BIO IMAGING TECHNOLOGIES INC
Form 10-Q
May 15, 2007

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United States SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2007

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

Commission File No. 1-11182
BIO-IMAGING TECHNOLOGIES, INC.
(Exact Name of Registrant 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
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (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: þ No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer: o Accelerated filer: o Non-accelerated filer: þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes: o No: þ

State the number of shares outstanding of each of the registrant s classes of common stock, as of April 30, 2007:

Class	Number of Shares
Common Stock, $0.00025 par value	11,593,842

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

References in this Form 10-Q to Bio-Imaging, we, us, or our refer to Bio-Imaging Technologies, Inc., a Delawa corporation, and its subsidiaries.

Certain information and footnote disclosures required under generally accepted accounting principles in the United States of America have been condensed or omitted from the following condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission, although we believe that such financial disclosures are adequate so that the information presented is not misleading in any material respect. The following condensed consolidated financial statements should be read in conjunction with the year-end condensed consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

The results of operations for the interim periods presented in this Form 10-Q are not necessarily indicative of the results to be expected for the entire fiscal year.

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,906,579	$ 16,166,264
Accounts receivable, net	6,041,610	5,564,748
Prepaid expenses and other current assets	1,195,530	1,237,405
Deferred income taxes	1,970,372	2,210,800
Total current assets	23,114,091	25,179,217
Property and equipment, net	6,700,941	5,908,281
Intangibles and goodwill	6,699,707	2,227,438
Deferred income taxes	272,954	272,954
Other assets	785,736	519,821
Total assets	$ 37,573,429	$ 34,107,711
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,961,712	$ 1,720,481
Accrued expenses and other current liabilities	3,187,196	3,334,554
Deferred revenue	11,355,174	9,451,219
Current maturities of capital lease obligations	370,355	454,458
Total current liabilities	16,874,437	14,960,712
Long-term capital lease obligations	40,550	97,036
Other liability	578,795	208,208
Total liabilities	17,493,782	15,265,956
Commitments and Contingencies		
Stockholders equity:		
Preferred stock- $.00025 par value; authorized 3,000,000 shares, 0 issued and outstanding at March 31, 2007 and at December 31, 2006	2,894	2,827

Common stock- $.00025 par value; authorized 18,000,000 shares, issued and outstanding 11,583,342 shares at March 31, 2007 and 11,309,550 shares at December 31, 2006		
Additional paid-in capital	23,723,974	22,864,390
Accumulated deficit	(3,647,541)	(4,042,619)
Accumulated other comprehensive gain		17,157
Foreign currency translation adjustment	320	
Stockholders equity	20,079,647	18,841,755
Total liabilities and stockholders equity	$ 37,573,429	$ 34,107,711

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 March 31,	
	2007	2006
Service revenues	$ 8,759,421	$ 7,242,591
Reimbursement revenues	2,316,034	2,067,160
Total revenues	11,075,455	9,309,751
Cost and expenses:		
Cost of revenues	7,541,509	6,684,840
General and administrative expenses	1,472,278	1,371,246
Sales and marketing expenses	1,560,026	1,447,728
Total cost and expenses	10,573,813	9,503,814
Income (loss) from operations	501,642	(194,063)
Interest income	160,552	117,533
Interest expense	(3,731)	(17,183)
Income (loss) before income tax provision (benefit)	658,463	(93,713)
Income tax provision (benefit)	263,385	(38,038)
Net income (loss)	$ 395,078	$ (55,675)
Basic income (loss) per common share	$ 0.03	$ (0.01)
Weighted average number of common shares	11,467,015	11,180,310
Diluted income (loss) per common share	$ 0.03	$ (0.01)
Weighted average number of dilutive common equivalent shares	12,657,405	11,180,310

See Notes to Consolidated Financial Statements

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

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ 395,078	$ (55,675)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	534,123	548,496
Provision (benefit) for deferred income taxes	240,428	(38,038)
Bad debt benefit		(2,912)
Non-cash stock based compensation expense	74,646	83,895
(Gain) loss on foreign currency options	(10,398)	19,016
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(249,095)	(146,102)
Decrease (increase) in prepaid expenses and other current assets	6,348	(196,111)
(Increase) decrease in other assets	(108,078)	44,491
Decrease in accounts payable	(85,420)	(246,158)
Decrease in accrued expenses and other current liabilities	(381,435)	(357,541)
Increase in deferred revenue	1,762,189	1,732,088
Increase in other liabilities	4,648	4,003
Net cash provided by operating activities	2,183,034	1,389,452
Cash flows from investing activities:		
Purchases of property and equipment	(842,876)	(448,382)
Net cash paid for acquisition	(3,565,725)	
Net cash used in investing activities	(4,408,601)	(448,382)
Cash flows from financing activities:		
Payments under equipment lease obligations	(140,589)	(228,045)
Premium paid for foreign currency options		(14,077)
Proceeds from exercise of stock options	106,471	14,386
Net cash used in financing activities	(34,118)	(227,736)
Net (decrease) increase in cash and cash equivalents	(2,259,685)	713,334
Cash and cash equivalents at beginning of period	16,166,264	10,553,668
Cash and cash equivalents at end of period	$ 13,906,579	$ 11,267,002

See Notes to Consolidated Financial Statements

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

Supplemental cash flow disclosure

Schedule of non cash investing and financing activities

	For the Three Months Ended March 31,	
	2007	2006
Increase in property, plant and equipment acquisitions in accounts payable	243,558	170,317

Acquired business

	For the Three Months Ended March 31,	
	2007	2006
Accounts receivable	227,767	
Property and equipment, net	185,261	
Other assets	53,432	
Intangible assets and goodwill	4,590,000	
Net current liabilities assumed	(377,131)	
Other liabilities assumed	(353,263)	
Common stock issued	(760,341)	
Cash paid for acquired business, net of cash acquired of $200,972	3,565,725	

Statement of comprehensive income (loss)

	For the Three Months Ended March 31,	
	2007	2006
Net income (loss)	395,078	(55,675)
Other comprehensive income (loss), net of tax		
Net unrealized income (loss) on derivative instruments		17,157
Foreign currency translation adjustment	320	
Total comprehensive income (loss)	395,398	(38,518)

See Notes to Consolidated Financial Statements

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

Note 1 Interim Financial Statements:

Basis of Presentation.

