BIO IMAGING TECHNOLOGIES INC
Form 10-Q
May 15, 2006
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# United States

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended March 31, 2006**

**¨ 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: x No: ¨

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: ¨ Accelerated filer: ¨ Non-accelerated filer: x

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: ¨ No: x

State the number of shares outstanding of each of the registrant s classes of common stock, as of April 30, 2006:

| **Class** | **Number of Shares** |
|---|---|
| Common Stock, $0.00025 par value | 11,192,212 |

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

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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 Delaware 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, 2005.

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,267,002 | $ 10,553,668 |
| Accounts receivable, net | 6,780,491 | 6,631,477 |
| Prepaid expenses and other current assets | 1,164,192 | 991,840 |
| Deferred income taxes | 1,780,584 | 715,217 |
| Total current assets | 20,992,269 | 18,892,202 |
| Property and equipment, net | 5,253,171 | 5,108,693 |
| Intangibles and goodwill | 2,444,545 | 2,518,812 |
| Deferred income taxes | 847,104 | 1,844,171 |
| Other assets | 382,564 | 427,055 |
| Total assets | $ 29,919,653 | $ 28,790,933 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,605,081 | $ 1,680,922 |
| Accrued expenses and other current liabilities | 1,669,071 | 2,026,612 |
| Deferred revenue | 7,987,115 | 6,255,027 |
| Current maturities of capital lease obligations | 830,862 | 874,267 |
| Total current liabilities | 12,092,129 | 10,836,828 |
| Long-term capital lease obligations | 366,854 | 551,494 |
| Other liability | 209,790 | 205,787 |
| Total liabilities | 12,668,773 | 11,594,109 |
| Commitments and Contingencies | | |
| Stockholders equity: | | |
| Preferred stock- $.00025 par value; authorized 3,000,000 shares, 0 issued and outstanding at March 31, 2006 and at December 31, 2005 | | |
| Common stock - $.00025 par value; authorized 18,000,000 shares, issued and outstanding 11,192,212 shares at March 31, 2006 and 11,167,737 shares at December 31, 2005 | 2,798 | 2,792 |
| Additional paid-in capital | 22,400,612 | 22,302,328 |
| Accumulated deficit | (5,102,393) | (5,046,718) |
| Accumulated other comprehensive loss | (50,137) | (61,578) |
| Stockholders equity | 17,250,880 | 17,196,824 |
| Total liabilities and stockholders equity | $ 29,919,653 | $ 28,790,933 |

See Notes to Condensed 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, | |
|---|---|---|
| | **2006** | **2005** |
| Service revenues | $ 7,242,591 | $ 5,528,272 |
| Reimbursement revenues | 2,067,160 | 1,596,616 |
| Total revenues | 9,309,751 | 7,124,888 |
| Cost and expenses: | | |
| Cost of revenues | 6,684,840 | 6,371,772 |
| General and administrative expenses | 1,371,246 | 1,252,060 |
| Sales and marketing expenses | 1,447,728 | 1,187,252 |
| Total cost and expenses | 9,503,814 | 8,811,084 |
| Loss from operations | (194,063) | (1,686,196) |
| Interest income | 117,533 | 35,824 |
| Interest expense | (17,183) | (40,493) |
| Loss before income tax benefit | (93,713) | (1,690,865) |
| Income tax benefit | (38,038) | (693,146) |
| Net loss | $ (55,675) | $ (997,719) |
| Basic loss per common share | $ (0.01) | $ (0.09) |
| Weighted average number of common shares | 11,180,310 | 11,051,036 |
| Diluted loss per common share | $ (0.01) | $ (0.09) |
| Weighted average number of dilutive common equivalent shares | 11,180,310 | 11,051,036 |

