This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
✓ **Accounting**: Quality of Earnings Issues
Governance: Corporate Governance Issues
✓ **Fundamentals:** Fundamental analysis

Behaviors Clearly Indicate Increased Competition
Pharmaceutical Product Development Inc. (NASDAQ:PPDI) Update

October 10, 2007

Contact: Bob Gabele (954) 779-3974 or bgabele@3DAdvisors.com

Business Description

Pharmaceutical Product Development Inc., a contract research organization, provides drug discovery and development services, post-approval expertise, and compound partnering programs. The company operates in two segments: Discovery Sciences and Development. The company also offers support services, such as product launch services, medical information, patient compliance programs, patient and disease registry programs, product safety and pharmacovigilance, phase IV monitored studies, and prescription-to-over-the-counter or Rx-to-OTC programs. It offers its services to pharmaceutical, biotechnology, and medical device companies, as well as academic and government organizations. The Company has operations in the Americas, Europe, Africa, the Middle East, Asia, and Australia. Pharmaceutical Product Development, Inc. was founded in 1985 and is headquartered in Wilmington, North Carolina.

Summary of 3DAdvisors Findings for PPDI

- **Accounting:** Response to SEC request on POC accounting revealing
- **Fundamentals:** Competitive pressures changing contract terms, cash flow
- **Fundamentals:** Competition, not lack of execution, the reason for guidance cuts
- **Insider Trading:** Lack of selling after the Q2 miss potentially misleading

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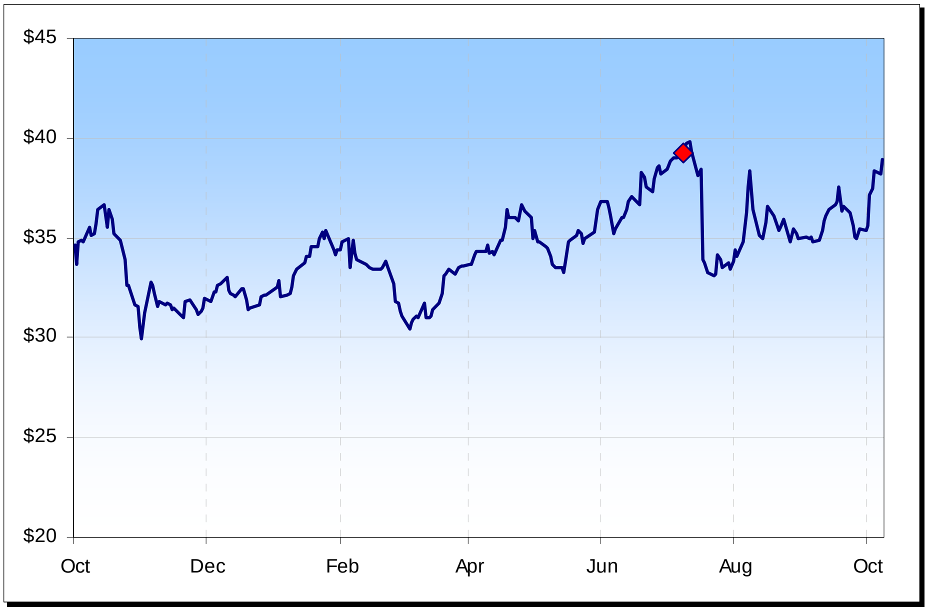
Discussion of 3DAdvisors Findings for PPDI

The July timing of the break in PPDI shares on the Company's Q2 earnings release was, to say the least, quite serendipitous for 3DA (see Figure 1 below). Just one week prior, we had written our first full report on the Company (07/09/07) as we had been observing some rather telling executive behavior in several areas earlier in the year that hinted strongly at deteriorating fundamentals. What finally led us to publish our full report in July, in addition to various trading and accounting behaviors, was a series of unexpected senior executive departures which included the Company's head of Global Clinical Operations, **Colin Shannon**, in late February, followed by the resignation of CFO **Linda Baddour** just two months later. We noted in the full report that both

Shannon and Baddour had managed to sell most of their stock either shortly before or just after their departure announcements. Not lost on us was the fact that Baddour, in leaving, had forfeited $2.1 million in unvested equity awards in her haste to get out, while Shannon walked away from over $3 million in PPDI equity awards with his departure.

