

BIO IMAGING TECHNOLOGIES INC  
Form 10QSB  
November 06, 2002

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**U.S. SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-QSB**

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

For the quarterly period ended September 30, 2002

Commission File No. 1-11182

**BIO-IMAGING TECHNOLOGIES, INC.**

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

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**11-2872047**

(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  No

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

<b>Class</b>	<b>Number of Shares</b>
Common Stock, \$0.00025 par value	8,418,903

Transitional Small Business Disclosure Format (check one):

Yes  No

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**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)**

	<b>September 30, 2002</b>	<b>December 31, 2001</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,260,819	\$ 499,710
Accounts receivable, net	3,820,176	3,447,155
Prepaid expenses and other current assets	494,204	274,313
Deferred income taxes	417,000	417,000
	<u>                    </u>	<u>                    </u>
Total current assets	6,992,199	4,638,178
Property and equipment, net	3,364,190	2,111,360
Other assets	358,555	225,524
	<u>                    </u>	<u>                    </u>
Total assets	\$ 10,714,944	\$ 6,975,062
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 391,377	\$ 605,057
Accrued expenses and other current liabilities	1,088,863	445,134
Deferred revenue	3,230,558	1,711,972
Current maturities of long-term debt and other current liabilities	549,822	343,201
	<u>                    </u>	<u>                    </u>
Total current liabilities	5,260,620	3,105,364
Long-term debt and other liabilities	1,980,842	1,508,705
	<u>                    </u>	<u>                    </u>
Total liabilities	7,241,462	4,614,069
	<u>                    </u>	<u>                    </u>
Stockholders' equity:		
Common stock \$.00025 par value; authorized 18,000,000 shares, issued and outstanding 8,418,903 shares at September 30, 2002 and 8,278,141 shares at December 31, 2001	2,105	2,070
Additional paid-in capital	9,399,163	9,286,871
Accumulated deficit	(5,927,786)	(6,927,948)
	<u>                    </u>	<u>                    </u>
Stockholders' equity	3,473,482	2,360,993
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 10,714,944	\$ 6,975,062
	<u>                    </u>	<u>                    </u>

See Notes to Consolidated Financial Statements

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>
Service revenues	\$ 12,625,857	\$ 6,979,677
Reimbursement revenues	2,616,468	1,521,822
<b>Total revenues</b>	<b>15,242,325</b>	<b>8,501,499</b>
Cost and expenses:		
Cost of revenues	10,775,874	5,345,567
General and administrative expenses	1,960,614	1,257,902
Sales and marketing expenses	1,267,928	1,348,703
<b>Total cost and expenses</b>	<b>14,004,416</b>	<b>7,952,172</b>
<b>Income from operations</b>	<b>1,237,909</b>	<b>549,327</b>
Interest expense net	(81,233)	(24,836)
<b>Income before income tax</b>	<b>1,156,676</b>	<b>524,491</b>
Income tax (provision) benefit	(156,514)	342,000
<b>Net income</b>	<b>\$ 1,000,162</b>	<b>\$ 866,491</b>
Basic earnings per common share	\$ 0.12	\$ 0.11
Weighted average number of common shares	8,341,046	8,221,070
Diluted earnings per common share	\$ 0.11	\$ 0.10
Weighted average number of common shares and dilutive common equivalent shares	9,589,490	8,459,322

See Notes to Consolidated Financial Statements

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

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	For the Three Months Ended September 30,	
	2002	2001
Service revenues	\$ 4,368,291	\$ 2,594,476
Reimbursement revenues	1,073,754	619,136
<b>Total revenues</b>	<b>5,442,045</b>	<b>3,213,612</b>
<b>Cost and expenses:</b>		
Cost of revenues	3,823,477	2,021,740
General and administrative expenses	678,121	481,728
Sales and marketing expenses	412,257	469,031
<b>Total cost and expenses</b>	<b>4,913,855</b>	<b>2,972,499</b>
<b>Income from operations</b>	<b>528,190</b>	<b>241,113</b>
Interest expense net	(31,152)	(15,707)
<b>Income before income tax</b>	<b>497,038</b>	<b>225,406</b>
Income tax (provision) benefit	(84,750)	342,000
<b>Net income</b>	<b>\$ 412,288</b>	<b>\$ 567,406</b>
Basic earnings per common share	\$ 0.05	\$ 0.07
Weighted average number of common shares	8,395,057	8,259,212
Diluted earnings per common share	\$ 0.04	\$ 0.07
Weighted average number of common shares and dilutive common equivalent shares	9,785,475	8,572,182

