BIO IMAGING TECHNOLOGIES INC
Form 10-Q
November 07, 2008

Table of Contents

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

# FORM 10-Q

(Mark One)

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2008**

**or**

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

**Commission File No. 001-11182**

**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) | (Zip Code) |

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: þ No: o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer o | Accelerated filer o | Non-accelerated filer o | Smaller reporting company þ |
|---|---|---|---|
| | | (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: o No: þ

State the number of shares outstanding of each of the registrant s classes of common stock, as of October 31, 2008:

| Class | Number of Shares |
|---|---|
| Common Stock, $0.00025 par value | 14,341,403 |

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents

## PART I. FINANCIAL INFORMATION.

**Item 1. Financial Statements.**

References in this Quarterly Report on 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 (GAAP) in the United States of America have been condensed or omitted from the following 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 consolidated financial statements should be read in conjunction with the year-end consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

**Table of Contents**

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

| (in thousands) | September 30, 2008 | December 31, 2007 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,253 | $ 17,915 |
| Accounts receivable, net | 12,088 | 5,881 |
| Prepaid expenses and other current assets | 1,438 | 1,235 |
| Deferred income taxes | 2,124 | 2,930 |
| Total current assets | 28,903 | 27,961 |
| Property and equipment, net | 9,467 | 7,980 |
| Intangibles, net | 2,840 | 450 |
| Goodwill | 26,857 | 6,025 |
| Other assets | 629 | 641 |
| Total assets | $ 68,696 | $ 43,057 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 3,831 | $ 1,864 |
| Accrued expenses and other current liabilities | 5,095 | 4,616 |
| Deferred revenue | 14,826 | 11,664 |
| Current maturities of capital lease obligations | 86 | 97 |
| Total current liabilities | 23,838 | 18,241 |
| Long-term capital lease obligations | 51 | |
| Deferred income tax non-current | 966 | 691 |
| Other liabilities | 547 | 597 |
| Total liabilities | 25,402 | 19,529 |
| Commitments and Contingencies | | |
| Stockholders equity: | | |
| Preferred stock- $0.00025 par value; authorized 3,000,000 shares, 0 issued and outstanding at September 30, 2008 and at December 31, 2007 | | |

| | | |
|---|---|---|
| Common stock $0.00025 par value; authorized 18,000,000 shares, issued and outstanding 14,339,038 shares at September 30, 2008 and 11,765,483 shares at December 31, 2007 | 4 | 3 |
| Additional paid-in capital | 41,939 | 25,084 |
| Retained earnings (accumulated deficit) | 1,249 | (1,710) |
| Accumulated other comprehensive income | 102 | 151 |
| Stockholders equity | 43,294 | 23,528 |
| Total liabilities and stockholders equity | $ 68,696 | $ 43,057 |

See Notes to Consolidated Financial Statements

**Table of Contents**

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

| (in thousands, except per share data) | For the Three Months Ended September 30, 2008 | 2007 |
|---|---|---|
| Service revenues | $ 15,104 | $ 9,563 |
| Reimbursement revenues | 3,047 | 2,894 |
| Total revenues | 18,151 | 12,457 |
| Cost and expenses: | | |
| Cost of service revenues | 8,465 | 5,365 |
| Cost of reimbursement revenues | 3,047 | 2,894 |
| Sales and marketing expenses | 2,705 | 1,688 |
| General and administrative expenses | 2,102 | 1,545 |
| Amortization of intangible assets related to acquisitions | 251 | 77 |
| Total cost and expenses | 16,570 | 11,569 |
| Income from operations | 1,581 | 888 |
| Interest income | 98 | 168 |
| Interest expense | (1) | (1) |
| Income before income tax provision | 1,678 | 1,055 |
| Income tax provision | 603 | 408 |
| Net income | $ 1,075 | $ 647 |
| Basic income per common share | $ 0.07 | $ 0.06 |
| Weighted average number of common shares | 14,334 | 11,658 |
| Diluted income per common share | $ 0.07 | $ 0.05 |
| Weighted average number of dilutive common equivalent shares | 15,173 | 12,678 |