Figure 1. PPDI Daily Closing Price, 10/02/06 through 10/09/07. Red diamond is the date of the 3DAdvisors, LLC full report (07/09/07). Source: Reuters and 3DA.



As it turns out, both were headed for the same PPDI competitor, PRA International, Inc. (NASDAQ:PRAI), underscoring the fact that the Company is facing an increasingly competitive environment in certain areas, which has continued to be a concern. CEO **Fred Eshelman**, during repeated grilling by analysts on the topic of executive and middle management turnover during the Q2 conference call on July 18th, acknowledged additional departures have taken place, perhaps even to PRAI. [1]

Another observation since the full report that continues to hold our attention is that the Company's reliance on percentage of completion (POC) accounting continues to appear aggressive in Q2, this after we had already noted an increasingly aggressive use of POC in the Q1 results, just before the announcement of CFO Baddour's departure. It would also seem that the Company's use of POC accounting had attracted the attention of the SEC as well during the period: Although it was never mentioned in any of the Company's standard filings, separate correspondence that was filed reveals that on April 6th staff accountants in the Corporate Finance division at the SEC had formally requested that PPDI clarify its POC disclosures that appeared in the Company's SEC Form 10-K for 2006. The Company's response to the staff comments (also not revealed in any Form 8-K or 10-Q filings) was quite interesting as it revealed for the first time, among other things, that the Company sometimes gives rebates to its largest customers, opening yet another possible opportunity to manipulate revenue recognition. This new information, and the manner in which was disclosed, also got our attention.

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[1] PPDI - Q2 2007 Earnings Conference Call Transcript, Thomson StreetEvents, page 12.

It is quite evident to us that the Q2 miss just after we published the full report was a material one with lingering effects, reflecting not only the collateral damage of key executive turnover but also the increasing impact of competition on the Company's efforts to convert new sales. Eshelman found himself clearly on the defensive in his attempts to explain the evaporation of $250 million in lost sales opportunities, many of which, just one quarter prior, he had been optimistic about closing. To this we note that just two days before the Q2 release -- and related PPDI share drop -- Eshelman himself had completed the last sale under his existing 10b5-1 plan through which he had sold 1 million shares. To this add continued aggressive use of POC, rising DSO's, dodged questions in the Q2 conference on everything from margins to staff turnover to competition, and we have the potential for more misses down the road than implied by the Company's Q2 guidance haircut.

Accounting: Response to SEC request on POC accounting revealing

We were not only interested in learning that the SEC, while conducting a review of the PPDI 2006 SEC Form 10-K, asked the Company for some additional disclosure concerning its percentage of completion accounting practices, we were astonished the Company declined to provide some important detail the Commission was seeking. The Company did not even disclose the Commission's April 6th request until filing both the original staff comment letter and their delayed response on May 31st. Apparently, according to the correspondence that did finally get filed on EDGAR on May 31st , on April 18th, the Company asked that it be given until April 27th to respond to the staff comments, rather than the usual "10 business day" period. We note that this is all happening about the time that it is announced that CFO Baddour is departing for competitor PRAI.

The SEC's comment and the Company's response, which we have included as Appendix A, provides significant new detail concerning the Company's POC practices but indicates that such detail will not be made available in a formal Company financial filing until the submission of the PPDI SEC Form 10-K for 2007, which will be issued sometime in February of 2008. In the meantime, in addition to the new detail we note that the Company also discloses for the first time that it sometimes gives rebates to some of its larger customers:

> *"Contracts with the same customer generally are not linked, although some large customers enter into annual or multi-year pricing agreements, which generally provide for specified discounts with periodic rate increases or other price adjustment mechanisms. We negotiate pricing for each project individually, based on the scope of the work, and any discounts and rate increases are reflected within the contract for the project.* ***Other large customers negotiate rebates based on the volume of services purchased. These agreements are generally negotiated at the beginning of each year and require a one-time rebate in the following year based upon the volume of services purchased or recognized during the relevant year.*** *We record an estimate of the annual volume rebate as a reduction of revenues*

throughout the period based on the estimated total rebate to be earned for the period."