See Notes to Condensed Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| Cash flows from operating activities: | | |
| Net loss | $ (55,675) | $ (997,719) |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 548,496 | 524,990 |
| Provision for deferred income taxes | (38,038) | (679,005) |
| Bad debt benefit | (2,912) | (1,019) |
| Sales leaseback deferred gains | | 13,386 |
| Non-cash stock based compensation expense | 83,895 | 1,142 |
| Loss on foreign currency options | 19,016 | |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (146,102) | 1,752,114 |
| Increase in prepaid expenses and other current assets | (196,111) | (24,980) |
| Decrease (increase) in other assets | 44,491 | (64,508) |
| (Decrease) increase in accounts payable | (246,158) | 893,246 |
| Decrease in accrued expenses and other current liabilities | (357,541) | (86,244) |
| Increase (decrease) in deferred revenue | 1,732,088 | (452,193) |
| Increase in other liabilities | 4,003 | 17,861 |
| Net cash provided by operating activities | 1,389,452 | 897,071 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (448,382) | (737,402) |
| Net cash used in investing activities | (448,382) | (737,402) |
| Cash flows from financing activities: | | |
| Payments under equipment lease obligations | (228,045) | (185,291) |
| Premium paid for foreign currency options | (14,077) | |
| Proceeds from sales leaseback | | 329,252 |
| Proceeds from exercise of stock options | 14,386 | 6,000 |
| Net cash (used in) provided by financing activities | (227,736) | 149,961 |
| Net increase in cash and cash equivalents | 713,334 | 309,630 |
| Cash and cash equivalents at beginning of period | 10,553,668 | 9,650,140 |
| Cash and cash equivalents at end of period | $ 11,267,002 | $ 9,959,770 |

See Notes to Condensed 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, 2005.

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, 2006, 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, 2006 was $83,895, of which $77,826 is a result of the expensing of stock options pursuant to FAS 123R and $0 for the three months ended March 31, 2005. The total windfall tax benefit that would be recognized in the income statement for share-based compensation arrangements was $1,596,735 and $0 for the three months ended March 31, 2006 and March 31, 2005, respectively. Since the Company has Net Operating Losses, no windfall tax benefit has been recognized for the three months ended March 31, 2006 and 2005.

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment ( SFAS 123R ), which establishes the financial accounting and reporting standards for stock-based compensation plans. SFAS 123R requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors. The stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the requisite service period of the entire award. This period is generally the vesting period of the corresponding award. As a result of adopting SFAS 123R, our net loss before income taxes for the three months ended March 31, 2006 was $77,826 more than if we had continued to account for stock-based compensation under Accounting Principles Board

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Opinion No. 25, Accounting for Stock Issued to Employees ( APB ). Basic and diluted net loss per share for the three months ended March 31, 2006 of $(0.01) is $0.01 more than if we had not adopted SFAS 123R. We have adopted the forfeiture rate on stock option grants issued after January 1, 2006 and the application of the forfeiture rate on unvested stock options at January 1, 2006 was immaterial to our financial statement and therefore, no cumulative gain was recognized.

Prior to January 1, 2006, we accounted for our stock-based employee compensation plan under the recognition and measurement principles of ABP Opinion No. 25. No stock based employee compensation cost was reflected in net income, as all options granted under this plan had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant. The following table sets forth the computation of basic and diluted loss per share for the three months ended March 31, 2005 and illustrates the effect on net loss and loss per share as if we had applied the fair value recognition provisions of SFAS 123R to its stock plans:

| | **March 31, 2005** |
|---|---|
| Net loss, as reported | $ (997,719) |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 689 |
| Deduct: Stock-based employee compensation expense determined under SFAS 123R | (106,714) |
| Pro forma | $ (1,103,744) |
| Loss per share: | |
| Basic-as reported | $ (0.09) |
| Basic-pro forma | $ (0.10) |
| Diluted-as reported | $ (0.09) |
| Diluted-pro forma | $ (0.10) |

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(unaudited)

The following table presents the total stock-based compensation expense resulting from stock options and restricted stock unit awards:

| | Three Months Ended, March 31, 2006 |
|---|---|
| Cost of revenues | $ 62,044 |
| General and administrative | 10,936 |
| Sales and marketing | 10,915 |
| Stock-based compensation expense before income taxes | 83,895 |
| Benefit for income taxes | (33,977) |
| Net compensation expense | $ 49,918 |

The fair value of each stock option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

| | March 31, 2006 |
|---|---|
| Dividend yield | 0.0 |
| Expected volatility | 58% |
| Risk-free interest rate (range) | 4.61% |
| Expected term (in years) | 4 |

We did not issue any stock options for the three months ended March 31, 2005.

*Expected Volatility.* Expected volatility is calculated on a weekly basis over the expected term of the option using the company s common stock close price.

*Expected Term.* The expected term is based on historical observations of employee exercise patterns during our history.

*Risk-Free Interest Rate*. The interest rate used in valuing awards is based on the yield at the time of grant of a U.S. Treasury security with an equivalent remaining term.