The financial statements included in this Form 10-Q have been prepared by us, 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 condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods.

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

Note 2 Stock-Based Compensation:

At March 31, 2007, we have one stock based employee compensation plan. The compensation cost that has been charged against income for that plan for the three months ended March 31, 2007 was $74,646, of which $35,521 is a result of the expensing of stock options pursuant to FAS 123R. The expense related to the stock based employee compensation plan for the three months ended March 31, 2006 was $83,895, of which, $77,826 is a result of the expensing of stock options pursuant to FAS 123R.

As of March 31, 2007, there was $663,611 of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 4.92 years.

Note 3 Earnings Per Share:

Basic income (loss) per common share for the three months ended March 31, 2007 and 2006 was calculated based upon net income (loss) divided by the weighted average number of shares of our common stock outstanding during the period. Diluted income per share for the three months ended March 31, 2007 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period, adjusted for dilutive securities using the treasury method. Diluted loss per common share for the three

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
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months ended March 31, 2006 exclude the impact of outstanding stock options as their inclusion would be antidilutive.

The computation of basic loss per common share and diluted loss per common share was as follows:

	Three Months Ended March 31,	
	2007	2006
Net income (loss) basic and diluted	$ 395,078	$ (55,675)
Denominator basic:		
Weighted average number of common shares	11,467,015	11,180,310
Basic income (loss) per common share	$ 0.03	$ (0.01)
Denominator diluted:		
Weighted average number of common shares	11,467,015	11,180,310
Common share equivalents of outstanding stock options	1,093,671	
Common share equivalents of unrecognized compensation expense	96,719	
Weighted average number of dilutive common equity shares	12,657,405	11,180,310
Diluted income (loss) per common share	$ 0.03	$ (0.01)

As of March 31, 2007 and 2006, options to purchase 140,000 and 1,937,075 shares, respectively, of our common stock have been excluded from the calculation of diluted loss per common share as they were all antidilutive.

Note 4 Commitments and Contingencies:

On March 1, 2006, we entered into an employment agreement with our President and Chief Executive Officer that expires on February 28, 2009. This agreement amended and restated the prior agreement that originally expired January 31, 2007. Pursuant to this

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employment agreement our President and Chief Executive Officer can potentially receive up to 25,000 shares of the company s common stock each fiscal year. Based on management s assumptions, we recognized the related proportionate expense for these stock units for the three months ended March 31, 2007. The aggregate amount due from January 1, 2007 through the expiration under these agreements was $981,333. On February 27, 2007, in connection with his employment agreement related to fiscal year 2006, we issued 14,850 shares of stock to our President and Chief Executive Officer, this was net of 10,150 shares withheld for withholding taxes associated with the issuance of the shares. In addition, we have an employment agreement with our Chief Financial Officer that expires February 5, 2008.

Note 5 Business Segments

FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, requires companies to provide certain information about their operating segments. In November 2003, we acquired the intellectual property of CapMed Corporation. Accordingly, we now have two operating segments: pharmaceutical contract services and the CapMed division. Our pharmaceutical contract service segment provides services that support the product development process of the pharmaceutical, biotechnology and medical device industries. Our CapMed segment offers a software application that enables users to manage and store personal health information, including their medical images, on the privacy of their desktop computer, while linking directly to sponsor-directed resources such as drug information, patient education, or disease guidelines. The operating segments are managed separately because each offers different services and applications to different markets. Our management evaluates the performance of each segment based upon operating earnings or losses before interest and income taxes.

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Summarized financial information concerning our operational segments is shown in the following table:

	Pharmaceutical Contract Services	CapMed Division	Consolidated Total
For the three months ended March 31, 2007			
Total revenues	$ 10,941,339	$ 134,116	$ 11,075,455
Total cost and expenses	$ 10,059,285	$ 514,528	$ 10,573,813
Income (loss) from operations	$ 882,054	$ (380,412)	$ 501,642
For the three months ended March 31, 2006			
Total revenues	$ 9,223,736	$ 86,015	$ 9,309,751
Total cost and expenses	$ 8,934,119	$ 569,695	$ 9,503,814
Income (loss) from operations	$ 289,617	$ (483,680)	$ (194,063)

Our foreign customers accounted for approximately 34% and 21% of service revenues for the three months ended March 31, 2007 and 2006, respectively.

Note 6 Accounts Receivable and Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts on a specific identification method for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of our customers ability to make payments, additional allowances may be required. We do not have any off-balance-sheet credit exposure related to our customers and the trade accounts receivable does not bear interest.

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	March 31, 2007	December 31, 2006
Billed trade accounts receivable	$ 5,019,315	$ 4,781,682
Unbilled trade accounts receivable	998,786	771,818
Other	23,509	11,248
Total Receivables	$ 6,041,610	$ 5,564,748

Allowance Rollforward:	
Balance at January 1, 2007	$ 14,000
Additions	
Write offs (net of recoveries)	(14,000)
Balance at March 31, 2007	$ 0

Note 7 Income Taxes

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. In assessing the need for the valuation allowance, we consider our future taxable income and on-going prudent and feasible tax planning strategies. In the event that we were to determine that, in the future, we would be able to realize our deferred tax assets in excess of its net recorded amount, an adjustment to the deferred tax asset would be made, thereby increasing net income in the period such determination was made. Likewise, should we determine that it is more likely than not that we will be unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged, thereby decreasing net income in the period such determination was made. Subsequent revisions to the estimated realizable value of our deferred tax assets could cause our provision for income taxes to vary significantly from period to period, although our cash tax payments would remain unaffected until our net operating loss (NOL) carryforwards is fully utilized or has expired. Our current and long-term deferred tax assets are primarily comprised of the temporary book to tax differences related to deferred revenue and our NOL carryforwards. We have determined that there is sufficient future taxable income to more likely than not utilize the unlimited net operating loss carryforward at March 31, 2007.

We have accumulated tax losses, which include allowable deductions related to exercised employee stock options, generating federal net operating loss (NOL) carryforwards of $2.3 million as of March 31, 2007. The losses will expire, if unused in the years 2009-2022. Under limitations imposed by Internal Revenue Code Section 382, certain potential changes in our ownership, which may be outside our knowledge or control, may restrict future utilization of these carryforwards. Due to such ownership changes that have occurred in prior years, we have estimated that $1.1 million of our current federal net operating loss will likely expire unused due to Internal Revenue Code Section 382 limitations and have a valuation allowance of $408,000 for this limitation at December 31, 2006 and March 31, 2007.