Although we all know that the long-scrutinized practice of rebates used by the Prescription Benefit Managers (PBMs) is quite commonplace and often questioned, we find it unusual to see it surface in a Contract Research Organization (CRO) such as PPDI. In checking several of the Company's competitors, such as PRA International, PharmaNet, Charles River Labs and Covance, we found no such reference to rebates whatsoever. Whether PPDI's new disclosure of rebates to large customers is a correction of an omission or an indication that increasing competition has made such practices more material is unclear at this time. What is clear is that they are occurring and that the Company has been able to postpone their disclosure in any quarterly financial submission until February's release of the 2007 SEC Form 10-K. We also note that the presence of rebates has the *potential* of influencing revenue timing and the quality of earnings, especially since the Company has not provided any transparency with regard to the amounts nor timing of rebates and when they are recognized.

Regarding PPDI's response to the SEC request, we also note that the Company flat out "respectfully" refuses to quantify for the SEC, by period, the component changes that may have caused revisions to "contract value" or the "estimated costs to complete", the two key drivers of revenue recognized under POC.

We respectfully note that this response has not addressed the actual quantification of changes to the "contract value" and "estimated total effort to complete" for each period. There were approximately 4,000 contracts outstanding as of December 31, 2006 and as noted above PPD has developed a detailed process to review each contract on a monthly basis. Changes to the "contract value" and/or "estimated total effort to complete" will result from, among other things, the negotiation of contract modifications, PPD's ability to reorganize and streamline its efforts, the need to maintain quality and service standards and historical experience on current and past contracts. Changes to the "contract value" and "estimated total effort to complete" are often occurring at the same time. For example, while analyzing a specific contract as of the end of a period, PPD may determine the total direct costs to complete needs to be increased for a scope change, decreased due to our ability to reduce travel time by combining site visits, and increased due to a project delay for which we do not expect to negotiate a scope change. The scope change would result in a contract modification and have a minimal impact on the revenue recognized. The changes in the total direct costs would result in an increase or decrease to the revenue recorded for the month.

As stated in our disclosure, the methodology utilized by PPD to calculate revenue each period is based to the total contract value and total estimated direct costs to complete, reflecting all adjustments required as a result of the review process. Our process is designed to capture the best available information as of the end of the period. ***Changes to the "contract value" and***

"estimated total effort to complete" are not tracked on a component basis (i.e., scope changes, project efficiency, etc.) within our accounting records. Instead our accounting records are designed to ensure we document and utilize the best available set of information and estimates in the revenue recognition process."

So it would seem that PPDI continues to withhold disclosure or/quantification of the components (either initially or any changes that may have caused revisions) that go into either of these, providing no transparency at all regarding changes that may have led to significant changes in the amounts of revenue recognized, just as it has in the past.

Fundamentals: Competitive pressures changing contract terms, cash flows

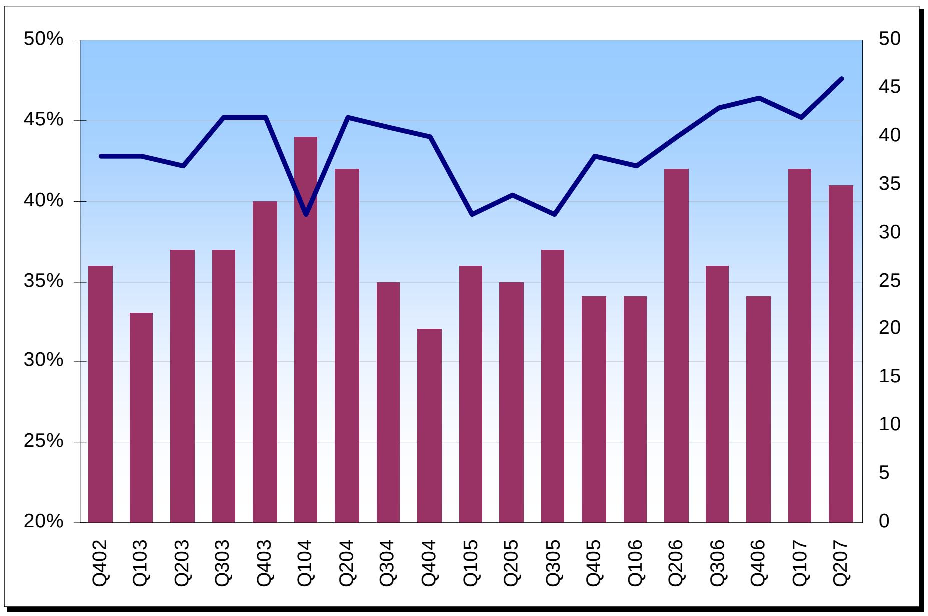
Back in 2005, analysts had become accustomed to seeing PPDI DSOs regularly in the low 30-day range as large upfront payments from customers were more prevalent at the time. This began shifting during 2006 as DSOs quickly moved up into the 40-day range, prompting a number of exchanges, culminating with the following, during the 2006 Q3 conference call:

> **Analyst:** I'm going to kind of just reiterate this DSO question. Fred, you know, it looks to me like one of the issues in the group is that big pharma is really coming back with increased levels of outsourcing and it's going to be harder to get advanced payments from those companies. Is there anything about the mix that's impacting the DSO issue, since that seems to be a big topic today?
>
> **Dr. Fred Eshelman, CEO:** Well, you know, I will let Linda put some color on that if she likes, but I think you are correct; the level of upfront payments is not what it was in years past. I'm not sure that that's particularly related to pharma versus biotech or anything else for that matter, except that to my knowledge certainly with the government work, there is no upfront payment that I know of.
>
> Linda, do you have any other comment there?
>
> **Linda Baddour, CFO:** Basically with the larger projects that we're working on with pharma clients and without an upfront payment, you do get yourself into an unbilled situation early on, but once you get going a couple months into the program, you can start completing the negotiations around the final contract and getting the cash payment schedule finalized so that you can start billings.

Indeed, Unbilled Receivables, which have fluctuated between 32% and 44% of Accounts Receivable over the past four years, have again risen to the above 40 range and are currently again solidly up in the 42% range this year (see Figure 2 below). Correspondingly, DSOs are surging and have reached their highest levels in the past five years at 46 days this past Q2. This implies that the increased use of POC recognition in recent periods has become a vital component to revenue growth.

An obvious driving force behind this would be competitive conditions in the marketplace where customers are able to demand less up-front payments and longer payment terms, a fact repeatedly pointed to by Eshelman during the Q2 conference call. Nevertheless, the resultant increases in POC utilization not only allow for more leeway for out of period revenue recognition but also contribute to the cash drain currently being felt by the Company, and noticed by analysts in the Q2 conference call. During the six-month period Cash and Equivalents dropped by $33 million, or about 8%. However, this figure would have been more noticeable had PPDI not been holding back on payables totaling another $18.4 million to vendors and trial investigators. Factoring this in would have made the decrease in Cash and Equivalents more like 12% for the six month period.

Figure 2. PPDI Unbilled Receivables as a Percentage of Total Accounts Receivable (Red Bars and Left Scale) and DSOs (Blue Line and Right Scale), Q402 through Q207. Source: PPDI SEC Filings.



Fundamentals: Competition, not lack of execution, the reason for guidance cuts

Clearly, given the condition of PPDI's balance sheet, the cash drain going on should not be considered highly significant in and of itself. It is more an indication of the competitive forces facing the Company which not only has lost business opportunities of late but also has seen a steady exodus of key personnel in recent periods in the process. Questions concerning this "Brain Drain" permeated the rocky Q2 conference call. During the event, Eshelman managed to avoid dealing with the matter in one question, only to get it thrown back up to him by a second individual:

> **Analyst:** I'm curious if we can get an update on the CFO search? And then adjacent to that question, if you can speak at all to management changes kind of at the VP level, SVP level, people below the top three execs who have left the last year. Has there been a lot of turnover in that kind of upper middle management rank, and what are your thoughts on that?

> **Dr. Fred Eshelman, CEO:** Yes, the CFO search continues to go very well. We, through our search firm, have identified some very high quality folks. We have interviewed several of those. We have at least one candidate who looks to be very good and very far down the pathway, so to speak. We have one or two more that we're certainly going to look at to be sure that we are thorough, but the Board has told me, and I agree with them that we should wrap this up by Labor Day, and we certainly hope to be able to do that in terms of the CFO.

Then the question's re-visit later during the call:

> **Analyst:** And I think (someone) asked the question if you look beyond the three senior management departures, have you had had any departures in that sort of next level down? I'm not sure you got a chance to answer that. Any changes in the people there?