*Dividend Yield*. The Company has never paid cash dividends, and does not currently intend to pay cash dividends, and thus has assumed a 0% dividend yield.

*Pre-Vesting Forfeitures*. Estimates of pre-vesting option forfeitures are based on our experience. We will adjust our estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period

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of change and will also impact the amount of compensation expense to be recognized in future periods. The cumulative effect resulting from initially applying the provisions of SFAS 123R to nonvested equity awards was not significant.

**Stock Options**

| Stock Options | Shares (000 s) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2005 | 1,831,308 | $ 2.34 | 5.33 | $ 1.91 |
| Granted | 138,100 | 4.00 | 6.92 | 0.25 |
| Exercised | 9,625 | 1.49 | | 2.76 |
| Forfeited or Expired | 22,708 | 0.90 | | 3.35 |
| Outstanding at March 31, 2006 | 1,937,075 | 2.48 | 5.27 | 1.77 |
| Vested or expected to vest at March 31, 2006 | 153,350 | 4.00 | 7.14 | 0.25 |
| Exercisable at March 31, 2006 | 1,783,725 | $ 2.35 | 5.10 | $ 1.90 |

The weighted-average grant-date fair value of options granted during the fiscal quarter ended March 31, 2006 and March 31, 2005 was $1.96 and $0 respectively. Cash received from option exercises for the quarters ended March 31, 2006 and March 31, 2005, was $14,386 and $6,000, respectively.

As of March 31, 2006, there was $245,537 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.

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**Restricted Stock Units**

The value of service and performance-based restricted stock is determined by its fair value (as if underlying shares were vested and issued).

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 employment agreement our President and Chief Executive Officer can potentially receive up to 25,000 restricted shares of the company s common stock for fiscal 2006. Based on management s assumptions, we recognized the related proportionate expense for 3,125 shares of these restricted stock units for the three months ended March 31, 2006 based on a fair value of $4.25 at March 31, 2006.

Note 3 - Earnings Per Share:

Basic loss per common share for the three months ended March 31, 2006 and 2005 was calculated based upon net loss divided by the weighted average number of shares of our common stock outstanding during the period. Diluted loss per share for the three months ended March 31, 2006 and 2005 was calculated based upon net loss 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 months ended March 31, 2006 and 2005 exclude the impact of outstanding stock options as their inclusion would be antidilutive.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| Net loss basic and diluted | $ (55,675) | $ (997,719) |
| Denominator basic: | | |
| Weighted average number of common shares | 11,180,310 | 11,051,036 |
| Basic loss per common share | $ (0.01) | $ (0.09) |
| Denominator diluted: | | |
| Weighted average number of common shares | 11,180,310 | 11,051,036 |
| Common share equivalents of outstanding stock options | | |
| Weighted average number of dilutive common equity shares | 11,180,310 | 11,051,036 |
| Diluted loss per common share | $ (0.01) | $ (0.09) |

As of March 31, 2006 and 2005, options to purchase 1,937,075 and 1,903,683 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 - Debt:

On May 17, 2005, we renewed and amended our agreement with Wachovia Bank, National Association. The renewed and amended agreement is for an unsecured committed line of credit of $5,000,000. Interest is payable at the LIBOR Market Index Rate plus 2.0%. The agreement requires us, among other things, to maintain certain financial covenants. We must at all times maintain liquid assets of not less than $5,000,000 and maintain an effective tangible net worth of not less than $11,000,000. In addition, the Company can not incur indebtedness in

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excess of $3,000,000 with anyone other than Wachovia without their consent. The committed line of credit matures June 30, 2006 and may be renewed on an annual basis. At March 31, 2006, we had no borrowings under the committed line of credit, and are compliant with the financial covenants. Due to our current cash position and the fees associated with the renewal of this line of credit, we do not intend to renew this line of credit when it matures on June 30, 2006.

Note 5 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 employment agreement our President and Chief Executive Officer can potentially receive up to 25,000 restricted shares of the company s common stock for fiscal 2006. Based on management s assumptions, we recognized the related proportionate expense for these restricted stock units for the three months ended March 31, 2006. In addition, we have an employment agreement with our Chief Financial Officer that expires February 5, 2007. The aggregate amount due from January 1, 2006 through the expiration under these agreements was $1,176,317. On March 1, 2006, 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.