See Notes to Consolidated Financial Statements

**Table of Contents**

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| (in thousands, except per share data) | 2008 | 2007 |
| Service revenues | $ 41,487 | $ 27,830 |
| Reimbursement revenues | 10,198 | 7,388 |
| Total revenues | 51,685 | 35,218 |
| Cost and expenses: | | |
| Cost of service revenues | 23,347 | 16,085 |
| Cost of reimbursement revenues | 10,198 | 7,388 |
| Sales and marketing expenses | 7,504 | 4,938 |
| General and administrative expenses | 5,810 | 4,536 |
| Amortization of intangible assets related to acquisitions | 486 | 207 |
| Total cost and expenses | 47,345 | 33,154 |
| Income from operations | 4,340 | 2,064 |
| Interest income | 352 | 484 |
| Interest expense | (4) | (11) |
| Income before income tax provision | 4,688 | 2,537 |
| Income tax provision | 1,729 | 1,001 |
| Net income | $ 2,959 | $ 1,536 |
| Basic income per common share | $ 0.22 | $ 0.13 |
| Weighted average number of common shares | 13,554 | 11,577 |
| Diluted income per common share | $ 0.20 | $ 0.12 |
| Weighted average number of dilutive common equivalent shares | 14,461 | 12,669 |

See Notes to Consolidated Financial Statements

**Table of Contents**

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

| (in thousands) | For the Nine Months Ended September 30, 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 2,959 | $ 1,536 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,347 | 1,717 |
| Benefit (provision) for deferred income taxes | 240 | (125) |
| Bad debt provision | (29) | |
| Stock based compensation expense | 452 | 365 |
| Gain on foreign currency options | | (10) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Increase in accounts receivable | (1,364) | (1,602) |
| Decrease in prepaid expenses and other current assets | 68 | 81 |
| Increase in other assets | 53 | 45 |
| Increase (decrease) in accounts payable | 1,404 | (135) |
| Increase in accrued expenses and other current liabilities | 601 | 1,218 |
| (Decrease) increase in deferred revenue | (1,133) | 2,091 |
| (Decrease) increase in other liabilities | (39) | 19 |
| Net cash provided by operating activities | 5,559 | 5,200 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (2,360) | (2,959) |
| Net cash paid for acquisition | (8,129) | (3,566) |
| Net cash used in investing activities | (10,489) | (6,525) |
| Cash flows from financing activities: | | |
| Payments under equipment lease obligations | (135) | (378) |
| Excess tax benefit related to stock options | 77 | |
| Proceeds from exercise of stock options | 381 | 220 |
| Net cash provided by (used in) financing activities | 323 | (158) |
| Effect of exchange rate changes on cash | (55) | 20 |
| Net decrease in cash and cash equivalents | (4,662) | (1,463) |
| Cash and cash equivalents at beginning of period | 17,915 | 16,166 |
| Cash and cash equivalents at end of period | $ 13,253 | $ 14,703 |

| | | |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | $ 2 | $ 24 |
| Cash paid during the period for income taxes | $ 908 | $ 547 |

See Notes to Consolidated Financial Statements

Table of Contents

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| **Supplemental cash flow disclosure** (in thousands) | | |
| Schedule of non cash investing and financing activities: | | |
| Increase in property, plant and equipment acquisitions in accounts payable | $ 195 | $ 88 |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| **Acquired business** (in thousands) | | |
| Accounts receivable | $ 4,926 | $ 228 |
| Prepaid and other current assets | 258 | |
| Property and equipment | 741 | 185 |
| Other assets | 37 | 53 |
| Intangible assets and goodwill | 23,712 | 4,590 |
| Current liabilities assumed | (1,124) | (377) |
| Other liabilities assumed | (4,474) | (353) |
| Common stock issued | (15,947) | (760) |
| Cash paid for acquired business, net of cash acquired for the nine months ended September 30, 2008 of $418 | $ 8,129 | $3,566 |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| **Statement of comprehensive income** (in thousands) | | |
| Net income | $2,959 | $1,536 |
| Equity adjustment from foreign currency translation | (49) | 10 |
| Total comprehensive income | $2,910 | $1,546 |

See Notes to Consolidated Financial Statements

Table of Contents

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

**Note 1 Interim Financial Statements**

*Basis of Presentation.*

The financial statements included in this Quarterly Report on 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 GAAP 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 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007. The year end balance sheet data was derived from audited financial statements but does not include all of the disclosures required by GAAP.

