Philadelphia area s largest accounting and advisory firms, where he assists publicly held companies in connection with a wide range of corporate governance, financial reporting, and merger and acquisition issues. From 2000 to 2002, he was Chief Financial Officer and Secretary of Liquent, Inc, a publicly traded company which provides regulatory publishing solutions to the pharmaceutical

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and biotechnology industries. From December 1999 until September 2000, he was a consultant and subsequently the Vice President of Finance at Luminant Worldwide Corporation, a publicly traded information technology consulting company, which filed for Chapter 11 bankruptcy protection in December 2001. Additionally, Mr. Meshginpoosh also previously served as a Senior Manager at KPMG LLP. Mr. Meshginpoosh is a certified public accountant and holds a B.S., Accounting from West Chester University.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

ALL OF THE NOMINEES FOR DIRECTOR LISTED ABOVE.

Directors Meetings and Committees

Covalent s board of directors held five meetings during 2005. There was no director who, during the last full fiscal year, attended in person or by phone fewer than 75% of the board and committee meetings held while such person was a director and serving as a committee member. While Covalent encourages all members of the board of directors to attend annual meetings of Covalent s stockholders, there is no formal policy as to their attendance. All of the members of the board of directors attended the 2005 annual meeting of stockholders.

The board of directors has a Compensation Committee and an Audit Committee.

Compensation Committee. The Compensation Committee reviews and approves salaries for corporate officers and reviews, approves and administers Covalent s stock option plan grants thereunder. The Compensation Committee met three times during 2005. The Compensation Committee is presently comprised of two non-employee directors, Scott M. Jenkins (Chairman) and Earl M. Collier, Jr. The Compensation Committee met three times in 2005.

Audit Committee. The Audit Committee oversees Covalent s accounting, financial reporting process, internal controls over financial reporting and audits, and consults with management and the independent public accountants on, among other items, matters related to the annual audit, published financial statements and accounting principles applied. As part of its duties, the Audit Committee appoints, evaluates and retains Covalent s independent registered public accounting firm. It also maintains direct responsibility for the compensation, termination and oversight of Covalent s independent registered public accounting firm and evaluates the independent public accountants qualifications, performance and independence. The Audit Committee approves all services provided to Covalent by the independent registered public accounting firm. The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by Covalent, regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. In 2005, the Audit Committee was composed of Christopher F. Meshginpoosh (Chairman), Earl M. Collier, Jr., and Scott M. Jenkins. Mr. Meshginpoosh joined the board of directors in April 2005 and concurrently was appointed Chairman of the Audit Committee. Prior to the appointment of Mr. Meshginpoosh as Chairman, Mr. Jenkins was acting Chairman of the Audit Committee. Each member of the Audit Committee is independent as defined in the Securities Exchange Act of 1934, as amended, and applicable rules of The Nasdaq Stock Market. The board of directors has determined that Mr. Meshginpoosh is an audit committee financial expert as defined in rules of the Securities and Exchange Commission under the Sarbanes-Oxley Act of 2002. The Audit Committee met five times in 2005.

The Audit Committee operates pursuant to a charter that was last amended and restated by the Board on May 11, 2006, a copy of which is set forth as Appendix C to this proxy statement.

Code of Ethics

Covalent s board of directors is committed to ethical business practices. Covalent adopted a corporate code of ethics in September 2004, which was amended on May 11, 2006. The code of ethics applies to all of Covalent s employees and directors and includes the code of ethics for Covalent s principal executive officer,

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principal financial officer, principal accounting officer or controller within the meaning of the Securities and Exchange Commission s regulations adopted under the Sarbanes-Oxley Act of 2002. Covalent s corporate code of ethics is posted under the Investor Relations section of its website at: www.covalentgroup.com. Please note that none of the information on Covalent s website is incorporated by reference in this proxy statement.

Director Nominations

Covalent s entire board of directors performs the functions of a nominating committee. As part of the nominating process, the board of directors reviews the appropriate skills and characteristics required of board members. Covalent s board of directors does not anticipate that it will generally rely on third-party search firms to identify board candidates. Instead, the board of directors anticipates that it will continue to rely on recommendations from a wide variety of business contacts, including current executive officers, directors and stockholders, as a source for potential board candidates. All candidates shall, at a minimum, possess a background that includes a solid education, extensive business experience and the requisite reputation, character, integrity, skills, judgment and temperament, which, in the board of directors s judgment, have prepared him or her for dealing with the multi-faceted financial, business and other issues that confront a board of directors of a corporation with the size, complexity, reputation and success of the Company. When evaluating potential nominees, Covalent s board of directors evaluates the above criteria as well as the current composition of the board of directors and the need for Audit Committee experience. The board of directors nominates the candidates which it believes best suit the needs of Covalent. Covalent s board anticipates that stockholders nominees that comply with the existing procedures outlined in Covalent s bylaws described below will receive the same consideration that other nominees receive.

Pursuant to Section 2.1(b) of Covalent s bylaws, the board of directors will consider stockholder recommendations for directors sent to the Corporate Secretary, Covalent Group, Inc., One Glenhardie Corporate Center, Suite 100, 1275 Drummers Lane, Wayne, PA 19087. Stockholder recommendations for directors must include: (i) the name and address of the stockholder recommending the person to be nominated, (ii) a representation that the stockholder is a holder of record of stock of Covalent, including the class and number of shares held and the period of holding, (iii) a description of all arrangements or understandings between the stockholder and the recommended nominee, (iv) a representation that the stockholder intends to appear in person or by proxy at the annual meeting to nominate the candidate(s) for election to the board of directors, (v) such other information regarding the recommended nominee as would be required to be included in a proxy statement filed pursuant to Regulation 14A promulgated by the SEC pursuant to the Exchange Act, and (vi) the consent of the recommended nominee to serve as a director of Covalent if so elected. Recommendations must be received by the Corporate Secretary not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year s annual meeting, provided, however, that in the event the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, the stockholder must deliver a director recommendation not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made.

Shareholder Communications

Covalent s annual meeting of stockholders provides an opportunity each year for stockholders to ask questions of or otherwise communicate directly with members of our board of directors on matters relevant to Covalent. In addition, the board of directors has established a process for permitting stockholders to communicate with the board of directors outside of our Annual Meeting. The shareholder communications policy is posted on our website at www.covalentgroup.com. Please note that none of the information on Covalent s website is incorporated by reference into this proxy statement.

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The following report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that Covalent specifically incorporates this information by reference. The following report shall not otherwise be deemed filed under such acts.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is currently composed of three non-employee directors, Christopher F. Meshginpoosh (Chairman), Earl M. Collier, Jr. and Scott M. Jenkins. The Board, in its business judgment, has determined that all members of the committee are independent, as required by applicable listing standards of the Nasdaq National Market. The Committee operates pursuant to a charter that was last amended and restated by the Board on May 11, 2006, a copy of which is set forth as Appendix C to this proxy statement. The role of the Audit Committee is to assist the Board in its oversight of the Company s financial reporting process. Management of the Company is responsible for the preparation, presentation and integrity of the Company s financial statements, the Company s accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company s financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

In the performance of its oversight function, the Audit Committee reviewed and discussed the audited financial statements for the year ended December 31, 2005 with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. Finally, the Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect, and has considered whether the provision of non-audit services by the independent auditors to the Company is compatible with maintaining the auditor s independence and has discussed with the auditors the auditors independence.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the committee referred to above and in the charter, the Audit Committee recommended to the Board that the audited financial statements be included in the Company s annual report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

CHRISTOPHER F. MEGHINPOOSH, CHAIRMAN

SCOTT M. JENKINS

EARL M. COLLIER JR.

August 4, 2006

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PROPOSAL THREE- ELECTION OF THREE ADDITIONAL DIRECTORS TO SERVE FROM

THE CONSUMMATION OF THE BUSINESS COMBINATION BETWEEN US AND

REMEDIUM OY UNTIL THE 2007 ANNUAL MEETING OF STOCKHOLDERS

This Proposal Three relates to the election of three additional individuals who, if elected, will become members of Covalent s board of directors only if the proposal business combination with Remedium is consummated.

Presently, the number of members of Covalent s board of directors is set at four and the individuals nominated for election to fill those positions are named in Proposal Two. However, upon the consummation of our business combination with Remedium, Covalent s board of directors will expand the board to add three additional positions (for a total of seven) in accordance with the terms of the combination agreement. While our bylaws give our board of directors the authority to expand the board and to elect the additional directors to fill the vacancies so created, as a condition to the Remedium stockholders obligation to close the business combination, our stockholders must elect three individuals named in the combination agreement or designated by Remedium to fill the additional positions created by the expansion of the board. The nominees named below are not presently members of Covalent s board of directors. Dr. Kai Lindevall and Petri Manninen are named in the combination agreement as two of the individuals who must be elected by our stockholders to serve on the expanded board and, in accordance with the terms of the combination agreement, Remedium has designated Dr. Jyrki Mattila for election to fill the third position so created. Accordingly, we are asking our stockholders to elect the three nominees named below, each to serve from our consummation of the business combination with Remedium until the 2007 annual meeting of stockholders and until his successor shall have been elected and qualified.

In the event our stockholders elect the three individuals named in this Proposal Three but the business combination does not close, the board of directors will not expand the board and none of the individuals elected pursuant to this Proposal Three will become a director of Covalent. On the other hand, if our stockholders do not elect the three individuals named in this Proposal Three, but the condition relating to their election by our stockholders is waived by the Remedium stockholders and the other conditions in the combination agreement are satisfied or waived and our business combination with Remedium closes, our board of directors will continue to have the authority under our bylaws, at the board s discretion, to expand the board and elect the individuals who will fill the additional positions created by the board s expansion, and these individuals may include any one or more of the individuals named below or may include other individuals subsequently designated by Remedium.

In case any of the nominees named below should become unavailable for election to the board for any reason not presently known or contemplated, it is the intention of the board of directors to nominate as a replacement nominee an individual recommended to the board by Remedium, subject to the board s right to reject a recommended individual if the board should determine that the nomination of the individual would constitute a breach of the board s fiduciary duties. In the event a substitute nominee is nominated, the persons named on the proxy card will have discretionary authority to vote pursuant to the proxy for the substituted nominee.

Covalent s board of directors has determined that, other than Kai Lindevall, each of the following nominees will be independent as defined by the Nasdaq listing standards.

Name	Age	Principal Occupation
Dr. Kai Lindevall	53	Co-Founder, President, CEO and Director of Remedium.
Petri Manninen	36	Director of Remedium; Owner of Lakituki Oy, a legal services firm in Finland.
Dr. Jyrki Mattila	51	Executive Director Vice-President of Business Development, R&D and Technical Operations of Auxilium Pharmaceuticals, Inc.

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Dr. Kai Lindevall is the Co-Founder of Remedium. From 2002 to present, Dr. Lindevall has served as President and Chief Executive Officer of Remedium. He has also been Medical Director of the company since its inception. From October 2004, Dr. Lindevall has also served as Chairman of the Board of Remedium. He previously served as Managing Director of Remedium from its inception to 2002. Dr. Lindevall is also Co-Founder of Ipsat Therapies Oy/Ltd., a Finnish biotechnology company developing its proprietary IPSAT (Intestinal Protection System in Antibiotic Treatment) family of products for the prevention of hospital infections and antibiotic resistance. From October 2002 until February 2005, Dr. Lindevall served as Chairman of the Board and from March 2005 until March 2006 served as a member of the Board of Directors of Ipsat Therapies.

Dr. Lindevall has a Ph.D. in Pharmacology and a M.D. from the University of Tampere.

Petri Manninen has served as a lawyer with Lakiasiaintoimisto Lakituki Oy, a Finnish based law firm, since December 1999. Since December 1994, Mr. Manninen has also served as the secretary and treasurer of Paavo Nurmi Foundation, a non-profit organization supporting research in field of cardiovascular diseases. Mr. Manninen has 12 years of experience in the practice of law and tax consulting. He has published several books and articles in Finnish and foreign law reviews.

Mr. Manninen has a Master of Laws from the University of Helsinki and an LL.M. in European Community Law from the University of Leiden.

Dr. Jyrki Mattila has served as Executive Vice President, Business Development since August 2003 of Auxilium Pharmaceuticals, Inc. From 1990 to July 2003, Dr. Mattila served in a variety of positions at Orion Pharma, the pharmaceutical division of the Orion Group, a Finnish company specializing in healthcare products, as President of Orion Pharma from 1996 to 2002 and as Senior Vice President of Business Development from 1990 to 1995. Dr. Mattila holds an M.D. and a Ph.D. in Pharmacology from the University of Helsinki Medical School, and an M.B.A. from the Helsinki School of Economics and Business Administration.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE THREE NOMINEES FOR ADDITIONAL DIRECTORS LISTED ABOVE TO SERVE

FROM THE CONSUMMATION OF THE BUSINESS COMBINATION BETWEEN US AND REMEDIUM OY UNTIL THE 2007 ANNUAL MEETING OF STOCKHOLDERS.

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EXECUTIVE OFFICERS OF COVALENT

Covalent s executive officers serve at the discretion of the board of directors and serve until their successors have been duly elected and qualified or until their earlier resignation or removal. The executive officers of Covalent are:

Name	Age	Position(s) Held With Covalent
Kenneth M. Borow, M.D.	58	President, Chief Executive Officer, Director
Lawrence R. Hoffman	51	Executive Vice President, General Counsel, Secretary and Chief Financial Officer
Alison O Neill	41	Senior Vice President, Clinical Operations

Kenneth M. Borow, M.D. has been President and Chief Executive Officer of Covalent since January 2000. Dr. Borow s biographical information appears under the caption Proposal Two- Election of Four Directors to Serve Until the 2007 Annual Meeting of Stockholders.

Lawrence R. Hoffman joined Covalent in July 2004 as Executive Vice President and Chief Financial Officer. In February 2005, he was promoted to Executive Vice President, General Counsel, Secretary and Chief Financial Officer. From January 2003 to July 2004, Mr. Hoffman was an independent financial consultant. From July 2000 to January 2003, he was Vice President and Chief Financial Officer of Cytogen Corporation, a publicly traded biopharmaceutical company. From April 1998 to July 2000, Mr. Hoffman was Vice President and Chief Financial Officer of the Liposome Company, a publicly traded biopharmaceutical company which was sold to Elan PLC in May 2000.

Mr. Hoffman is a certified public accountant and an attorney with a J.D. from Temple University School of Law, and an LLM (Taxation) from Villanova University School of Law. He received his B.S. with a major in accounting from LaSalle University.

Alison O Neill has been Senior Vice President, Clinical Operations since January 2004. Mrs. O Neill previously served as Vice President of Global Project Management from April 2001 until December 2003. From 1996 to April 2001, Mrs. O Neill was employed with Ingenix Pharmaceutical Services (successor to ClinPharm Ltd.), culminating as Senior Director, Clinical Operations. Mrs. O Neill has 22 years of experience in the pharmaceutical industry both in pharma companies and contract research organizations and has worked across therapeutic areas and phases of development.

Upon consummation of the business combination Dr. Kai Lindevall, currently President and Chief Executive Officer of Remedium, will serve as President, European and Asian Operations. Dr. Lindevall s biographical information appears under the caption Proposal Three- Election of Three Additional Directors to Serve From the Consummation of the Business Combination Between us and Remedium Oy Until the 2007 Annual Meeting of Stockholders.

The following table sets forth the total compensation paid by Covalent to the Chief Executive Officer and the two other individuals who served as executive officers in 2005 and were paid more than $100,000 in salary and bonus for 2005 (the Named Executive Officers).

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EXECUTIVE COMPENSATION

Name and Principal Position	Year	Annual Compensation Salary	Bonus	Long-term Compensation Shares Underlying Options (#)	All Other Compensation (1)
Kenneth M. Borow, M.D.					
	2005	$ 344,970		500,000	$ 1,993
President and Chief Executive	2004	$ 331,852			$ 1,656
Officer	2003	$ 340,813			$ 1,406
Lawrence R. Hoffman (2)	2005	$ 216,666		100,000	$ 1,100
	2004	$ 78,461		100,000	
Executive Vice President, General Counsel, Secretary and Chief Financial Officer					
Alison O Neill (3)	2005	$ 181,603		75,000	$ 1,215
	2004	$ 198,096		25,000	$ 50,113 (4)
Senior Vice President, Global Operations					

(1) Represents Covalent s matching contributions under its employee s savings (401K) plan.

(2) Mr. Hoffman joined Covalent in July 2004 as Executive Vice President and Chief Financial Officer.

(3) Ms. O Neill was promoted to Senior Vice President, Global Operations effective January 2, 2004. Effective June 1, 2004, she relocated to the United States from the Company s United Kingdom office. From January through May 2004, she was paid in British pound sterling. The salary payments she received in British pound sterling were converted to USD at a conversion rate of $1.84 USD per 1.00 British pound sterling.

(4) Includes Covalent s contributions to a pension plan of $3,809 in 2004 and payments for a car allowance of $3,680 in 2004. The respective amounts of Ms. O Neill s pension plan and car allowance contributions for 2004, which were paid in British pound sterling, are calculated based on a conversion rate of $1.84 USD per 1.00 British pound sterling. Also included is $42,624 of moving expenses in connection with Ms. O Neill s relocation to the United States from the United Kingdom.

Employment Agreement; Termination of Employment and Change-in-Control Arrangement

We had an employment agreement, which expired on March 31, 2006, Dr. Borow received an annual base salary of $325,000, subject to increases in each subsequent year tied to increases in the consumer price index. In addition, pursuant to the agreement, Dr. Borow was eligible to receive an annual bonus of up to 50% of his base salary, depending upon Covalent s attainment of its operating goals and his individual performance. Up to one-half of Dr. Borow s maximum annual bonus was based on objective tests and up to one-half of his maximum bonus was determined in the sole discretion of the Compensation Committee. Under certain circumstances relating to the termination of Dr. Borow s employment, Covalent was obligated to pay Dr. Borow severance compensation for up to one year (at a rate equal to his then base salary) and, in such event, Covalent also would have been obligated to continue group health coverage for Dr. Borow for a period of one year and, to the extent not already vested, all of Dr. Borow s stock options would have vested. In addition, if a change in control (as defined in the agreement) occurs within one year after the termination of this employment agreement under certain circumstances, Covalent will be obligated to pay Dr. Borow a change in control payment in an amount ranging from one to five times his then base salary, depending upon the growth in stockholder value as reflected by the trading price of Covalent s common stock (or, under certain circumstances, the amount of the consideration to be received by the stockholders in such transaction).