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
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On January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes recognition threshold that a tax position is required to meet before being recognized in the financial statements.

Historically, our tax provision for financial statement purposes and the actual tax returns have been prepared using consistent methodologies. There were no material unrecognized tax benefits as of December 31, 2006. Accordingly, the adoption did not have a material impact on the financial statements. We do not expect the unrecognized tax benefit to change during the next twelve months. Any interest and penalties incurred on settlements of outstanding tax positions would be recorded as a component of tax expense. We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. Our federal taxes for years 2005 and 2006 are subject to examination. Our state taxes for years 2000 through 2006 are subject to examination.

Note 8 Derivatives and Other Hedging Instruments

All derivatives are recognized in our Consolidated Statement of Operations at fair value and are reported in prepaid expenses and other current assets on the Balance Sheet. To qualify for hedge accounting in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, (SFAS No. 133), we require that the instruments are effective in reducing the risk exposure that they are designated to hedge. For instruments that are associated with the hedge of cash flows, hedge effectiveness criteria also require that it be probable that the underlying transaction will occur. Instruments that meet established accounting criteria are formally designated as hedges at the inception of the contract. These criteria demonstrate that the derivative is expected to be highly effective at offsetting changes in fair value or cash flows of the underlying exposure both at inception of the hedging relationship and on an ongoing basis. The assessment for effectiveness is formally documented at hedge inception and reviewed at least quarterly throughout the designated hedge period.

In accordance with our current foreign exchange rate risk management policy, since inception, we have purchased twenty monthly Euro call options. Nineteen monthly call options were in the amount of 250,000 Euros each and one call option was for 200,000 Euros for anticipated additional costs in May, 2006. The first expiration was on July 27, 2005 and the last expiration was in March 2007 with a strike price ranging from $1.26 to $1.27. These options were to hedge against the exposure to variability in our cash flows resulting from Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $132,109 for the options.

During the three months ended March 31, 2007, we exercised the remaining two options and a gain of $10,398 was recognized in the Consolidated Statement of Operations on the

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
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exercised options. During the three months ended March 31, 2006, we did not exercise any options and a loss of $19,016 was recognized in the Consolidated Statement of Operations for the unexercised options.

Under our current foreign exchange rate risk management policy, and upon expiration or ineffectiveness of the derivative, we will record a gain or loss from the derivative that is deferred in stockholders equity to cost of revenues and general and administrative expenses in the Consolidated Statement of Operations based on the nature of the underlying cash flow hedged.

Note 9 Acquisition

On February 6, 2007, we acquired 100% of the outstanding securities of Theralys, a privately held company headquartered in Lyon, France to expand our therapeutic expertise in the Central Nervous System and Neurovascular areas. The aggregate purchase price was 2,958,285 Euros ($3,853,462 as determined by an agreed upon exchange rate), of which 2,375,484 Euros ($3,093,122) was paid in cash and $760,341 was paid in 93,408 shares of our common stock. We also incurred approximately $673,000 in acquisition costs. The result of operations of Theralys were included in our Consolidated Statements of Income, Cash Flows and Balance Sheet at the acquisition date. The assets acquired primarily consisted of $4,221,000 goodwill, $291,000 software, $52,000 customer relationship and $26,000 non-compete. The purchase price allocation of Theralys used in the preparation of these financial statements is preliminary due to the continuing analyses relating to the determination of the fair values of the assets acquired and liabilities assumed. Any changes to the fair value of net assets acquired, based on information as of the acquisition date, will result in an adjustment to the fair value of the assets acquired and liabilities assumed. We do not expect the finalization of these matters to have a material effect on the allocation.

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

Overview

Pharmaceutical Contract Services

We are a global pharmaceutical contract service organization, providing services that support the product development process of the pharmaceutical, biotechnology and medical device industries. We specialize in assisting our clients in the design and management of the medical imaging component of clinical trials for all modalities, which includes computerized tomography (CT), magnetic resonance imaging (MRI), radiography, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA) and ultrasound. We provide services that include the processing and analysis of medical images and the data-basing and regulatory submission of medical images, quantitative data and text.

Our sales cycle, referring to the period from the presentation by us to a potential client to the engagement of us by such client, has historically been approximately 12 months. In addition, the contracts under which we perform services typically cover a period of 12 to 60 months and the volume and type of services performed by us generally vary during the course of a project. We cannot assure you that our project revenues will be at levels sufficient to maintain profitability. Service revenues were generated from 101 clients encompassing 213 distinct projects for the three months ended March 31, 2007. This compares to 95 clients encompassing 218 distinct projects for the three months ended March 31, 2006.

Our contracted/committed backlog, referred to as backlog, is the amount of service revenue that remains to be earned and recognized on both signed and verbally agreed to contracts. Our backlog was $77.6 million as of March 31, 2007. This compares to $61.5 million as of March 31, 2006. Contracts included in backlog are subject to termination by our clients at any time. In the event that a contract is canceled by the client, we would be entitled to receive payment for all services performed up to the cancellation date. The duration of the projects included in our backlog range from less than 3 months to 7 years. We believe that our backlog assists our management as a general indicator of our long-term business. However, we do not believe that backlog is a reliable predictor of near-term results because service revenues may be incurred in a given period on contracts that were not included in the previous reporting period s backlog and/or contract cancellations or project delays may occur in a given period on contracts that were included in the previous reporting period s backlog.

We believe that demand for our services and technologies will continue to grow as the use of digital technologies for data acquisition and management increases in the radiology and drug development communities. We also believe that there is a growing recognition within the bio-pharmaceutical industry of the advantages in using an independent centralized core laboratory for analysis of medical-imaging data and compliance with the regulatory demands for the submission of such data and this may lead to a growth in our market share for these services. The FDA is also requiring more robust studies and additional data for clinical trials**.** In addition,

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the FDA continues to develop sophisticated guidelines for computerized submission of clinical trial data, including medical images. Furthermore, we believe that 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 from a large number of imaging sources. These studies require processing, analysis, data management and submission services best handled by vendors with scalable logistical capabilities and extensive experience working with research facilities worldwide. However, due to several factors, including, without limitation, competition from commercial competitors and academic research centers and the risk of project cancellations, slowing of patient enrollment in on-going studies or delay of future project awards, among others, we cannot assure you that demand for our services and technologies will grow, sustain growth, or that additional revenue generating opportunities will be realized by us.