In the opinion of management, the accompanying 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.

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. We have reclassed the amortization of intangible assets related to acquisitions as a separate component of the consolidated statements of income.

The Balance Sheet at September 30, 2008 includes Phoenix Data Systems, Inc., a Pennsylvania corporation, hereinafter referred to as PDS, due to the acquisition of PDS by Bio-Imaging on March 24, 2008. The Consolidated Statement of Income for the nine months ended September 30, 2008 includes the operating results of PDS from April 1, 2008 through September 30, 2008 but excludes the financial results of PDS from the acquisition date of March 24, 2008 through March 31, 2008 due to immateriality of PDS s results of operations for that period.

*Functional Currency.*

Historically, the functional currency for our Netherlands operations was the US Dollar based on an initial evaluation of economic factors as set forth in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation (SFAS 52).

We periodically evaluated the economic facts and circumstances that led to the initial conclusion that the functional currency of the Netherlands operation was the US Dollar for any significant changes that might indicate that the functional currency of the Netherlands operation had changed. Based on our evaluation performed in connection with the commencement of our quarter ended September 30, 2007, we concluded that, effective July 1, 2007, the functional currency of our Netherlands operation is the Euro.

The functional currency for our French operations is the Euro based on our initial and periodic evaluations of economic factors as set forth in SFAS 52.

Table of Contents

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

**Note 2 Stockholder s Equity Rollforward**

The following summarizes the activity of the Stockholder s equity accounts for the period from December 31, 2007 through September 30, 2008:

| (in thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income | Stockholders Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2007 | 11,765 | $ 3 | $ 25,084 | $ (1,710) | $ 151 | $ 23,528 |
| Stock options exercised | 287 | | 381 | | | 381 |
| Restricted shares issued | 21 | | | | | |
| Stock based compensation | | | 452 | | | 452 |
| Stock issued for acquisitions | 2,288 | 1 | 16,103 | | | 16,104 |
| Stock acquired from acquisition purchase price adjustment | (22) | | (158) | | | (158) |
| Tax benefit on exercise of stock options | | | 77 | | | 77 |
| Equity adjustment from foreign currency translation | | | | | (49) | (49) |
| Net income | | | | 2,959 | | 2,959 |
| Balance at September 30, 2008 | 14,339 | $ 4 | $ 41,939 | $ 1,249 | $ 102 | $ 43,294 |

**Note 3 Earnings Per Share**

Basic income per common share for the three and nine months ended September 30, 2008 and 2007 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period. Diluted income per share for the three and nine months ended September 30, 2008 and 2007 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period, adjusted for dilutive securities using the treasury method.

Table of Contents

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

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

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income basic and diluted | $ 2,959 | $ 1,536 | $ 1,075 | $ 647 |
| Denominator basic: | | | | |
| Weighted average number of common shares | 13,554 | 11,577 | 14,334 | 11,658 |
| Basic income per common share | $ 0.22 | $ 0.13 | $ 0.07 | $ 0.06 |
| Denominator diluted: | | | | |
| Weighted average number of common shares | 13,554 | 11,577 | 14,334 | 11,658 |
| Common share equivalents of outstanding stock options | 719 | 1,025 | 652 | 951 |
| Common share equivalents of unrecognized compensation expense | 188 | 67 | 187 | 69 |
| Weighted average number of dilutive common equity shares | 14,461 | 12,669 | 15,173 | 12,678 |
| Diluted income per common share | $ 0.20 | $ 0.12 | $ 0.07 | $ 0.05 |

Options to purchase 429,000 and 428,000 shares of our common stock had been excluded from the calculation of diluted earnings per common share for the three and nine months ended September 30, 2008, as they were all antidilutive. Options to purchase 323,000 and 137,000 shares of our common stock respectively, had been excluded from the calculation of diluted earnings per common share for the three and nine months ended September 30, 2007, respectively, as they were all antidilutive. For the nine months ended September 30, 2008, the 2,288,000 shares issued in the PDS acquisition were included in the weighted average number of common shares from March 24, 2008, the acquisition date, through September 30, 2008.