Mr. Hoffman is currently a party to an Executive Severance Agreement with Covalent. In the event Mr. Hoffman s employment with us is terminated in connection with a change of control as set forth therein, the agreement provides, generally, for the payment of twelve months base salary, a pro-rata portion of any bonus compensation due Mr. Hoffman and the continuation of certain company-paid fringe benefits for a period of twelve months. We do not have any severance agreement with our other executive officers.

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Option Grants In Last Fiscal Year

The following table provides information about grants of stock options made during 2005 to each of the Named Executive Officers. During 2005, no stock appreciation rights were granted.

	Individual Grants					
	Number of Shares Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3) 5%	10%
Kenneth M. Borow, M.D (1)	500,000	65%	$ 2.25	7/01/2010	$ 1,391,147	$ 1,755,456
Lawrence R. Hoffman (1)	100,000	13%	$ 2.25	7/01/2010	$ 278,229	$ 351,091
Alison O Neill (2)	75,000	10%	$ 2.25	7/01/2010	$ 208,672	$ 263,318

(1) Each option has a term of five years from the date of grant and vests ratably over a three-year period, beginning on the first anniversary of the date of grant.

(2) Each option has a term of five years from the date of grant with 20% of the grant vesting on the date of grant and the remainder vesting ratably over the next four years.

(3) The amounts shown are hypothetical gains based on the indicated assumed rates of appreciation of Covalent s common stock compounded annually for a five-year period. There can be no assurance that the common stock will appreciate in value at any particular rate or at all in future years.

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

The following table presents certain information with respect to the exercise of stock options during 2005 by the Named Executive Officers and the number and value at December 31, 2005, of stock options held by each of the Named Executive Officers. The value actually realized upon future option exercises by the Named Executive Officers will depend on the value of our common stock at the time of exercise. No stock appreciation rights were exercised during 2006, or held as of December 31, 2005, by any of the Named Executive Officers.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Shares Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Kenneth M. Borow, M.D.			50,000	500,000	$ 12,125	$
Lawrence R. Hoffman.			33,334	66,666	$	$
Alison O Neill			58,400	89,600	$	$

(1) Based on the closing price of $2.18 of our common stock on the Nasdaq SmallCap Market on December 31, 2005 net of the exercise price.

Directors Compensation

Covalent s non-employee directors receive $37,500 per year for their service as directors paid at the rate of $3,125 per month, and are reimbursed for reasonable expenses incurred in connection with attendance at meetings of the board. Non-employee directors who are Chairman of the Audit and Compensation Committees may receive an annual grant to purchase 25,000 shares of our common stock. All other non-employee directors may receive an annual grant to purchase 20,000 shares of our common stock. The option grants vest pursuant to the terms of our stock option plans.

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Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Scott M. Jenkins (Chairman) and Earl M. Collier, Jr., the only individuals who served on the Compensation Committee during 2005. Neither Mr. Jenkins nor Mr. Collier has ever been an employee or an officer of Covalent or any subsidiary of Covalent. There are no compensation committee interlocks between Covalent and any other entity involving Covalent s or such other entity s executive officers or board members.

The following report of our Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Exchange Act, except to the extent that we specifically incorporate this information by reference. The following report shall not otherwise be deemed filed under either of such acts.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF COVALENT

The following is a report prepared by the Compensation Committee, which was comprised during 2005 of Scott M. Jenkins (Chairman) and Earl M. Collier. The Compensation Committee is responsible for establishing and overseeing policies governing compensation programs for executive-level officers of Covalent in order to attract, motivate and retain key executives responsible for Covalent s operations.

Compensation Policies

Covalent s executive compensation policies and specific compensation programs are intended to further the principal objective of maximizing long-term shareholder value. The Compensation Committee believes that this objective, and the long-term interests of stockholders, are best achieved by attracting and retaining high-quality management, and that executive compensation should be determined according to a competitive framework and based on overall financial results and individual contributions to the business consistent with overall corporate needs and objectives. The ultimate purpose of executive compensation policies and programs is to attract and retain high-quality executives and to motivate the entire management team to put forth maximum efforts toward achieving Covalent s financial and business objectives. The Compensation Committee believes the executive compensation policies and programs of Covalent are consistent with this policy.

Within the overall philosophy, the Compensation Committee has established specific objectives to:

- offer a total compensation program that is competitive and consistent with compensation levels for executive officers holding positions of comparable responsibility in the contract research industry;
- promote achievement of annual financial and business objectives of Covalent;
- motivate key executives to fulfill their responsibilities in meeting the business objectives of Covalent; and
- reward executives for long-term strategic management and the enhancement of shareholder value.

Compensation Programs

There are three major components of Covalent s executive compensation programs:

- base annual salary;
- annual cash incentives (or bonuses); and

long-term incentives.

In setting annual base salary levels and annual incentives for executive officers, the Compensation Committee evaluates the responsibilities of the position held and the experience of the individual, as well as consideration of compensation practices and financial performance for comparable positions within the pharmaceutical and biotechnology industries. In addition, the performance of each individual executive officer is

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considered, as well as Covalent s overall financial performance for the previous fiscal year and the contributions to such performance made by the executive officer and his or her department. However, the Compensation Committee does not apply any specific formula or assign any specific weights to these factors in making compensation decisions.

Long-term incentive awards consist of options to acquire shares of Covalent s common stock under its equity incentive plans. In 2005, 500,000 common stock options were awarded to Dr. Borow, 100,000 common stock options were granted to Mr. Hoffman; and 75,000 common stock options were awarded to Ms. O Neill. The Compensation Committee believes making these various long-term compensation programs available to executive officers, coupled with annual base salaries and bonuses, further the objectives of the Compensation Committee of aligning the interests of executive officers with the interests of long-term stockholders.

CEO Compensation

We entered into an employment agreement with Dr. Borow, as of March 31, 2003. Pursuant to the employment agreement, which expired on March 31, 2006, Dr. Borow received an annual base salary of $325,000, subject to increases in each subsequent year tied to increases in the consumer price index. In addition, pursuant to the agreement, Dr. Borow was eligible to receive an annual bonus of up to 50% of his base salary, depending upon Covalent s attainment of its operating goals and his individual performance. Up to one-half of Dr. Borow s maximum annual bonus was based on objective tests and up to one-half of his maximum bonus was determined in the sole discretion of the Compensation Committee. Under certain circumstances relating to the termination of Dr. Borow s employment, Covalent was obligated to pay Dr. Borow severance compensation for up to one year (at a rate equal to his then base salary) and, in such event, Covalent also would have been obligated to continue group health coverage for Dr. Borow for a period of one year and, to the extent not already vested, all of Dr. Borow s stock options would have vested. In addition, if a change in control (as defined in the agreement) occurs within one year after the termination of this employment agreement under certain circumstances, Covalent will be obligated to pay Dr. Borow a change in control payment in an amount ranging from one to five times his then base salary, depending upon the growth in stockholder value as reflected by the trading price of Covalent s common stock (or, under certain circumstances, the amount of the consideration to be received by the stockholders in such transaction). We expect to negotiate a new employment agreement with Dr. Borow in connection with the proposed acquisition of the shares of Remedium OY.

In determining the base annual salary, annual cash incentives and the other principal economic terms included in Dr. Borow s employment agreement, the Compensation Committee s goal was to provide total annual compensation intended to compensate Dr. Borow fairly in relation to comparable positions within the contract research industry (while recognizing that most of the other publicly-traded contract research organizations are substantially larger than Covalent), as well as to retain the services of Dr. Borow for Covalent and continue to motivate him to use his maximum efforts to further the business objectives of Covalent. The Compensation Committee specifically noted Dr. Borow s significant contributions to Covalent s business development efforts.

In light of Covalent s financial results in 2005 (noting in particular the decrease in net revenues and the significant loss from operations), Dr. Borow did not receive an annual bonus for 2005 based upon the operating performance criteria contained in the employment agreement. Dr. Borow did receive a cost of living adjustment in 2005 of 4.1% pursuant to the terms of his employment agreement. The cost of living adjustment was based on the consumer price index for the Philadelphia area (the region in which Covalent is headquartered) as published by the U.S. Department of Labor, Bureau of Labor Statistics.

Submitted by the Compensation Committee of the Board of Directors

SCOTT M. JENKINS, CHAIRMAN

EARL M. COLLIER, JR.

August 4, 2006

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PROPOSAL FOUR- AMENDMENT TO COVALENT S CERTIFICATE OF INCORPORATION

TO CHANGE COVALENT S NAME TO ENCORIUM GROUP, INC.

The Covalent board of directors has approved an amendment to Covalent s Certificate of Incorporation to change Covalent s name to Encorium Group, Inc. In order for the amendment to be effected, the holders of a majority of the shares of common stock outstanding on the record date must approve the amendment. If the amendment is approved by the requisite vote of our stockholders at the meeting, it will become effective upon the filing of the amendment to Covalent s Certificate of Incorporation with the Secretary of State of the State of Delaware.

The change of Covalent s name to Encorium Group, Inc. is one of a number of conditions to the Remedium stockholders obligation to consummate the proposed business combination described in Proposal One. Accordingly, if this Proposal Four is not approved by the requisite vote of our stockholders, the Remedium stockholders will not be obligated to consummate our business combination with Remedium Oy unless they waive the condition at their sole discretion. Because there are conditions to the consummation of the business combination other than the change of Covalent s name, the proposed business combination may not occur even if this Proposal Four is approved. However, if the stockholders approve this Proposal Four, the amendment to Covalent s Certificate of Incorporation will be filed with the Secretary of State of the State of Delaware and Covalent s name will be changed to Encorium Group, Inc. even if the business combination is not consummated.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE APPROVAL OF THE CHANGE OF COVALENT S NAME TO ENCORIUM GROUP, INC.

PROPOSAL FIVE- AMENDMENT TO COVALENT S CERTIFICATE OF INCORPORATION

TO INCREASE ITS AUTHORIZED COMMON STOCK

As a condition to the consummation of the business combination with Remedium, Covalent must increase its authorized common stock. As of the date of this proxy statement, the total number of authorized shares of common stock of Covalent is 25,000,000, of which 13,348,401 shares were issued and outstanding on September 12, 2006 and another 1,270,081 shares were reserved for issuance upon the exercise of stock options that were either outstanding or could be granted pursuant to our 2002 equity incentive plan.

Upon the consummation of the business combination, Covalent will become obligated to issue (i) up to 8,839,779 shares of Covalent common stock to the Remedium stockholders, constituting the maximum number of shares issuable to the Remedium stockholders as consideration under the combination agreement before giving effect to certain post-closing adjustments, which may have the effect of increasing or decreasing the consideration we must ultimately pay to the Remedium stockholders, and (ii) up to 435,392 additional shares upon the exercise of currently outstanding options issued by Remedium, assuming we do not incur an obligation to pay additional considerations to the Remedium stockholders pursuant to post-closing adjustments under the combination agreement. We could become obligated to pay the Remedium stockholders an indeterminate amount of additional consideration as a result of post-closing adjustments relating to Covalent s net worth as of the closing date or our breach of our representations, warranties or other obligations under the combination agreement, which we would be permitted, in either case, to settle in cash or, at our option, and assuming we have a sufficient number of authorized but unissued shares available for that purpose, additional Covalent shares. Even though we currently have authorized shares of Covalent common stock sufficient to accommodate the issuance of all of the shares we could be required to issue upon the consummation of the business combination, depending on the number of shares we are ultimately required to deliver under the terms of the combination agreement, unless this Proposal Six is approved, we could have an insufficient number of authorized shares to permit us to settle in shares all or a portion of any post-closing obligation we are permitted to settle in shares or to issue all or part of the awards that will be permitted by the 2006 Equity Incentive Plan if Proposal Six is approved at the meeting.

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In order to provide additional authorized shares to permit us to consummate the business combination with Remedium, settle in shares any post-closing obligations we are permitted to settle in shares, fully utilize the 2006 Equity Incentive Plan if it is approved by stockholders at the meeting and provide additional shares that may be utilized for other corporate purposes, the Covalent board of directors has approved an amendment to increase Covalent s authorized common stock to 35,000,000 shares. In order to amend Covalent s Certificate of Incorporation to increase the authorized capital stock, holders of a majority of the common stock outstanding on the record date must approve the amendment. If the amendment is approved by the requisite vote of our stockholders at the meeting, it will become effective upon the filing of the amendment with the Secretary of State of the State of Delaware. Because there are conditions to our consummation of the business combination with Remedium other than the increase in the number of Covalent s authorized shares, the proposed business combination may not occur even if this Proposal Five is approved. However, if the stockholders approve this Proposal Five, the amendment to Covalent s Certificate of Incorporation to increase the number of authorized shares of common stock to 35,000,000 will be filed with the Secretary of State of the State of Delaware, even if the business combination is not consummated.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE APPROVAL OF THE INCREASE IN AUTHORIZED COMMON STOCK OF COVALENT.

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PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with regard to the beneficial ownership of the outstanding shares of Covalent s common stock by (i) each director, nominee and Named Executive Officer individually, (ii) all executive officers and directors of Covalent as a group, and (iii) each person known by Covalent to beneficially own five percent or more of the outstanding shares of the Covalent s common stock. This information is as of September 12, 2006, unless we have indicated otherwise. The table also sets forth information as to the effect of the business combination with Remedium on such beneficial ownership assuming, on the one hand, the issuance of a maximum of 8,839,779 shares and, on the other hand, the issuance of a minimum of 4,593,639 shares to the Remedium stockholders in the business combination.

			Approximate Percentage of Outstanding Shares, as Adjusted to Give Effect to the Business Combination with Remedium	
Name of Beneficial Owner(1)(2)	**Number of Shares(3)**	**Approximate Percentage of Outstanding Shares**	**Assuming Issuance of Minimum Number of Shares**	**Assuming Issuance of Maximum Number of Shares**
Kenneth M. Borow, M.D.	1,096,238(4)(5)	8.11	6.05	4.90
Earl M. Collier, Jr.	72,500(4)	*	*	*
Scott M. Jenkins	102,200(4)	*	*	*
Christopher F. Meshginpoosh	8,332(4)	*	*	*
Dr. Kai Lindevall	0		8.40	13.87
Petri Manninen	0		1.80	2.70
Dr. Jyrki Mattila	0			
Lawrence R. Hoffman	100,001(4)	*	*	*
Alison O Neill	94,667(4)	*	*	*
All executive officers and directors as a group (six persons)	1,473,938(4)	10.63	7.98	6.49
Richard D. Propper, M.D. 4350 La Jolla Village Dr., Suite 970 San Diego, CA 92121	821,148(6)	6.15	4.58	3.70
Hassan Nemazee 777 Park Avenue New York, NY 10021	1,033,010(7)	7.74	5.76	4.66
Houston Ventures, Inc. 720 Fifth Avenue New York, NY 10019	1,000,000(8)	7.49	5.57	4.51
Wells Fargo & Company 525 Market Street San Francisco, CA 94105	1,752,290(9)	13.13	9.77	7.90

* Less than 1% of the outstanding common stock.

(1) Unless otherwise noted, we believe that all persons have sole voting and investment power with respect to all shares beneficially owned by them.

(2) Unless otherwise noted, the address of such persons is: c/o Covalent Group, Inc., One Glenhardie Corporate Center, 1275 Drummers Lane, Wayne, PA 19087.

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(3) The respective numbers of shares set forth in this column will not change as a result of the consummation of the business combination with Remedium except that, depending on the number of shares we are required to issue to the Remedium stockholders in connection with the business combination, (i) Dr. Kai Lindevall and his wife will acquire, in the aggregate, a number of shares ranging from a minimum of approximately 1,460,074 to a maximum of approximately 3,009,720 in the business combination and he holds options that, upon closing of the business combination, will become exercisable for up to an additional 79,162 shares, and (ii) Petri Manninen will acquire beneficial ownership of a number of shares ranging from a minimum of approximately 274,071 to a maximum of approximately 522,427 and he holds options that, upon closing of the business combination, will become exercisable for up to an additional 79,162 shares.

(4) The amounts shown include shares which may be acquired currently or within 60 days of September 12, 2006 through the exercise of stock options, as follows: Dr. Borow 166,670 shares; Mr. Collier 72,500 shares; Mr. Jenkins 82,500 shares; Mr. Meshginpoosh 8,332 shares; Mr. Hoffman 100,001; Mrs. O Neill 94,667 shares; and all current executive officers and directors as a group 524,670 shares.

(5) Includes 39,000 shares owned indirectly that are held by certain members of Dr. Borow s immediate family and over which Dr. Borow has sole investment and voting power. Of the shares owned by Dr. Borow, 460,000 shares have been pledged as collateral for a promissory note to Richard D. Propper, M.D. which originally matured in August 2006 and is currently being renegotiated.

(6) As per the Schedule 13G filed by Richard Propper on February 10, 2005.

(7) As per the Schedule 13D/A filed by Hassan Nemazee on February 4, 2000, includes 500,000 shares owned by Houston Ventures, Inc. as to which Hassan Nemazee has joint power, as well as 33,010 shares held by Mr. Nemazee s children.

(8) As per the Schedule 13D/A filed by Houston Ventures, Inc. on February 4, 2000, includes beneficial ownership of 500,000 shares otherwise beneficially owned by Hassan Nemazee.

(9) As per the Schedule 13 G filed by Wells Fargo & Company on January 26, 2006.