CapMed Division

Our CapMed division offers the Personal Health Record software, referred to as PHR, and the patent-pending Personal HealthKey technology. The PHR is a software application that enables users to manage and store personal health information, including their medical images, on the privacy of their desktop computer, while linking directly to sponsor-directed resources such as drug information, patient education, or disease guidelines. The Personal HealthKey plugs into a computer s USB port, allowing doctors and patients easy access to the patient s medical record without the need for additional hardware or software, and it is password protected.

We intend to expand our CapMed division through partnerships and marketing efforts devoted to the PHR and Personal HealthKey products. We continue to pursue alliances and evaluate strategic alternatives to maximize shareholder value. We believe that continued emphasis on improving patient care and reducing cost will contribute to the growth of the personal electronic medical records market. CapMed continues to progress towards the completion of its dot-net conversion and development of its web portal strategy, which includes a web-based PHR. Once completed, our customers will have the choice of managing their health through an on-line PHR, from their desktop PC or from our patent-pending USB Healthkey, which we believe will further enhance value in the marketplace and reduce the lengthy sales cycle typical in this space. We continue to be encouraged by the long-term prospects for this division although the adoption rate has been slower than anticipated.

Forward Looking Statements

Certain matters discussed in this Form 10-Q 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 , wi 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, our statements regarding: our projected financial results; growth potential for our CapMed division; the demand for our services and technologies; growing recognition for the use of independent

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centralized core laboratories; trends toward the outsourcing of imaging services in clinical trials; realized return from our marketing efforts; increased use of digital medical images in clinical trials; integration of our acquired companies and businesses; expansion into new business segments; the success of any potential acquisitions and the integration of current acquisitions; and the level of our backlog 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 our 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 our control. The factors discussed in this Form 10-Q and expressed from time to time in our filings with the SEC, as well as the risk factors set forth in our Form 10-K, 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 we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Application of Critical Accounting Policies and Estimates

On January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes recognition threshold that a tax position is required to meet before being recognized in the financial statements.

Historically, our tax provision for financial statement purposes and the actual tax returns have been prepared using consistent methodologies. There were no material unrecognized tax benefits as of December 31, 2006. Accordingly, the adoption did not have a material impact on the financial statements. We do not expect the unrecognized tax benefit to change during the next twelve months. Any interest and penalties incurred on settlements of outstanding tax positions would be recorded as a component of tax expense. We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. Our federal taxes for years 2005 and 2006 are subject to examination. Our state taxes for years 2000 through 2006 are subject to examination.

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Results of Operations

Three Months Ended March 31, 2007 and 2006

	Three Months Ended March 31, 2007	% of Total Revenue	Three Months Ended March 31, 2006	% of Total Revenue	$ Change	% Change
Service revenues	$ 8,759,421	79.1%	$ 7,242,591	77.8%	$ 1,516,830	20.9%
Reimbursement revenues	2,316,034	20.9%	2,067,160	22.2%	248,874	12.0%
Total revenues	11,075,455	100.0%	9,309,751	100.0%	1,765,704	19.0%
Cost and expenses:						
Cost of revenues	7,541,509	68.1%	6,684,840	71.8%	856,669	12.8%
General and administrative expenses	1,472,278	13.3%	1,371,246	14.7%	101,032	7.4%
Sales and marketing expenses	1,560,026	14.1%	1,447,728	15.6%	112,298	7.8%
Total cost and expenses	10,573,813	95.5%	9,503,814	102.1%	1,069,999	11.3%
Income (loss) from operations	501,642	4.5%	(194,063)	(2.1)%	695,705	(358.5)%
Interest income	160,552	1.4%	117,533	1.3%	43,019	36.6%
Interest expense	(3,731)	0.0%	(17,183)	(0.2)%	13,452	(78.3)%
Income (loss) before income tax benefit	658,463	5.9%	(93,713)	(1.0)%	752,176	(802.6)%
Income tax provision (benefit)	263,385	2.4%	(38,038)	(0.4)%	301,423	(792.4)%
Net income (loss)	$ 395,078	3.6%	$ (55,675)	(0.6)%	$ 450,753	(809.6)%

Service revenues for the three months ended March 31, 2007 and 2006 were $8,759,421 and $7,242,591 respectively, an increase of $1,516,830, or 20.9%. The increase in service revenues was due to an increase in work performed from our increased contract signings in fiscal 2006 and our increased backlog. Our backlog at March 31, 2007 was $77.6 million compared to $61.5 million at March 31, 2006, an increase of 26.2%. We believe this increase in backlog is an indicator that the overall market growth for medical-imaging related services for clinical trials continues to be positive, subject to project cancellations, slowing of patient enrollment in on-going studies and delays

of future project awards.

Service revenues were generated from 101 clients encompassing 213 distinct projects for the three months ended March 31, 2007. This compares to 95 clients encompassing 218 distinct projects for the three months ended March 31, 2006. This decrease in the number of projects is in part due to a marketing focus on larger clinical trials projects. No one client accounted for more than 10% of our service revenue for the three months ended March 31, 2007. One client, Novartis Pharmaceuticals, Inc., encompassing 16 projects represented 12.0% of our service

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revenues for the three months ended March 31, 2006. Service revenues generated from our client base, while still concentrated as measured by the number of clients, is more dispersed when revenue concentration is measured by the number of individual projects. Our primary scope of work in both periods included medical-imaging core laboratory services and image-based information management services.

Reimbursement revenues consist of payments received from the customer for reimbursable costs. Reimbursement revenues fluctuate significantly over the course of any given project and quarter to quarter variations are a reflection of this project timing. Therefore, our management believes that reimbursement revenues are not a significant indicator of our overall performance trends. At the request of our clients, we may directly pay the independent radiologists who review our client s imaging data. In such cases, per contractual arrangement, these costs are billed to our clients and are included in Reimbursement Revenue and Cost of Revenues.