Note 6 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, 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) |
| For the three months ended March 31, 2005 | | | |
| Total revenues | $ 7,001,032 | $ 123,856 | $ 7,124,888 |
| Total cost and expenses | $ 8,471,820 | $ 339,264 | $ 8,811,084 |
| Loss from operations | $ (1,470,788) | $ (215,408) | $ (1,686,196) |

Our foreign customers accounted for approximately 21% and 16% of service revenues for the three months ended March 31, 2006 and 2005, respectively.

Note 7 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, 2006 | December 31, 2005 |
|---|---|---|
| Billed trade accounts receivable | $ 4,438,081 | $ 5,030,642 |
| Unbilled trade accounts receivable | 2,298,821 | 1,600,155 |
| Other | 43,971 | 3,975 |
| Total Receivables | $ 6,780,873 | $ 6,634,772 |
| Allowance Rollforward: | | |
| Balance at January 1, 2006 | $ 3,295 | |
| Additions | | |
| Write offs (net of recoveries) | (2,913) | |
| Balance at March 31, 2006 | $ 382 | |

Note 8 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.

We have accumulated tax losses, which include allowable deductions related to exercised employee stock options, generating federal and state net operating loss (NOL) carryforwards of $7.5 million as of March 31, 2006. 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. Our current and long-term deferred tax assets are primarily comprised of the NOL carryforwards with a tax effected value of $2,560,000 as of March 31, 2006. Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not we will be unable to utilize the asset to offset future taxes. We will continue to evaluate the potential use of our deferred tax assets and the need for a valuation allowance by considering our future taxable income and our on-going prudent and feasible tax planning

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strategies. 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 NOL carryforward is fully utilized or has expired.

We recognize contingent liabilities for any tax related exposures when those exposures are both probable and estimable. 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, 2006.

Note 9 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, during the three months ended March 31, 2006, we purchased two monthly Euro call options in the amount of 250,000 Euros each, with the first expiration on February 14, 2007 and the last expiration on March 14, 2007 with a strike price of 1.26 to hedge against the exposure to variability in our cash flows due to the Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $14,077 for options purchased in the three months ending March 31, 2006. We recorded an Accumulated Other Comprehensive Gain of $11,441 in the stockholders equity section of the Balance Sheet for the three months ended March 31, 2006 due to changes in the value of the derivatives. At March 31, 2006, we have $50,137 of Accumulated Other Comprehensive Loss. During the three months ended March 31, 2006, we recognized a loss in our Consolidated Statement of Operations of $19,016.

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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.

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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 consist of computerized tomography (CT), magnetic resonance imaging (MRI), x-rays, 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 95 clients encompassing 218 distinct projects for the three months ended March 31, 2006. This compares to 78 clients encompassing 176 distinct projects for the three months ended March 31, 2005.

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 $61.5 million as of March 31, 2006. This compares to $42.5 million as of March 31, 2005 and $58.4 million as of December 31, 2005. Contracts included in backlog are subject to termination by our clients at any time. In the event that a contract is cancelled 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 will lead to a growth in our market share for these services.

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In addition, the FDA is gaining experience with electronic submissions and is continuing 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. 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 believe that continued emphasis on improving patient care and reducing cost will contribute to the growth of the personal electronic medical records market.

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, will, should, or anticipates or the negative thereof or other variations thereon 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 Cap Med division; the demand for our 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 our marketing efforts, increased use of digital medical images in clinical trials, integration of our acquired companies and businesses, expansion into new business segments; 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

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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 Securities and Exchange Commission, as well as the risk factors set forth in our most recent 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**

Effective January 1, 2006, we account for stock-based compensation costs in accordance with SFAS 123R, which requires the measurement and recognition of compensation expense for all stock-based payment awards made to our employees and directors. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of the stock-based awards at the grant date requires considerable judgment. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little stock based compensation cost.