**Note 4 Commitments and Contingencies**

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

Table of Contents

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

President and Chief Executive Officer can potentially receive up to 25,000 shares of the company s common stock each fiscal year. Based on management s assumptions, we recognized the related proportionate expense of $145,000 for these restricted shares for the nine months ended September 30, 2008. These restricted shares are service and performance-based, and the value is determined by its fair value (as if underlying shares were vested and issued). In addition, we have an employment agreement with our Senior Vice President and Chief Financial Officer that expires February 5, 2009 and is renewable on an annual basis. The aggregate amount due under these employment agreements from January 1, 2008 through the expiration under these agreements is $716,000.

**Note 5 Business Segments**

Financial Accounting Standards Board (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. We have two reportable segments: pharmaceutical contract services and the CapMed division. Our pharmaceutical contract services 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.

Table of Contents

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

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

| (in thousands) | Pharmaceutical Contract Services | CapMed Division | Consolidated Total |
|---|---|---|---|
| For the three months ended September 30, 2008 | | | |
| Total revenues | $ 18,140 | $ 11 | $ 18,151 |
| Total cost and expenses | $ 15,794 | $ 776 | $ 16,570 |
| Income (loss) from operations | $ 2,346 | $ (765) | $ 1,581 |
| For the three months ended September 30, 2007 | | | |
| Total revenues | $ 12,394 | $ 63 | $ 12,457 |
| Total cost and expenses | $ 10,829 | $ 740 | $ 11,569 |
| Income (loss) from operations | $ 1,565 | $ (677) | $ 888 |
| For the nine months ended September 30, 2008 | | | |
| Total revenues | $ 51,423 | $ 262 | $ 51,685 |
| Total cost and expenses | $ 45,159 | $ 2,186 | $ 47,345 |
| Income (loss) from operations | $ 6,264 | $ (1,924) | $ 4,340 |
| For the nine months ended September 30, 2007 | | | |
| Total revenues | $ 34,822 | $ 396 | $ 35,218 |
| Total cost and expenses | $ 31,321 | $ 1,833 | $ 33,154 |
| Income (loss) from operations | $ 3,501 | $ (1,437) | $ 2,064 |

Our foreign customers accounted for approximately 38% and 50% of service revenues for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, our foreign customers accounted for approximately 29% and 41% of service revenues, respectively.

**Note 6 Accounts Receivable and Allowance for Doubtful Accounts**

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

Table of Contents

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

| (in thousands) | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Billed trade accounts receivable | $ 11,010 | $ 5,090 |
| Unbilled trade accounts receivable | 1,049 | 746 |
| Other | 29 | 45 |
| Total Receivables | $ 12,088 | $ 5,881 |

| Allowance Rollforward (in thousands): | |
|---|---|
| Balance at January 1, 2008 | $ 29 |
| Additions | |
| Write offs (net of recoveries) | (29) |
| Balance at September 30, 2008 | $ 0 |

**Note 7 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 considers future taxable income and on-going prudent and feasible tax planning strategies. In the event that the Company was to determine that, in the future, they would be able to realize the 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 the Company determine that it is more likely than not that it will be unable to realize all or part of the 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.