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PROPOSAL SIX- APPROVE THE COVALENT GROUP, INC.

2006 EQUITY INCENTIVE PLAN

The Covalent Group, Inc. 2006 Equity Incentive Plan (the 2006 Plan) was adopted by the board of directors as of September 6, 2006, subject to approval of Covalent s stockholders. Subject to adjustment as described below, the Plan limits to 1,000,000 the total number of shares of common stock that may be issued upon the exercise of stock options or the grant of restricted shares under the Plan.

In the opinion of our board of directors, Covalent and its stockholders have in the past benefited substantially from having certain of its directors, officers and key employees acquire shares of Covalent common stock pursuant to stock options or restricted shares granted as part of our compensation of those individuals. Those awards, in the opinion of the board, have been an effective incentive to our directors, officers and other key employees. At the present time, we have approximately 20,297 shares, representing less than two tenths of one percent of our shares currently outstanding, available for the issuance of new awards of stock options or restricted shares under the Covalent Group, Inc. 2002 Equity Incentive Plan (the 2002 Plan). We also currently have another plan pursuant to which options may be granted until September 20, 2006, but we do not intend to make any additional awards under that plan. The board of directors believes that stock options and restricted stock are vital components of employment compensation packages that we can offer to attract high-caliber individuals. The approval of the 2006 Plan will increase by 1,000,000, or approximately 7.5% of our shares currently outstanding, the number of shares available for new awards to our directors, officers, other key employees, consultants and advisors in the future. Approximately 82 employees of Covalent and its subsidiaries, including its executive officers, and directors are currently eligible (and upon the consummation of the business combination with Remedium, an estimated 120 employees of Remedium and its subsidiaries will become eligible) to receive grants of stock options and awards of restricted shares under the 2006 Plan, subject to the terms of the 2006 Plan. If the business combination with Remedium is consummated, the number of shares currently available for the issuance of new awards under the 2002 Plan and the additional shares that will become available under the 2006 Plan if it is approved by stockholders will, depending on the number of shares we are required to issue to the Remedium stockholders, represent in the aggregate approximately 4.6% to approximately 5.7% of our shares outstanding on September 12, 2006 as adjusted to give effect to the issuance of the shares we will be obligated to issue to the Remedium stockholders.

In addition, the 2006 Plan includes certain provisions that allow income attributable to option grants to be considered to be performance based compensation for purposes of certain tax rules that otherwise potentially limit our ability to take those expenses as deductions for federal income tax purposes. The 2002 Plan does not provide Covalent with the ability to have option grants treated as performance based compensation.

The 2006 Plan provides certain limitations on grants that may be made. In particular, the 2006 Plan limits overall the shares of common stock that may be awarded as restricted shares to 10% of the shares authorized in the aggregate for issuance under the 2006 Plan. Subject to adjustment as described below, the 2006 Plan also limits the aggregate number of options and restricted shares that may be granted under the 2006 Plan to any one person to 500,000 shares, and limits the number of shares of common stock that may be subject to any option or options granted under the 2006 Plan to any one employee during any one calendar year to 200,000 shares.

Pursuant to Section 7 of the 2006 Plan, the number of shares that may be granted under the 2006 Plan, including the individual limits specified in the 2006 Plan, and the number of shares subject to outstanding awards of options and restricted shares and the exercise or, if applicable, purchase prices thereof shall be adjusted proportionately for any increase or decrease in the number of outstanding shares of Covalent common stock resulting from stock splits, reverse stock splits, stock dividends, reclassifications and recapitalizations, merger, consolidation, exchange of shares, or any similar change affecting the common stock.

Other than pursuant to Section 7 of the 2006 Plan, any adjustment or amendment of the exercise price of a stock option previously awarded pursuant to the 2006 Plan, whether through amendment, cancellation, or replacement grant, or any other means, will require the approval of the stockholders by a majority of the votes cast on the matter at a duly held stockholder meeting at which a quorum representing a majority of Covalent s outstanding voting shares is present, either in person or by proxy.

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No awards have been made to date under the 2006 Plan. Future issuances of options or restricted shares, if any, that are made to eligible participants under the 2006 Plan will be subject to the discretion of the Compensation Committee and, therefore, are not determinable at this time.

Under the 2006 Plan, rights to acquire shares of common stock may be structured as:

- options intended to qualify as incentive stock options, or ISOs, under Section 422(b) of the Internal Revenue Code;
- non-qualified stock options, or NSOs;
- or sales or grants of restricted shares.

Covalent can grant incentive stock options only to persons who are employees of Covalent or its subsidiaries. Covalent can grant non-qualified stock options to persons who are employees of Covalent or its subsidiaries or who are consultants or advisors to Covalent or its subsidiaries, and to members of the boards of directors of Covalent or any of its subsidiaries (including members of such boards who are not officers or otherwise employees of Covalent or its subsidiaries). Covalent can grant awards of restricted shares to persons who are employees of Covalent or its subsidiaries as well as to persons who are members of the boards of directors of Covalent or its subsidiaries.

Description of 2006 Plan

The following is a summary of the material terms of the 2006 Plan. The summary is qualified in its entirety by reference to the 2006 Plan, a copy of which is attached as Appendix D to this proxy statement and incorporated in this document by reference. You are urged to read the 2006 Plan carefully and in its entirely.

The 2006 Plan may be administered by the board of directors or by a committee of the board of directors. Currently, the Compensation Committee of the board of directors is authorized to administer the 2006 Plan. Subject to the terms of the 2006 Plan, the Compensation Committee has the authority to:

- determine the persons to whom options or restricted shares will be awarded and the number of shares to be covered by each award;
- determine the exercise price per share subject to a stock option and/or the purchase price for restricted shares, if any;
- determine the time or times within which restricted shares may be subject to forfeiture and all other conditions of such awards;
- prescribe, amend and rescind rules and regulations relating to the 2006 Plan;
- determine the conditions which must be satisfied in order for an option to vest and become exercisable and/or for the restrictions on restricted shares to lapse;
- accelerate the vesting or exercise date of any option and/or waive, in whole or in part, any or all remaining restrictions on any restricted shares; and

interpret the 2006 Plan and any agreement entered into with respect to an award.

In establishing an exercise price for ISOs and NSOs, the 2006 Plan requires that in all cases the exercise price per share must be equal to or greater than the fair market value per share of the common stock at the date of grant. With respect to ISOs granted to employees owning more than 10% of Covalent s voting stock, the exercise price per share must be at least 110% of the fair market value per share of the common stock at the date of grant. The option exercise price must be paid in full at the time the notice of exercise of the option is delivered to Covalent and must be tendered in cash, or by personal or certified check. The Compensation Committee has the discretion to permit a participant to exercise by delivering a combination of Covalent shares and cash. The 2006 Plan prohibits the grant of any options that would be considered to be a repricing of previously granted options without stockholder approval of the new option grants.

Pursuant to the 2006 Plan, options can be granted with expiration dates as determined by the Compensation Committee; provided, however, that the expiration date may not be more than 10 years after the date of grant. ISOs granted to persons owning more than 10% of Covalent s voting stock, however, may not have a term in excess of five years. The aggregate number of options and restricted shares which may be granted under the 2006 Plan to any one person is limited to 500,000 shares, and the number of shares of common stock that may be

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subject to any option or options granted under the 2006 Plan to any one employee during any one calendar year is limited to 200,000 shares, subject to proportionate adjustment for changes in capitalization. Options vest upon satisfaction of any applicable vesting conditions, which may include completion of specified periods of service, attainment of performance goals, or other conditions specified by the Compensation Committee. By reason of certain applicable provisions of the Internal Revenue Code, certain other limitations on the grant of ISOs are applicable. In particular, an option grant does not qualify as an ISO under these provisions to the extent the participant s ISOs (granted under the 2006 Plan and under any other plan which permits grants if incentive stock options) become exercisable in any one year for more than $100,000 worth of stock (the underlying shares being valued for this purpose as of the relevant grant date of the incentive stock options).

Generally, if a participant in the 2006 Plan is an employee or director and the participant s relationship with Covalent ceases for any reason, other than termination for cause, death or disability, the participant may exercise options that are then vested within the three-month period following the end of the relationship. Options may terminate or expire sooner, however, by their terms or pursuant to other provisions that may be included in the applicable option agreement. If a participant is an advisor or consultant, termination of the relationship with Covalent does not cause acceleration of the expiration of the option except to the extent such acceleration of the option expiration is included in the terms of the applicable option agreement or any other agreement between the participant and Covalent.

If a participant s relationship with Covalent ends due to disability or death, the participant s options may be exercised by the participant or executor, as appropriate, for a period of up to 12 months from the date of termination, subject, however, to earlier termination pursuant to the terms of the option agreement, or the occurrence of any event that is determined to result in forfeiture under the terms of the 2006 Plan. If a participant is terminated for cause, all unexercised options then held by the participated will be forfeited, including options that have been exercised but for which no share certificates have been issued, provided that Covalent must refund the exercise price paid by the participant.

Restricted shares may be issued either alone or in addition to other awards granted under the 2006 Plan. The provisions of restricted share awards need not be the same with respect to each participant. The Compensation Committee may require participants to pay for their restricted shares, and a specific method of payment, including cash, or a personal or certified check, may be required. If the Compensation Committee approves, the participant also may elect to purchase restricted shares using a combination of shares and cash. After the Compensation Committee authorizes an award, the recipient of restricted shares must execute an award agreement which states the terms and conditions of the award. A share certificate will be issued in connection with each award of restricted shares. This certificate will bear a legend marking the shares as restricted shares and will be held in custody by Covalent or an escrow agent until the restrictions on the award have lapsed.

During the restriction period set by the Compensation Committee for an award of restricted shares, the participant will not be permitted to transfer or encumber the restricted shares. The participant will be entitled to vote and to receive any cash dividends with respect to restricted shares. Dividends paid in the form of securities will be subject to the same conditions as the restricted shares with respect to which they were paid. Unless there is a forfeiture of the restricted shares, a change of control of Covalent, or a waiver of the restrictions, the restrictions on restricted shares generally will lapse in accordance with the conditions stipulated in the award agreement, which may include continued employment, engagement or service of the participant for a specified time period, attainment of specific performance goals, or any other factor that the Compensation Committee selects. Forfeitures may occur during the restriction period either when the participant s relationship with Covalent is terminated for any reason, if specified performance goals are not attained, or if Covalent and the participant agree to the forfeiture. Under certain circumstances, forfeitures may also occur when there is a change of control. Participants who pay for restricted shares that are subsequently forfeited will receive a refund of the purchase price paid for the forfeited shares.

When the restrictions on restricted shares lapse, the certificates for the restricted shares will be replaced by new certificates that do not bear a restrictive legend. These new certificates will be delivered to the participant subject to the terms of the 2006 Plan.

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The 2006 Plan also has provisions that take effect if Covalent experiences a change of control. As used in the 2006 Plan, a change of control means:

- the acquisition in one or more transactions by any person of beneficial ownership of 25% or more of the combined voting power of Covalent s then outstanding voting securities excluding voting securities acquired directly from Covalent;

- the approval by the stockholders of Covalent of:

  - a merger, reorganization or consolidation involving Covalent if the stockholders of Covalent immediately before such merger, reorganization or consolidation do not or will not own directly or indirectly immediately following such merger, reorganization or consolidation, more than 50% percent of the combined voting power of the outstanding voting securities of Covalent resulting from or surviving such merger, reorganization or consolidation in substantially the same proportion as their ownership of the voting securities outstanding immediately before such merger, reorganization or consolidation; or

  - a complete liquidation or dissolution of Covalent; or

  - an agreement for the sale or other disposition of all or substantially all of the assets of Covalent; or

- acceptance by stockholders of Covalent of shares in a share exchange if the stockholders of Covalent immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than 50% of the combined voting power of the outstanding voting securities of the entity resulting from or surviving such share exchange in substantially the same proportion as their ownership of the voting securities outstanding immediately before such share exchange.

If a change of control occurs and the 2006 Plan is not continued by a successor corporation, and if the participants do not receive substantially equivalent, substituted stock options or restricted shares in a successor corporation, then the 2006 Plan will be terminated. In this case, all options previously granted to participants who are employees or members of the board will immediately become fully vested and exercisable and in such a case all restrictions on restricted shares will lapse and the shares will immediately become non-forfeitable.

If a change of control occurs and the 2006 Plan is continued by a successor corporation, or if the participants receive substantially equivalent, substituted options or restricted shares in a successor corporation, then with respect to participants who are employees or members of the board, the following rules will be applicable:

- if at the time of the change of control, the participant is a member of the management team or is a board member and is not offered substantially equivalent employment with the successor corporation, both in terms of duties and compensation, then, that participants unvested options will become fully vested and the restrictions on his or her restricted shares will lapse; and

- if any participant, without regard to such participant s title, is offered substantially equivalent employment with the successor corporation, both in terms of duties and compensation, then his or her options will not be subject to accelerated vesting and the restrictions on his or her restricted shares will not lapse. If, however, that participant s employment with the successor corporation is terminated during the six month period following the change of control, any unvested options will immediately become vested and exercisable, and the restrictions on all his or her restricted shares will lapse and the shares will become non-forfeitable.

The board of directors may suspend, amend or terminate the 2006 Plan. However, stockholder approval must be obtained for amendments that would:

increase the number of shares which are reserved for the issuance of options or restricted shares under the 2006 Plan; or

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permit the granting of options to a class of employees other than those presently permitted to receive options under the 2006 Plan.

Federal Tax Consequences

The following is a brief description of the federal income tax consequences of stock options and restricted shares that may be granted under the 2006 Plan under present tax laws. The following description does not address all of the tax consequences that may be applicable to Covalent or to any particular participant. In addition, the discussion does not address foreign, state or local taxes, nor does it address federal taxes other than federal income tax. The discussion is based upon applicable statutes, regulations, case law, and administrative interpretations in effect as of the date of this proxy statement.

Incentive Stock Options. There are no federal income tax consequences to either the participant or Covalent upon the grant of an ISO. Upon a sale of the shares obtained from the exercise of an ISO, the participant will recognize a long-term capital gain (or loss) measured by the excess (or deficit) of the amount realized from such sale over the option price of such shares, but no deduction will be allowed to Covalent, if the following holding period requirements are satisfied:

the participant does not dispose of the shares within two years from the date the ISO was granted; or

the participant does not dispose of the shares within one year from the date the shares were issued to the participant.

If a participant disposes of shares before the holding period requirement is satisfied, the participant will recognize ordinary income in the year of disposition, and Covalent will be entitled to a corresponding deduction, in an amount equal to the lesser of:

the excess of the fair market value of the shares on the date of exercise over the option price of the shares; or

the excess of the amount realized from such disposition over the option price of the shares.

Where shares are sold before the holding period requirement is satisfied, the participant will also recognize a capital gain to the extent that the amount realized from the disposition of the shares exceeds the fair market value of the shares on the date of exercise. Upon exercise of an ISO, the excess, if any, of the fair market value over the exercise price will be an item of tax preference for purposes of the participant s alternative minimum tax and may, therefore, result in an increased tax liability for the participant depending on the personal tax situation applicable to that participant.

Non-Qualified Stock Options. There are no federal income tax consequences to either the participant or to Covalent upon the grant of an NSO. Upon the exercise of an NSO, the participant will recognize ordinary compensation income in an amount equal to the excess of the fair market value of each share on the date of exercise over the option price, and Covalent generally will be entitled to a federal income tax deduction in the same amount.

In general, if previously owned shares are used to pay the exercise price of options, the participant s tax basis and holding period of such previously owned shares will be carried over to the equal number of shares received on exercise. The fair market value of any additional shares received upon the exercise of an option will be recognized by the participant as ordinary income as of the date the NSO is exercised. The tax basis of the additional shares will be equal, in the aggregate, to the ordinary income recognized by the participant. The holding period for purposes of determining the treatment of capital gain or loss on a subsequent disposition of the shares begins on the date the NSO is exercised. However, if the previously owned shares had been acquired on the exercise of an ISO and the holding period requirement for those shares was not satisfied at the time they were used to exercise an option, such use would constitute a disposition of such previously owned shares resulting in the recognition of ordinary income as described above.

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Restricted Shares. Unless the participant elects to recognize income at the time of an award of restricted shares, the participant will not recognize taxable income until the shares are no longer subject to a substantial risk of forfeiture. The participant s recognized income will equal the amount that the fair market value of such shares measured at the time of grant if an election is made, or otherwise at the time the restrictions lapse or are removed exceeds any sum paid for such shares (the bargain element). Covalent will generally be entitled to a deduction in the same amount, and in the same year as the participant of restricted shares has income. Covalent will comply with all applicable withholding requirements with respect to such income.

The aforementioned election allows the participant to recognize the bargain element as income in the year of the award (as opposed to when the restrictions lapse or are removed) by making an election with the Internal Revenue Service within 30 days after the award is made. If the participant subsequently forfeits the restricted shares, the participant would not be entitled to any tax deduction for the value of the shares on which the participant previously paid tax. Dividends received by a participant on restricted shares during the restriction period are taxable to the participant as ordinary compensation income and will be deductible by Covalent unless the aforementioned election is made, rendering dividends taxable as dividends and nondeductible.

Special rules apply if a participant uses previously owned shares to pay for restricted shares, but, in general, the participant s tax basis and holding period of such previously owned shares will be carried over to the equal number of restricted shares for which a purchase price is paid in the form of previously owned shares.

Equity Compensation Plan Information

The following table details information regarding Covalent s existing equity compensation plans as of December 31, 2005:

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,362,873	2.50	706,026
Equity compensation plans not approved by security holders			
Total	1,362,873	2.50	706,026

Approval of the Plan requires the affirmative vote of a majority of the shares of Covalent common stock present in person or by proxy and entitled to vote thereon.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE 2006 PLAN.

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PROPOSAL SEVEN- RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of Covalent has re-appointed, subject to stockholder ratification, Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the fiscal year ended December 31, 2006.