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**Results of Operations**

Three Months Ended March 31, 2006 and 2005

| | Three Months Ended March 31, 2006 | % of Total Revenue | Three Months Ended March 31, 2005 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Service revenues | $ 7,242,591 | 77.8% | $ 5,528,272 | 77.6% | $ 1,714,319 | 31.0% |
| Reimbursement revenues | 2,067,160 | 22.2% | 1,596,616 | 22.4% | 470,544 | 29.5% |
| Total revenues | 9,309,751 | 100.0% | 7,124,888 | 100.0% | 2,184,863 | 30.7% |
| Cost and expenses: | | | | | | |
| Cost of revenues | 6,684,840 | 71.8% | 6,371,772 | 89.4% | 313,068 | 4.9% |
| General and administrative expenses | 1,371,246 | 14.7% | 1,252,060 | 17.6% | 119,186 | 9.5% |
| Sales and marketing expenses | 1,447,728 | 15.6% | 1,187,252 | 16.7% | 260,476 | 21.9% |
| Total cost and expenses | 9,503,814 | 102.1% | 8,811,084 | 123.7% | 692,730 | 7.9% |
| Loss from operations | (194,063) | (2.1)% | (1,686,196) | (23.7)% | 1,492,133 | (88.5)% |
| Interest income | (117,533) | (1.3)% | (35,824) | (0.5)% | (81,709) | 228.1% |
| Interest expense | 17,183 | 0.2% | 40,493 | 0.6% | (23,310) | (57.6)% |
| Loss before income tax benefit | (93,713) | (1.0)% | (1,690,865) | (23.7)% | 1,597,152 | (94.5)% |
| Income tax benefit | (38,038) | (0.4)% | (693,146) | (9.7)% | 655,108 | (94.5)% |
| Net loss | $ (55,675) | (0.6)% | $ (997,719) | (14.0)% | $ 942,044 | (94.4)% |

Service revenues for the three months ended March 31, 2006 and 2005 were $7,242,591 and $5,528,272 respectively, an increase of $1,714,319 or 31.0%. The increase in service revenues was due to an increase in work performed from our increased contract signings in fiscal 2005 and our increased backlog. Our backlog at March 31, 2006 was $61.5 million compared to $42.5 million at March 31, 2005, an increase of 44.7%. 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 95 clients encompassing 218 distinct projects for the three months ended March 31, 2006. This compares to 78 clients encompassing 176 distinct projects for the three months ended March 31, 2005. One client, Novartis Pharmaceuticals, Inc., encompassing 16 projects represented 12.0% of our service revenues for the three months ended March 31, 2006. No one client accounted for more than 10% of service revenues for the three months ended March 31, 2005. Service revenues generated from our client base, while still concentrated as measured by the number of clients, has continued to become more dispersed over

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time and we believe more diversification is evident 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 reimbursements received from the customer for pass-through 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. Bio-Imaging, at the request of our clients, may directly pay the independent radiologist who reviews our client s imaging data. These costs are passed directly to our clients and are included in Reimbursement Revenue and Cost of Revenues.

Cost of revenues for the three months ended March 31, 2006 and 2005 was $6,684,840 and $6,371,772 respectively, an increase of $313,068 or 4.9%. The increase in cost of revenues is primarily due to the increase in reimbursement revenues for the three months ended March 31, 2006. Cost of revenues for the three months ended March 31, 2006 and three months ended March 31, 2005 were comprised of professional salaries and benefits, allocated overhead and pass-through costs, which includes fees paid to independent radiologists. We expect that our cost of revenues will continue to increase in fiscal 2006 as reimbursement revenues and service revenues increase..

The decrease in the cost of revenues as a percentage of total revenues to 71.8% for the three months ended March 31, 2006 from 89.4% for the three months ended March 31, 2005 is primarily due to the process improvement efforts resulting in maintenance of our cost level with the increased service revenue. 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.

General and administrative expenses for the three months ended March 31, 2006 and 2005 were $1,371,246 and $1,252,060, respectively, an increase of $119,186 or 9.5%. The increase is primarily due to an increase in professional and consulting services. General and administrative expenses in each of the three months ended March 31, 2006 and 2005 consisted primarily of professional salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. We expect that our general and administrative expenses will continue to increase due to a general increase in the fees associated with being a publicly traded company.

The decrease in general and administrative expenses as a percentage of total revenues to 14.7% for the three months ended March 31, 2006 from 17.6% for the three months ended March 31, 2005 is primarily due to a greater increase in our total revenues.

Sales and marketing expenses for the three months ended March 31, 2006 and 2005 were $1,447,728 and $1,187,252, respectively, an increase of $260,476 or 21.9%. The increase is due to an increase in expenses associated with our CapMed division of $182,000 and $78,000 in marketing expenses and sales commissions in our Pharmaceutical Contract Services division.