The Company has accumulated tax losses, which include allowable deductions related to exercised employee stock options, generating federal net operating loss (NOL) credit carryforwards of $1.1 million as of September 30, 2008. These losses will expire, if unused, in the years 2009 through 2022. Under limitations imposed by Internal Revenue Code Section 382, certain potential changes in ownership of the Company, which may be outside the Company s knowledge or control, may restrict future utilization of these NOL credit carryforwards. GAAP requires that the Company establish a valuation allowance for any portion of its deferred tax assets for which management believes that it is more likely than not the Company will be unable to utilize the asset to offset future taxes. The Company will continue to evaluate the potential use of its deferred tax assets and the need for a valuation allowance by considering future taxable income and on-going prudent and feasible tax planning strategies. Subsequent revisions to the estimated realizable value of the deferred tax assets could cause the provision for income taxes to vary significantly from period to period, although the cash tax payments would remain unaffected until the NOL credit carryforward is fully utilized or has expired. Our deferred tax assets are primarily comprised of the temporary book to tax differences related to deferred revenue.

The Company recognizes contingent liabilities for any tax related exposures when those exposures are reasonably possible.

For the nine months ended September 30, 2008 and 2007, the tax benefit of the stock option deductions recorded to additional paid in capital was $77 and $0, respectively.

Table of Contents

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

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

Historically, our tax provision for financial statement purposes and the actual tax returns have been prepared using consistent methodologies. There were no material unrecognized tax benefits as of December 31, 2006. Accordingly, the adoption did not have a material impact on the financial statements. We do not expect the unrecognized tax benefit to materially change during the next 12 months. Any interest and penalties incurred on settlements of outstanding tax positions would be recorded as a component of tax expense. We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. Our federal tax returns for years 2005, 2006 and 2007 are subject to examination. Our state taxes for years 2000 through 2007 are subject to examination. Our foreign taxes for years 2002 through 2006 are subject to examination by the respective authorities.

**Note 8 Acquisition**

Phoenix Data Systems, Inc. Acquisition

On March 24, 2008, Bio-Imaging acquired PDS (the Acquisition ) to expand our pharmaceutical services in the area of electronic data capture and other eClinical data solutions to our clients. The Acquisition was made pursuant to an Agreement and Plan of Merger (the Merger Agreement ), dated March 24, 2008, by and among the Company, Bio-Imaging Acquisition Corporation, a Pennsylvania corporation and wholly-owned subsidiary of the Company ( Merger Sub ), and PDS and its Stockholders Representative. Pursuant to the terms of the Merger Agreement, PDS merged with and into Merger Sub. Following the consummation of the Acquisition, PDS ceased to exist and Merger Sub became a wholly-owned subsidiary of the Company. The officers and directors of the Merger Sub continued to be the officers and directors of the surviving corporation. In connection with the Acquisition, the Company also entered into employment agreements with members of the senior management team of PDS. These individuals continue to be members of the senior management of the surviving corporation; however, none of these individuals are executive officers of the Company.

Under the terms of the Merger Agreement, the Company acquired all of PDS s outstanding capital stock. The total consideration paid by the Company, adjusted for a decrease to Tangible Net Worth of $64,000 in cash as described below, to PDS s stockholders was $23,910,000 comprised of $6,936,000 in cash and 2,287,582 shares of common stock, par value $0.00025 per share, of the Company, with an average closing price per share over the last 30 trading days ending and including March 19, 2008 of $7.42 ( Common Stock ). The aggregate purchase price was subject to a post-closing adjustment based on the Tangible Net Worth (as defined in the Merger Agreement) of PDS on the Closing Date (as defined in the Merger Agreement). Pursuant to the terms of the Merger Agreement, five percent of the aggregate consideration was held in escrow for the finalization of the Closing Tangible Net Worth Statement (as defined in the Merger Agreement). On June 13, 2008, Bio-Imaging and the Stockholders Representative agreed to a decrease of $230,000 to the purchase price due to the minimum threshold to the Closing Tangible Net Worth Statement not being achieved. Bio-Imaging received $64,000 in cash back in June 2008 and 22,453 shares of our common stock in July 2008 back from the purchase price escrow. Additionally, 10 percent of the aggregate consideration is to be held in escrow to

Table of Contents

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

cover any potential indemnification claims under the Merger Agreement for a period ending no later than March 31, 2009. We also incurred approximately $1,076,000 in acquisition costs. At the Acquisition date, the stock was recorded at an average price of $7.04 per share.