> **Dr. Fred Eshelman, CEO:** Yes, we had had two or three departures which were not unexpected, one of whom will end up the same place as Mr. Shannon and Ms. Baddour. We are well into searches through third parties to replace certain individuals. We're seeing a lot of flow of quality resumes and so forth. Bill is also spending a lot of time vetting these resumes and doing interviews and so forth, so that we expect to come out with a really stellar team over the next few months. As Bill indicated, he is also been around to many of our locations and talked to the next level of management, that is, middle management level who actually get the work done. He and I both are very reassured by that, so even though we have had a few more folks leaving the Company, we certainly think that things are fine at the moment, and as I said with the new people that we bring in, should have a really stellar cast.

So now we finally know not only that recent defections have run deeper than just the top executive level but also that at least one more of them has gone over to PRAI along with Baddour and Shannon. A third related question dealt with the open position for head of European sales which has been open since early this year. The position had not been filled as of 07/18/07.

It was evident that Eshelman was back-pedaling through most of that Q2 call, responding, in addition to the above, to repeated questions about:

- **Lost $250 million in RFP wins:** "I think it was just a string of very bad luck or lack of execution in the last month of the quarter where, as I pointed out, nearly a quarter of a billion vaporized right in front of our face. It surprised us as much as it did you."

- **Growth concerns as it has been moving lower to lower and near mid-teens**: "If we hit our revised [read: downward] guidance for this year, we will still fall within the revenue general guidance of 15% to 20% despite the hiccup."

- **Cancellation rates,** which are up to 26% from 21% in Q1: "It's pretty much if we get back on track with our targets, we'll be fine. Cancellation rate assumptions have not changed. They will be pretty much as they were at the beginning of the year."

- **Rising competition in the $30 to $50 million trial size**: "I think we have a number of competitors who, over the past four or five years, have increased their reach and scope and capabilities and so forth, are quite competitive in that sort of range"

- **Backlog quality**: "I think one issue that we've had, perhaps a little more over the past couple of years has been stuff that's in backlog and it's solid and it's real and all the rest of it, but it's been delayed by the sponsor, either because of regulatory or other reasons. So it's not canceled. It is real. It's just delayed. And at one quarter, I can't remember which one it was, maybe last year, at one point in time we were reaching up on $400 million worth of backlog, which was delayed. So I don't think it's a matter of have we got a poor quality backlog. I think it's a matter of how the backlog acts at any given point in time."

- **Current pipeline**: "We believe that the marketing log at this moment is pretty strong. It looks pretty good qualitatively, and we have some other opportunities that are at the discussion stage, that while they don't hit the marketing log quantitatively at this moment, we're pretty excited about where they might go. So between those two factors, again, we remain bullish on the market itself."

More than we've seen in any of the conference calls we've reviewed in recent years, it would seem that Eshelman was struggling to deal with many of the probing questions posed during the event. Too many times he seemed to us to be evasive or just didn't answer the question, which is behavior from a well-respected CEO that is just too hard for us to ignore.

Insider Trading: Lack of selling after Q2 miss potentially misleading

To the inexperienced eye, it would seem that insider selling, very active through the first two quarters of this year, has tapered off since the Q2 call and subsequent drop in PPDI shares. Even in the current rally, executives have not been selling aggressively. To those who may be thinking this represents a behavior change, be advised, we do not believe there has been a change in insider sentiment. For one, as we mentioned earlier, Eshelman had completed the balance of his 1 million share 10b5-1 plan sales just two days prior to the July 18th Q2 earnings release. Filing another 10b5-1 at this time would put him in harm's way should he be in possession of any information considered material. Given current uncertainties that he is no doubt aware of, he very well may find himself prohibited from doing so at this time.

With regards to the others, in total there are only five executives at the Company, aside from Eshelman, who are Section 16 filing insiders. Two of them are new; having filled the positions vacated by Baddour (CFO) and Shannon (Head of Global Clinical Operations) and neither has any actionable equity to sell. Of the other three, EVP of Development **Paul Covington** has been flipping his ESPP shares, has no vested stock options, and sold 9,042 shares on August 29th, or **100% of his actionable holdings**. Chief Accounting Officer **Peter Wilkinson** sold a small percentage of his holdings after the Q2 earnings. Both he and Director of Global Business Development, **Richard Richardson** continue to hold small positions (they both hold less than 20,000 vested options each with minimal common).

