BIO IMAGING TECHNOLOGIES INC
Form 10QSB
August 07, 2002

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2002
Commission File No. 1-11182

BIO-IMAGING TECHNOLOGIES, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	11-2872047
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

826 Newtown-Yardley Road, Newtown, Pennsylvania 18940-1721
(Address of Principal Executive Offices)

(267) 757-3000
(Issuer's Telephone Number, Including Area Code)

Check whether the Issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: X No: ___

State the number of shares outstanding of each of the Issuer's classes of common stock, as of June 30, 2002:

Class	Number of Shares
Common Stock, $0.00025 par value	8,389,653

Transitional Small Business Disclosure Format (check one):

Yes: ___ No: X

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission, although Bio-Imaging Technologies, Inc. (the "Company") believes that such financial disclosures are adequate so that the information presented is not misleading in any material respect. The following consolidated financial statements should be read in conjunction with the year-end consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2001.

On November 6, 2001, the Company's Board of Directors approved a change in the Company's annual reporting period from a fiscal year ending September 30 to December 31. Accordingly, the 2002 fiscal year commenced on January 1, 2002 and will end on December 31, 2002, with its fiscal quarters ending on March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year.

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		

		June 30, 2002		December 31, 2001
Cash and cash equivalents	$	755,142	$	499,710
Accounts receivable, net		3,815,643		3,447,155
Prepaid expenses and other current assets		448,754		274,313
Deferred income taxes		417,000		417,000
Total current assets		5,436,539		4,638,178
Property and equipment, net		2,809,117		2,111,360
Other assets		316,379		225,524
Total assets	$	8,562,035	$	6,975,062
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	555,780	$	605,057
Accrued expenses and other current liabilities		461,765		445,134
Deferred revenue		2,336,129		1,711,972
Current maturities of long-term debt and other current liabilities		429,826		343,201
Total current liabilities		3,783,500		3,105,364
Long-term debt and other liabilities		1,741,051		1,508,705
Total liabilities		5,524,551		4,614,069
Stockholders' equity:				
Common stock $.00025 par value; authorized 18,000,000 shares, issued and outstanding 8,389,653 shares at June 30, 2002 and 8,278,141 shares at December 31, 2001		2,097		2,070
Additional paid-in capital		9,375,464		9,286,871
Accumulated deficit		(6,340,077)		(6,927,948)
Stockholders' equity		3,037,484		2,360,993
Total liabilities and stockholders' equity	$	8,562,035	$	6,975,062

See Notes to Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Six Months Ended June 30,			
		2002		2001
Service revenues	$	8,257,564	$	4,385,201

	For the Six Months Ended June 30,	
Reimbursement revenues	1,542,714	902,686
Total revenues	9,800,278	5,287,887
Cost and expenses:		
Cost of revenues	6,952,400	3,323,827
General and administrative expenses	1,282,493	776,174
Sales and marketing expenses	855,670	879,672
Total cost and expenses	9,090,563	4,979,673
Income from operations	709,715	308,214
Interest expense net	(50,081)	(9,129)
Income before income tax provision	659,634	299,085
Income tax provision	71,763	
Net income	$ 587,871	$ 299,085
Basic earnings per common share	$ 0.07	$ 0.04
Weighted average number of common shares	8,313,623	8,201,575
Diluted earnings per common share	$ 0.06	$ 0.04
Weighted average number of common shares and dilutive common equivalent shares	9,681,890	8,402,469

See Notes to Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months Ended June 30,	
	2002	**2001**
Service revenues	$ 4,384,719	$ 2,252,507
Reimbursement revenues	672,452	489,041
Total revenues	5,057,171	2,741,548
Cost and expenses:		
Cost of revenues	3,555,329	1,855,999
General and administrative expenses	690,363	330,895
Sales and marketing expenses	439,638	466,628

	For the Three Months Ended June 30,	
Total cost and expenses	4,685,330	2,653,522
Income from operations	371,841	88,026
Interest expense net	(31,448)	(8,123)
Income before income tax provision	340,393	79,903
Income tax provision	49,292	
Net income	$ 291,101	$ 79,903
Basic earnings per common share	$ 0.03	$ 0.01
Weighted average number of common shares	8,334,895	8,217,234
Diluted earnings per common share	$ 0.03	$ 0.01
Weighted average number of common shares and dilutive common equivalent shares	9,742,523	8,484,572

See Notes to Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2002	**2001**
Cash flows from operating activities:		
Net income	$ 587,871	$ 299,085
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	387,185	282,441
Changes in operating assets and liabilities:		
Increase in accounts receivable	(368,488)	(1,136,199)
(Increase) decrease in prepaid expenses and other current assets	(174,441)	11,688
(Increase) decrease in other assets	(106,421)	244
(Decrease) increase in accounts payable	(49,277)	245,879
Increase in accrued expenses and other current liabilities	16,631	24,357
Increase (decrease) in deferred revenue	624,157	(50,477)
Net cash provided by (used in) operating activities	917,217	(322,982)
Cash flows from investing activities:		
Purchases of property and equipment	(553,174)	(152,092)

	For the Six Months Ended June 30,	
Net cash used in investing activities	(553,174)	(152,092)
Cash flows from financing activities:		
Payments under equipment lease obligations	(155,564)	(81,862)
Payments under promissory note	(41,667)	
Proceeds from exercise of stock options and warrants	88,620	43,260
Net cash used in financing activities	(108,611)	(38,602)
Net increase (decrease) in cash and cash equivalents	255,432	(513,676)
Cash and cash equivalents at beginning of period	499,710	661,155
Cash and cash equivalents at end of period	$ 755,142	$ 147,479
Supplemental schedule of noncash investing and financing activities:		
Equipment purchased under capital lease obligations	$ 516,202	$ 134,816

See Notes to Consolidated Financial Statements

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 Basis of Presentation:

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2001.