During the fiscal years ended December 31, 2005 and 2004, fees in connection with services rendered by Deloitte & Touche LLP were:

Fee Category	Fiscal 2005	Fiscal 2004
Audit Fees	$ 247,500	$ 248,700
Audit-Related Fees	$ 18,900	$ 32,000
Tax Fees	$ 3,200	$ 43,800
All Other Fees	$	$ 7,800
Total	$ 269,600	$ 332,300

Audit fees consisted of fees for the audit of Covalent s annual financial statements and review of quarterly financial statements as well as services normally provided in connection with statutory and regulatory filings or engagements, consents and assistance with and review of Covalent s documents filed with the SEC. Audit-related fees consist of the audit of Covalent s operations in the UK. Tax fees consisted primarily of fees for tax compliance and tax advice. Except as set forth above, Covalent made no other payments to Deloitte & Touche LLP for services rendered during fiscal 2005 and 2004.

Policy for Pre-Approval of Audit and Non-Audit Services

The Audit Committee s Charter includes a formal policy concerning the pre-approval of audit and non-audit services to be provided by the independent accountants to Covalent. The policy requires that all services to be performed by Deloitte & Touche LLP, including audit services, audit-related services and permitted non-audit services, be pre-approved by the Audit Committee. The Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee. All services rendered by Deloitte & Touche LLP are permissible under applicable laws and regulations, and the Audit Committee pre-approved all audit, audit-related and non-audit services performed by Deloitte & Touche LLP during fiscal 2005 and 2004. The Audit Committee considered whether the provision of services other than the audit services (as specified above) was compatible with maintaining Deloitte & Touche LLP s independence and determined that provision of such services has not adversely affected Deloitte & Touche LLP s independence.

The board of directors of Covalent recommends a vote for ratification of the appointment of Deloitte & Touche LLP, a registered public accounting firm, to examine and report on our financial statements for the current fiscal year. It is intended that the shares represented by proxies in the enclosed form will be voted for ratification of Deloitte & Touche LLP, unless contrary instructions are received. It is expected that representatives of Deloitte & Touche LLP will attend the annual meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Approval of the re-appointed of Deloitte & Touche LLP requires the affirmative vote of a majority of the shares of Covalent common stock present in person or by proxy and entitled to vote thereon.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP, A REGISTERED PUBLIC ACCOUNTING FIRM, TO EXAMINE AND REPORT ON OUR FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.

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DESCRIPTION OF COVALENT CAPITAL STOCK

Our authorized capital stock consists of 25,000,000 shares of common stock, par value $0.001 per share. See Proposal Five, relating to a proposal to increase the number of authorized shares to 35,000,000. As of September 12, 2006 there were 13,348,401 shares of common stock outstanding and held of record by approximately 612 stockholders and there were outstanding options to purchase an additional 1,249,784 shares. Assuming the issuance of the maximum number of shares issuable to the Remedium stockholders as consideration under the combination agreement if Covalent s net worth on the date of closing of the business combination is at least $6,974,689, an additional 8,839,779 shares of our common stock will be issued to the Remedium stockholders in connection with the business combination and currently outstanding Remedium options will become exercisable for up to 435,392 additional shares of our common stock. If the business combination is consummated and the net worth of Covalent on the closing date is less than $6,974,689, we may be required to issue additional shares to the Remedium stockholders or upon the exercise of the currently outstanding Remedium options, depending on the results of the post-closing adjustments to the consideration we must pay to the Remedium stockholders under the business combination agreement. See Material Provisions of the Combination Agreement Consideration and Adjustments Post-Closing Adjustments.

The holders of our common stock (i) have equal rateable rights to dividends from funds legally available therefrom when, as and if declared by our board of directors; (ii) are entitled to share rateably in all of our assets available for distribution upon liquidation, dissolution or winding up of the affairs of Covalent; and (iii) do not have pre-emptive, subscription or conversion rights and there are no redemption or sinking fund provisions applicable thereto.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 59 Maiden Lane, Plaza Level, New York, NY 10038, telephone number 800-937-5449.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Covalent s executive officers and directors to file initial reports of beneficial ownership and reports of changes of beneficial ownership with the SEC. Executive officers and directors are required by SEC regulations to furnish Covalent with copies of all Section 16(a) forms they file. Based solely upon a review of copies of the reports furnished to Covalent during the fiscal year ended December 31, 2005, all executive officers and directors were in compliance with their reporting obligations under Section 16(a).

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PERFORMANCE GRAPH

The following line graph shows the percentage change in the cumulative total return performance (assuming reinvestment of dividends) to holders of Covalent common stock with that of the Nasdaq Stock Market (U.S. companies) and a self-constructed peer group index of contract research organizations (comprised of Kendle, International, Icon plc, Parexel, Inc., Pharmaceutical Product Development, Inc., SFBC International, and Covance, Inc.). The comparison includes the period beginning January 1, 2000 through December 31, 2005. Shares of the Covalent s common stock are traded on the Nasdaq SmallCap Market under the symbol CVGR. The comparison of the cumulative return for each investment assumes that $100 was invested in Covalent s common stock and in each index on January 1, 2000.

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STOCKHOLDER PROPOSALS FOR THE 2007 ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of Covalent s stockholders, which is generally held in June each year, was delayed this year in order to include in this proxy statement information concerning our proposed business combination with Remedium Oy and the proposals required to be acted on by our stockholders under the terms of the combination agreement. It is management s current intention that the 2007 annual meeting of stockholders be held in June and that the definitive proxy soliciting material for the meeting will first be mailed on or about May 14, 2007. Accordingly, any stockholder proposal intended to be presented at Covalent s 2007 Annual Meeting of Stockholders must be received by Covalent at its office in Wayne, Pennsylvania on or before January 14, 2007 in order to be considered for inclusion in the Company s proxy statement and form of proxy relating to such meeting. If a stockholder proposal to be considered at next year s meeting, but not included in the proxy statement, is not received by us on or before March 30, 2007, the persons appointed as proxies may exercise their discretionary voting authority with respect to the proposal. All proposals should be submitted in writing to Covalent Group, Inc. (or, if Proposal Four relating to the change of our name is approved, to Encorium Group, Inc.), One Glenhardie Corporate Center, Suite 100, 1275 Drummers Lane, Wayne, PA 19087, Attention: General Counsel.

SOLICITATION OF PROXIES

Covalent will bear the costs of soliciting proxies from its stockholders. In addition to the use of the mails, proxies may be solicited by the directors, officers and employees of Covalent by personal interview, electronic mail or telephone. Directors, officers and employees will not be additionally compensated for such solicitation, but may be reimbursed for their out-of-pocket expenses. Covalent has also hired Altman Group, Inc. to assist in the solicitation of votes at an estimated cost of $10,000, plus its out-of-pocket expenses. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of Covalent common stock held of record by such persons, and Covalent may reimburse brokerage houses, custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses.

HOUSEHOLDING INFORMATION

The SEC permits companies and intermediaries (such as brokers and banks) to satisfy delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report to those stockholders. This process, which is commonly referred to as householding, is intended to reduce the volume of duplicate information stockholders receive and also reduce expenses for companies. While Covalent does not utilize householding, some intermediaries may be householding Covalent s proxy materials and annual report. Once you have received notice from your broker or another intermediary that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If you hold your shares through an intermediary that sent a single proxy statement and annual report to multiple stockholders in your household, Covalent will promptly deliver a separate copy of each of these documents to you if you send a written request to Covalent Group, Inc., One Glenhardie Corporate Center, Suite 100, 1275 Drummers Lane, Wayne, PA 19087, Attention: General Counsel or call us at (610) 975-9533. If you hold your shares through an intermediary that is utilizing householding and you want to receive separate copies of Covalent s annual report and proxy statement in the future, you should contact your bank, broker or other nominee record holder.

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FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements within the meaning of Section 17A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. When used in this proxy statement, the words estimate, project, expect, intend, believe, anticipate a similar expressions are intended to identify forward-looking statements regarding events and trends that may affect our future operating results and financial position. Such statements are subject to risks and uncertainties that could cause our actual results and financial position to differ materially. Such factors include, among others: (i) our success in attracting new business and retaining existing clients and projects; (ii) the size, duration and timing of clinical trials we are currently managing may change unexpectedly; (iii) the termination, delay or cancellation of clinical trials we are currently managing could cause revenues to decline unexpectedly; (iv) the timing difference between our receipt of contract milestone or scheduled payments and our incurring costs to manage these trials; (v) outsourcing trends in the pharmaceutical, biotechnology and medical device industries; (vi) the ability to maintain profit margins in a competitive marketplace; (vii) our ability to attract and retain qualified personnel; (viii) the sensitivity of our business to general economic conditions; (ix) other economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices; (x) announced awards received from existing and potential customers are not definitive until fully negotiated contracts are executed by the parties; (xi) our backlog may not be indicative of future results and may not generate the revenues expected; (xii) our ability to successfully complete the business combination with Remedium and integrate the business of Remedium and Covalent; and (xiii) the performance of the combined businesses to operate successfully and generate growth.

Covalent s and Remedium s actual results, performance or achievement could differ materially from those expressed in, or implied by, forward-looking statements. No assurances can be given that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on Covalent s and Remedium s results of operations and financial condition. Covalent s and Remedium s past results, performance or achievements cannot be relied upon as a guide to future results, performance or achievements. You should not place undue reliance on any forward-looking statement. We undertake no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

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CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Covalent Group, Inc.

Consolidated Balance Sheets

(Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	$ 6,797,317	$ 7,104,081
Investigator advances	1,832	1,009
Accounts receivable, less allowance of $35,093 at June 30, 2006 and December 31, 2005, respectively	2,648,297	1,109,781
Prepaid expenses and other	387,920	312,408
Prepaid taxes	8,354	13,040
Costs and estimated earnings in excess of related billings on uncompleted contracts	1,130,405	383,598
Total Current Assets	10,974,125	8,923,917
Property and Equipment, Net	749,169	897,189
Deferred acquisition costs	800,754	
Other assets	21,665	21,665
Total Assets	$ 12,545,713	$ 9,842,771
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 1,233,609	$ 405,384
Accrued expenses	279,476	231,249
Obligations under capital leases	27,722	26,314
Billings in excess of related costs and estimated earnings on uncompleted contracts	2,126,389	1,344,794
Customer advances	2,042,790	1,020,102
Total Current Liabilities	5,709,986	3,027,843
Long Term Liabilities		
Obligations under capital leases	19,972	36,995
Other liabilities	407,198	465,369
Total Long Term Liabilities	427,170	502,364
Total Liabilities	6,137,156	3,530,207
Stockholders Equity		
Common stock, $.001 par value 25,000,000 shares authorized, 13,501,333 shares issued and outstanding respectively	13,501	13,501
Additional paid-in capital	12,243,663	12,028,416
Accumulated deficit	(5,525,912)	(5,418,116)
Accumulated other comprehensive income	136,279	147,737

Less:	6,867,531	6,771,538
Treasury stock, at cost, 152,932 shares	(458,974)	(458,974)
Total Stockholders Equity	6,408,557	6,312,564
Total Liabilities and Stockholders Equity	$ 12,545,713	$ 9,842,771

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	Six Months Ended June 30, 2006	2005
Net revenue	$ 5,593,546	$ 5,541,908
Reimbursement revenue	769,703	1,002,826
Total Revenue	6,363,249	6,544,734
Operating Expenses		
Direct	3,704,074	3,787,683
Reimbursement out-of-pocket expenses	769,703	1,002,826
Selling, general and administrative	1,960,618	2,099,293
Depreciation and amortization	182,822	269,757
Total Operating Expenses	6,617,217	7,159,559
Loss from Operations	(253,968)	(614,825)
Interest Income	149,308	38,361
Interest Expense	(3,137)	(5,082)
Net Interest Income	146,171	33,279
Loss before Income Taxes	(107,797)	(581,546)
Income Tax Benefit		
Net Loss	$ (107,797)	$ (581,546)
Net Loss per Common Share		
Basic	$ (0.01)	$ (0.04)
Diluted	$ (0.01)	$ (0.04)
Weighted Average Common and Common Equivalent Shares Outstanding		
Basic	13,348,401	13,345,521
Diluted	13,348,401	13,345,521

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2006	**2005**
Operating Activities:		
Net loss	$ (107,797)	$ (581,546)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	182,822	269,757
Share-based compensation expense	215,247	
Changes in assets and liabilities;		
Investigator advances	(823)	2,642
Accounts receivable	(1,538,516)	1,190,592
Prepaid expenses and other	(75,512)	(136,499)
Prepaid taxes	4,686	83,239
Costs and estimated earnings in excess of related billings on uncompleted contracts	(746,807)	980,032
Accounts payable	828,225	(577,442)
Accrued expenses	48,227	(248,156)
Other liabilities	(58,171)	(58,171)
Billings in excess of related costs and estimated earnings on uncompleted contracts	781,595	643,586
Customer advances	1,022,688	95,223
Net Cash Provided by Operating Activities	555,865	1,663,257
Investing Activities:		
Deferred acquisition costs	(800,754)	
Purchases of property and equipment	(34,802)	(46,616)
Net Cash Used In Investing Activities	(835,556)	(46,616)
Financing Activities:		
Repayments under capital leases	(15,615)	(11,546)
Proceeds from exercise of stock options		10,680
Net Cash Used In Financing Activities	(15,615)	(866)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(11,458)	(15,934)
Net Decrease In Cash and Cash Equivalents	(306,764)	1,599,841
Cash and Cash Equivalents, Beginning of Period	7,104,081	3,165,986
Cash and Cash Equivalents, End of Period	$ 6,797,317	$ 4,765,827

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying unaudited financial statements for the six months ended June 30, 2006 and June 30, 2005 have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (primarily consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2006 may not necessarily be indicative of the results that may be expected for other quarters or for the year ending December 31, 2006. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements for the six months ended June 30, 2006 and 2005 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Investigator Advances

We received advance payments from one of our clients as part of a long-term contract, which included a separate cash account to be utilized for payment of investigator fees. As of June 30, 2006 and December 31, 2005, this cash amount was $2 thousand and $1 thousand, respectively. This amount is also included in customer advances in the accompanying balance sheets.

Accounts Receivable

Accounts receivable, net of an allowance for doubtful accounts, consists of customer billings pursuant to contractual terms related to work performed as of June 30, 2006. In general, amounts become billable upon the achievement of milestones or in accordance with predetermined payment schedules set forth in the contracts with our clients. Accounts receivable included $2.6 million and $1.1 million billed to customers as of June 30, 2006 and December 31, 2005, respectively.

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical, biotechnology and medical device industries. The significant majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of June 30, 2006, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $3.8 million. Of this amount, the

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

exposure to our largest clients was 70% of the total, with the largest clients representing 24%, 23%, 12% and 11% of total exposure, respectively. As of December 31, 2005, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $1.5 million. Of this amount, the exposure to our three largest clients was 84% of the total, with the three largest clients representing 42%, 29%, and 13% of total exposure, respectively.

Revenue Recognition

The majority of our net revenue is recognized from fixed price contracts on a proportional performance method based on assumptions regarding the estimated completion of the project. This method is used because management considers total costs incurred to be the best available measure of progress on these contracts.

Each month costs are accumulated on each project and compared to total estimated cost to complete to determine the degree of completion for that particular project. This determines the percentage of completion for the project. This percentage of completion is multiplied by the contract value to determine the amount of revenue to be recognized. As the work progresses, original estimates may be adjusted due to revisions in the scope of work or other factors and a contract modification may be negotiated with the customer to cover additional costs. Our accounting policy for recognizing revenue for changes in scope is to recognize revenue when the Company has reached agreement with the client, the services pursuant to the change in scope have been performed, the price has been set forth in the change of scope document and collectibility is reasonably assured based on our course of dealings with the client. We bear the risk of cost overruns on work performed absent a signed contract modification. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the cost estimates used will change in the near term and may have a material adverse impact on our financial performance.

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. These unanticipated additional costs occurred on several long term contracts which we completed or substantially completed during 2004. These contracts spanned a period of three to six years. We may experience similar situations in the future although our current contracts in process are of a shorter duration and subject to less cost volatility. Should our estimated costs on fixed price contracts prove to be low in comparison to actual costs, future margins could be reduced, absent our ability to negotiate a contract modification.

Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. Accordingly, cash receipts, including the receipt of up front payments and performance based milestone payments, do not necessarily correspond to costs incurred and revenue recognized on contracts. A contract s payment structure generally requires an up front payment of 10% to 15% of the contract value at or shortly after the initiation of the clinical trial, a series of periodic payments over the life of the contract and, in certain instances, milestone payments based on the achievement of certain agreed upon performance criteria. The up front payments are deferred and recognized as revenues as services are performed under the proportional performance method. Periodic payments, including performance based milestone payments, are invoiced pursuant to the terms of the contract once the agreed upon performance criteria have been achieved. Milestone payments are generally included in the total value of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain deliverables separately but as an integrated, full service arrangement in connection with the development of the drug. Examples of performance based milestones and interim deliverables include, but are not limited to, the completion of patient enrollment into the clinical trial, completion of the database and acceptance by the client of the final study report.

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Clients generally may terminate a contract on short notice which might cause unplanned periods of excess capacity and reduced revenues and earnings. Client initiated delays or cancellations for ongoing clinical trials can come suddenly and may not be foreseeable. To offset the effects of early termination of significant contracts, we attempt to negotiate the payment of an early termination fee as part of the original contract. Generally, we have not been successful in negotiating such fees. Our contracts typically require payment to us of expenses incurred to wind down a study and fees earned to date. Therefore, revenue recognized prior to cancellation does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a fixed price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

Our accounting policy for recognizing revenue for terminated projects requires us to perform a reconciliation of study activities versus the activities set forth in the contract. We negotiate with the client, pursuant to the terms of the existing contract, regarding the wind up of existing study activities in order to clarify which services the client wants us to perform. Once we and the client agree on the reconciliation of study activities and the agreed upon services have been performed by us, we would record the additional revenue provided collectibility is reasonably assured.