Cost of revenues for the three months ended March 31, 2007 and 2006 was $7,541,509 and $6,684,840 respectively, an increase of $856,669, or 12.8%. The increase in cost of revenues is primarily due to the increase in reimbursement revenues for the three months ended March 31, 2007 and also to the addition of operating costs from Theralys S.A. Cost of revenues for the three months ended March 31, 2007 and three months ended March 31, 2006 were comprised of professional salaries and benefits, allocated overhead and pass-through costs. The cost of revenues as a percentage of total revenues also fluctuates due to work-flow variations in the utilization of staff and the mix of services provided by us in any given period. We expect that our cost of revenues will continue to increase in fiscal 2007 as reimbursement revenues and service revenues increase.

General and administrative expenses for the three months ended March 31, 2007 and 2006 was $1,472,278 and $1,371,246 respectively, an increase of $101,032, or 7.4%. General and administrative expenses for the three months ended March 31, 2007 and three months ended March 31, 2006 consisted primarily of salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. The increase is primarily due to an increase in professional and consulting services. We expect that our general and administrative expense will increase in 2007 due to anticipated additional expenditures for compliance with the Sarbanes-Oxley Act of 2002. General and administrative expenses as a percentage of total revenues decreased slightly for the three months ended March 31, 2007 from the three months ended March 31, 2006 is primarily due to a greater increase in our total revenues for the three months ended March 31, 2007.

Sales and marketing expenses for the three months ended March 31, 2007 and 2006 was $1,560,026 and $1,447,728 respectively, an increase of $112,298, or 7.8%. Sales and marketing expenses for the three months ended March 31, 2007 and three months ended March 31, 2006 were comprised of direct sales and marketing costs, salaries and benefits and allocated overhead. The increase is primarily due to an increase in sales commissions from the higher revenue for the first quarter of 2007. We expect that sales and marketing expenses will increase in fiscal 2007 as we continue to expand our market presence in the United States and Europe. The decrease in sales and marketing expenses as a percentage of total revenues to 14.1% for the three months

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ended March 31, 2007 from 15.6% for the three months ended March 31, 2006 is primarily due to a greater increase in our total revenues for the three months ended March 31, 2007.

Net interest income was $156,821 for the three months ended March 31, 2007 and net interest income was $100,350 for the three months ended March 31, 2006, an increase of $56,471 or 56.3%. This increase is primarily due to having a higher cash balance to invest and earning higher rates of return on short term investments. Also, interest expense has decreased as our capital leases are maturing. Net interest income and expense for the three months ended March 31, 2007 and 2006 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. Interest income may decrease in fiscal 2007 if we utilize cash for acquisitions.

Income before income taxes was $658,463 for the three months ended March 31, 2007, and we had a loss before income tax of $93,713 for the three months ended March 31, 2006. The increase was due to greater service revenue while expenses increased at a slower rate due to our process improvement efforts.

Our income tax provision for the three months ended March 31, 2007 was $263,385 versus an income tax benefit for the three months ended March 31, 2006 of $38,038. The income tax benefit for the three months ended March 31, 2006 resulted from recording a deferred tax benefit for the future tax savings anticipated from using the net operating loss carryforwards available at March 31, 2006**.** Our effective tax rate is approximately 40% for fiscal 2007 and 38% for fiscal 2006. The increase in the effective tax rate is due to the mix of pre-tax income in the U.S. versus the Netherlands, which has a lower corporate income tax rate.

Business Segments

We have set forth certain financial information with respect to our two business segments, pharmaceutical contract services and the CapMed division, in Note 5 Business Segments to our Condensed Consolidated Financial Statements in this Form 10-Q. During the three months ended March 31, 2007, we had CapMed segment sales of $134,116 and total costs and expenses of $514,528, consisting of $399,160 of sales and marketing expenses, $99,790 of general and administrative expenses and $15,578 of cost of revenues.

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Liquidity and Capital Resources

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net cash provided by operating activities	$ 2,183,034	$1,389,452
Net cash used in investing activities	$(4,408,601)	$ (448,382)
Net cash used in financing activities	$ (34,118)	$ (227,736)

At March 31, 2007, we had cash and cash equivalents of $13,906,579. Working capital at March 31, 2007 was $6,239,654.

Net cash provided by operating activities for the three months ended March 31, 2007 was $2,183,034 as compared to $1,389,452 for the three months ended March 31, 2006. This increase from the prior year is primarily due to the increase in our deferred revenue of $1,762,189 at March 31, 2007 from December 31, 2006 due to advance deposits received from our clients for new contract signings, offset by the $249,095 increase in our accounts receivable.

Net cash used in investing activities for the three months ended March 31, 2007 was $(4,408,601) as compared to $(448,382) for the three months ended March 31, 2006. The increase was primarily due to $3,565,725 used for the acquisition of Theralys, S.A. on February 6, 2007. We currently anticipate that capital expenditures for the remainder of the fiscal year ending December 31, 2007 will be approximately $3.0 million. These expenditures primarily represent additional upgrades in our networking, data storage and core laboratory capabilities for both our United States and European operations as well as capitalization of software costs.

Net cash used in financing activities for the three months ended March 31, 2007 was $(34,118) as compared to $(227,736) for the three months ended March 31, 2006. The change is primarily attributable to the payments under equipment lease obligations of $140,589 offset by cash received from exercise of stock options of $106,471.

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The following table lists our cash contractual obligations as of March 31, 2007:

	Payments Due By Period				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease obligations	$ 410,905	$ 370,356	$ 40,550		
Facility rent operating leases	$4,184,876	$1,432,258	$2,446,578	$306,040	
Employment agreements	$ 842,083	$ 535,000	$ 307,083		
Total contractual cash obligations	$5,437,865	$2,337,614	$2,794,211	$306,040	

We have neither paid nor declared dividends on our common stock since our inception and do not plan to pay dividends on our common stock in the foreseeable future.

In accordance with our current foreign exchange rate risk management policy, since inception, we have purchased twenty monthly Euro call options. Nineteen monthly call options were in the amount of 250,000 Euros each and one call option was for 200,000 Euros for anticipated additional costs in May, 2006. The first expiration was on July 27, 2005 and the last expiration was in March 2007 with a strike price ranging from $1.26 to $1.27. These options were intended to hedge against the exposure to variability in our cash flows resulting from the Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $132,109 for the options.

During the three months ended March 31, 2007, we exercised the remaining two options. A gain of $10,398 was recognized in the Consolidated Statement of Operations on the exercised options. During the three months ended March 31, 2006, we did not exercise any options. A loss of $19,016 was recognized in the Consolidated Statement of Operations for the unexercised options.