On November 6, 2001, the Company's Board of Directors approved a change in the Company's annual reporting period from a fiscal year ending September 30 to December 31. Accordingly, the 2002 fiscal year commenced on January 1, 2002 and will end on December 31, 2002, with its fiscal quarters ending on March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002.

In the opinion of the Company's management the accompanying unaudited consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary for a fair presentation of its financial position as of June 30, 2002 and December 31, 2001 and the results of its operations for the six months and three months ended June 30, 2002 and 2001 and its cash flows for the six months ended June 30, 2002 and 2001.

Certain reclassifications have been made to the prior period financial statements in order to conform to the current period financial statements.

Interim results are not necessarily indicative of results for the full fiscal year.

Service revenues are recognized over the contractual term of the Company's customer contracts using the percentage-of-completion method based on costs incurred as a percentage of total estimated costs. Service revenues are first recognized when the Company has a signed contract from the customer, with fixed or determinable fees and for which collectability is reasonably assured. Any change to recognized service revenue as a result of revisions to estimated total costs are recognized in the period the estimate changes. Direct and incremental costs incurred at the outset of an arrangement that are directly related to a customer contract are deferred, so long as their recoverability from that contract is probable. Deferred costs are expensed upon recognition of revenue associated with the contract.

In addition, the Emerging Issues Task Force recently issued accounting pronouncement EITF 01-14, which states that fees reimbursed by customers on a pass-through basis, should be recorded as revenue. Historically, the Company had offset such reimbursements against the related expenses. The consolidated statements of income for the six months and three months

ended June 30, 2001 have been reclassified to conform to the current year's presentation.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which establishes accounting and reporting standards governing goodwill and intangible assets. SFAS No. 142 states that goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value based test. Under the new rules, an acquired intangible asset should be separately recognized and amortized over its useful life (unless an indefinite life) if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged regardless of the acquirer's intent to do so. The Company adopted this standard on January 1, 2002, at which time the Company ceased to amortize its existing goodwill and intangible assets. The adoption of SFAS No. 142 did not have a material effect on the Company's consolidated results of operations or financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. The Company adopted this standard on January 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated results of operations or financial position.

Note 2 Earnings Per Share:

Basic earnings per common share for the six months and three months ended June 30, 2002 and 2001 were calculated based upon the net income available to common stockholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share for the six months and three months ended June 30, 2002 and 2001 were calculated based upon net income available to common stockholders divided by the weighted average number of shares of common stock outstanding during the period, adjusted for dilutive securities using the treasury method.

The computation of basic earnings per common share and diluted earnings per common share were as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Net Income Basic	$ 587,871	$ 299,085	$ 291,101	$ 79,903
Interest expense on convertible note	32,823		19,721	
Net income diluted	$ 620,694	$ 299,085	$ 310,822	$ 79,903
Denominator Basic:				
Weighted average number of common shares	8,313,623	8,201,575	8,334,895	8,217,234
Basic earnings per common share	$ 0.07	$ 0.04	$ 0.03	$ 0.01
Denominator Diluted:				
Weighted average number of common shares	8,313,623	8,201,575	8,334,895	8,217,234

	Six Months Ended June 30,		Three Months Ended June 30,	
Common share equivalents of outstanding stock options and warrants	590,218	200,894	628,351	267,338
Common share equivalents related to the convertible promissory note	778,049		779,277	
Weighted average number of common shares and dilutive common equivalents shares	9,681,890	8,402,469	9,742,523	8,484,572
Diluted earnings per common share	$ 0.06	$ 0.04	$ 0.03	$ 0.01

As of June 30, 2002 and 2001, 152,000 and 574,500 stock options, respectively, have been excluded from the calculation of diluted earnings per common share as they are antidilutive.

Note 3 Long-term Debt:

On April 30, 2002, the Company entered into an agreement with Wachovia Bank,

National Association ("Wachovia"), for a committed line of credit up to $1,000,000, collateralized by the Company's assets. Interest is payable at Wachovia's Prime Rate plus 0.5%. The agreement requires the Company, among other things, to maintain a debt service coverage ratio of not less than 1.25 to 1, measured annually. The committed line of credit matures May 31, 2003 and may be renewed on an annual basis. At June 30, 2002, the Company had no borrowings under the committed line of credit.

On May 13, 2002, the Company terminated its accounts receivable financing agreement it had executed with Silicon Valley Bank in December 1999. During the six months ended June 30, 2002, the Company had no borrowings under the accounts receivable financing agreement.

Note 4 Recent Acquisition:

On October 1, 2001, the Company acquired effective control of the Intelligent Imaging business unit ("Intelligent Imaging") of Quintiles, Inc., a North Carolina corporation ("Quintiles"), and a wholly-owned subsidiary of Quintiles Transnational Corporation (the "Intelligent Imaging Acquisition"). The Intelligent Imaging Acquisition closed on October 25, 2001. All Intelligent Imaging personnel at the time of the Intelligent Imaging Acquisition became employed by the Company and all of the clinical projects, which were handled by Intelligent Imaging, are now being managed by the Company.

Intelligent Imaging specializes in providing digital medical imaging services for clinical trials and the health care industry, a line of business the Company intends to continue. In the Intelligent Imaging Acquisition, the Company acquired substantially all of the assets of Intelligent Imaging and assumed certain liabilities of Intelligent Imaging.

The assets acquired primarily included Intelligent Imaging's accounts receivable and equipment. In consideration for the assets purchased, the Company issued an unsecured, subordinated convertible promissory note, dated as of October 25, 2001, in the principal amount of $1,000,000 (the "Note"). The Note bears interest at the rate in effect on the business day immediately prior to the date on which payments are due under the Note equal to the Three-Month London Interbank Offering Rate (the "LIBOR Rate") as published from time to time in the Wall Street Journal plus 3%, compounded annually based on a 365-day year.

The Company is obligated to pay quarterly payments of principal of $41,667 under the Note, plus accrued interest thereon, and one payment of principal of $500,000 on November 1, 2004, unless the Note is previously converted into the Company's common stock. The Company has recorded $166,667 as a current liability, representing the August 1, 2002, November 1, 2002, February 1, 2003 and May 1, 2003 quarterly installments of principal.