Our operations have experienced, and may continue to experience, period-to-period fluctuations in net service revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenues in any period is directly related to the number of employees and the number of hours worked by those employees during that period. Our results of operations in any one quarter can fluctuate depending upon, among other things, the number of weeks in the quarter, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the quarter, the mix of revenue, the extent of cost overruns, employee hiring, employee utilization, vacation patterns, exchange rate fluctuations and other factors.

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board (FASB) Emerging Issues Task Force Rule No. 01-14 (EITF 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred , out-of-pocket costs are now included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

As is customary in the industry, we exclude from revenue and expense in the Consolidated Statements of Operations fees paid to investigators and the associated reimbursement since we act as an agent on behalf of our clients with regard to investigators. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were $217 thousand for the six months ended June 30, 2006. For the six months ended June 30, 2005, investigator fees were $1.1 million.

Share-Based Compensation

We have adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants.

Effective January 1, 2006, we adopted SFAS No. 123R using the Modified Prospective Approach. SFAS 123(R) revises SFAS No. 123, Accounting for Stock Based Compensation (SFAS No. 123) and supersedes

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires the costs for all share-based payments to employees, including grants of employee stock options, to be recognized in financial statements based on their fair values at grant date, or the date of later modification, over the requisite period. In addition, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite period. Accordingly, prior period amounts have not been restated. See Note 7 for further detail regarding the adoption of this standard.

2. RECENTLY ISSUED ACCOUNTING STANDARDS:

SFAS No. 123R

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123R) using the Modified Prospective Approach. See Note 7 for further detail regarding the adoption of this standard.

SFAS No. 155

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statement No. 133 and 140 (SFAS No. 155). SFAS 155 allows financial instruments that contain an embedded derivative that otherwise would require bifurcation to be accounted for as a whole on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. We do not expect that the adoption of SFAS 155 will have a material impact on our consolidated financial statements or results of operations.

SFAS No. 156

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* . SFAS 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service financial assets by entering into a servicing contract. This statement is effective for all transactions beginning in the first fiscal year after September 15, 2006. We do not expect that the adoption of SFAS 156 will have a material impact on our consolidated financial statements or results of operations.

FIN No. 47

In March 2005, the FASB issued Financial Interpretation Number (FIN) 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS 143 (Asset Retirement Obligations)*. FIN 47 addresses diverse accounting practices that have developed with regard to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective for fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on our consolidated financial position, results of operations or cash flows.

FIN No. 48

In June 2005, the FASB issued Financial Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109*. FIN 48 prescribes a more likely than not threshold for financial

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation provides guidance regarding derecognition of income tax assets and liabilities, interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. This Interpretation is effective as of January 1, 2007. We are currently evaluating the impact of FIN 48 on our financial statements.

3. EARNINGS PER SHARE

Earnings per share is calculated in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares plus the dilutive effect of outstanding stock options under our equity incentive plans. Stock options outstanding not included in the table below because of their anti-dilutive effect for the six months ended June 30, 2006 were 444,633. Stock options outstanding not included in the table below because of their anti-dilutive effect for the six months ended June 30, 2005 were 566,680.

The net loss and weighted average common and common equivalent shares outstanding for purposes of calculating net loss per common share were computed as follows:

Net Loss Per Common Share & Common Equivalent Share

	Six months ended June 30,	
	2006	**2005**
Net Loss	$ (107,797)	$ (581,546)
Weighted average number of common shares outstanding used in computuing basic earnings per share	13,348,401	13,345,521
Dilutive effect of stock options outstanding		
Weighted average shares used in computing diluted earnings per share	13,348,401	13,345,521
Basic loss per share	$ (0.01)	$ (0.04)
Diluted loss per share	$ (0.01)	$ (0.04)

4. COMPREHENSIVE INCOME

A reconciliation of comprehensive income (loss) in accordance with SFAS No. 130, Reporting Comprehensive Income is as follows:

	Six months ended June 30,	
	2006	**2005**
Net Loss	$ (107,797)	$ (581,546)
Foreign currency translation adjustment	(11,458)	(15,934)
Comprehensive Loss	$ (119,255)	$ (597,480)

5. SEGMENT INFORMATION

The Company has adopted the provisions of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information which establishes standards for reporting business segment information. The Company operates predominantly in the clinical research industry providing a broad range of clinical research services on a global basis to the pharmaceutical, biotechnology and medical device industries.

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

The following table summarizes the distribution of net revenue and contracts with significant clients:

	Six months ended June 30,			
	2006		2005	
	% of Revenues	Number of Contracts	% of Revenues	Number of Contracts
Client A	23%	2	32%	4
Client B	15%	3	19%	3
Client C	13%	3	17%	7
Client D	12%	1	10%	3
Client E	10%	2	10%	1
Top Clients	73%	11	88%	18

Client A, B, C, D and E in the table above represent the largest clients for each period, but do not represent the same client for each year shown.

The following table summarizes the distribution of net revenues from external clients by geographical area:

	Six Months Ended June 30,					
	2006			2005		
U.S	Europe	Total	U.S	Europe	Total
$ 5,375,527	$218,019	$5,593,546	$5,094,257	$447,651	$5,541,908

6. OTHER LIABILITIES

As of January 1, 2003, the Company increased by approximately 12,700 to 34,000 the amount of square feet under lease in the same building. The term of the lease was also extended to 2009 and monthly lease payments increased from $50 thousand to $72 thousand. As an incentive for the Company to acquire the additional space, the lessor granted the Company $814 thousand in lease incentives that were used to pay for architectural fees, renovations and improvement costs for the new space. The lease incentives were capitalized as if the Company incurred the costs to make the improvements and are included in Property and Equipment. These assets and the related liability are amortized over the remaining life of the lease at a rate of approximately $116 thousand per year as an additional amortization expense and a reduction in rent expense, respectively. The accounting for these lease incentives has no impact on net income, stockholders equity or cash flow.

7. STOCKHOLDERS EQUITY

Share-Based Compensation

Effective January 1, 2006 we adopted SFAS No. 123R using the Modified Prospective Approach. SFAS No. 123R revises SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date, or the date of later modification, over the requisite service period. In addition, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period. Accordingly, prior period amounts have not been restated.

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

Under the Modified Prospective Approach, the amount of compensation expense recognized includes compensation expense for all share-based payments granted prior to, but not yet fully vested as of January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R and compensation expense for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R. Prior to adoption of SFAS 123R, we recognized share-based compensation expense using the accelerated recognition method. Upon adoption, we recognize the expense of previously granted share-based awards and new share-based awards on an accelerated recognition method.

For the six months ending June 30, 2006, the adoption of SFAS 123R resulted in incremental stock-based compensation expense of $215 thousand or $0.02 on a basic and diluted earning per share basis. The adoption of SFAS 123R did not have a net impact on cash flows from operating, investing or financing activities. A deduction is not allowed for income tax purposes until the options are exercised. The amount of the income tax deduction will be the difference between the fair value of the Company s common stock and the exercise price at the date of exercise. The tax effect of the income tax deduction in excess of the financial statement expense will be recorded as an increase in additional paid-in-capital. Accordingly, SFAS 123R requires the recognition of a deferred tax asset for the tax effect of the financial statement expense recorded. However, due to our recent loss history, and uncertainty regarding the realization of deferred tax assets, deferred tax assets have been fully reserved as of June 30, 2006. The net operating losses incurred to date by the Company are being carried forward and may be applied against future taxable income subject to certain limitations set forth in Section 382 of the Internal Revenue Code.

Prior to January 1, 2006 we accounted for our share-based compensation plans in accordance with the provisions of APB No. 25, as permitted by SFAS No. 123, and accordingly did not recognize compensation expense for stock options with an exercise price equal to or greater than the market price of the underlying grant as of the grant date. Had the fair value-based method as prescribed by SFAS 123 been applied, additional pre-tax compensation expense of $111 thousand would have been recognized for the six months ended June 30, 2005, and the effect on net income and earnings per share would have been as follows:

	Six months ended June 30, 2005
Net Loss as reported	$ (581,546)
Deduct: stock-based compensation expense determined under the fair value method	(111,140)
Pro forma Net Loss	$ (692,686)
Net Loss Per Share	
Basic as reported	$ (0.04)
Basic pro forma	$ (0.05)
Diluted as reported	$ (0.04)
Diluted pro forma	$ (0.05)

The Company has issued stock options to employees under share-based compensation plans. Stock options are issued at the current market price on the date of the grant, subject to a 4 year vesting period with a contractual term of 5 years. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on a blend of implied and historical volatility of our common stock. We use historical data on exercises of stock options and other factors to estimate the expected life of the share-based payments granted. For the options

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

granted prior to January 1, 2006, we determined the expected life to be 5 years, and an expected life of 4 years for any options granted subsequent to January 1, 2006. The risk free rate is based on the U.S. Treasury bond rate commensurate with the expected life of the option.

	Six months ended June 30,	
	2006	2005
Risk-free interest rate	4.64% - 4.92%	3.63% - 4.17%
Expected dividend yield		
Expected life	4 years	5 years
Expected volatility	52.56%	54.75%

A summary of award activity under the stock option plans as of June 30, 2006 and changes during the six month period is presented below:

	Number of Shares	Range of Exercise Prices per Share	Weighted Average Exercise Price per Share	Intrinsic Value
Options outstanding at December 31, 2005	1,362,873	$ 1.94 - 4.49	$ 2.50	$ 722,323
Granted	25,750	$ 2.02 - 2.43	2.40	16,223
Exercised				
Canceled	(118,257)	$ 1.94 - 2.85	2.09	(111,162)
Options outstanding at June 30, 2006	1,270,366	$ 2.02 - 4.49	2.54	622,479
Vested options outstanding at:				
June 30, 2006	410,701	$ 2.05 - 4.49	$ 2.85	$ 73,926

A summary of the non-vested share awards as of June 30, 2006 and changes during the six month period is presented below:

	Number of Share	Range of Exercise Prices per Share	Weighted Average Exercise Price per Share	Intrinsic Value
Non-vested options outstanding at:				
December 31, 2005	922.076	$ 2.05 - 4.49	$ 2.70	$ 304,285
Granted	25,750	$ 2.02 - 2.43	2.40	16,223
Awards Vested	(85,711)	$ 2.06 - 4.49	2.57	(39,427)
Forfeited	(2,450)	$ 2.50 - 2.66	2.51	(1,274)
Non-vested options outstanding at:				
June 30, 2006	859,665	$ 2.02 - 4.49	$ 2.39	$ 550,186

As of June 30, 2006, there was $583 thousand of total unrecognized compensation cost related to unvested share-based compensation awards granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 3.1 years.

Based upon the above assumptions, the weighted average fair value of the stock options granted for the six months ended June 30, 2006 and 2005 was $1.10 and $1.16, respectively. Because additional option grants are expected to be made, the above pro forma disclosures are not representative of pro forma effects on reported net income for future periods.

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Covalent Group, Inc.

Notes to Consolidated Condensed Financial Statements (Continued)

(Unaudited)

There were no vested options exercised during the six months ended June 30, 2006, and no cash paid to settle share-based liabilities.

The Company has a policy of issuing new shares to satisfy share option exercises.

8. SUPPLEMENTAL CASH FLOW INFORMATION

No income tax payments were required for the six months ended June 30, 2006 and 2005, respectively.

Cash paid for interest for the six months ended June 30, 2006 was approximately $3 thousand, respectively. We did not enter into any capital lease obligations during the six months ended June 30, 2006 and 2005. We did not acquire any property and equipment through leasing arrangements during the six months ended June 30, 2006 or 2005, respectively.

9. PROPOSED ACQUISITION OF REMEDIUM OY

On July 6, 2006, Covalent Group, Inc. entered into an Amended and Restated Combination Agreement (the Amended Agreement) with the stockholders of Remedium Oy, a corporation organized under the laws of Finland (Remedium), which amends and restates the Combination Agreement entered into on March 2, 2006. Pursuant to the Amended Agreement, at the closing, the Company will purchase all of the issued and outstanding shares of capital stock of Remedium (the Shares).

The consideration to be paid at closing to Remedium s stockholders (the Stockholders) for the Shares will consist of (i) shares of Common Stock of the Company with a value of $11,000,000; and (ii) $2,500,000 in cash. An additional cash payment of $1,500,000 will be paid to the Stockholders on March 30, 2007. The Company intends to fund the cash portion of the purchase price with internal resources. Subject to certain purchase price adjustments, on the first anniversary of the closing of the Amended Agreement, the Company will issue to the Stockholders additional shares of Common Stock of the Company with a value of $2,000,000. Additional consideration consisting of shares of Common Stock of the Company with a value of up to $3,000,000 may also be paid to the Stockholders upon the attainment of certain revenue targets described in the Amended Agreement. The closing is subject to customary closing conditions, including the approval of the Company s stockholders. The transaction is expected to close during the fourth quarter of 2006.

For the six months ended June 30, 2006, the Company incurred approximately $801 thousand of costs related to the Remedium acquisition which have been capitalized and are presented on the balance sheet as deferred acquisition costs. In the event the proposed acquisition does not close as expected, these costs will be charged against operations during the period in which the Agreement is terminated. The costs were primarily for professional fees and expenses related to the proposed acquisition.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of:

Covalent Group, Inc.

Wayne, Pennsylvania

We have audited the accompanying consolidated balance sheets of Covalent Group, Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Covalent Group, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania

March 24, 2006

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Covalent Group, Inc.

Consolidated Statements of Operations

	Year Ended December 31,		
	2005	**2004**	**2003**
Net revenue	$ 10,403,079	$ 13,589,614	$ 20,835,742
Reimbursement revenue	2,323,921	5,387,731	5,793,459
Total Revenue	12,727,000	18,977,345	26,629,201
Operating Expenses			
Direct	7,441,145	13,360,367	15,417,144
Reimbursable out-of-pocket expenses	2,323,921	5,387,731	5,793,459
Selling, general and administrative	4,076,696	4,942,316	5,650,693
Depreciation and amortization	510,338	758,779	877,623
Total Operating Expenses	14,352,100	24,449,193	27,738,919
Loss from Operations	(1,625,100)	(5,471,848)	(1,109,718)
Interest income	150,112	13,625	16,545
Interest expense	(9,751)	(10,425)	(12,962)
Net Interest Income	140,361	3,200	3,583
Loss before Income Taxes	(1,484,739)	(5,468,648)	(1,106,135)
Income Tax Benefit		(1,245,353)	(544,032)
Net Loss	$ (1,484,739)	$ (4,223,295)	$ (562,103)
Net Loss per Common Share			
Basic	$ (0.11)	$ (0.32)	$ (0.04)
Diluted	$ (0.11)	$ (0.32)	$ (0.04)
Weighted Average Common and Common Equivalent Shares Outstanding			
Basic	13,346,915	13,238,778	12,746,973
Diluted	13,346,915	13,238,778	12,746,973

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Consolidated Balance Sheets

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	$ 7,104,081	$ 3,165,986
Investigator advances	1,009	145,612
Accounts receivable, less allowance of $35,093 and $40,000 for 2005 and 2004, respectively	1,109,781	5,209,950
Prepaid expenses and other	312,408	158,287
Prepaid taxes	13,040	1,132,315
Costs and estimated earnings in excess of related billings on uncompleted contracts	383,598	1,667,947
Total Current Assets	8,923,917	11,480,097
Property and Equipment, Net	897,189	1,321,139
Other Assets	21,665	21,665
Total Assets	$ 9,842,771	$ 12,822,901
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 405,384	$ 1,101,788
Accrued expenses	231,249	392,385
Obligations under capital leases	26,314	23,709
Billings in excess of related costs and estimated earnings on uncompleted contracts	1,344,794	1,770,275
Customer advances	1,020,102	1,080,469
Total Current Liabilities	3,027,843	4,368,626
Long Term Liabilities		
Obligations under capital leases	36,995	63,309
Other liabilities	465,369	581,710
Deferred income tax		
Total Long Term Liabilities	502,364	645,019
Total Liabilities	3,530,207	5,013,645
Commitments and Contingencies		
Stockholders Equity		
Common stock, $.001 par value 25,000,000 shares authorized, 13,501,333 and 13,495,666 shares issued and outstanding respectively	13,502	13,496
Additional paid-in capital	12,028,415	12,017,822
Accumulated deficit	(5,418,116)	(3,933,377)
Accumulated other comprehensive income	147,737	170,289
	6,771,538	8,268,230
Less: Treasury stock, at cost, 152,932 shares	(458,974)	(458,974)
Total Stockholders Equity	6,312,564	7,809,256

Total Liabilities and Stockholders Equity	$ 9,842,771	$ 12,822,901

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Number of Common Shares	Par Value	Additional Paid-In Capital	Retained Earnings (Accum. Deficit)	Accum. Other Comprehensive Income	Treasury Stock at Cost	Total Stockholders Equity
Balance at December 31, 2002	12,664,583	$ 12,665	$ 10,887,759	$ 852,021	$ 26,344	$ (50,316)	$ 11,728,473
Net loss				(562,103)			(562,103)
Other comprehensive loss:							
Foreign currency translation adjustment					98,521		98,521
Total comprehensive loss:							(463,582)
Issuance of common shares exercise of stock options	570,900	570	484,915			(408,658)	76,827
Balance December 31, 2003	13,235,483	$ 13,235	$ 11,372,674	$ 289,918	$ 124,865	$ (458,974)	$ 11,341,718
Net loss				(4,223,295)			(4,223,295)
Other comprehensive loss:							
Foreign currency translation adjustment					45,424		45,424
Total comprehensive loss							(4,177,871)
Issuance of common shares exercise of stock options	260,183	261	645,148				645,409
Balance December 31, 2004	13,495,666	$ 13,496	$ 12,017,822	$ (3,933,377)	$ 170,289	$ (458,974)	$ 7,809,256
Net loss				(1,484,739)			(1,484,739)
Other comprehensive loss:							
Foreign currency translation adjustment					(22,552)		(22,552)
Total comprehensive loss:							(1,507,291)
Issuance of common shares exercise of stock options	5,667	6	10,593				10,599
Balance December 31, 2005	13,501,333	$ 13,502	$ 12,028,415	$ (5,418,116)	$ 147,737	$ (458,974)	$ 6,312,564

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2005	**2004**	**2003**
Operating Activities:			
Net loss	$ (1,484,739)	$ (4,223,295)	$ (562,103)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	510,338	758,779	877,623
Changes in assets and liabilities:			
Investigator advances	144,603	458,573	(184,394)
Accounts receivable	4,100,169	499,376	1,877,249
Prepaid expenses and other	(154,121)	8,035	214,082
Prepaid Taxes	1,119,275	135,186	(1,267,501)
Costs and estimated earnings in excess of related billings on uncompleted contracts	1,284,349	7,073,017	283,890
Other assets			600
Accounts payable	(696,404)	(2,443,251)	789,519
Accrued expenses	(161,136)	128,721	(140,071)
Other Liabilities	(116,341)	(116,340)	
Income taxes payable			(111,646)
Deferred taxes		(211,040)	(133,185)
Billings in excess of related costs and estimated earnings on uncompleted contracts	(425,481)	588,849	(636,271)
Customer advances	(60,367)	(1,952,289)	(580,098)
Net Cash Provided by Operating Activities	4,060,145	704,321	427,694
Investing Activities:			
Purchases of property and equipment	(86,388)	(274,587)	(580,755)
Net Cash Used In Investing Activities	(86,388)	(274,587)	(580,755)
Financing Activities:			
Net repayments under capital leases	(23,709)	(24,268)	(74,039)
Proceeds from exercise of stock options	10,599	645,409	76,827
Net Cash Provided (Used) By Financing Activities	(13,110)	621,141	2,788
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(22,552)	45,424	98,521
Net Increase (Decrease) In Cash and Cash Equivalents	3,938,095	1,096,299	(51,752)
Cash and Cash Equivalents, Beginning of Period	3,165,986	2,069,687	2,121,439
Cash and Cash Equivalents, End of Period	$ 7,104,081	$ 3,165,986	$ 2,069,687

See accompanying notes to the consolidated financial statements.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS:

In this discussion, the terms, Company , we , us , and our , refer to Covalent Group, Inc. and subsidiaries, except where it is made clear otherwise.