See Notes to Consolidated Financial Statements

**BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

	For the Nine Months Ended September 30,	
	2002	2001
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,000,162	\$ 866,491

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	<b>For the Nine Months Ended September 30,</b>	
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	602,678	430,226
<b>Changes in operating assets and liabilities:</b>		
Increase in accounts receivable	(373,021)	(1,040,007)
(Increase) decrease in prepaid expenses and other current assets	(219,891)	101,717
Increase in deferred income taxes		(417,000)
(Increase) decrease in other assets	(133,031)	20,582
(Decrease) increase in accounts payable	(213,680)	59,384
Increase in accrued expenses and other current liabilities	643,729	323,000
Increase (decrease) in deferred revenue	1,518,586	(130,576)
<b>Net cash provided by operating activities</b>	<b>2,825,532</b>	<b>213,817</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(839,160)	(234,803)
<b>Net cash used in investing activities</b>	<b>(839,160)</b>	<b>(234,803)</b>
<b>Cash flows from financing activities:</b>		
Payments under equipment lease obligations	(212,590)	(138,084)
Payments under promissory note	(125,000)	
Proceeds from exercise of stock options and warrants	112,327	43,260
<b>Net cash used in financing activities</b>	<b>(225,263)</b>	<b>(94,824)</b>
Net increase (decrease) in cash and cash equivalents	1,761,109	(115,810)
Cash and cash equivalents at beginning of period	499,710	661,155
Cash and cash equivalents at end of period	\$ 2,260,819	\$ 545,345
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Equipment purchased under capital lease obligations	\$ 1,016,348	\$ 183,997

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

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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 September 30, 2002 and December 31, 2001 and the results of its operations for the nine months and three months ended September 30, 2002 and 2001 and its cash flows for the nine months ended September 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

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### BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

related expenses. The consolidated statements of income for the nine months and three months ended September 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:

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Basic earnings per common share for the nine months and three months ended September 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 nine months and three months ended September 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.

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### BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Net income basic	\$ 1,000,161	\$ 866,491	\$ 412,287	\$ 567,406
Interest expense on convertible note	42,965		18,642	
Net income diluted	\$ 1,043,126	\$ 866,491	\$ 430,929	\$ 567,406
Denominator basic:				
Weighted average number of common shares	8,341,046	8,221,070	8,395,057	8,259,212
Basic earnings per common share	\$ 0.12	\$ 0.11	\$ 0.05	\$ 0.07
Denominator diluted:				
Weighted average number of common shares	8,341,046	8,221,070	8,395,057	8,259,212
Common share equivalents of outstanding stock options and warrants	660,634	238,252	801,465	312,970
Common share equivalents related to the convertible promissory note	587,810		588,953	
Weighted average number of common shares and dilutive common equivalents shares	9,589,490	8,459,322	9,785,475	8,572,182
Diluted earnings per common share	\$ 0.11	\$ 0.10	\$ 0.04	\$ 0.07

As of September 30, 2002 and 2001, 28,000 and 576,000 stock options, respectively, have been excluded from the calculation of diluted earnings per common share as they are antidilutive.

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### BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

#### Note 3 Long-term Debt:



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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 September 30, 2002, the Company had no borrowings under the committed line of credit.

### **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 November 1, 2002, February 1, 2003, May 1, 2003 and August 1, 2003 quarterly installments of principal.

The number of shares of common stock into which the Note may be converted is

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## **BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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 September 30, 2002, the Note would have been convertible into approximately 592,282 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance (\$875,000 as of September 30, 2002) plus accrued interest (approximately \$7,500 as of September 30, 2002), totaling \$882,500, by \$1.49 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to September 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 September 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.

**BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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
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Less purchase price:	
Convertible promissory note	(1,000,000)
Contingent liability	(585,500)
Transaction costs	(98,000)
<hr/>	
Total purchase price	(1,683,500)
<hr/>	
Excess of net tangible assets over purchase price	447,185
Less write-down of property, plant and equipment	(447,185)
<hr/>	
Remaining excess of net tangible assets over purchase price	\$
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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.