The number of shares of common stock into which the Note may be converted is calculated by dividing the outstanding principal balance of the Note, plus all accrued and unpaid

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interest thereon, by the greater of: (i) 75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to the date of conversion; or (ii) $0.906 per share. At June 30, 2002, the Note would have been convertible into approximately 784,040 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance ($916,667 as of June 30, 2002) plus accrued interest (approximately $8,500 as of June 30, 2002), totaling $925,167, by $1.18 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to June 30, 2002).

The Company may pay additional consideration if certain financial results are achieved (the maximum number of shares that may be issued to Quintiles pursuant to such provision is 646,247 shares of common stock which is to be paid out no later than February 15, 2003). The Company has recorded a long-term liability of $585,500 (based on the price per share of the Company's common stock of $0.906) for the contingent consideration under the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations." SFAS No. 141 requires a liability to be recognized in an amount equal to the lesser of the maximum amount of the contingent consideration or the excess of net tangible assets acquired over the purchase price when fair value of net assets acquired exceeds the cost. When the contingency is resolved and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount that was recognized as if it was a liability will be recognized as an additional cost of the Intelligent Imaging Acquisition. If the amount initially recognized as a liability exceeds the fair value of the consideration issued or issuable, that excess will be allocated as a pro rata reduction of noncurrent assets or property, plant and equipment. The maximum amount of contingent consideration from the Intelligent Imaging Acquisition of approximately $585,500 is classified in the Consolidated Balance Sheets at June 30, 2002 and December 31, 2001 as long-term debt and other liabilities. The payment to Quintiles of any additional consideration is to be paid out no later than February 15, 2003 and must be paid in the form of shares of the Company's common stock.

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The total purchase price of the Intelligent Imaging Acquisition has been allocated to the assets and liabilities based on management's best estimates of fair value. The excess of the net tangible assets acquired over the purchase price resulted in the reduction of property, plant and equipment.

Net tangible assets acquired	$	2,130,684
Less purchase price:		
Convertible promissory note		(1,000,000)
Contingent liability		(585,500)
Transaction costs		(98,000)
Total purchase price		(1,683,500)
Excess of net tangible assets over purchase price		447,185
Less write-down of property, plant and equipment		(447,185)
Remaining excess of net tangible assets over purchase price	$	

The Company assumed effective control of Intelligent Imaging on October 1, 2001, therefore, transactions occurring subsequent to October 1, 2001 have been included in the Company's historical operating results.

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The following unaudited consolidated pro forma information has been prepared assuming Intelligent Imaging was acquired as of January 1, 2001, with pro forma adjustments for interest expense and income taxes. The pro forma information is presented for informational purposes only and is not indicative of what would have occurred if the Intelligent Imaging Acquisition had been made on January 1, 2001. In addition, this pro forma information is not intended to be a projection of future operating results.

	Six Months Ended June 30, 2001	Three Months Ended June 30, 2001
Revenues	$ 7,956,897	$ 4,076,053
Net income	$ 181,429	$ 21,075
Basic earnings per common share	$ .02	$ .00
Diluted earnings per common share	$ .02	$ .00

Note 5 Recently Issued Accounting Standards:

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 14, 2002. The Company does not expect that the adoption of SFAS No. 143, which is effective for the Company as of January 1, 2003, will have a material effect on its consolidated results of operations or financial position.

Note 6 Income Tax Provision:

The Company's income tax provision of $71,763 relates to estimated state income taxes. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the six months ended June 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately $209,000. Management has determined that it is more likely than not that a portion of the Company's Federal net operating loss carryforwards will be realized in the future. The determination took into account that the Company has been profitable for the last eight quarters and the Company's 2002 budget. The Company has approximately $4,900,000 of Federal net operating loss carryforwards as of June 30, 2002. The deferred tax asset of approximately $417,000 at June 30, 2002 has been recorded net of a valuation allowance of approximately $1,800,000.

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the use of the liability method where deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities at currently enacted tax laws and rates. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be received.

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

Overview

Bio-Imaging Technologies, Inc. (the "Company") is a pharmaceutical contract service organization, providing services that support the product development process of the pharmaceutical, biotechnology and medical device industries. The Company specializes in assisting its clients in the design and management of the medical-imaging component of clinical trials for all modalities including computerized tomography, magnetic resonance imaging, x-rays, dual energy x-ray absorptiometry, position emission tomography single photon emission computerized tomography and ultrasound. The Company provides services which include the processing and analysis of medical images and the data-basing and regulatory submission of medical images, quantitative data and text. The Company offers a service called, Bio-Imaging ETC^{SM}. Bio-Imaging ETC focuses on education, training and certification for medical imaging equipment, facilities and staff.

On October 1, 2001, the Company acquired effective control of the Intelligent Imaging business unit ("Intelligent Imaging") of Quintiles, Inc., a North Carolina corporation ("Quintiles"), and a wholly-owned subsidiary of Quintiles Transnational Corporation (the "Intelligent Imaging Acquisition"). The Intelligent Imaging Acquisition closed on October 25, 2001. All Intelligent Imaging personnel at the time of the Intelligent Imaging Acquisition became employed by the Company and all of the clinical projects, which were handled by Intelligent

Imaging, are now being managed by the Company.

Intelligent Imaging specializes in providing digital medical imaging services for clinical trials and the health care industry, a line of business the Company intends to continue. In the Intelligent Imaging Acquisition, the Company acquired substantially all of the assets of Intelligent Imaging and assumed certain liabilities of Intelligent Imaging.

The assets acquired primarily included Intelligent Imaging's accounts receivable and equipment. In consideration for the assets purchased, the Company issued an unsecured, subordinated convertible promissory note, dated as of October 25, 2001, in the principal amount of $1,000,000 (the "Note"). The Note bears interest at the rate in effect on the business day immediately prior to the date on which payments are due under the Note equal to the Three-Month London Interbank Offering Rate (the "LIBOR Rate") as published from time to time in the Wall Street Journal plus 3%, compounded annually based on a 365-day year.