We are a clinical research organization which is a leader in the design and management of complex clinical trials for the pharmaceutical, biotechnology and medical device industries. Our mission is to provide our clients with high quality, full-service support for their clinical trials. We offer therapeutic expertise, experienced team management and advanced technologies. Our headquarters is based in Wayne, Pennsylvania and our International operations are in London, England.

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

In November 2000, we established Covalent Group, Ltd., a wholly-owned subsidiary in the United Kingdom, to support existing contracts on clinical trials and expand our presence internationally. We were incorporated in August 1989 in Nevada and in June 2002, the Company changed its state of incorporation to Delaware.

The Company has incurred losses in recent years. However, we believe we will be able to return to being a profitable business as a result of anticipated new business awards combined with a leaner cost structure, increased backlog and a more favorable mix of existing contracts. Management believes that cash on hand and cash from operations will be sufficient to meet the Company s obligations for the foreseeable future. In the event that we are not able to develop new business or existing contracts are terminated, there is a potential risk that the Company will not achieve profitability and, accordingly, might not be able to meet future cash obligations. There can be no assurance that anticipated new business will be obtained and if such business is not obtained our financial results and cash flow could be adversely and materially affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) require 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 period. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements for 2005, 2004 and 2003 include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investigator Advances

We received advance payments from one of our clients as part of a long-term contract, which includes a separate cash account to be utilized for payment of investigator fees. As of December 31, 2005 and 2004, this cash amount was $1,000 and $146,000, respectively. This amount is also included in customer advances in the accompanying balance sheets.

Revenue Recognition

The majority of our net revenue is recognized from fixed price contracts on a proportional performance method based on assumptions regarding the estimated completion of the project. This method is used because management considers total costs incurred to be the best available measure of progress on these contracts.

Each month costs are accumulated on each project and compared to total estimated cost to complete to determine the degree of completion for that particular project. This determines the percentage of completion for the project. This percentage of completion is multiplied by the contract value to determine the amount of revenue to be recognized. As the work progresses, original estimates may be adjusted due to revisions in the scope of work or other factors and a contract modification may be negotiated with the customer to cover additional costs. Our accounting policy for recognizing revenue for changes in scope is to recognize revenue when the Company has reached agreement with the client, the services pursuant to the change in scope have been performed, the price has been set forth in the change of scope document and collectibility is reasonably assured based on our course of dealings with the client. We bear the risk of cost overruns on work performed absent a signed contract modification. Because of the inherent uncertainties in estimating costs, it is reasonably possible that the cost estimates used will change in the near term and may have a material adverse impact on our financial performance.

In the past, we have had to commit unanticipated resources to complete projects resulting in lower gross margins on those projects. These unanticipated additional costs occurred on several long term contracts which we completed or substantially completed during 2004. These contracts spanned a period of three to six years. We may experience similar situations in the future although our current contracts in process are of a shorter duration and subject to less cost volatility. Should our estimated costs on fixed price contracts prove to be low in comparison to actual costs, future margins could be reduced, absent our ability to negotiate a contract modification.

Billings and the related payment terms from fixed price contracts are generally determined by provisions in the contract that may include certain payment schedules and the submission of required billing detail. Accordingly, cash receipts, including the receipt of up front payments and performance based milestone payments, do not necessarily correspond to costs incurred and revenue recognized on contracts. A contract s payment structure generally requires an up front payment of 10% to 15% of the contract value at or shortly after the initiation of the clinical trial, a series of periodic payments over the life of the contract and, in certain instances, milestone payments based on the achievement of certain agreed upon performance criteria. The up front payments are deferred and recognized as revenues as services are performed under the proportional performance method. Periodic payments, including, performance based milestone payments, are invoiced pursuant to the terms of the contract once the agreed upon performance criteria have been achieved. Milestone

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

payments are generally included in the total value of the contract. All payments received pursuant to the contract are recognized in accordance with the proportional performance method. In a comprehensive full service drug development program, the client would not generally purchase certain deliverables separately but as an integrated, full service arrangement in connection with the development of the drug. Examples of performance based milestones and interim deliverables include, but are not limited to, the completion of patient enrollment into the clinical trial, completion of the database and acceptance by the client of the final study report.

Clients generally may terminate a contract on short notice which might cause unplanned periods of excess capacity and reduced revenues and earnings. Client initiated delays or cancellations for ongoing clinical trials can come suddenly and may not be foreseeable. To offset the effects of early termination of significant contracts, we attempt to negotiate the payment of an early termination fee as part of the original contract. Generally, we have not generally been successful in negotiating such fees. Our contracts typically require payment to us of expenses incurred to wind down a study and fees earned to date. Therefore, revenue recognized prior to cancellation does not require a significant adjustment upon cancellation. If we determine that a loss will result from the performance of a fixed price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made.

Our accounting policy for recognizing revenue for terminated projects requires us to perform a reconciliation of study activities versus the activities set forth in the contract. We negotiate with the client, pursuant to the terms of the existing contract, regarding the wind up of existing study activities in order to clarify which services the client wants us to perform. Once we and the client agree on the reconciliation of study activities and the agreed upon services have been performed by us, we would record the additional revenue provided collectibility is reasonably assured.

Our operations have experienced, and may continue to experience, period-to-period fluctuations in net service revenue and results from operations. Because we generate a large proportion of our revenues from services performed at hourly rates, our revenues in any period is directly related to the number of employees and the number of hours worked by those employees during that period. Our results of operations in any one quarter can fluctuate depending upon, among other things, the number of weeks in the quarter, the number and related contract value of ongoing client engagements, the commencement, postponement and termination of engagements in the quarter, the mix of revenue, the extent of cost overruns, employee hiring, vacation patterns, exchange rate fluctuations and other factors.

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we pay fees to investigators and other out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board (FASB) Emerging Issues Task Force Rule No. 01-14 (EITF 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred , out-of-pocket costs are included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

As is customary in the industry, we exclude from revenue and expense in the Consolidated Statement of Operations fees paid to investigators and the associated reimbursement since we act as agent on behalf of our clients with regard to investigators. These investigator fees are not reflected in our Net Revenue, Reimbursement Revenue, Reimbursement Out-of-Pocket Expenses, and/or Direct Expenses. The amounts of these investigator fees were $1.2 million, $5.1 million, and $10.5 million for the years ended December 31, 2005, 2004, and 2003 respectively.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Accounts Receivable

Accounts receivable and costs and estimated earnings in excess of related billings on completed contracts represent amounts due from our clients who are concentrated primarily in the pharmaceutical, biotechnology and medical device industries. Included in accounts receivable are amounts due from clients in connection with unbilled out-of-pocket pass-through costs in the amount of $94,000 as of December 31, 2005 and $150,000 as of December 31, 2004.

Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical, biotechnology and medical device industries. The significant majority of this exposure is to large, well established firms. Credit losses have historically been minimal. As of December 31, 2005, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $1.5 million. Of this amount, the exposure to our three largest clients was 84% of the total, with the three largest clients representing 42%, 29%, and 13% of total exposure, respectively. As of December 31, 2004, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was $6.9 million. Of this amount, the exposure to our three largest clients was 55% of the total, with the three largest clients representing 34%, 11%, and 10% of total exposure, respectively.

Financial Instruments

The fair value of cash and cash equivalents, restricted cash, accounts receivable, costs and estimated earnings in excess of related billings on uncompleted contracts, accounts payable, accrued expenses and billings in excess of related costs and estimated earnings on uncompleted contracts were not materially different than their carrying amounts as reported at December 31, 2005 and December 31, 2004.

As of December 31, 2005, the Company was not a counterparty to any forward foreign exchange contracts or any other transaction involving a derivative financial instrument.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 8 years for equipment and furniture and fixtures and the remaining lease term for leasehold improvements and assets under capital lease. Depreciation and amortization for the years ended December 31, 2005, 2004 and 2003 was $510,000, $759,000 and $878,000, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or fully depreciated the cost and accumulated depreciation are removed from the accounts, and any gain or loss on the sale of property and equipment is included in operations.

Operating Expenses

Direct expenses include amounts incurred during the period that are directly related to the management or completion of a clinical trial or related project and generally include direct labor and related benefit charges, other direct costs and certain allocated expenses. Direct costs as a percentage of net revenues tend to fluctuate from one period to another, as a result of changes in the mix of services provided and the various studies conducted during any time period. Selling, general and administrative expenses include the salaries, wages and benefits of all administrative, finance and business development personnel, and all other support expenses not directly related to specific contracts.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Stock-Based Compensation

The Company has adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants. We account for grants of options to employees and directors under these plans applying the intrinsic value method provided for in Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees and related interpretations. No stock-based compensation expense is reflected in net income as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. In addition to APB Opinion No. 25, we provide the disclosures required by Statement of Financial Accounting Standards (SFAS) No. 123 Accounting for Stock-Based Compensation and by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. See Note 10.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation to stock-based employee compensation:

	Year Ended December 31,		
	2005	2004	2003
Net Loss as reported	$ (1,484,739)	$ (4,223,295)	$ (562,103)
Deduct: Pro forma stock-based compensation expense determined under the fair value method, net of related tax effects	(647,485)	(306,769)	(477,056)
Pro forma Net Loss	$ (2,132,224)	$ (4,530,064)	$ (1,039,159)
Net Loss Per Share			
Basic as reported	$ (0.11)	$ (0.32)	$ (0.04)
Basic pro forma	$ (0.16)	$ (0.34)	$ (0.08)
Diluted as reported	$ (0.11)	$ (0.32)	$ (0.04)
Diluted pro forma	$ (0.16)	$ (0.34)	$ (0.08)

Foreign Currency Translation

Assets and liabilities of the Company s international operations are translated into U.S. dollars at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The cumulative translation adjustment included in other comprehensive income for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was $23,000, $45,000, and $99,000, respectively.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes . SFAS No. 109 requires recognition of deferred tax liabilities and assets for the future expected tax consequences of events that have been included in the financial statements or tax returns. Under this method deferred tax liabilities and assets are determined based on the difference between the financial statement tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At December 31, 2005, the Company recorded a full valuation allowance against its net deferred tax assets and net operating loss carry-forwards given that it is more likely than not that the deferred tax asset will not be realized.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Earnings (Loss) Per Share

Earnings (loss) per share is calculated in accordance with SFAS No. 128, Earnings Per Share. Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of warrants and outstanding stock options under the Company s equity incentive plans. For 2005, 2004 and 2003 diluted net loss per common share is the same as basic net loss per common share, since the effects of potentially dilutive securities are antidilutive.

Supplemental Cash Flow Information

Cash paid for income taxes net of refunds for the years ended December 31, 2005, 2004, and 2003 was $0, $0, and $1.0 million, respectively. Cash paid for interest for the years ended December 31, 2005, 2004, and 2003 was $10,000, $10,000, and $13,000, respectively. We entered into capital leases with obligations totaling $0, $0, and $123,000 during the years ended December 31, 2005, 2004, and 2003, respectively.

The acquisition of property and equipment through lease incentives totaled $0 for years ended December 31, 2005 and 2004, respectively. During 2003, acquisition of property and equipment through lease incentives totaled $814 thousand.

On July 31, 2003, Dr. Borow, President and Chief Executive Officer of Covalent Group, Inc., exercised an employee stock option to acquire 500,000 shares of Covalent common stock. The option had a grant date of August 6, 1998, an expiration date of August 5, 2003 and an exercise price of $0.6875. As payment for the shares issued and related withholding taxes, Covalent Group, Inc. received from Dr. Borow 140,432 Covalent common shares that were owned by him. The shares received by the Company are included as treasury stock in our Consolidated Balance Sheet at December 31, 2005 and 2004.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Recently Issued Accounting Standards

In January 2003, the FASB issued Financial Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities. In December 2003, the FASB then issued FIN 46(R), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51, which replaced FIN 46. Application of FIN 46(R) was required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities for all other types of entities are required in financial statements for periods ending after March 15, 2004. The Company had adopted both FIN 46 and FIN 46(R), and the adoption had no impact on the Company s financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

as stated below and for hedging relationships designated after June 30, 2003. The provisions of SFAS No. 149 that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The Company has not entered into any derivative transactions and therefore the adoption of this standard has not had a material impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 has not had a material impact on our financial statements.

In December 2004, the FASB issued SFAS 123(R), Share-Based Payment SFAS No. 123(R) revises SFAS 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance. SFAS 123(R) will require compensation costs related to share-based payment transactions to be recognized in the financial statements. The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact from this standard on its future results of operations and financial position.

3. PROPERTY & EQUIPMENT:

	December 31, 2005	2004
Property & equipment consists of the following:		
Equipment	$ 976,917	$ 894,055
Furniture & fixtures	318,579	321,120
Leasehold improvements	1,016,581	1,016,581
Equipment under capital lease	123,000	123,000
	2,435,077	2,354,756
Accumulated depreciation	(1,537,888)	(1,033,617)
Property and equipment, net	$ 897,189	$ 1,321,139

The Company purchased $86 thousand of additional equipment in 2005. There was a reduction in net book value of UK assets due to foreign exchange rate differences totaling $6 thousand. At the end of 2004, the Company removed approximately $2.9 million of property and equipment from the accounts which was fully depreciated at the time of removal. The balance sheet and income statement impact of this removal on the net amount of property and equipment was zero for the year ended December 31, 2004. The removal of this property and equipment was a result of the Company determining that there was no future economic value of the property and equipment.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

4. INCOME TAXES:

The components of the income tax (benefit) provision are as follows:

	Year Ended December 31,		
	2005	**2004**	**2003**
Current:			
Federal	$	$ (1,034,313)	$ (406,859)
State			(3,988)
		(1,034,313)	(410,847)
Deferred:			
Federal		(192,730)	(96,103)
State		(18,310)	(37,082)
		(211,040)	(133,185)
	$	$ (1,245,353)	$ (544,032)

The federal statutory income tax rate is reconciled to the effective income tax rate as follows:

	Year Ended December 31,		
	2005	**2004**	**2003**
Federal statutory rate		(34.0)%	(34.0)%
State income taxes, net of federal benefit			(3.0)%
Adjustment to prior year accrual			(12.0)%
Increase in valuation allowance		11.2 %	
Other			(.02)%
		(22.8)%	(49.2)%

The components of the net current and long-term deferred tax assets and liabilities, measured under SFAS No. 109, are as follows:

	Year Ended December 31,		
	2005	**2004**	**2003**
Deferred Tax Asset			
Long Term contract revenue	$	$	$
Investment valuation			
Net Operating Losses			61,029
Other			

			61,029
Deferred tax liabilities			
Depreciation			(79,339)
Accrual			(192,730)
Other			
			(272,069)
Net deferred tax liability	$	$	$ (211,040)

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2005, the Company had federal and state net operating loss carryforwards of approximately $2,039,000 and $6,300,000, respectively. These net operating loss and credit carryforwards have begun to expire and will continue to expire through 2024.

	2005	2004
Deferred tax assets		
Net Operating loss carryforward	$ 1,071,000	$ 705,109
Depreciation	(15,900)	(15,936)
Accrual	13,300	15,184
Total deferred tax assets	1,068,400	704,357
Valuation allowance	1,068,400	704,357
Net deferred tax assets	$	$

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Due to the Company s recent loss history, and uncertainty regarding the realization of deferred tax assets, deferred tax assets have been fully reserved as of December 31, 2005. The utilization of federal net operating loss carryforwards is subject to annual limitations in accordance with Section 382 of the Internal Revenue code. Certain state carryforward net operating losses are also subject to annual limitations.