It would seem that the recent Fed-induced rally has taken this boat up with the rest of the tide as the shares have worked their way back up to the $38 to $39 range. The observed behavior here, however, prompts us to infer that PPDI has not rebounded on its own merits and that the chances for more downstream disappointments run high, giving those who missed the dip following the Q2 earnings surprise another chance.

Appendix A

SEC Staff Comments
Re: POC Accounting Practices
And PPDI Reply

Mail Stop 6010
Via Facsimile and U.S. Mail

April 6, 2007

Mr. Fredric N. Eshelman, Pharm. D.
Chief Executive Officer
Pharmaceutical Product Development, Inc.
3151 South Seventeenth Street
Wilmington, North Carolina 28412

Re: Pharmaceutical Product Development, Inc.
Form 10-K for Fiscal Year Ended December 31, 2006
Filed on February 27, 2007
File No. 000-27570

Dear Mr. Eshelman:

We have limited our review of your filing to the issue we have addressed in our comment. In our comment, we ask you to provide us with information so we may better understand your disclosure. After reviewing this information, we may raise additional comments.

Please understand that the purpose of our review process is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filings. We look forward to working with you in these respects. We welcome any questions you may have about our comments or any other aspect of our review. Feel free to call us at the telephone numbers listed at the end of this letter.

Form 10-K for the fiscal year ended December 31, 2006

Managements Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies and Estimates

Revenue Recognition, page 47

1. You record the majority of your revenues from contracts on a proportional performance basis based on “contract value” multiplied by the percentage of completion. In disclosure-type format, please provide an expanded discussion and quantification of the methods and key assumptions used to determine “contract value” and “estimated total effort to complete”. Quantify the impact of changes in your estimate of “contract value” and “estimated total effort to complete” for each period

presented and the reasonably likely impact of corresponding changes in future periods. Describe the significant terms governing your contracts, particularly those with large customers. Include a discussion of pricing arrangements (e.g. fixed, variable or contingent fees), termination provisions, contract fee payment schedules and associated milestone events, contract duration, and provisions linking contracts with the same customer.

* * * *

Please respond to these comments within 10 business days or tell us when you will provide us with a response. Your letter should key your responses to our comments. Detailed letters greatly facilitate our review. Please furnish the letter to us via EDGAR under the form type label CORRESP.

We urge all persons who are responsible for the accuracy and adequacy of the disclosure in the filing to be certain that the filing includes all information required under the Securities Exchange Act of 1934 and that they have provided all information investors require for an informed investment decision. Since the company and its management are in possession of all facts relating to a company's disclosure, they are responsible for the accuracy and adequacy of the disclosures they have made.

In connection with responding to our comments, please provide, in your letter, a statement from the company acknowledging that:

- the company is responsible for the adequacy and accuracy of the disclosure in the filings;
- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filing; and
- the company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

In addition, please be advised that the Division of Enforcement has access to all information you provide to the staff of the Division of Corporation Finance in our review of your filing or in response to our comments on your filing.

You may contact Frank Wyman, Staff Accountant, at 202-551-3660 or Don Abbott, Senior Staff Accountant, at 202-551-3608, if you have questions regarding the comments. In this regard, do not hesitate to contact me, at 202-551-3679.

Sincerely,

Jim B. Rosenberg
Senior Assistant Chief Accountant

DONALDR. REYNOLDS
dreynolds@wyrick.com

April 27, 2007

VIA EDGAR

Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549
Attn: Frank Wyman, Staff Accountant

Re: Pharmaceutical Product Development, Inc.
Form 10-K for the fiscal year ended December 31, 2006
Filed February 27, 2007
File No. 000-27570

Dear Mr. Wyman:

We write this letter on behalf of our client Pharmaceutical Product Development, Inc. ("PPD") in response to the comment of the Staffof the Securities and Exchange Commission with respect to the above-captioned filings, as set forth in the Staff's letter dated April 6, 2007. Thecomment is repeated below in italics for ease of reference.