Under our current foreign exchange rate risk management policy, and upon expiration or ineffectiveness of the derivative, we will record a gain or loss from the derivative that is deferred in stockholders equity to cost of revenues and general and administrative expenses in the Consolidated Statement of Operations based on the nature of the underlying cash flow hedged.

As of March 31, 2007, we have not purchased any additional such Euro call options, because our foreign currency needs are being met by the cash flow generated by Euro denominated contracts.

We have not entered into any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of or requirements for capital resources.

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We anticipate that our existing capital resources together with cash flow from operations will be sufficient to meet our cash needs. However, we cannot assure you that our operating results will maintain profitability on an annual basis in the future. The inherent operational risks associated with the following factors may have a material adverse affect on our future liquidity:

our ability to gain new client contracts;

project cancellations;

the variability of the timing of payments on existing client contracts; and

other changes in our operating assets and liabilities.

We may seek to raise additional capital from equity or debt sources in order to take advantage of unanticipated opportunities, such as more rapid expansion, acquisitions of complementary businesses or the development of new services. We cannot assure you that additional financing will be available, if at all, on terms acceptable to us.

Our fiscal year 2007 operating plan contains assumptions regarding revenue and expenses. The achievement of our operating plan depends heavily on the timing of work performed by us on existing projects and our ability to gain and perform work on new projects. Project cancellations, or delays in the timing of work performed by us on existing projects or our inability to gain and perform work on new projects, could have an adverse impact on our ability to execute our operating plan and maintain adequate cash flow. In the event actual results do not meet the operating plan, our management believes it could execute contingency plans to mitigate these effects. Our 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 our operating requirements in the normal course of business for at least the next 12 months and the foreseeable future.

Changes to Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. As of March 31, 2007, there have been no changes to such critical accounting policies and estimates, except for the adoption of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 (SFAS 109) on January 1, 2007.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We invest in high-quality financial instruments, primarily money market funds, federal agency notes, asset backed securities, corporate debt securities and United States treasury notes, with an effective duration of the portfolio of less than nine months and no security with an effective duration in excess of two years, which we believe are subject to limited credit risk. We currently do not hedge our interest rate exposure. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

Foreign Currency Risk

Our financial statements are denominated in United States dollars. Fluctuations in foreign currency exchange rates could materially increase the operating costs of our facility in the Netherlands, which are primarily EURO denominated. At March 31, 2007 and December 31, 2006, a 10% increase or decrease in the EURO to U.S. dollar spot exchange rate would result in a change of $47,226 and $41,600 to our net asset position at March 31, 2007 and December 31, 2006, respectively. In addition, certain of our contracts are denominated in foreign currency. We believe that any adverse fluctuation in the foreign currency markets relating to these contracts will not result in any material adverse effect on our financial condition or results of operations. In the event we derive a greater portion of our service revenues from international operations, factors associated with international operations, including changes in foreign currency exchange rates, could affect our results of operations and financial condition.

We hedge our foreign currency exposure when and as appropriate to mitigate the adverse impact of fluctuating exchange rates. Our foreign currency financial instruments primarily consist of cash, trade receivables, prepaid expenses, fixed assets, trade payables and accrued expenses and were in a net asset position at March 31, 2007 and December 31, 2006. An increase in the exchange rate would result in less net assets when converted to U.S. dollars. Conversely, if we were in a net liability position, a decrease in the exchange rate would result in more net liabilities when converted to U.S. dollars.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2007, our president and chief executive officer (principal executive officer) and our chief financial officer (principal accounting and financial officer) have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities

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and Exchange Commission s rules and forms and are operating in an effective manner for the period covered by this report.

Changes in internal control over financial reporting. There was no change in our internal controls over financial reporting that occurred during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION.

Item 1A. Risk Factors.

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. Investing in our common stock involves a high degree of risk. Any of the following factors could harm our business and future results of operations and you could lose all or part of your investment.

Risks Related to Our Company and Business

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

Our clients may terminate or delay their contracts for a variety of reasons, including, but not limited to:

unexpected or undesired clinical results;

the client s decision to terminate the development of a particular product or to end a particular study;

insufficient patient enrollment in a study;

insufficient investigator recruitment;

failure to perform our obligations under the contract; or

the failure of products to satisfy safety requirements.

In addition, we believe that FDA-regulated companies may proceed with fewer clinical trials or conduct them without assistance of contract service organizations if they are trying to reduce costs as a result of cost containment pressures associated with healthcare reform, budgetary limits or changing priorities. These factors may cause such companies to cancel contracts with contract service organizations.

We cannot assure you that our clients will continue to use our services or that we will be able to replace, in a timely or effective manner, departing clients with new clients that generate comparable revenues. Further, we cannot assure you that our clients will continue to generate consistent amounts of revenues over time.

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The loss, reduction in scope or delay of a large contract or the loss or delay of multiple contracts could materially adversely affect our business, although our contracts entitle us to receive all fees earned up to the time of termination. The loss of business from our client, Novartis Pharmaceutical, Inc., would have a material adverse effect on our financial condition.

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

We depend on research and development expenditures by pharmaceutical, biotechnology and medical device companies to sustain our business. Our operations could be materially and adversely affected if:

clients businesses experience financial problems or are affected by a general economic downturn;

consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for us; or

clients reduce their research and development expenditures.

No clients represented 10% of our service revenue for the three months ended March 31, 2007. One client, Novartis Pharmaceuticals, Inc., encompassing 16 projects represented 12.0% of our service revenue for the three months ended March 31, 2006. The loss of business from a significant client or our failure to continue to obtain new business to replace completed or canceled projects would have a material adverse effect on our business and revenues.

Our contracted/committed backlog may not be indicative of future results.

Our reported contracted/committed backlog of $77.6 million at March 31, 2007 is based on anticipated service revenue from uncompleted projects with clients. Backlog is the expected service revenue that remains to be earned and recognized on signed and verbally agreed to contracts. Contracts included in backlog are subject to termination by our clients at any time. In the event that a client cancels a contract, we would be entitled to receive payment for all services performed up to the cancellation date and subsequent client authorized services related to the cancellation of the project. The duration of the projects included in our backlog range from less than three months to seven years. We cannot assure that this backlog will be indicative of future results. A number of factors may affect backlog, including:

the variable size and duration of the projects (some are performed over several years);

the loss or delay of projects;

the change in the scope of work during the course of a project; and

the cancellation of such contracts by our clients.