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.

	<b>Nine Months Ended September 30, 2001</b>	<b>Three Months Ended September 30, 2001</b>	
	<hr/>	<hr/>	
Revenues	\$ 12,505,015	\$ 4,548,117	
<hr/>		<hr/>	
Net income	\$ 760,507	\$ 532,078	
<hr/>		<hr/>	
Basic earnings per common share	\$ .09	\$ .06	
<hr/>		<hr/>	
Diluted earnings per common share	\$ .09	\$ .06	
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**BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**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 \$156,514 relates to estimated state income taxes. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the nine months ended September 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately \$340,000. 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 nine quarters and the Company's 2002 budget. The Company has approximately \$4,400,000 of Federal net operating loss carryforwards as of September 30, 2002. The deferred tax asset of \$417,000 at September 30, 2002 has been recorded net of a valuation allowance of approximately \$1,600,000.

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.

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**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 also offers a service called, Bio-Imaging ETC<sup>SM</sup>. 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.

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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 November 1, 2002, February 1, 2003, May 1, 2003 and August 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 September 30, 2002, the Note would have been convertible into approximately 592,282 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance (\$875,000 as of September 30, 2002) plus accrued interest (approximately \$7,500 as of September 30, 2002), totaling \$882,500, by \$1.49 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to September 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 September 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 65 clients encompassing 173 distinct projects for the nine months ended September 30, 2002. This compares to 49 clients encompassing 101 distinct projects for the nine months ended September 30, 2001. This represents an increase of 32.7% in clients and

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71.3% in projects for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. The Company's contracted/committed backlog was approximately \$33,137,000 as of September 30, 2002. This compares to approximately \$20,972,000 as of September 30, 2001, an increase of 58.0%. 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. In the event that a contract is cancelled by the client, the Company would be entitled to receive payment for all services performed up to the cancellation date.

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.

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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

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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 nine months and three months ended September 30, 2001 provides a meaningful comparison to the nine months and three months ended September 30, 2002.

*Nine months ended September 30, 2002 and 2001*

	Nine Months Ended September 30, 2002	% of Total Revenue	Nine Months Ended September 30, 2001	% of Total Revenue	\$ Change	% Change
Service revenues	\$ 12,625,857		\$ 6,979,677		\$ 5,646,180	80.9%
Reimbursement revenues	\$ 2,616,468		\$ 1,521,822		\$ 1,094,646	71.9%
<b>Total revenues</b>	<b>\$ 15,242,325</b>		<b>\$ 8,501,499</b>		<b>\$ 6,740,826</b>	<b>79.3%</b>
Cost of revenues	\$ 10,775,874	70.7%	\$ 5,345,567	62.9%	\$ 5,430,307	101.6%
General and administrative expenses	\$ 1,960,614	12.9%	\$ 1,257,902	14.8%	\$ 702,712	55.9%
Sales and marketing expenses	\$ 1,267,928	8.3%	\$ 1,348,703	15.9%	\$ (80,775)	(6.0)%
<b>Total cost and expenses</b>	<b>\$ 14,004,416</b>	<b>91.9%</b>	<b>\$ 7,952,172</b>	<b>93.5%</b>	<b>\$ 6,052,244</b>	<b>76.1%</b>
Interest expense net	\$ 81,233		\$ 24,836		\$ 56,397	227.1%
Income before income tax	\$ 1,156,676	7.6%	\$ 524,491	6.2%	\$ 632,185	120.5%
Income tax (provision) benefit	\$ (156,514)		\$ 342,000		\$ (498,514)	(145.8)%
<b>Net income</b>	<b>\$ 1,000,162</b>	<b>6.6%</b>	<b>\$ 866,491</b>	<b>10.2%</b>	<b>\$ 133,671</b>	<b>15.4%</b>

Service revenues for the nine months ended September 30, 2002 and 2001 were \$12,625,857 and \$6,979,677, respectively, an increase of \$5,646,180 or 80.9%. 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 65 clients encompassing 173 distinct projects for the nine months ended September 30, 2002. This compares to 49 clients encompassing 101 distinct projects for the nine months ended

September 30, 2001. Service revenues generated from the Company's client base continue to be

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highly concentrated. One client encompassing four projects represented 14.6% of the Company's service revenues for the nine months ended September 30, 2002, while for the comparable period last year, two clients encompassing nine projects represented 33.6% of the Company's service revenues. No other customers accounted for more than 10% of service revenues in each of the nine month periods ended September 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.