Form 10-K for the fiscal year ended December 31, 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies and Estimates, page 47

Revenue Recognition, page 47

1. *You record the majority of your revenues from contracts on a proportional performance basis based on the "contract value"multiplied by the percentage of*

completion. In disclosure-type format, please provide an expanded discussion and quantification of the methods and key assumptions used todetermine "contract value" and "estimated total effort to complete". Quantify the impact of changes in yourestimate of "contract value" and "estimated total effort to complete" for each period presented and the reasonablylikely impact of corresponding changes in future periods. Describe the significant terms governing your contracts, particularly those withlarge customers. Include a discussion of pricing arrangements (e.g. fixed, variable or contingent fees), termination provisions, contract feepayment schedules and associated milestone events, contract duration, and provisions linking contracts with the same customer.

In future filings, beginning with PPD's Form 10-K for the period ended December 31, 2007, PPD will provide an expanded discussionrelated to revenue recognition as requested by the Staff. Set forth below, please find an example of this improved disclosure that PPD proposes for itsnext Form 10-K. As it would appear in a Form 10-K, this disclosure would replace the entire first paragraph under the subheading "RevenueRecognition" beginning on page 47 of the 2006 Form 10-K:

The majority of our Development revenues are recorded on a proportional performance basis. To measure performance on a given date, wecompare direct costs through that date to estimated total direct costs to complete the contract. Direct costs relate primarily to the amount of laborand labor related overhead costs attributed to the delivery of services. We believe this is the best indicator of the performance of the contractualobligations.

Our contracts are generally based on a fixed fee or unitized pricing model and have a duration of a few months to ten years. The contractvalue for a fixed fee contract equals the agreed upon aggregate amount of the fixed fees. We measure the contract value for unitized pricing modelsusing the estimated units (number of patients to be dosed or study sites to be initiated, for example) to be completed and the agreed upon unitprices. As part of the client proposal and contract negotiation process, we develop a detailed project budget for the direct costs to be expendedbased on the scope of the work, the complexity of the study, the geographic locations involved and our historical experience. We then establish theindividual contract pricing based on our internal pricing guidelines, discount agreements, if any, and negotiations with the client.

Contracts with the same customer generally are not linked, although some large customers enter into annual or multi-year pricing agreements,which generally provide for specified discounts with periodic rate increases or other price adjustment mechanisms. We negotiate pricing for eachproject individually, based on the scope of the work, and any discounts and rate increases are reflected within the contract for the project. Otherlarge customers negotiate rebates based on the volume of services purchased. These agreements are generally negotiated at the beginning of eachyear and require a one-time rebate in the following year based upon the volume of services purchased or recognized during the relevant year. We record an estimate of the annual volumerebate as a reduction of revenues throughout the period based on the estimated total rebate to be earned for the period.

Generally, payment terms are based on the passage of time, the monthly completion of units or non-contingent project milestones thatrepresent progression of the project plan, such as contract signing, site initiation and database lock. The timing of payments can vary significantly.We attempt to negotiate payment terms which provide for payment of services prior to or within close proximity to the provision of services, butthe levels of unbilled services and unearned revenue can vary significantly.

Most of our contracts can be terminated by the client either immediately or after a specified period following notice. These contracts typicallyrequire the client to pay us the expenses to wind down the study, fees earned to date and, in some cases, a termination fee or some portion of thefees or profit that the Company could have earned under the contract if it had not been terminated early. Therefore, revenue recognized prior tocancellation generally does not require a significant adjustment upon cancellation.

Each month we accumulate direct costs on each project and compare them to the total current estimated direct costs to complete the project inorder to determine the percentage-of-completion. We then multiply this percentage by the contract value to determine the amount of revenue thatcan be recognized. This process includes a review of, among other things:

- a comparison of direct costs incurred in the current month against the budgeted direct costs for the month;
- detailed discussions with the operational project teams relating to the status of the project, including the rate of enrollment, theability to complete individual tasks in the time-frame allotted, the anticipated total units to be achieved and potential changes tothe project scope;
- a comparison of the fees invoiced and collected compared to revenue recognized;
- experience on projects recently completed or currently running; and
- specific client and industry changes.

As result of this review, we might determine that our previous estimates of contract value or direct costs need to be revised based upon the newinformation. Changes in the scope of work generally results in the negotiation of contract modifications to increase or decrease the contract valuealong with an associated increase or decrease in the estimated total direct costs to complete. If a contract modification is not agreed to, we couldbear the risk of cost overruns. Contract values and modifications to contract values are only included in the calculation of revenue when we believethat realization is reasonably assured and we have appropriate evidence of arrangement.