5. LINE OF CREDIT:

We previously maintained a demand line of credit with a bank under which maximum borrowings were the lesser of $2.5 million or 75% of eligible accounts receivable, as defined in the loan agreement, and interest was charged at the LIBOR Market Index Rate plus 2.65%. This line of credit expired on August 15, 2004.

6. EARNINGS (LOSS) PER SHARE:

Earnings (loss) per share is calculated in accordance with SFAS No. 128, Earnings Per Share. Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares plus the dilutive effect of outstanding stock options under the Company s equity incentive plans. For 2005, 2004 and 2003, diluted net loss per common share is the same as basic net loss per share, since the effects of potentially dilutive securities are anitdilutive. Stock options outstanding that are not included in the table below because of their anti-dilutive effect for the year ended December 31, 2005 were 22,213, for the year ended December 31, 2004 were 814,150 and for the year ended December 31, 2003 were 1,351,946.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

The net loss and weighted average common and common equivalent shares outstanding for purposes of calculating net loss per common share were computed as follows:

	Year Ended December 31,		
	2005	2004	2003
Net Loss	$ (1,484,739)	$ (4,223,295)	$ (562,103)
Weighted average number of common shares outstanding used in computing basic earnings per share	13,346,915	13,238,778	12,746,973
Dilutive effect of stock options outstanding			
Weighted average shares used in computing diluted earnings per share	13,346,915	13,238,778	12,746,973
Basic loss per share	$ (0.11)	$ (0.32)	$ (0.04)
Diluted loss per share	$ (0.11)	$ (0.32)	$ (0.04)

7. STOCKHOLDERS EQUITY:

Treasury Stock

We have 152,932 common shares in treasury. The shares are valued using the cost method of accounting for treasury stock.

8. EXERCISE OF EMPLOYEE STOCK OPTION

On July 31, 2003, Dr. Borow, President and Chief Executive Officer of Covalent Group, Inc., exercised an employee stock option to acquire 500,000 shares of Covalent common stock. The option had a grant date of August 6, 1998, an expiration date of August 5, 2003 and an exercise price of $0.6875. As payment for the shares issued and related withholding taxes, Covalent Group, Inc. received from Dr. Borow 140,432 Covalent common shares that were owned by him. The shares received by the Company are included as treasury stock in our Consolidated Balance Sheet at December 31, 2005 and 2004.

9. STOCK-BASED COMPENSATION:

We have adopted equity incentive plans that provide for the granting of stock options to employees, directors, advisors and consultants. We account for grants of options to employees and directors under these plans applying the intrinsic value method provided for in Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees and related interpretations. No stock-based compensation expense is reflected in net income as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. In addition to APB Opinion No. 25, we provide the disclosures required by SFAS No. 123 Accounting for Stock-Based Compensation and by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. See Note 2 for disclosure of Pro Forma Net Loss and Net Loss- Per Share.

For purposes of determining the pro forma amounts in Note 2, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,					
	2005		2004		2003	
Risk-free interest rate	3.63%	4.24%	2.85%	3.91%	2.11%	3.54%

Expected dividend yield			
Expected life	5 years	5 years	5 years
Expected volatility	45%	56%	49%

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Based upon the above assumptions, the weighted average fair value of the stock options granted for the years ended December 31, 2005, 2004, and 2003 was $1.02, $1.56, and $1.01 respectively. As of December 31, 2005, the weighted average remaining contractual life of stock options outstanding was 3.3 years. Because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects on reported net income for future years.

2002 Equity Incentive Plan

In March 2002, the Board of Directors approved the 2002 Equity Incentive Plan, which was approved by the stockholders in June 2002. Upon adoption, a total of 1,000,000 shares were available for grant under this plan. The plan provides for the granting of incentive and non-qualified stock options for the purchase of shares of common stock to directors, officers, employees, advisors and consultants, as defined under the provisions of the plan.

1996 Equity Incentive Plan

The Company s 1996 Stock Incentive Plan and 1995 Stock Option Plan provide for the granting of incentive and non-qualified stock options for the purchase of shares of common stock to directors, officers, employees and consultants, as defined under the provisions of the plans. The 1996 Stock Incentive Plan was amended in 2000 to increase the number of common shares available for grant from 2,500,000 to 3,000,000. The stock incentive plan provides for the granting of incentive and non-qualified stock options for the purchase of shares of common stock to directors, employees and non-employee consultants, as defined under the provisions of the plan.

Aggregate stock option activities for all plans for the years ended December 31, 2005, 2004, and 2003 were as follows:

	Number of Shares	Range of Exercise Prices per Share	Weighted Average Exercise Price per Share
Options outstanding at January 1, 2003	2,404,272	$ 0.69 - 4.49	$2.68
Granted	354,000	2.05 - 2.59	2.20
Exercised	(570,900)	0.69 - 2.19	0.85
Canceled	(438,376)	1.94 - 4.47	2.78
Options outstanding at December 31, 2003	1,748,996	$ 1.80 - 4.49	$3.15
Granted	274,450	2.23 - 3.93	3.04
Exercised	(260,183)	1.94 - 2.86	2.49
Canceled	(282,071)	1.80 - 4.39	3.03
Options outstanding at December 31, 2004	1,481,192	$ 1.80 - 4.49	$3.27
Granted	776,250	2.05 - 2.82	2.25
Exercised	(5,667)	1.80 - 2.17	1.91
Canceled	(888,902)	1.94 - 4.38	3.57
Options outstanding at December 31, 2005	1,362,873	$ 1.94 - 4.49	$2.50
Exercisable options outstanding at:			
December 31, 2003	984,225	$ 1.80 - 4.49	$3.36
December 31, 2004	1,014,711	$ 1.80 - 4.49	$3.45
December 31, 2005	440,797	$ 1.94 - 4.49	$2.70

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

The following table summarizes information regarding stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At December 31, 2005	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price per Share	Number Exercisable December 31, 2005	Weighted Average Exercise Price
$1.94	87,540	0.2	$ 1.94	87,540	$ 1.94
2.05 - 2.50	900,233	4.2	2.27	95,956	2.33
2.59 - 2.90	168,600	1.4	2.80	139,734	2.83
3.00 - 3.19	86,500	1.1	3.17	72,900	3.17
3.50 - 3.69	110,000	3.6	3.68	36,667	3.68
4.00 - 4.49	10,000	1.3	4.49	8,000	4.49
	1,362,873	3.3	$ 2.50	440,797	$ 2.70

As of December 31, 2005, there were 706,026 stock options available for grant under our stock option plans.

10. EMPLOYEE BENEFIT PLAN:

The Company sponsors a 401(k) retirement savings plan that is available to substantially all its U.S. based full-time employees who elect to participate. Effective January 1, 2003, the Company began providing a matching contribution equal to 50% on the first 2% of the participant s compensation (excluding bonus payments). In 2005 and 2004 company matching contributions were $26 thousand and $39 thousand, respectively. Matching contributions are determined each payroll period. The matching contribution is credited to the participant using a graded vesting schedule with six or more years of service required to become fully vested. The method for crediting vesting service is the plan year.

11. SEGMENT DISCLOSURES:

The Company has adopted the provisions of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information which establishes standards for reporting business segment information. The Company operates in one segment predominantly in the clinical research industry providing a broad range of clinical research services on a global basis to the pharmaceutical, biotechnology and medical device industries.

The following table summarizes the distribution of net revenue and contracts with significant clients:

	Year Ended December 31,					
	2005		2004		2003	
	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts	Percentage of Revenues	Number of Contracts
Client A	27%	3	23%	3	41%	12
Client B	26	4	19	5	21	3
Client C	17	7	15	2	7	1
Client D	13	3	0	0	0	0

Top Four Clients	83%	17	57%	15	69%	16

Client A, B, C and D in the table above represent the four largest clients for 2005, but do not necessarily represent the same client for each year shown.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

The significant clients above represented 72% and 2%, respectively, of the balance of cost and estimated earnings in excess of related billings on uncompleted contracts at December 31, 2005 and 2004.

The following table summarizes the distribution of net revenues from external clients by geographical area:

	Year Ended December 31,		
	2005	2004	2003
U.S.	$ 9,720,665	$ 12,264,999	$ 19,678,729
Europe	682,414	1,324,615	1,157,013
Total	$ 10,403,079	$ 13,589,614	$ 20,835,742

12. CAPITAL AND OPERATING LEASE COMMITMENTS:

We entered into no new capital lease obligations during 2005. Leased equipment accounted for as a capital lease at December 31, 2005 totaled $123,000 with associated accumulated amortization of $67,650.

Future minimum lease payments on capital lease obligations at December 31, 2005 are as follows:

For the year ending December 31:	
2006	31,704
2007	31,704
2008	7,926
Total	$ 71,334
Less amount representing interest	(8,025)
Present value of capital lease payments	$ 63,309

We are committed under a number of non-cancelable operating leases, primarily related to office space and other office equipment. Total lease expense was $932 thousand for the year ended December 31, 2005, $922 thousand for the year ended December 31, 2004, and $987 thousand for the year ended December 31, 2003.

Future minimum lease payments on operating lease obligations at December 31, 2005, are as follows:

	Total	1 Year	2-3 Years	4-5 Years	> 5 Years
Operating leases	$ 3,917,549	$ 966,619	$ 1,981,189	$ 969,741	$

13. OTHER LIABILITIES

As of January 1, 2003, the Company increased by approximately 12,700 to 34,000 the amount of square feet under lease in the same building. The term of the lease was also extended to 2009 and monthly lease payments increased from $50 thousand to $72 thousand. As an incentive for

the Company to acquire the additional space, the lessor granted the Company $814 thousand in lease incentives that were used to pay for architectural fees, renovations and improvement costs for the new space. The lease incentives were capitalized as if the Company incurred the costs to make the improvements and are included in Property and Equipment. These assets and the related liability are amortized over the remaining life of the lease at a rate of approximately $116 thousand per year as an additional amortization expense and a reduction in rent expense, respectively. The accounting for these lease incentives has no impact on net income, stockholders equity or cash flow.

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

14. QUARTERLY FINANCIAL DATA (UNAUDITED):

	For the Quarter Ended			
	March 31	**June 30**	**September 30**	**December 31**
2005				
Net Revenues	$ 3,213,529	$ 2,328,379	$ 2,713,702	$ 2,147,469
Loss From Operations	(113,103)	(501,722)	(290,787)	(719,488)
Net Loss	(98,472)	(483,074)	(244,363)	(658,830)
Net Loss Per Common Share				
Basic	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.05)
Diluted	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.05)
2004				
Net Revenue	$ 5,282,585	$ 3,778,774	$ 1,876,406	$ 2,651,849
Income (Loss) From Operations	29,665	(1,951,200)	(2,148,791)	(1,401,522)
Net Income (Loss)	27,105	(1,446,730)	(1,443,314)	(1,360,356)
Net Loss Per Common Share				
Basic	$	$ (0.11)	$ (0.11)	$ (0.10)
Diluted	$	$ (0.11)	$ (0.11)	$ (0.10)

15. COMMITMENTS AND CONTINGENCIES:

We have entered into an employment agreement with one of our officers that calls for specified minimum annual compensation of $325,000 per year over a three-year period and includes provisions for continuation of salary upon termination as defined in the agreement. This agreement will expire on March 31, 2006.

The contract research organization industry is subject to legislation and regulations that are revised or amended on an on-going basis. The impact of complying with such legislation and regulations could materially affect our business.

As discussed in Item. 7, and as set forth in the table below, the Company is obligated under outsourcing agreements related to certain aspects of its support functions, which are reflected as purchase obligations in the table below. Actual amounts paid under these outsourcing agreements could be higher or lower than the amounts shown below as a result of changes in volume and other variables.

		Payments due by period			
Contractual Obligations	**Total**	**<1 Year**	**1-3 Years**	**3-5 Years**	**>5 years**
Purchase Obligations	$ 934,286	$ 338,077	$ 449,285	$ 146,924	$

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Covalent Group, Inc.

Notes to Consolidated Financial Statements (Continued)

16. SUBSEQUENT EVENTS:

In March 2006, we announced the signing of a Combination Agreement with Remedium OY (Remedium), a privately owned, full service CRO based in Espoo, Finland with offices in 8 countries throughout Scandinavia, Central Europe and Eastern Europe. Under the terms of the Agreement, we expect to pay approximately $20 million for all of the outstanding shares and common stock equivalents of Remedium. The consideration for the transaction is expected to be in the form of Company shares in the amount of $16 million and $4 million in cash, subject to certain purchase price adjustments. The closing of the transaction is expected to occur at the end of the second quarter of 2006 subject to certain contingencies including, but not limited to, the approval of our stockholders and a scheduled new fundraising for at least $4 million to help finance the transaction. In connection with the transaction, we plan to change our name to Encorium BioSolutions, Inc. and apply for a new ticker symbol in connection with our name change.

During the year ended December 31, 2005, the Company incurred approximately $122,000 of costs related to the Remedium acquisition which it charged to selling, general and administrative expense. The costs were primarily for professional fees related to the acquisition as well as travel related expenses.

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INDEPENDENT AUDITORS REPORT

To the Board of Directors of Remedium Oy

We have audited the accompanying consolidated balance sheets of Remedium Oy (the Company) and subsidiaries (collectively the Group) as of December 31, 2005 and 2004, and the consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for the years ended December 31, 2005, 2004 and 2003. 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 the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 financial position of the Group as of December 31, 2005 and 2004, and the results of the Group s operations and cash flows for the years ended December 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

Helsinki, Finland

May 12, 2006

KPMG Oy Ab

Virpi Halonen

Authorized Public Accountant

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Remedium Oy and Subsidiaries

Consolidated Statements of Operations

	Note	Year Ended December 31, 2005	2004	2003
Net revenue		7,668,649	11,570,657	9,932,008
Reimbursement revenue		863,351	858,572	853,515
Total Revenue		8,532,000	12,429,229	10,785,523
Operating Costs and Expenses				
Direct		4,428,864	5,024,511	5,453,056
Reimbursable out-of-pocket expenses		863,351	858,572	853,515
Selling, general and administrative expenses		3,584,342	2,828,430	2,187,253
Depreciation and amortization		79,073	178,119	135,202
Total Operating Expenses		8,955,630	8,889,632	8,629,026
(Loss) Income from Operations		(423,630)	3,539,597	2,156,497
Financial Income	3	25,440	18,545	85,077
Financial Expense	3	(16,147)	(8,254)	(3,774)
Net Financial Income		9,293	10,291	81,303
(Loss) Income before Income Taxes and Minority Interest		(414,337)	3,549,888	2,237,800
Income Tax Provision	4	29,189	1,070,615	659,959
Minority Interest, net				36,178
Net (Loss) Income		(443,526)	2,479,273	1,614,019

See accompanying notes to the consolidated financial statements.

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Remedium Oy and Subsidiaries

Consolidated Balance Sheets

	Note	As of December 31, 2005	2004
Assets			
Current Assets			
Cash and Cash equivalents		186,820	632,300
Available for sale investments	5		1,561,711
Accounts receivable, less allowance of 0 and 0 for 2005 and 2004		1,975,411	975,618
Costs and estimated earnings in excess of related billings on uncompleted contracts	6	261,059	16,629
Prepaid expenses and other	7	428,739	171,087
Total Current Assets		2,852,029	3,357,345
Long Term Assets			
Property and Equipment, Net	8	218,652	249,776
Goodwill	10	278,384	279,031
Other Intangible Assets	10	69,354	85,229
Deferred Tax	4	54,475	62,534
Restricted Cash		186,534	179,369
Total Long Term Assets		807,399	855,939
Total Assets		3,659,428	4,213,284
Liabilities and Stockholders Equity			
Current Liabilities			
Accounts payable		299,542	220,287
Bank overdrafts	14	675,344	45,297
Accrued expenses and other	11	1,399,293	1,088,193
Billings in excess of related costs and estimated earnings on uncompleted contracts	6	149,669	113,230
Total Current Liabilities		2,523,848	1,467,007
Long Term Liabilities			
Pension	13	153,000	119,000
Long Term Loans			22,469
Total Long Term Liabilities		153,000	141,469
Total Liabilities		2,676,848	1,608,476
Stockholders Equity			
Common stock, 1.70 par Value 13,400 share authorized and issued		22,780	22,780
Additional paid-in capital		127,316	127,316
Deferred Compensation		(10,312)	(41,362)
Retained earnings		847,921	2,497,447
Other comprehensive income		(5,125)	(1,373)
Total Stockholders Equity		982,580	2,604,808

Total Liabilities and Stockholders Equity	3,659,428	4,213,284

See accompanying notes to the consolidated financial statements

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Remedium Oy and Subsidiaries

Consolidated Statements of Stockholders Equity

	Number of Common Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Other Comprehensive Income	Total
Balance at December 31, 2002	13,400	22,780	61,316	2,324,995		21,448	2,430,539
Net income				1,614,019			1,614,019
Dividends				(2,383,860)			(2,383,860)
Realised gain on disposal of available for sale investments, net of 8,044 tax						(19,694)	(19,694)
Translation adjustment, net of 0 tax						(610)	(610)
Balance at December 31, 2003	13,400	22,780	61,316	1,555,154		1,144	1,640,394
Net income				2,479,273			2,479,273
Dividends				(1,536,980)			(1,536,980)
Unrealised gain on available-for-sale investments, net of 1,718 tax						4,603	4,603
Realised gain on disposal of available for sale investments, net of 717 tax						(1,754)	(1,754)
Translation adjustment, net of 0 tax						(5,366)	(5,366)
Issuance of stock options			66,000		(66,000)		
Deferred compensation amortization					24,638		24,638
Balance at December 31, 2004	13,400	22,780	127,316	2,497,447	(41,362)	(1,373)	2,604,808
Net income				(443,526)			(443,526)
Dividends				(1,206,000)			(1,206,000)
Realised gain on disposal of available for sale investments, net of 1,718 tax						(4,603)	(4,603)
Translation adjustment, net of 0 tax						851	851
Deferred compensation amortization					31,050		31,050
Balance at December 31, 2005	13,400	22,780	127,316	847,921	(10,312)	(5,125)	982,580

See accompanying notes to the consolidated financial statements.