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

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We have experienced substantial expansion in the past, and if we fail to properly manage that expansion, our business may suffer.

Our business has expanded substantially in the past. Our continuing sales and marketing efforts have resulted in increased revenues. The number of projects under management was 213 in the first quarter of 2007. In addition, we acquired Theralys in February 2007, HeartCore in December 2004 and CapMed in November 2003.

Rapid expansion, internally or through acquisitions, could strain our operational, human and financial resources. If we fail to properly manage this expansion, our results of operations and financial condition might be adversely affected. In order to manage our expansion, we must:

effectively market our services to pharmaceutical, biotechnology and medical device companies;

continue to improve operating, administrative and information systems;

accurately predict future personnel and resource needs to meet client contract commitments;

successfully integrate our acquired companies and businesses;

track the progress of on-going client projects; and

attract and retain qualified management, sales, professional and technical operating personnel.

We will face additional risks in expanding foreign operations. Specifically, we might find it difficult to:

assimilate differences in foreign business practices and regulations;

hire and retain qualified personnel; and

overcome language and cultural barriers.

We may engage in future acquisitions, which may be expensive and time consuming and from which we may not realize anticipated benefits.

We may acquire additional businesses, technologies and products if we determine that these additional businesses, technologies and products complement our existing business or otherwise serve our strategic goals. If we do undertake transactions of this sort, the process of integrating an acquired business, technology or product may result in operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any acquisition. Future acquisitions could result in potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, which could adversely affect our results of operations and financial condition.

On February 6, 2007, we acquired 100% of the outstanding securities of Theralys, a

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privately held company headquartered in Lyon, France. The aggregate purchase price was 2,958,285 Euros ($3,853,462 as determined by an agreed upon exchange rate), of which 2,375,484 Euros ($3,093,122) was paid in cash and $760,341 was paid in 93,408 shares of our common stock. We also incurred approximately $673,000 in acquisition costs.

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

Future success depends on the personal efforts and abilities of the principal members of our senior management to provide strategic direction, develop business, manage operations and maintain a cohesive and stable environment. Specifically, we are dependent upon Mark L. Weinstein, President and Chief Executive Officer, David A. Pitler, Senior Vice President Operations, Colin G. Miller, Ph.D., Senior Vice President Medical Affairs and Ted I. Kaminer, Senior Vice President and Chief Financial Officer. Although we have employment agreements with Mr. Weinstein and Mr. Kaminer, this does not necessarily mean that they will remain with us. Although we have executive retention agreements with our officers, we do not have employment agreements with any other key personnel. Furthermore, our performance also depends on our ability to attract and retain management and qualified professional and technical operating staff. Competition for these skilled personnel is intense. The loss of services of any key executive, or inability to continue to attract and retain qualified staff, could have a material adverse effect on our business, results of operations and financial condition. We do not maintain any key employee insurance on any of our executives.

Our revenues, earnings and operating costs are exposed to exchange rate fluctuations.

During the first quarter of 2007, a portion of our service revenues were denominated in foreign currency. Our financial statements are denominated in United States dollars. In the event a greater portion of our service revenues are denominated in a foreign currency changes in foreign currency exchange rates could affect our results of operations and financial condition. Fluctuations in foreign currency exchange rates could materially impact the operating costs of our European facility in Leiden, the Netherlands which are primarily Euro denominated.

Risks Related to Our Industry

Our failure to compete effectively in our industry could cause our revenues to decline.

Significant factors in determining whether we will be able to compete successfully include:

consultative and clinical trials design capabilities;

reputation for on-time quality performance;

expertise and experience in specific therapeutic areas;

the scope of service offerings;

strength in various geographic markets;

the price of services;

ability to acquire, process, analyze and report data in a time-saving and accurate manner;

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ability to manage large-scale clinical trials both domestically and internationally;

our size; and

the service and product offerings of our competitors.

If our services are not competitive based on these or other factors, our business, financial condition and results of operations will be materially harmed.

The biopharmaceutical services industry is highly competitive, and we face numerous competitors in our business, including hundreds of contract research organizations. If we fail to compete effectively, we will lose clients, which would cause our business to suffer. We primarily compete against in-house departments of pharmaceutical companies, full service contract research organizations, or CROs, small specialty CROs, and to a lesser extent, universities and teaching hospitals. Some of these competitors have substantially greater capital, technical and other resources than we do. In addition, certain of our competitors that are smaller specialized companies may compete effectively against us because of their concentrated size and focus.

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

Service revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries in research and development. Accordingly, economic factors and industry trends that affect our clients in these industries also affect our business. For example, the practice of many companies in these industries has been to hire outside organizations like us to conduct clinical research projects. This practice has grown significantly in the last decade, and we have benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, our business could be materially adversely affected.

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

Failure to comply with existing regulations could result in increased costs to complete clinical trials.

Our business is subject to numerous governmental regulations, primarily relating to pharmaceutical product development and the conduct of clinical trials. In particular, we are subject to 21 CFR Part 11 of the Code of Federal Regulations that provides the criteria for acceptance by the FDA of electronic records. If we fail to comply with these governmental regulations, it could result in the termination of ongoing clinical research or the disqualification of data for submission to regulatory authorities. We also could be barred from providing clinical trial services in the future or be subjected to fines. Any of these consequences would harm our reputation, our prospects for future work and our operating results.

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Our CapMed division may not reach profitability.

Our CapMed division had a loss from operations of $380,412 as of March 31, 2007. If our CapMed division continues to incur such losses, our business, results of operations and financial condition will be materially adversely affected.

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

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

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

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

Governmental agencies throughout the world, but particularly in the United States, strictly regulate the drug development/approval process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as relaxation in regulatory requirements or the introduction of simplified drug approval procedures or an increase in regulatory requirements that we may have difficulty satisfying could eliminate or substantially reduce the need for our services. If these changes in regulations were to occur, our business, results of operations and financial condition could be materially adversely affected. These and other changes in regulation could have a material adverse impact on our available business opportunities.

If governmental agencies do not accept the data and analyses generated by our services, the need for our services would be eliminated or substantially reduced.