Reimbursement revenues for the nine months ended September 30, 2002 and 2001 were \$2,616,468 and \$1,521,822, respectively, an increase of \$1,094,646 or 71.9%. Reimbursement 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 nine months ended September 30, 2002 from the nine months ended September 30, 2001 resulted from an increase in projects and the associated reimbursed costs.

Cost of revenues for the nine months ended September 30, 2002 and 2001 were \$10,775,874 and \$5,345,567, respectively, an increase of \$5,430,307 or 101.6%. Cost of revenues for the nine months ended September 30, 2002 and nine months ended September 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 nine months ended September 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 nine months ended September 30, 2002 of 70.7% from the nine months ended September 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 nine months ended September 30, 2002 and 2001 were \$1,960,614 and \$1,257,902, respectively, an increase of \$702,712 or 55.9%. General and administrative expenses in each of the nine months ended September 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 nine months ended September 30, 2002 from the nine months ended September 30, 2001, is primarily attributable to an increase in personnel and in corporate insurance and professional

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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 nine months ended September 30, 2002 of 12.9% from the nine months ended September 30, 2001 of 14.8% 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 nine months ended September 30, 2002 and 2001 were \$1,267,928 and \$1,348,703, respectively, a decrease of \$80,775 or 6.0%. Sales and marketing expenses in each of the nine months ended September 30, 2002 and nine months ended September 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 nine months ended September 30, 2002 from the nine months ended September 30, 2001.

The decrease in sales and marketing expenses as a percentage of total revenues in the nine months ended September 30, 2002 of 8.3% from the nine months ended September 30, 2001 of 15.9% 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 nine months ended September 30, 2002 and 2001 were \$14,004,416 and \$7,952,172, respectively, an increase of \$6,052,244 or 76.1%. Total cost and expenses in each of the nine months ended September 30, 2002 and nine months ended September 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 nine months ended September 30, 2002 and an increase in professional services associated with general

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corporate matters.

Total cost and expenses as a percentage of total revenues for the nine months ended September 30, 2002 of 91.9% from the nine months ended September 30, 2001 of 93.5% 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 nine months ended September 30, 2002 and 2001 was \$81,233 and \$24,836, respectively, an increase of \$56,397 or 227.1%. Net interest expense for the nine months ended September 30, 2002 resulted from interest expense incurred on both the Note and equipment lease obligations. Net interest expense for the nine months ended September 30, 2001 resulted from interest expense incurred on equipment lease obligations.

Income before income tax for the nine months ended September 30, 2002 and 2001 was

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\$1,156,676 and \$524,491, respectively, an increase of \$632,185 or 120.5%. The Company's income before income tax for the nine months ended September 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 income before income tax as a percentage of total revenues for the nine months ended September 30, 2002 of 7.6% from the nine months ended September 30, 2001 of 6.2% is primarily due to the Company's increase in total revenues with a lesser increase in general and administrative and sales and marketing expenses.

The Company's income tax provision of \$156,514 relates to estimated state income taxes for the nine months ended September 30, 2002. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the nine months ended September 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately \$340,000. Management believes that it is more likely than not that the net deferred income tax assets, recorded as of September 30, 2002, will be realized in the future.

Net income for the nine months ended September 30, 2002 and 2001 was \$1,000,162 and \$866,491, respectively, an increase of \$133,671 or 15.4%. The Company's net income for the nine months ended September 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 along with the income tax provision for the nine months ended September 30, 2002 as compared to the income tax benefit for the nine months ended September 30, 2001.

The decrease in net income as a percentage of total revenues for the nine months ended September 30, 2002 of 6.6% from the nine months ended September 30, 2001 of 10.2% is primarily due to the \$342,000 income tax benefit included in the nine months ended September 30, 2001.