The Company is obligated to pay quarterly payments of principal of $41,667 under the Note, plus accrued interest thereon, and one payment of principal of $500,000 on November 1, 2004, unless the Note is previously converted into the Company's common stock. The Company has recorded $166,667 as a current liability, representing the August 1, 2002, November 1, 2002, February 1, 2003 and May 1, 2003 quarterly installments of principal.

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The number of shares of common stock into which the Note may be converted is calculated by dividing the outstanding principal balance of the Note, plus all accrued and unpaid interest thereon, by the greater of: (i) 75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to the date of conversion; or (ii) $0.906 per share. At June 30, 2002, the Note would have been convertible into approximately 784,040 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance ($916,667 as of June 30, 2002) plus accrued interest (approximately $8,500 as of June 30, 2002), totaling $925,167, by $1.18 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to June 30, 2002).

The Company may pay additional consideration if certain financial results are achieved (the maximum number of shares that may be issued to Quintiles pursuant to such provision is 646,247 shares of common stock which is to be paid out no later than February 15, 2003). The Company has recorded a long-term liability of $585,500 (based on the price per share of the Company's common stock of $0.906) for the contingent consideration under the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations." SFAS No. 141 requires a liability to be recognized in an amount equal to the lesser of the maximum amount of the contingent consideration or the excess of net tangible assets acquired over the purchase price when fair value of net assets acquired exceeds the cost. When the contingency is resolved and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount that was recognized as if it was a liability will be recognized as an additional cost of the Intelligent Imaging Acquisition. If the amount initially recognized as a liability exceeds the fair value of the consideration issued or issuable, that excess will be allocated as a pro rata reduction of noncurrent assets or property, plant and equipment. The maximum amount of contingent consideration from the Intelligent Imaging Acquisition of approximately $585,500 is classified in the Consolidated Balance Sheets at June 30, 2002 and December 31, 2001 as long-term debt and other liabilities. The payment to Quintiles of any additional consideration is to be paid out no later than February 15, 2003 and must be paid in the form of shares of the Company's common stock. Management believes that the operations of the Company and Intelligent Imaging have been fully integrated since the Intelligent Imaging Acquisition.

The Company's sales cycle (the period from the presentation by the Company to a potential client to the engagement of the Company by such client) has historically been 12 months but is shortening as the awareness of these services increases and regulatory guidelines become better defined. In addition, the contracts under which the Company performs services typically cover a period of 12 to 60 months and the volume and type of services performed by the Company generally vary during the course of a project. No assurance can be made that the Company's project revenues will remain at levels sufficient to maintain profitability. Service revenues were generated from 56 clients encompassing 142 distinct projects for the six months ended June 30, 2002. This compares to 43 clients encompassing 84 distinct projects for the six months ended June 30, 2001. This represents an increase of 30.2% in clients and 69.0% in projects for the six months ended June 30, 2002 as compared to the six months ended June 30,

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2001. The Company's contracted/committed backlog was approximately $34,640,000 as of June 30, 2002. This compares to approximately $18,500,000 as of June 30, 2001, an increase of 87.2%. Contracted/committed backlog is the amount of service revenue that remains to be earned and recognized on both signed and agreed to contracts. Such contracts are subject to termination by the Company's clients at any time.

The Company believes that demand for its services and technologies will grow during the long-term as the use of digital technologies for data acquisition and management increases in the radiology and drug development communities. The Company also believes that there is a growing recognition within the bio-pharmaceutical industry regarding the use of an independent centralized core laboratory for analysis of medical-imaging data that is derived from clinical trials and the regulatory requirements relating to the submission of this data. In addition, the Food and Drug Administration ("FDA") is gaining experience with electronic submissions and is continuing to develop guidelines for computerized submission of data, including medical images. Furthermore, the increased use of digital medical images in clinical trials, especially for important drug classes such as anti-inflammatory, neurologic and oncologic therapeutics and diagnostic image agents, generate large amounts of image data that will require processing, analysis, data management and submission services. Due to several factors, including, without limitation, competition from commercial competitors and academic research centers, there can be no assurance that demand for the Company's services and technologies will grow, sustain growth, or that additional revenue generating opportunities will be realized by the Company.

Certain matters discussed in this Form 10-QSB are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, the Company's statements regarding the integration of Intelligent Imaging into the Company, the demand for the Company's services and technologies, growing recognition for the use of independent centralized core laboratories, trends toward the outsourcing of imaging services in clinical trials, realized return from the Company's marketing efforts and increased use of digital medical images in clinical trials are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the variability in size, scope and duration of projects, estimates made by management with respect to the Company's critical accounting policies, regulatory delays, clinical study results which lead to reductions or cancellations of projects, and other factors, including general economic conditions and regulatory developments, not within the Company's control. The factors discussed herein and expressed from time to time in the Company's filings with the Securities and Exchange Commission could cause actual results and developments to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing and the Company undertakes no obligation

to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Results of Operations

On November 6, 2001, the Company changed its fiscal year from ending on September 30 to December 31. The Company believes that the six months and three months ended June 30, 2001 provides a meaningful comparison to the six months and three months ended June 30, 2002.