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Remedium Oy and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2005	**2004**	**2003**
Operating Activities:			
Net income (loss)	(443,526)	2,479,273	1,614,019
Adjustments to reconcile net (loss) income to net cash provided (used) by operating activities:			
Depreciation and amortization	79,073	178,119	135,202
Noncash stock based compensation	31,050	24,638	
Profit on sale of investments	(16,913)	(14,257)	(57,232)
Changes in assets and liabilities;			
Restricted cash	(7,165)	(1,375)	(82)
Accounts receivable	(999,793)	197,089	(241,873)
Prepaid expenses and other	(184,246)	(34,178)	14,853
Prepaid taxes	(72,556)	(14,669)	(50,205)
Costs and estimated earnings in excess of related billings on uncompleted contracts	(244,430)	(16,629)	
Accounts payable	79,259	46,607	130,453
Accrued expenses and provisions	338,793	(328,242)	94,729
Billings in excess of related costs and estimated earnings on uncompleted contracts	53,068	(65,664)	178,894
Net Cash (Used In)/Provided by Operating Activities	(1,387,386)	2,450,712	1.818,758
Investing Activities:			
Purchases of property and equipment	(32,075)	(93,202)	(258,911)
Purchase of available for sale investments		(2,800,000)	(2,131,000)
Proceeds from sale of available for sale investments	1,572,303	2,358,887	3,112,054
Acquisition of Group companies		(63,723)	(183,952)
Net Cash Generated (Used) in Investing Activities	1,540,228	(598,038)	538,191
Financing Activities:			
Proceeds from borrowings	652,975	29,979	15,318
Repayment of borrowings	(45,297)	(11,269)	
Dividends paid	(1,206,000)	(1,536,980)	(2,383,860)
Net Cash Provided by Financing Activities	(598,322)	(1,518,270)	(2,368,542)
Net Increase (Decrease) In Cash and Cash Equivalents	(445,480)	334,404	(11,593)
Cash and Cash Equivalents, Beginning of Period	632,300	297,896	309,489
Cash and Cash Equivalents, End of Period	186,820	632,300	297,896

See accompanying notes to the consolidated financial statements.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS:

In this discussion, the terms, Company , we , us , and our , refer to Remedium Oy and subsidiaries, except where it is made clear otherwise.

Founded in 1996, Remedium Oy (Remedium), is a privately-held, full-service clinical research organization (CRO) for Phase I-IV clinical development of drugs and biologics to the pharmaceutical and biotechnology industries based in Finland with offices in 8 countries throughout Scandinavia, Central Europe, and Eastern Europe. Its in-house staff consists of 11 physicians, clinical and data management teams, and an early development team that specializes in fast-tracking Phase I and Phase II studies. Remedium s comprehensive services include the filing of Investigational New Drug (IND) and similar regulatory applications, preparation and submission of New Drug Applications (NDAs), and post-marketing surveillance on an international basis. Remedium has completed more than 160 clinical research projects involving over 45,000 subjects. Remedium applies the highest standards within the industry and has validated systems. It has strong relationships with government-owned clinics and specialty societies focused on cardiovascular and oncologic diseases. In addition, it has a well-developed network of consulting specialists and Principal Investigators throughout Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements for 2005, 2004 and 2003 include our accounts and the accounts of companies in our control. At 31 December 2005 and 2004 all subsidiaries were wholly owned. Intercompany transactions and balances have been eliminated on consolidation.

Basis of Presentation

In 2005 we established two new companies in Poland and Romania to add to our operations in Sweden, which was established in 2004, and Estonia and Lithuania, which were established in 2003.

In 2003 we acquired a controlling interest of 51 % in the Danish CRO company Meddoc Aps and in 2004 acquired the remaining minority interest of 49 %. This acquisition was accounted for using the purchase method of accounting, utilizing appropriate fair value techniques to allocate the purchase price based on estimated fair values of assets and liabilities. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in the Company s consolidated balance sheet as of the effective date of the acquisition. The total purchase consideration in 2003 and 2004 amounted to 260,756 of which 48,900 related to direct acquisition costs for legal, appraisal and accounting fees.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) require 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 period. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2005 and 2004 cash and cash equivalents consisted of amounts held at bank.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Restricted Cash

In connection with some of our real estate rental agreements we are required to maintain cash deposits with financial institutions. These restricted cash balances are classified in accordance with the remaining rental period of the property in question. As of December 31, 2005 and 2004, this restricted cash amount was 186,534 and 179,369, respectively and included in long-term assets.

Revenue Recognition

A significant portion of our revenue is recognized from the outsourcing of personnel to our clients. This revenue is recognized based on actual hours incurred at the agreed upon contract rate.

We also have revenue, which is recognized from fixed-price contracts on a proportional performance basis. To measure the performance, we compare actual direct costs incurred to estimated total contract direct costs, which is the best indicator of the performance of the contract obligations as the costs relate to the labour hours incurred to perform the service. Total direct costs are incurred for each contract and compared to estimated total direct costs for each contract to determine the percentage of the contract that is completed. This percentage is multiplied by the estimated total contract value to determine the amount of net revenue recognized. A formal project review process takes place at period end although most projects are evaluated on an ongoing basis. Management reviews the estimated total direct costs on each contract to determine if estimated amounts are correct, and estimates are adjusted as needed. If we determine that a loss will result from the performance of a fixed-price contract, the entire amount of the estimated loss is charged against income in the period in which such determination is made. Because of the inherent uncertainties in estimating direct costs required to complete a project, particularly complex, multi-year studies, it is possible that the estimates used will change and could result in a material change to our estimates. Original estimates might also be changed due to changes in the scope of work. We attempt to negotiate contract amendments with the client to cover these services provided outside the terms of the original contract. There can be no assurance that the client will agree to the proposed amendments, and we ultimately bear the risk of cost overruns. Accordingly no change in estimate is made to the total contract value until our clients have formally approved the contract amendments. Changes to the estimated total contract direct costs result in a cumulative adjustment to the amount of revenue recognized.

Costs and estimated earnings in excess of related billings on uncompleted contracts represents net revenue recognized to date that is currently unbillable to the client pursuant to contractual terms. In general, amounts become billable upon the achievement of milestones or in accordance with predetermined payment schedules set forth in the contracts with our clients. Billings in excess of related costs and estimated earnings on uncompleted contracts represent amounts billed in excess of net revenue recognized at the balance sheet date.

Net Revenue

The Company s consolidated net revenues represent the Company s total revenues less allowances for customer credits, including estimated discounts and rebates.

Reimbursable Out-of-Pocket Expenses

On behalf of our clients, we incur out-of-pocket costs for which we are reimbursed at cost, without mark-up or profit. Effective January 1, 2002, in connection with the required implementation of Financial Accounting Standards Board (FASB) Emerging Issues Task Force Rule No. 01-04 (EITF 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred , out-of-pocket costs are included in Operating Expenses, while the reimbursements received are reported separately as Reimbursement Revenue in the Consolidated Statements of Operations.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Concentration of Credit Risk

Our accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts are concentrated with a small number of companies within the pharmaceutical industry. The significant majority of this exposure is to large, well-established firms. We have not experienced any credit losses in the past. As of December 31, 2005, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was 2,236,470. Of this amount, the exposure to our three largest clients was 39 % of the total, with the three largest clients representing 18 %, 12 %, and 9 % of total exposure, respectively. As of December 31, 2004, the total of accounts receivable and costs and estimated earnings in excess of related billings on uncompleted contracts was 992,247. Of this amount, the exposure to our three largest clients was 31 % of the total, with the three largest clients representing 13 %, 11 %, and 7 % of total exposure, respectively.

Financial Instruments

The fair value of cash and cash equivalents, restricted cash, accounts receivable, costs and estimated earnings in excess of related billings on uncompleted contracts, accounts payable, loans, accrued expenses and billings in excess of related costs and estimated earnings on uncompleted contracts were not materially different than their carrying amounts as reported at December 31, 2005 and December 31, 2004.

As of December 31, 2005 and 2004, the Company was not counterparty to any forward foreign exchange contracts or any other transaction involving a derivative financial instrument.

Property and Equipment

Property and Equipment is recorded at cost. Depreciation is provided using the declining balance method over the estimated useful lives of the assets, which range from 3 to 10 years for equipment and furniture and fixtures. Depreciation and amortization for the years ended December 31, 2005 and 2004 was 79,073 and 178,119, respectively. Expenditures for maintenance and repairs are charged to expense as incurred. When assets are sold, retired, or fully depreciated the cost and accumulated depreciation are removed from the accounts, and any gain or loss on the sale of property and equipment is included in operations.

Goodwill and other intangible assets

The excess of the purchase price of a business acquired over the fair value of net tangible assets and identifiable intangible assets at the date of the acquisition has been assigned to goodwill. In accordance with SFAS 142, Goodwill and Other Intangible Assets , goodwill is evaluated for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Customer relationships recognised in the course of business acquisitions are fair valued and amortised over their expected lives of 7 to 10 years. Order backlog fair valued during acquisitions is amortised over the related contract period. License agreements acquired for software are amortised over the estimated useful lives which range from 3 to 5 years.

Operating Expenses

Direct expenses include amounts incurred during the period that are directly related to the management or completion of a clinical trial or related project and generally include direct labour and related benefit charges, other direct costs and certain allocated expenses. Direct costs as a percentage of net revenues tend to fluctuate from one period to another, as a result of changes in the mix of services provided and the various studies conducted during any time period. Selling, general and administrative expenses include the salaries, wages and benefits of all administrative, finance and business development personnel, and all other support expenses not directly related to specific contracts.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Stock-Based Compensation

The Company accounts for stock-based compensation based on the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), which states that, for fixed plans, no compensation expense is recorded for stock options or other stock-based awards to employees that are granted with an exercise price equal to or above the estimated fair value per share of the Company s common stock on the grant date. If stock options are granted with an exercise price below the estimated fair value of the Company s common stock at the grant date, the difference between the fair value of the Company s common stock and the exercise price of the stock option is recorded as deferred compensation. Deferred compensation is amortized to compensation expense over the vesting period of the stock option. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation and Statement of Financial Accounting Standards No. 148, Accounting for Stock Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123 , which requires compensation expense to be disclosed in the notes based on the fair value of the options granted at the date of the grant. Had compensation cost for the Company s stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method required by SFAS No. 123, the Company s net income and diluted net income per common share would have been the pro forma amounts indicated below.

	Year Ended December 31,		
	2005	**2004**	**2003**
Net (loss)/income as reported	(443,526)	2,479,273	1,614,019
Add: Total Stock-based employee compensation expense determined under intrinsic method, net of tax effects	31,050	24,638	
Less: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(123,269)	(97,811)	
Pro forma net income	(535,745)	2,406,100	1,614,019

The Company has just one incentive plan being the 2004 plan. The fair value of this option grant was estimated to be 397 on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31, 2004
Expected dividend yield	0%
Expected lives (years)	4.8 years
Risk-free interest rate (%)	3.11%
Expected volatility (%)	45%

The company will adopt FAS 123R from January 1, 2006.

Foreign Currency Translations

Assets and liabilities of the Company s subsidiaries whose functional currencies are not Euros are translated into Euros at exchange rates in effect on the balance sheet date and equity accounts are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in effect during the year. Gains or losses from translating foreign currency financial statements are recorded in other comprehensive income. The cumulative translation adjustment included in other comprehensive income for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was 5,125, 5,976, and 610, respectively.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Income Taxes

Income taxes are accounted for under the asset and liability method. 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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those 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.

Pensions

The Company accounts for pensions in accordance with the provisions of Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions. The pension expense is recorded on a full accrual basis and reflected in the income statement over the working lives of the employees provided with such benefits. The economic and demographic assumptions used in calculating pension expense are reviewed and updated periodically. The company has estimated the effect on the net income and shareholder equity assuming the adoption of SFAS No. 87 as of January 1, 2003 as the adoption on the actual effective date of January 1, 1989 was not feasible. The transitional obligation has been recognized in equity immediately upon adoption of FAS 87. Elements of the Finnish statutory employment pension scheme (TEL) must be accounted for as defined benefit plans under FAS 87. All other employment pension schemes within the group are accounted for as defined contribution plans.

Comprehensive Income

The Company has elected to present comprehensive income and its components in the Statements of Stockholders Equity. The components of comprehensive income are net income and all other non-owner changes in equity. At the year ended December 31, 2005 the balance consisted of translation adjustment of 5,125. At the year ended December 31, 2004 the balance consisted of translation adjustment of 5,976 and fair value adjustment of 4,603 relating to available for sale investments.

Financial Assets

The Company classifies its investments into three categories of trading, held to maturity and available for sale investments however at the year ended December 31, 2005 held no investments. At the year ended December 31, 2004 the company held available for sale investments comprising of marketable debt (Sampo Bank Interest Rate Fund), which was fair valued using the current market value. The fair value changes of available for sale investments are recognized in shareholder s equity. When the investment is disposed of, the related accumulated fair value changes are released from shareholder s equity and recognized in the income statement as part of interest income.

Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs were approximately 134,617, 191,295 and 107,507 for the years ended December 31, 2003, 2004 and 2005, respectively.

Supplemental Cash Flow Information

Cash paid for income taxes net of refunds for the years ended December 31, 2005, 2004 and 2003 was 101,746, 972,285 and 662,032, respectively. Cash paid for interest for the years ended December 31, 2005, 2004 and 2003 was 16,147, 8,254 and 3,774.

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Recently Issued Accounting Standards

In November 2005, The FASB issued Staff Position No. (FSP) 115-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. FSP 115-1 provides accounting guidance for identifying and recognizing other-than-temporary impairments of debt and equity securities, as well as cost method investments in addition to disclosure requirements. FSP 115-1 is effective for reporting periods beginning after December 15, 2005. As the company has no investments in debt or equity securities the adoption of FSP 115-1 will not have a material impact on the Group s financial condition or results or operations.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which (SFAS 123R), which will be effective for us on January 1, 2006. The adoption of SFAS 123R will increase operating expenses and therefore negatively affect income from operations. The increase in costs is expected to be approximately 31,000 in 2006. All outstanding options will be fully vested by 31 December 2006. The Company does not plan to issue any new options in 2006.

3. FINANCIAL INCOME AND EXPENSE

	Year Ended December 31,		
	2005	**2004**	**2003**
Interest income	8,527	4,288	27,845
Gain on sale of available for sale investment	16,913	14,257	57,232
Interest (expense)	(12,938)	(6,665)	(6,628)
Foreign exchange gain/(loss)	(3,209)	(1,589)	2,854
Net financial income	9,293	10,291	81,303

4. INCOME TAXES:

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

	Year Ended December 31,		
	2005	**2004**	**2003**
Domestic	51,369	3,770,327	2,431,129
Foreign	(465,706)	(220,439)	(193,329)
(Loss)/Income from continuing operations	(414,337)	3,549,888	2,237,800

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

	Year Ended December 31,		
	2005	**2004**	**2003**

Domestic			
Current	(17,563)	1,085,284	710,164
Deferred	55,737	16,854	(22,542)
Foreign			
Current	(5,630)	1,321	
Deferred	(3,355)	(32,844)	(27,663)
Provision for income taxes	29,189	1,070,615	659,959

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

Taxes computed at the statutory income tax rates are reconciled to the provision for income taxes as follows:

	Year Ended December 31,		
	2005	2004	2003
Statutory income tax rate	26%	29%	29%
Effective tax rate	(7)%	30%	29%
Statutory rate	(107,728)	1,029,468	648,462
Non-deductible expenses net of non-taxable income	20,295	(7,489)	1,677
Valuation allowance	97,572	49,393	
Foreign tax rate differential	19,050	3,624	9,820
Change in tax rates		(4,381)	
	29,189	1,070,615	659,959

The statutory tax rate in Finland decreased from 29% to 26% for fiscal years commencing January 1, 2005 however the change was enacted in 2004 and the deferred tax balances at December 31, 2004 reflect the change in rate.

	Year Ended December 31,	
	2005	2004
Components of the deferred tax asset were as follows:		
Future Benefit of net operating losses	209,830	123,599
Accruals		5,822
Billings in excess of related costs and estimated earnings on uncompleted contracts	38,914	29,440
Pension provision	39,780	30,967
Gross deferred tax asset	288,524	189,828
Valuation allowance	(146,965)	(49,393)
Net deferred tax asset	141,559	140,435
Components of the deferred tax liability were as follows:		
Unrealized gain on investments		(1,718)
Costs and estimated earnings in excess of related billings on uncompleted contracts	(67,875)	(4,324)
Property and equipment	(14,650)	(10,988)
Other intangible assets	(13,951)	(12,962)
Total deferred tax liabilities	(96,476)	(29,992)
Net deferred tax	45,083	110,443
Current deferred tax asset	19,569	47,909
Non-current deferred tax asset	54,475	62,534
Current deferred tax liability	(28,961)	

	45,083	110,443

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Remedium Oy and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

As of December 31,2005, the Company had tax benefits of 209,830 arising from operating losses of 695,331 which can be carried forward indefinitely. Due to certain foreign operations recent loss history and the uncertainty regarding the realization of the related deferred tax asset a valuation allowance of 146,965 has been established.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Tax loss carryforwards can be carried forward indefinitely. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2005. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The income tax costs (benefits) related to unrealised gains and losses in comprehensive income components of stockholders equity were 467 in 2003, (561) in 2004 and (1,801) in 2005.

5. AVAILABLE FOR SALE INVESTMENTS

The available for sale investment consisted solely of an investment in a Sampo Bank interest rate fund.

	Year Ended December 31,	
	2005	**2004**
Acquisition cost at January 1,	1,555,390	1,100,020
Fair value in other comprehensive income	6,321	2,471