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Sales and marketing expenses in each of the three months ended March 31, 2006 and March 31, 2005 were comprised of direct sales and marketing costs, professional salaries and benefits and allocated overhead. We expect that sales and marketing expenses will increase in fiscal 2006 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 15.6% for the three months ended March 31, 2006 from 16.7% for the three months ended March 31, 2005 is primarily due to a greater increase in our total revenues.

Net interest income for the three months ended March 31, 2006 was $100,350 as compared to net interest expense for the three months ended March 31, 2005 of $4,669, an increase of $105,019 or 2,249.28%. This increase is primarily due to the interest earned on a higher cash balance and less interest expense paid due to expirations of certain equipment lease obligations during the three months ended March 31, 2006. Net interest income and expense for the three months ended March 31, 2006 and 2005 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations.

Loss before income taxes was $93,713 for the three months ended March 31, 2006 and loss before income taxes was $1,690,865 for the three months ended March 31, 2005, a decrease in net loss of $1,597,152 or 94.5%. The increase was due to greater service revenue while maintaining expenses due to our process improvement efforts to contain costs.

We had an income tax benefit of $38,038 for the three months ended March 31, 2006 as compared to an income tax benefit for the three months ended March 31, 2005 of $693,146, an increase of $655,108 or 94.5%. Our effective tax rate was approximately 40% for the three months ended March 31, 2006 and 2005.

**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 6 Business Segments to our Condensed Consolidated Financial Statements in this Form 10-Q. During the three months ended March 31, 2006, we had CapMed segment sales of $86,015 and total costs and expenses of $569,695, consisting of $433,442 of sales and marketing expenses, $108,359 of general and administrative expenses and $27,894 of cost of revenues.

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**Liquidity and Capital Resources**

| | Three Months Ended March 31, 2006 | Three Months Ended March 31, 2005 |
|---|---|---|
| Net cash provided by operating activities | $ 1,389,452 | $ 897,071 |
| Net cash used in investing activities | $ (448,382) | $ (737,402) |
| Net cash (used in) provided by financing activities | $ (227,736) | $ 149,961 |

At March 31, 2006, we had cash and cash equivalents of $11,267,002. Working capital at March 31, 2006 was $8,900,140.

Net cash provided by operating activities for the three months ended March 31, 2006 was $1,389,452 as compared to $897,071 for the three months ended March 31, 2005. This is primarily due to the increase in our deferred revenue of $1,732,000 at March 31, 2006 from December 31, 2005 due to advance deposits received from our clients for new contract signings offset by the decrease in accounts payable and accrued expenses and other current liabilities of $146,000 and $196,000, respectively, during the three months ended March 31, 2006.

Net cash used in investing activities for the three months ended March 31, 2006 represents our investment in capitalized computer software costs and equipment. We currently anticipate that capital expenditures for the remainder of the fiscal year ending December 31, 2006 will be approximately $2.0 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, 2006 is primarily attributable to the payments under equipment lease obligations of $228,045.

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The following table lists our cash contractual obligations as of March 31, 2006:

| | | Payments Due By Period | | | |
|---|---|---|---|---|---|
| **Contractual obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| Capital lease obligations | $ 1,197,716 | $ 786,811 | $ 410,905 | | |
| Facility rent operating leases | $ 5,589,949 | $ 1,405,072 | $ 2,664,659 | $ 1,520,218 | |
| Employment agreements | $ 1,087,583 | $ 503,000 | $ 584,583 | | |
| Total contractual cash obligations | $ 7,875,248 | $ 2,694,883 | $ 3,660,147 | $ 1,520,218 | |

On May 17, 2005, we renewed and amended our agreement with Wachovia Bank, National Association. The renewed and amended agreement is for an unsecured committed line of credit of $5,000,000. Interest is payable at the LIBOR Market Index Rate plus 2.0%. The agreement requires us, among other things, to maintain certain financial covenants. The committed line of credit matures June 30, 2006 and may be renewed on an annual basis. At March 31, 2006, we had no borrowings under the committed line of credit and are compliant with the financial covenants. Due to our current cash position and the fees associated with the renewal of this line of credit, we do not intend to renew this line of credit when it matures on June 30, 2006.