Six Months Ended June 30, 2002 and 2001

	Six Months Ended June 30, 2002	% of Total Revenue	Six Months Ended June 30, 2001	% of Total Revenue	$ Change	% Change
Service revenues	$ 8,257,564		$ 4,385,201		$ 3,872,363	88.3%
Reimbursement revenues	$ 1,542,714		$ 902,686		$ 640,028	70.9%
Total revenues	$ 9,800,278		$ 5,287,887			
Cost of revenues	$ 6,952,400	70.9%	$ 3,323,827	62.9%	$ 3,628,573	109.2%
General and administrative expenses	$ 1,282,493	13.1%	$ 776,174	14.7%	$ 506,319	65.2%
Sales and marketing expenses	$ 855,670	8.7%	$ 879,672	16.6%	($ 24,002)	(2.7%)
Total cost and expenses	$ 9,090,563	92.8%	$ 4,979,673	94.2%	$ 4,110,890	82.6%
Interest expense net	$ 50,081		$ 9,129		$ 40,952	448.6%

	Six Months Ended June 30, 2002	% of Total Revenue	Six Months Ended June 30, 2001	% of Total Revenue	$ Change	% Change
Income tax provision	$ 71,763				$ 71,763	
Net income	$ 587,871	6.0%	$ 299,085	5.7%	$ 288,786	96.6%

Service revenues for the six months ended June 30, 2002 and 2001 were approximately $8,258,000 and $4,385,000, respectively, an increase of approximately $3,872,000 or 88.3%. The increase in service revenues is a result of an increase in the number of projects from the overall market growth for medical imaging related services for clinical trials. Service revenues were generated from 56 clients encompassing 142 distinct projects for the six months ended June 30, 2002. This compares to 43 clients encompassing 84 distinct projects for the six months ended June 30, 2001. Service revenues generated from the Company's client base continue to be highly concentrated. One client encompassing four projects represented approximately 15.6% of the Company's service revenues for the six months ended June 30, 2002, while for the comparable period last year, two clients encompassing seven projects represented approximately 32.2% of the Company's service revenues. No other customers accounted for more than 10% of service revenues in each of the six month periods ended June 30, 2002 and 2001. The

Company's scope of work in both periods included primarily medical-imaging core laboratory services and image-based information management services.

Reimbursment revenues for the six months ended June 30, 2002 and 2001 were approximately $1,543,000 and $903,000, respectively, an increase of approximately $640,000 or 70.9%. Reimbursment revenues consists of pass-through costs reimbursed by the customer. As required, the Company adopted the guidance of recently issued accounting pronouncement EITF 01-14, effective January 1, 2002, and, accordingly, has reclassified reimbursed pass-through costs as part of revenues. The increase in the six months ended June 30, 2002 from the six months ended June 30, 2001 resulted from an increase in projects and the associated reimbursed costs.

Cost of revenues for the six months ended June 30, 2002 and 2001 were approximately $6,952,000 and $3,324,000, respectively, an increase of approximately $3,629,000 or 109.2%. Cost of revenues for the six months ended June 30, 2002 and six months ended June 30, 2001 were comprised of professional salaries and benefits, allocated overhead and pass-through costs. The increase in cost of revenues is primarily attributable to personnel and facilities assumed as part of the Intelligent Imaging Acquisition, along with an increase in staffing levels required for project related tasks for the six months ended June 30, 2002. The Company anticipates utilizing the excess Intelligent Imaging resource capacity to fulfill current and anticipated projects.

The increase in the cost of revenues as a percentage of total revenues in the six months ended June 30, 2002 of 70.9% from the six months ended June 30, 2001 of 62.9% is primarily due to costs associated with the integration of Intelligent Imaging. In addition, the inclusion of reimbursable pass-through costs in revenues has added to this percentage increase since reimbursable revenues along with the associated reimbursable pass-through costs have increased in proportion to the Company's number of projects and service revenues. The cost of revenues as a percentage of total revenues may fluctuate based on the utilization of staff and the mix of services provided by the Company.

General and administrative expenses for the six months ended June 30, 2002 and 2001 were approximately $1,282,000 and $776,000, respectively, an increase of approximately $506,000 or 65.2%. General and administrative expenses in each of the six months ended June 30, 2002 and 2001 consisted primarily of professional salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. The increase during the six months ended June 30, 2002 from the six months ended June 30, 2001, is primarily attributable to an increase in personnel and in corporate insurance and professional services associated with general corporate matters resulting from the increase in the Company's service revenues and personnel.

The decrease in general and administrative expenses as a percentage of total revenues in the six months ended June 30, 2002 of 13.1% from the six months ended June 30, 2001 of 14.7% is primarily due to the Company's increase in total revenues with a lesser increase in costs associated with depreciation and amortization, professional and consulting services, office rent

and corporate insurance.

Sales and marketing expenses for the six months ended June 30, 2002 and 2001 were approximately $856,000 and $880,000, respectively, a decrease of approximately $24,000 or 2.7%. Sales and marketing expenses in each of the six months ended June 30, 2002 and six months ended June 30, 2001 were comprised of direct sales and marketing costs, professional salaries and benefits and allocated overhead. This decrease is primarily due to less marketing expenses for the six months ended June 30, 2002 from the six months ended June 30, 2001.

The decrease in sales and marketing expenses as a percentage of total revenues in the six months ended June 30, 2002 of 8.7% from the six months ended June 30, 2001 of 16.6% is primarily due to the Company's increase in total revenues with a lesser increase in sales and marketing costs associated with professional salaries and benefits.

Total cost and expenses for the six months ended June 30, 2002 and 2001 were approximately $9,091,000 and $4,980,000, respectively, an increase of approximately $4,111,000 or 82.6%. Total cost and expenses in each of the six months ended June 30, 2002 and six months ended June 30, 2001 consisted primarily of cost of revenues, general and administrative expenses and sales and marketing expenses. This increase is due primarily to an increase in personnel resulting from the Intelligent Imaging Acquisition along with an increase in staffing levels required for project related tasks for the six months ended June 30, 2002 and an increase in professional services associated with general corporate matters.

Total cost and expenses as a percentage of total revenues for the six months ended June 30, 2002 of 92.8% from the six months ended June 30, 2001 of 94.2% did not change significantly due to the increase in cost of revenues as a percentage of total revenues offset by the decreases in general and administrative and sales and marketing expenses as a percentage of total revenues.

Net interest expense for the six months ended June 30, 2002 and 2001 was approximately $50,000 and $9,000, respectively, an increase of approximately $41,000 or 448.6%. Net interest expense for the six months ended June 30, 2002 resulted from interest expense incurred on both the Note and equipment lease obligations. Net interest expense for the six months ended June 30, 2001 resulted from interest expense incurred on equipment lease obligations.