The success of our business is dependent upon continued acceptance by the FDA and other regulatory authorities of the data and analyses generated by our services in connection with the evaluation of the safety and efficacy of new drugs and devices. The FDA has formal guidelines that encourage the use of surrogate measures through submission of digital image

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data, for evaluation of drugs to treat life-threatening or debilitating conditions. We cannot assure you that the FDA or other regulatory authorities will accept the data or analyses generated by us in the future and, even assuming acceptance, the FDA or other regulatory authorities may not require the application of imaging techniques to numbers of patients and over time periods substantially similar to those required of traditional safety and efficacy techniques. If the governmental agencies do not accept data and analyses generated by our services in connection with the evaluation of new drugs and devices, the need for our services would be eliminated or substantially reduced, and, as a result, our business, results of operations and financial condition could be materially adversely affected.

We may be exposed to liability claims as a result of our involvement in clinical trials.

We may be exposed to liability claims as a result of our involvement in clinical trials. We cannot assure you that liability claims will not be asserted against us as a result of work performed for our clients. We maintain liability insurance coverage in amounts that we believe are sufficient for the pharmaceutical services industry. Furthermore, we cannot assure you that our clients will agree to indemnify us, or that we will have sufficient insurance to satisfy any such liability claims. If a claim is brought against us and the outcome is unfavorable to us, such outcome could have a material adverse impact on us.

Risks related to our common stock

Your percentage ownership and voting power and the price of our common stock may decrease as a result of events that increase the number of our outstanding shares.

As of March 31, 2007, we had the following capital structure:

Common stock outstanding	11,583,342
Common stock issuable upon:	
Exercise of options which are outstanding	1,805,550
Exercise of options which have not been granted	598,944
Total common stock outstanding assuming exercise or conversion of all of the above	13,987,836

As of March 31, 2007, we had outstanding options to purchase 1,805,550 shares of common stock at exercise prices ranging from $0.63 to $8.06 per share (exercisable at a weighted average of $3.14 per share), of which 1,551,915 options were then exercisable. Exercise of our outstanding options into shares of our common stock may significantly and negatively affect the market price for our common stock as well as decrease your percentage ownership and voting power. In addition, we may conduct future offerings of our common stock or other securities with rights to convert the securities into shares of our common stock. As a result of these and other events, such as future acquisitions, that increase the number of our outstanding shares, your percentage ownership and voting power and the price of our common stock may decrease.

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Shares of our common stock eligible for public sale may have a negative impact on its market price.

Future sales of shares of our common stock by existing holders of our common stock or by holders of outstanding options, upon the exercise thereof, could have a negative impact on the market price of our common stock. As of March 31, 2007, we had 11,583,342 shares of our common stock issued and outstanding, all of which are currently freely tradable. On February 27, 2007, in connection with his employment agreement dated March 28, 2005, we issued 14,850 shares of restricted stock to our President and Chief Executive Officer, this was net of 10,150 shares withheld for withholding taxes associated with the issuance of the shares.

We are unable to estimate the number of shares that may be sold because this will depend on the market price for our common stock, the personal circumstances of the sellers and other factors. Any sale of substantial amounts of our common stock or other securities in the open market may adversely affect the market price of the securities offered hereby and may adversely affect our ability to obtain future financing in the capital markets as well as create a potential market overhang.

There are a limited number of shareholders who have significant control over our common stock, allowing them to have significant influence over the outcome of all matters submitted to our stockholders for approval, which influence may conflict with our interests and the interests of our other stockholders.

Our directors, officers and principal stockholders (stockholders owning 10% or more of our common stock), including Covance Inc., beneficially owned 25% of the outstanding shares of common stock and stock options that could have been converted to common stock at March 31, 2007, and such stockholders will have significant influence over the outcome of all matters submitted to our stockholders for approval, including the election of our directors and other corporate actions. In addition, such influence by these affiliates could have the effect of discouraging others from attempting to take us over, thereby increasing the likelihood that the market price of the common stock will not reflect a premium for control.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance further research and development and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Trading in our common stock may be volatile, which may result in substantial declines in its market price.

The market price of our common stock has experienced historical volatility and might

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continue to experience volatility in the future in response to quarter-to-quarter variations in:

operating results;

analysts reports;

market conditions in the industry;

changes in governmental regulations; and

changes in general conditions in the economy or the financial markets.

The overall market (including the market for our common stock) has also experienced significant decreases in value in the past. This volatility and potential market decline could affect the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. Between January 1, 2007 and March 31, 2007, our common stock has traded at a low of $5.84 per share and a high of $9.40 per share.

Our common stock began trading on the NASDAQ Global Market, formerly called the NASDAQ National Market, on December 18, 2003 and has a limited trading market. We cannot assure that an active trading market will develop or, if developed, will be maintained. As a result, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

Certain provisions of our charter and Delaware law could make a takeover difficult and may prevent or frustrate attempts by our stockholders to replace or remove our management team.

We have an authorized class of 3,000,000 shares of undesignated preferred stock, of which 1,250,000 shares were previously issued, and the remaining 1,750,000 shares may be issued by our board of directors, on such terms and with such rights, preferences and designation as the Board may determine. Issuance of such preferred stock, depending upon the rights, preferences and designations thereof, may have the effect of delaying, deterring or preventing a change in control of our company. In addition, we are subject to provisions of Delaware corporate law which, subject to certain exceptions, will prohibit us from engaging in any business combination with a person who, together with affiliates and associates, owns 15% or more of our common stock for a period of three years following the date that the person came to own 15% or more of our common stock unless the business combination is approved in a prescribed manner.

These provisions of our certificate of incorporation, and of Delaware law may have the effect of delaying, deterring or preventing a change in control of our company, may discourage bids for our common stock at a premium over market price and may adversely affect the market price, and the voting and other rights of the holders, of our common stock. In addition, these provisions make it more difficult to replace or remove our current management team in the event our stockholders believe this would be in the best interest of our company and our stockholders.

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Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of principal financial and accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.1 Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350 (furnished herewith).

32.2 Certification of principal financial and accounting officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350 (furnished herewith).

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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: May 15, 2007

By: /s/ Mark L. Weinstein

Mark L. Weinstein, President and Chief Executive Officer (Principal Executive Officer)

DATE: May 15, 2007

By: /s/ Ted I. Kaminer

Ted I. Kaminer, Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)