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### *Three Months Ended September 30, 2002 and 2001*

	<b>Three Months Ended September 30, 2002</b>	<b>% of Total Revenue</b>	<b>Three Months Ended September 30, 2001</b>	<b>% of Total Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
Service revenues	\$ 4,368,291		\$ 2,594,476		\$ 1,773,815	68.4%
Reimbursement revenues	\$ 1,073,754		\$ 619,136		\$ 454,618	73.4%
<b>Total revenues</b>	<b>\$ 5,442,045</b>		<b>\$ 3,213,612</b>		<b>\$ 2,228,433</b>	<b>69.3%</b>
Cost of revenues	\$ 3,823,477	70.3%	\$ 2,021,740	62.9%	\$ 1,801,737	89.1%
General and administrative expenses	\$ 678,121	12.5%	\$ 481,728	15.0%	\$ 196,393	40.8%

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	Three Months Ended September 30, 2002	% of Total Revenue	Three Months Ended September 30, 2001	% of Total Revenue	\$ Change	% Change
Sales and marketing expenses	\$ 412,257	7.6%	\$ 469,031	14.6%	\$ (56,774)	(12.1)%
Total cost and expenses	\$ 4,913,855	90.3%	\$ 2,972,499	92.5%	\$ 1,941,356	65.3%
Interest expense-net	\$ 31,152		\$ 15,707		\$ 15,445	98.3%
Income before income tax	\$ 497,038	9.1%	\$ 225,406	7.0%	\$ 271,632	120.5%
Income tax (provision) benefit	\$ (84,750)		\$ 342,000		\$ (426,750)	(124.8)%
Net income	\$ 412,288	7.6%	\$ 567,406	17.7%	\$ (155,118)	(27.3)%

Service revenues for the three months ended September 30, 2002 and 2001 were \$4,368,291 and \$2,594,476, respectively, an increase of \$1,773,815 or 68.4%. 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 61 clients encompassing 144 distinct projects for the three months ended September 30, 2002. This compares to 41 clients encompassing 82 distinct projects for the three months ended September 30, 2001. Service revenues generated from the Company's client base continue to be highly concentrated. Two clients encompassing seven projects represented 22.5% of the Company's service revenues for the three months ended September 30, 2002, while for the comparable period last year, two clients encompassing nine projects represented 35.8% 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 September 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.

Reimbursement revenues for the three months ended September 30, 2002 and 2001 were \$1,073,754 and \$619,136, respectively, an increase of \$454,618 or 73.4%. Reimbursement revenues consists of pass-through costs reimbursed by the customer. As required, the Company

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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 September 30, 2002 resulted from an increase in projects and the associated reimbursed costs.

Cost of revenues for the three months ended September 30, 2002 and 2001 were \$3,823,477 and \$2,021,740, respectively, an increase of \$1,801,737 or 89.1%. Cost of revenues for the three months ended September 30, 2002 and three months ended September 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 September 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 September 30, 2002 of 70.3% from the three months ended September 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 three months ended September 30, 2002 and 2001 were \$678,121 and \$481,728, respectively, an increase of \$196,393 or 40.8%. General and administrative expenses in each of the three months ended September 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 September 30, 2002 from the three months ended September 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 three months ended September 30, 2002 of 12.5% from the three months ended September 30, 2001 of 15.0% is primarily due to the Company's increase in total revenues with a lesser



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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 September 30, 2002 and 2001 were \$412,257 and \$469,031, respectively, a decrease of \$56,774 or 12.1%. Sales and marketing expenses in each of the three months ended September 30, 2002 and three months ended September 30, 2001 were comprised of direct sales and marketing costs, professional salaries and

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benefits and allocated overhead. This decrease is primarily due to less marketing expenses for the three months ended September 30, 2002 from the three months ended September 30, 2001.

The decrease in sales and marketing expenses as a percentage of total revenues in the three months ended September 30, 2002 of 7.6% from the three months ended September 30, 2001 of 14.6% 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 three months ended September 30, 2002 and 2001 were \$4,913,855 and \$2,972,499, respectively, an increase of \$1,941,356 or 65.3%. Total cost and expenses in each of the three months ended September 30, 2002 and three months ended September 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 September 30, 2002 of 90.3% from the three months ended September 30, 2001 of 92.5% 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 September 30, 2002 and 2001 was \$31,152 and \$15,707, respectively, an increase of \$15,445 or 98.3%. Net interest expense for the three months ended September 30, 2002 resulted from interest expense incurred on both the Note and equipment lease obligations. Net interest expense for the three months ended September 30, 2001 resulted from interest expense incurred on equipment lease obligations.