The Company's income tax provision of $71,763 relates to estimated state income taxes for the six months ended June 30, 2002. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the six months ended June 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately $209,000. Management believes that it is more likely than not that the net deferred income tax assets, recorded as of June 30, 2002, will be realized in the future.

Net income for the six months ended June 30, 2002 and 2001 was approximately $588,000 and $299,000, respectively, an increase of approximately $289,000 or 96.6%. The Company's net income for the six months ended June 30, 2002 was attributable primarily to increased revenues associated with an increase in the number of projects for which the Company was engaged to perform services, offset, in part, by the costs associated with the integration of the Intelligent Imaging Acquisition.

The increase in net income as a percentage of total revenues for the six months ended June 30, 2002 of 6.0% from the six months ended June 30, 2001 of 5.7% is primarily due to the Company's increase in total revenues with a lesser increase in general and administrative and sales and marketing expenses.

Three Months Ended June 30, 2002 and 2001

	Three Months Ended June 30, 2002	% of Total Revenue	Three Months Ended June 30, 2001	% of Total Revenue	$ Change	% Change
Service revenues	$ 4,384,719		$ 2,252,507		$2,132,212	94.7%
Reimbursement revenues	$ 672,452		$ 489,041		$183,411	37.5%
Total revenues	$ 5,057,171		$ 2,741,548			
Cost of revenues	$ 3,555,329	70.3%	$ 1,855,999	67.7%	$1,699,330	91.6%
General and administrative expenses	$ 690,363	13.7%	$ 330,895	12.1%	$359,468	108.6%
Sales and marketing expenses	$ 439,638	8.7%	$ 466,628	17.0%	($26,990)	(5.8%)

	Three Months Ended June 30, 2002	% of Total Revenue	Three Months Ended June 30, 2001	% of Total Revenue	$ Change	% Change
Total cost and expenses	$ 4,685,330	92.6%	$ 2,653,522	96.8%	$2,031,808	76.6%
Interest expense net	$ 31,448		$ 8,123		$23,325	287.1%
Income tax provision	$ 49,292				$49,292	
Net income	$ 291,101	5.8%	$ 79,903	2.9%	$211,198	264.3%

Service revenues for the three months ended June 30, 2002 and 2001 were approximately $4,385,000 and $2,253,000, respectively, an increase of approximately $2,132,000 or 94.7%. The increase in service revenues is a result of an increase in the number of projects from the overall market growth for medical imaging related services for clinical trials. Service revenues were generated from 54 clients encompassing 126 distinct projects for the three months ended June 30, 2002. This compares to 40 clients encompassing 75 distinct projects for the three months ended June 30, 2001. Service revenues generated from the Company's client base continue to be highly concentrated. Two clients encompassing eight projects represented

approximately 22.1% of the Company's service revenues for the three months ended June 30, 2002, while for the comparable period last year, two clients encompassing six projects represented approximately 31.2% of the Company's service revenues. No other customers accounted for more than 10% of service revenues in each of the three month periods ended June 30, 2002 and 2001. The Company's scope of work in both periods included primarily medical-imaging core laboratory services and image-based information management services.

Reimbursment revenues for the three months ended June 30, 2002 and 2001 were approximately $672,000 and $489,000, respectively, an increase of approximately $183,000 or 37.5%. Reimbursment revenues consists of pass-through costs reimbursed by the customer. As required, the Company adopted the guidance of recently issued accounting pronouncement EITF 01-14, effective January 1, 2002, and, accordingly, has reclassified reimbursed pass-through costs as part of revenues. The increase in the three months ended June 30, 2002 resulted from an increase in projects and the associated reimbursed costs.

Cost of revenues for the three months ended June 30, 2002 and 2001 were approximately $3,555,000 and $1,856,000, respectively, an increase of approximately $1,699,000 or 91.6%. Cost of revenues for the three months ended June 30, 2002 and three months ended June 30, 2001 were comprised of professional salaries and benefits, allocated overhead and pass-through costs. The increase in cost of revenues is primarily attributable to personnel and facilities assumed as part of the Intelligent Imaging Acquisition, along with an increase in staffing levels required for project related tasks for the three months ended June 30, 2002. The Company anticipates utilizing the excess Intelligent Imaging resource capacity to fulfill current and anticipated projects.

The increase in the cost of revenues as a percentage of total revenues in the three months ended June 30, 2002 of 70.3% from the three months ended June 30, 2001 of 67.7% is primarily due to costs associated with the integration of Intelligent Imaging. In addition, the inclusion of reimbursable pass-through costs in revenues has added to this percentage increase since reimbursable revenues along with the associated reimbursable pass-through costs have increased in proportion to the Company's number of projects and service revenues. The cost of revenues as a percentage of total revenues may fluctuate based on the utilization of staff and the mix of services provided by the Company.

General and administrative expenses for the three months ended June 30, 2002 and 2001 were approximately $690,000 and $331,000, respectively, an increase of approximately $359,000 or 108.6%. General and administrative expenses in each of the three months ended June 30, 2002 and 2001 consisted primarily of professional salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. The increase during the three months ended June 30, 2002 from the three months ended June 30, 2001, is primarily attributable to an increase in personnel and in corporate insurance and professional services associated with general corporate matters resulting from the increase in the Company's service revenues and personnel.

The increase in general and administrative expenses as a percentage of total revenues in the three months ended June 30, 2002 of 13.7% from the three months ended June 30, 2001 of 12.1% is primarily due to the Company's increase in total revenues with a lesser increase in costs associated with depreciation and amortization, professional and consulting services, office rent and corporate insurance.

Sales and marketing expenses for the three months ended June 30, 2002 and 2001 were approximately $440,000 and $467,000, respectively, a decrease of approximately $27,000 or 5.8%. Sales and marketing expenses in each of the three months ended June 30, 2002 and three months ended June 30, 2001 were comprised of direct sales and marketing costs, professional salaries and benefits and allocated overhead. This decrease is primarily due to less marketing expenses for the three months ended June 30, 2002 from the three months ended June 30, 2001.