In connection with the Acquisition, the stockholders of PDS entered into various agreements. The stockholders of PDS executed stockholders agreements, whereby each stockholder agreed, among other things, to approve the Acquisition and not to compete in the business area occupied by PDS at the time of the Acquisition for a reasonable period of time. All stockholders executed lockup agreements, whereby all stockholders agreed not to directly or indirectly offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any shares of the Company s Common Stock received pursuant to the Merger Agreement for a period beginning on the date the Merger Agreement was executed and continuing to and including the date 180 days after the Closing Date (the Initial Lockup Period Date ), and certain additional stockholders agreed not to directly or indirectly offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of 67 percent of the shares of the Company s Common Stock received pursuant to the Merger Agreement for a period beginning on the Initial Lockup Period Date and continuing to and including the date of the first anniversary of the Closing Date.

The Company has not finalized the purchase price allocation. The acquisition costs of the Acquisition have been allocated to assets acquired and liabilities assumed based on preliminary estimates of fair value at September 30, 2008 as follows (in thousands):

| | |
|---|---|
| Net Working Capital | $ 352 |
| Fixed Assets | 590 |
| Other Assets | 158 |
| Other Liabilities | (101) |
| Software | 500 |
| Trademark | 50 |
| Customer Backlog | 600 |
| Customer Relationships | 300 |
| Non-Compete Agreements | 100 |
| Goodwill, including Workforce | 21,858 |
| Deferred Tax Liabilities | 579 |
| Total Purchase Price | $ 24,986 |

The results of operations of PDS from the acquisition date, March 24, 2008 to March 31, 2008 were immaterial; therefore, the Company did not include the results of operations for those eight days in the Consolidated Statement of Income for the nine months ended September 30, 2008.

*Pro Forma Results.* The following schedule includes consolidated statements of income data for the unaudited pro forma results for the nine months ended September 30, 2008 and 2007 as if the Acquisition had occurred as of the beginning of each of the periods presented after giving effect to certain adjustments. The pro forma results for the nine months ended September 30, 2008 include $789,000 of acquisition costs incurred by PDS. The unaudited pro forma information is provided for illustrative

Table of Contents

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

purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the acquisition would have taken place at the beginning of each of the periods presented and should not be taken as indicative of our future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at our effective tax rate.

| | Nine Months Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2008 | 2007 |
| Total revenue | $56,134 | $43,767 |
| Operating income | 3,638 | 2,601 |
| Net income | 2,453 | 1,764 |
| Basic net income per share | $ 0.17 | $ 0.13 |
| Diluted net income per share | $ 0.16 | $ 0.12 |

Theralys S.A. Acquisition

On February 6, 2007, we acquired 100% of the outstanding securities of Theralys, a company headquartered in Lyon, France to expand our therapeutic expertise in the Central Nervous System and Neurovascular areas. The aggregate purchase price was 2,958,000 Euros ($3,853,000 as determined by an agreed upon exchange rate), of which 2,375,000 Euros ($3,093,000) was paid in cash and $760,000 in value was paid with 93,000 shares of our common stock. We also incurred approximately $678,000 in acquisition costs. The purchase of the business was accounted for under the purchase method of accounting. The result of operations of Theralys were included in our financial statements at the acquisition date in our pharmaceutical contract services business segment. The assets acquired primarily consisted of $4,153,000 goodwill, $291,000 software, $52,000 customer relationship and $36,000 non-compete. The pro forma impact of the Theralys acquisition on 2007 results was immaterial.

**Note 9 Intangible Assets**

Included in other assets, the following is the acquired intangible assets including an estimate of the intangible assets acquired in the PDS acquisition:

| (in thousands) | September 30, 2008 | Estimated Useful Life |
|---|---|---|
| Amortized intangible assets: | | |
| Technology | $ 1,454 | 5 years |
| Trademarks | 444 | 5 years |
| Customer backlog | 1,218 | 3 to 7 years |
| Customer relationship | 911 | 7 years |
| Non-competition agreement | 425 | 2 to 3 years |
| | 4,452 | |
| Accumulated amortization | (1,612) | |
| | $ 2,840 | |

| | | |
|---|---|---|
| Unamortized intangible assets: | | |
| Goodwill | $ | 27,015 |