Income before income tax for the three months ended September 30, 2002 and 2001 was \$497,038 and \$225,406, respectively, an increase of \$271,632 or 120.5%. The Company's net income for the three months ended September 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 income before income tax as a percentage of total revenues for the three months ended September 30, 2002 of 9.1% from the three months ended September 30, 2001 of 7.0% is primarily due to the Company's increase in total revenues with a lesser increase in general and administrative and sales and marketing expenses.

The Company's income tax provision of \$84,750 relates to estimated state income taxes for the three months ended September 30, 2002. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the three months ended September 30, 2002, the federal income tax provision has been offset by a reduction in the

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Company's valuation allowance of approximately \$169,000. Management believes that it is more likely than not that the net deferred income tax assets, recorded as of September 30, 2002, will be realized in the future.

Net income for the three months ended September 30, 2002 and 2001 was \$412,288 and \$567,406, respectively, a decrease of \$155,118 or 27.3%. The Company's net income for the three months ended September 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 along with the income tax provision for the three months ended September 30, 2002 as compared to the income tax benefit for the three months ended September 30, 2001.

The decrease in net income as a percentage of total revenues for the three months ended September 30, 2002 of 7.6% from the three months ended September 30, 2001 of 17.7% is primarily due to the \$342,000 income tax benefit included in the three months ended September 30,

2001.

**Liquidity and Capital Resources**

	<b>Nine Months Ended September 30, 2002</b>		<b>Nine Months Ended September 30, 2001</b>	
Net cash provided by operating activities	\$	2,825,532	\$	213,817
Net cash used in investing activities	\$	(839,160)	\$	(234,803)
Net cash used in financing activities	\$	(225,263)	\$	(94,824)

At September 30, 2002, the Company had cash and cash equivalents of \$2,260,819. Working capital at September 30, 2002 was \$1,731,579.

Net cash provided by operating activities for the nine months ended September 30, 2002 includes net income of \$1,000,162, an adjustment to reflect \$602,678 of non-cash depreciation and amortization charges and reflects the impact of changes in certain of the Company's operating assets and liabilities, such as, an increase of \$1,518,586 in deferred revenue, offset by an increase in accounts receivable of \$373,021 and prepaid expenses and other current assets of \$219,891.

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 \$50,000. These expenditures represent additional upgrades in the Company's networking, data storage and core laboratory capabilities for both the United States and European operations.

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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 September 30, 2002:

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Capital Lease Obligations	\$ 1,070,164	\$ 383,155	\$ 687,009		
Promissory Note	\$ 875,000	\$ 166,667	\$ 708,333		
Facility Rent Operating Leases	\$ 5,685,388	\$ 831,791	\$ 2,388,965	\$ 1,319,318	\$ 1,145,314
Total Contractual Cash Obligations	\$ 7,630,552	\$ 1,381,613	\$ 3,784,307	\$ 1,319,318	\$ 1,145,314

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 September 30, 2002, the Company had no borrowings under the committed line of credit.

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 nine months ended September 30, 2002, the Company paid \$125,000 in principal under the Note and \$35,465 in interest up to August 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 September 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) 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) 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

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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.

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### **Item 3. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of a date within 90 days of the filing date of this Quarterly Report on Form 10-QSB, the Company's president, chief executive officer and chief financial officer (principal executive officer and principal financial officer) and the Company's controller (principal accounting officer) have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are operating in an effective manner.

*Changes in internal controls.* There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

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## **PART II. OTHER INFORMATION.**

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

(a)

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Exhibits.

99.1

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

(b)

Reports on Form 8-K.

None.

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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: November 6, 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: November 6, 2002

By: /s/ MARIA T. KRAUS

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Maria T. Kraus, Controller (Principal Accounting Officer)

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**CERTIFICATION**

I, Mark L. Weinstein, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Bio-Imaging Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a)

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designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6.

The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 6, 2002

/s/ MARK L. WEINSTEIN

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

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### CERTIFICATION

I, Maria T. Kraus, certify that:

- 1. I have reviewed this quarterly report on Form 10-QSB of Bio-Imaging Technologies, Inc.;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 6, 2002

/s/ MARIA T. KRAUS

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Maria T. Kraus, Controller  
(Principal Accounting Officer)

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