The decrease in sales and marketing expenses as a percentage of total revenues in the three months ended June 30, 2002 of 8.7% from the three months ended June 30, 2001 of 17.0% is primarily due to the Company's increase in total revenues with a lesser increase in sales and marketing costs associated with professional salaries and benefits.

Total cost and expenses for the three months ended June 30, 2002 and 2001 were approximately $4,685,000 and $2,654,000, respectively, an increase of approximately $2,032,000 or 76.6%. Total cost and expenses in each of the three months ended June 30, 2002 and three months ended June 30, 2001 consisted primarily of cost of revenues, general and administrative expenses and sales and marketing expenses. This increase is due primarily to an increase in personnel resulting from the Intelligent Imaging Acquisition, along with an increase in professional services associated with general corporate matters.

Total cost and expenses as a percentage of total revenues for the three months ended June 30, 2002 of 92.6% from the three months ended June 30, 2001 of 96.8% did not change significantly due to the increase in cost of revenues and general and administrative expenses as a percentage of total revenues offset by the decrease in sales and marketing expenses as a percentage of total revenues.

Net interest expense for the three months ended June 30, 2002 and 2001 was approximately $31,000 and $8,000, respectively, an increase of approximately $23,000 or 287.1%. Net interest expense for the three months ended June 30, 2002 resulted from interest expense incurred on both the Note and equipment lease obligations. Net interest expense for the three months ended June 30, 2001 resulted from interest expense incurred on equipment lease obligations.

The Company's income tax provision of $49,292 relates to estimated state income taxes for the three months ended June 30, 2002. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the three months ended June 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately $135,000. Management believes that it is more likely than not that

the net deferred income tax assets, recorded as of June 30, 2002, will be realized in the future.

Net income for the three months ended June 30, 2002 and 2001 was approximately $291,000 and $80,000, respectively, an increase of approximately $211,000 or 264.3%. The Company's net income for the three months ended June 30, 2002 was attributable primarily to increased revenues associated with an increase in the number of projects for which the Company was engaged to perform services, offset, in part, by the costs associated with the integration of the Intelligent Imaging Acquisition.

The increase in net income as a percentage of total revenues for the three months ended June 30, 2002 of 5.8% from the three months ended June 30, 2001 of 2.9% is primarily due to the Company's increase in total revenues with a lesser increase in general and administrative and sales and marketing expenses.

Liquidity and Capital Resources

	Six Months Ended June 30, 2002	**Six Months Ended June 30, 2001**
Net cash provided by (used in) operating activities	$917,217	($322,982)
Net cash used in investing activities	($553,174)	($152,092)
Net cash used in financing activities	($108,611)	($81,862)

At June 30, 2002, the Company had cash and cash equivalents of approximately $755,000. Working capital at June 30, 2002 was approximately $1,653,000.

Net cash provided by operating activities for the six months ended June 30, 2002 includes net income of approximately $588,000, approximately $387,000 of depreciation and amortization and changes in certain of the Company's operating assets and liabilities, such as, an increase of approximately $624,000 in deferred revenue, offset by an increase in accounts receivable of approximately $368,000 and prepaid expenses and other current assets of approximately $174,000.

Net cash used in investing activities represents the Company's investment in capital and leasehold improvements. The Company currently anticipates that capital expenditures for the remainder of fiscal year ending December 31, 2002 will be approximately $500,000. These expenditures represent additional upgrades in the Company's networking, data storage and core laboratory capabilities for both the United States and European operations and software investment in 21 CFR Part 11 compliance. 21 CFR Part 11 is a regulation published by the Food and Drug Administration pursuant to its Electronic Records and Electronic Signatures Rule relating to requirements for electronic records and signatures that support regulated activities.

Net cash used in financing activities is primarily due to payments under the Note and

equipment lease obligations.

The following table lists the Company's cash contractual obligations as of June 30, 2002:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 3 years**	**4 5 years**	**After 5 years**
Capital Lease Obligations	$ 668,710	$ 263,159	$ 405,551		
Promissory Note	$ 916,667	$ 166,667	$ 750,000		
Facility Rent Operating Leases	$ 5,883,084	$ 852,261	$ 2,404,523	$ 1,311,527	$ 1,314,773
Total Contractual Cash Obligations	$ 7,468,461	$ 1,282,087	$ 3,560,074	$ 1,311,527	$ 1,314,773

On April 30, 2002, the Company entered into an agreement with Wachovia Bank, National Association ("Wachovia"), for a committed line of credit up to $1,000,000, collateralized by the Company's assets. Interest is payable at Wachovia's Prime Rate plus 0.5%. The agreement requires the Company, among other things, to maintain a debt service coverage ratio of not less than 1.25 to 1, measured annually. The committed line of credit matures May 31, 2003 and may be renewed on an annual basis. At June 30, 2002, the Company had no borrowings under the committed line of credit.

On May 13, 2002, the Company terminated its accounts receivable financing agreement it had executed with Silicon Valley Bank in December 1999. During the six months ended June 30, 2002, the Company had no borrowings under the accounts receivable financing agreement.

In connection with the Intelligent Imaging Acquisition, beginning February 1, 2002, the Company is obligated to pay quarterly payments of principal of $41,667 under the Note, plus accrued interest thereon, and one payment of principal of $500,000 on November 1, 2004, unless the Note is previously converted into the Company's common stock. The Note bears interest at the rate in effect on the business day immediately prior to the date on which payments are due under the Note equal to the LIBOR Rate as published from time to time in the Wall Street Journal plus 3%, compounded annually based on a 365-day year. During the six months ended June 30, 2002, the Company paid $83,334 in principal under the Note and $24,323 in interest up to May 1, 2002.

The Company has neither paid nor declared dividends on its common stock since its inception and does not plan to pay dividends on its common stock in the foreseeable future.