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, during the three months ended March 31, 2006, we purchased two monthly Euro call options in the amount of 250,000 Euros each, with the first expiration on February 14, 2007 and the last expiration on March 14, 2007 with a strike price of 1.26 to hedge against the exposure to variability in our cash flows due to the Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $14,077 for options purchased in the three months ending March 31, 2006. We recorded an Accumulated Other Comprehensive Gain of $11,441 in the stockholders equity section of the Balance Sheet for the three months ended March 31, 2006 due to changes in the value of the derivatives. At March 31, 2006, we have $50,137 of Accumulated Other Comprehensive Loss. During the three months ended March 31, 2006, we recognized a loss in our Consolidated Statement of Operations of $19,016.

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 and borrowing capacity under the existing line of credit will be sufficient to meet our cash needs. However, we cannot assure you that our operating results will achieve profitability on an annual basis in the future. The inherent operational risks associated with the following risks 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 2006 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, 2005. As of March 31, 2006, there have been no changes to such critical accounting policies and estimates, except for the adoption of Statement of Financial Accounting Standards No. 123R, Share-Based Payment , which establishes the financial accounting and reporting standards for stock-based compensation plans.

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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, 2006 and December 31, 2005, a 10% increase or decrease in the EURO to U.S. dollar spot exchange rate would result in a change of $68,022 and $60,000 to our net asset position at March 31, 2006 and December 31, 2005, 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 do hedge our foreign currency exposure. 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, 2006 and December 31, 2005. 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, 2006, 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 and Exchange Commission s rules and forms and are operating in an effective manner for the period covered by this report.

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*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, 2006 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 Pharmaceuticals, 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.

One client, Novartis Pharmaceuticals, Inc., encompassing 16 projects represented 12.0% of our service revenues for the three months ended March 31, 2006. No one client accounted for more than 10% of service revenues for the three months ended March 31, 2005. 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 $61.5 million at March 31, 2006 is based on anticipated service revenue from uncompleted projects with clients. Backlog is the amount of 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 the 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, historical indications of the relationship of backlog to revenues are not 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 increased the number of projects under management from 176 in the first quarter of 2005 to 218 in the first quarter of 2006. We acquired one company in November 2003 and another company in December 2004. Rapid expansion 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.

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***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 2006, a small 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 the competitive 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;
- 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.

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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.

***Our CapMed division may not reach profitability.***

Our CapMed division had a loss from operations of $483,680 as of March 31, 2006. If our CapMed division continues to incur such losses, our businesses, results of operations and financial condition could be materially adversely affected.

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***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 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

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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, 2006, we had the following capital structure:

| | |
|---|---|
| Common stock outstanding | 11,192,212 |
| Common stock issuable upon: | |
| Exercise of options which are outstanding | 1,937,075 |
| Exercise of options which have not been granted | 765,141 |
| Total common stock outstanding assuming exercise or conversion of all of the above | 13,894,428 |

As of March 31, 2006, we had outstanding options to purchase 1,937,075 shares of common stock at exercise prices ranging from $0.63 to $7.03 per share (exercisable at a weighted average of $2.48 per share), of which 1,783,725 options were then exercisable. Exercise of our outstanding options into 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 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, 2006, we had 11,192,212 shares of our common stock issued and outstanding, all of which are currently freely tradable. On March 1, 2006, 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 since 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.

***Our affiliates 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 47% of the outstanding shares of common stock on a fully diluted as-converted to common stock basis at March 31, 2006, 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 continue to experience volatility in the future in response to quarter-to-quarter variations in:

operating results;

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analysts reports;

market conditions in the industry;

changes in governmental regulations; and

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

The market has also experienced significant decreases in value. This volatility and the recent market decline has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. Between January 1, 2006 and March 31, 2006, our common stock has traded at a low of $3.11 per share and a high of $4.73 per share.

Our common stock began trading on the NASDAQ National Market on December 18, 2003 and has a limited trading market. Prior to that time, our common stock was trading on the American Stock Exchange since February 2003. 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 1,750,000 shares of undesignated preferred stock that 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.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

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| 10.1 | Form of Amended Executive Retention Agreement by and between Bio-Imaging Technologies, Inc. and certain executive officers filed herewith. |
| 10.2 | Amended and Restated Employment Agreement dated March 1, 2006, by and between Bio-Imaging Technologies, Inc. and Mark L. Weinstein filed herewith. |
| 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, 2006

By: /s/ Mark L. Weinstein
Mark L. Weinstein, President and Chief Executive Officer

(Principal Executive Officer)

DATE: May 15, 2006

By: /s/ Ted I. Kaminer
Ted I. Kaminer, Senior Vice President and

Chief Financial Officer
(Principal Financial and Accounting Officer)