If the Company determines that a loss will result from the performance of a contract, the entire amount of the estimated loss is chargedagainst income in the period in which such determination is made. The payment terms for our contracts do not necessarily coincide with therecognition of revenue. We record unbilled services for revenue recognized to date that are not then billable under the relevant customer agreement.Conversely, we record unearned income for cash received from customers for which revenue has not been recognized at the balance sheet date.

In 2006 and prior years, we have had to commit unanticipated resources to complete projects, resulting in lower gross margins on thoseprojects. We might experience similar situations in the future. Increases in the estimated total direct costs to complete a contract without acorresponding proportional increase to the contract value result in a cumulative adjustment to the amount of revenue recognized in the period thechange in estimate is determined. Should our estimated direct costs to complete a fixed price contract prove to be low, gross margins could bematerially adversely affected, absent our ability to negotiate a contract modification. Historically, the majority of our estimates and assumptions havebeen materially correct, but these estimates might not continue to be accurate in the future. A hypothetical increase of 1% in the total estimatedremaining project direct costs to complete, without a corresponding proportional increase in the contract value, for open projects accounted for underthe proportional performance method as of December 31, 2006, 2005 and 2004 would have resulted in a cumulative reduction in revenue and grossmargin of approximately $3.3 million, $2.5 million, and $2.0 million in each of those periods, respectively.

We respectfully note that this response has not addressed the actual quantification of changes to the “contract value” and“estimated total effort to complete” for each period. There were approximately 4,000 contracts outstanding as of December 31, 2006 and asnoted above PPD has developed a detailed process to review each contract on a monthly basis. Changes to the “contract value” and/or“estimated total effort to complete” will result from, among other things, the negotiation of contract modifications, PPD’s ability toreorganize and streamline its efforts, the need to maintain quality and service standards and historical experience on current and past contracts. Changes tothe “contract value” and “estimated total effort to complete” are often occurring at the same time. For example, while analyzinga specific contract as of the end of a period, PPD may determine the total direct costs to complete needs to be increased for a scope change, decreaseddue to our ability to reduce travel time by combining site visits, and increased due to a project delay for which we do not expect to negotiate a scopechange. The scope change would result in a contract modification and have a minimal impact on the revenue recognized. The changes in the total directcosts would result in an increase or decrease to the revenue recorded for the month.

As stated in our disclosure, the methodology utilized by PPD to calculate revenue each period is based to the total contract value and totalestimated direct costs to complete, reflecting all adjustments required as a result of the review process. Our process is designed to capture the bestavailable information as of the end of the period. Changes to the “contract value” and “estimated total effort to complete” arenot tracked on a component basis (i.e., scope changes, project efficiency, etc.) within our accounting records. Instead our accounting records are designedto ensure we document and utilize the best available set of information and estimates in the revenue recognition process.

PPD does not believe that quantifying the actual impacts on those individual components would provide as meaningful an insight into the actualimpact of those changes on the amount of revenue recognized as the sensitivity analysis provided within the disclosure. This sensitivity analysis allows thereader to understand the impact that might occur should PPD be unable to accurately perform the estimates of “contract value” or“estimated total effort to complete.” Historically, PPD has maintained consistent Development segment gross margins of 50.1% in 2004,49.3% in 2005 and 49.7% in 2006, indicating that we are able to accurately quantify our contract value and estimated total effort to complete. Therefore,PPD believes that the disclosure as presented above adequately provides the reader with an understanding of the potential impacts of changes to the“contract value” and “estimated total effort to complete”.

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As requested, please be advised that PPD hereby acknowledges that:

- PPD is responsible for the adequacy and accuracy of the disclosure in the filings;
- Staff comments or changes to disclosure in response to Staff comments do not foreclose the Commission from taking any action withrespect to the filings; and
- PPD may not assert Staff comments as a defense in any proceeding initiated by the Commission or any person under the federalsecurities laws of the United States.

PPD respectfully submits that the foregoing is appropriately responsive to the comment of the Staff. If the Staff has any further comments, pleasedirect them to the undersigned.

Sincerely,
/s/ Donald R. Reynolds
Donald R. Reynolds

cc: Frederic N. Eshelman