The Company anticipates that its cash and cash equivalents as of June 30, 2002, together with anticipated cash from operations, will be sufficient to fund current working capital needs and capital requirements for at least the next twelve months. There can be no assurance, however, that the Company's operating results will continue to achieve profitability on an annual basis in the near future. The Company's past history of operating losses, together with the risks associated with: (i) the integration of Intelligent Imaging into the Company; (ii) the Company's ability to gain new client contracts; (iii) the variability of the timing of payments on existing client contracts and; (iv) other changes in the Company's operating assets and liabilities, may have a material adverse affect on the Company's future liquidity. In connection therewith, the Company may need to raise additional capital in the foreseeable future from equity or debt sources in order to; (i) implement its business, sales or marketing plans; (ii) take advantage of unanticipated opportunities (such as more rapid expansion, acquisitions of complementary businesses or the development of new services); (iii) to react to unforeseen difficulties (such as the decrease in the demand for the Company's services or the timing of revenues due to a variety of factors previously discussed) or; (iv) to otherwise respond to unanticipated competitive pressures. There can be no assurance that additional financing will be available, if at all, on terms acceptable to the Company.

The Company's 2002 operating plan contains assumptions regarding revenue and expenses. The achievement of the operating plan depends heavily on the timing of work performed by the Company on existing projects and the ability of the Company to gain and perform work on new projects. Project cancellation, or delays in the timing of work performed by the Company on existing projects or the inability of the Company to gain and perform work on new projects could have an adverse impact on the Company's ability to execute its operating plan and maintain adequate cash flow. In the event actual results do not meet the operating plan, the Company's management believes it could execute contingency plans to mitigate such effects. Such plans include additional financing, to the extent available, through the line of credit discussed above. Considering the cash on hand and based on the achievement of the operating plan and management's actions taken to date, management believes it has the ability to continue to generate sufficient cash to satisfy its operating requirements in the normal course of business. However, no assurance can be given that sufficient cash will be generated from operations.

Critical Accounting Policies, Estimates and Risks

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. The Notes to the Consolidated Financial Statements includes a summary of significant accounting policies and methods used in the preparation of the Company's Consolidated Financial Statements. The following is a brief discussion of the more significant accounting policies and methods used by the Company.

In addition, Financial Reporting Release No. 61 was recently released by the SEC to require all companies to include a discussion to address, among other things, liquidity, off-balance sheet arrangements, contractual obligations and commercial commitments.

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reported period.

On an on-going basis, the Company evaluates its estimates. The most significant estimates relate to the recognition of revenue and profits based on the percentage-of-completion method of accounting for fixed service contracts, allowance for doubtful accounts and income taxes.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

Revenue Recognition. Service revenues are recognized over the contractual term of the Company's customer contracts using the percentage-of-completion method, which is based on costs incurred as a percentage of total estimated costs. Service revenues are first recognized when the Company has a signed contract from a customer which: (i) contains fixed or determinable fees; and (ii) collectability of such fees is reasonably assured. Any change to recognized service revenue as a result of revisions to estimated total costs are recognized in the period the estimate changes. Direct and incremental costs incurred at the outset of an arrangement that are directly related to a customer contract are deferred, if their recoverability from that contract is probable. Deferred costs are expensed upon recognition of revenue associated with the contract.

The Company's revenue recognition policy entails a number of estimates including an estimate of the total costs that are expected to be incurred on a project, which is used as the basis for determining the portion of the Company's revenue to be recognized for each period. The revenue recognized this period might have been materially affected if different assumptions or conditions prevailed. The timing of the Company's recognition of revenue would be revised if there were changes in the total estimated costs (other than scope changes in a project which typically result in a revision to the contract). The Company reviews its total estimated costs monthly.

The Company also incurs costs at the outset of a customer service arrangement prior to receiving a final signed contract. Accordingly, the Company defers these costs and delays the recording of any service revenue until the contract is executed. If a customer does not execute the contract, the Company would have to immediately expense the deferred costs, which would reduce the net income of the Company in the period that the customer terminated the relationship.

Allowance for Doubtful Accounts. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would reduce the net income of the Company in the period that the Company determines that the additional allowances are needed.

Income Taxes. The Company records a valuation allowance to reduce its deferred tax assets to an amount that is more likely than not to be realized. In assessing the need for the valuation allowance, the Company has considered its future taxable income and on-going prudent and feasible tax planning strategies. In the event that the Company were to determine that, in the future, it would be able to realize its deferred tax assets in excess of its net recorded amount, an adjustment to the deferred tax asset would be made, thereby increasing income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged, thereby decreasing income in the period such determination was made.

PART II. OTHER INFORMATION.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

4.1 Promissory Note for $1,000,000, dated April 30, 2002, made by the Company in favor of Wachovia Bank, National Association. (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-QSB for the quarter ended March 31, 2002)

10.1 Loan Agreement, dated April 30, 2002, by and between the Company and Wachovia Bank, National Association. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-QSB for the quarter ended March 31, 2002)

10.2 Security Agreement, dated April 30, 2002, made by the Company in favor of Wachovia Bank, National Association. (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-QSB for the quarter ended March 31, 2002)

10.3 Sublease, dated April 12, 2002, by and between the Company and Davox Corporation.

99.1 Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

(b) Reports on Form 8-K.

Report on Form 8-K filed on April 17, 2002 (reporting the dismissal of Arthur Andersen LLP as the Company's independent auditors and the engagement of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending December 31, 2002).

Report on Form 8-K/A filed on April 26, 2002 (amending the letter from Arthur Andersen LLP filed with the Form 8-K filed on April 17, 2002).

SIGNATURES

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

BIO-IMAGING TECHNOLOGIES, INC.

DATE: August 7, 2002	By:	/s/ MARK L. WEINSTEIN
		Mark L. Weinstein, President, Chief Executive Officer and Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)
DATE: August 7, 2002	By:	/s/ MARIA T. KRAUS
		Maria T. Kraus, Controller (Principal Accounting Officer)

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