**Table of Contents**

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

Estimated future amortization of the intangible assets is as follows:

| | Fiscal years ending | |
|---|---|---|
| 2008 | $ | 200 |
| 2009 | | 634 |
| 2010 | | 536 |
| 2011 | | 464 |
| 2012 | | 373 |
| Thereafter | | 633 |
| | $ | 2,840 |

Table of Contents

**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 medical image management and eClinical data services that support the product development process of the pharmaceutical, biotechnology and medical device industries.

Our medical image management services assist our clients in the design and management of the medical imaging component of clinical trials for all modalities, which includes computerized tomography (CT), magnetic resonance imaging (MRI), radiography, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA), central nervous system (CNS) MRI and ultrasound. Our services include the processing and analysis of medical images and the regulatory submission of medical images and related quantitative data.

During the first quarter of 2008, we completed the acquisition of PDS, a provider of electronic data capture (EDC) services offering a comprehensive array of eClinical data solutions to the pharmaceutical and biotechnology industries. PDS is engaged in providing full service EDC, a combination of electronic data capture, interactive voice response, reporting and data management solutions. PDS has developed a variety of software applications that allow pharmaceutical and biotech companies to enhance their ability to process and store clinical data through the use of PDS s proprietary software and hosting service. PDS is focused on making the process of collecting and analyzing data from clinical trials faster, easier and more reliable. This transaction met our general acquisition criteria in that it expands our capabilities in the clinical trials arena, leverages our global operating capabilities, leverages our brand reputation for quality client service and utilizes our existing relationships with major players in the pharmaceutical, biotech and medical device industries. We see this acquisition as a very logical extension of our core offerings in image management. It not only expands our addressable market, but gives us access to what we believe to be a very large and rapidly growing space, intimately related to our clinical trials expertise.

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 three months to 12 months. In addition, the contracts under which we perform services typically cover a period of three 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.

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 $101.7 million as of September 30, 2008, including $18.7 million from PDS. This compares to $88.7 million as of September 30, 2007. Contracts included in backlog are subject to termination by our clients at any time. In the event that a contract is canceled by the client, we would be entitled to receive payment for all services performed up to the cancellation date. The duration of the projects included in our backlog generally range from one to four 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.

Table of Contents

We 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. The FDA is also requiring more robust studies and additional data for clinical trials and continues to develop sophisticated guidelines for computerized submission of clinical trial data, including medical images. Furthermore, we believe that the increased use of digital medical images in clinical trials, especially for important drug classes such as anti-inflammatory, neurologic and oncologic therapeutics and diagnostic image agents, generate large amounts of image data from a large number of imaging sources. These studies require processing, analysis, data management and submission services best handled by vendors with scalable logistical capabilities and extensive experience working with research facilities worldwide.

The acquisition of Phoenix Data Systems expands our core clinical trial services business into the growing electronic data capture market and leverages our global operational capabilities and sales and marketing reach into pharmaceutical and biotechnology companies. The EDC/eClinical space is experiencing rapid client acceptance and implementation as a result of the desire for the real time capture, validation, and analysis of trial-generated data. There is a clear desire to improve R&D efficiency through faster production of interim reports, database lock, report generation and FDA submissions.

However, due to several factors, including, without limitation, competition from commercial competitors and academic research centers and the risk of project cancellations, slowing of patient enrollment in on-going studies or delay of future project awards, technology risk and obsolescence, 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. Our hybrid product offering also includes patient access to personal health information on line and via cell phone and is interoperable with a wide range of third party vendors.

We intend to expand our CapMed sales through partnerships and marketing efforts devoted to the PHR and Personal HealthKey products. We continue to pursue alliances and evaluate strategic alternatives to maximize stockholder value. We believe that continued emphasis on improving patient care and reducing costs will contribute to the growth of the personal electronic medical records market. We also have developed an In Case of Emergency (icePHR ) designed especially for use in emergencies to provide consumers with private and timely access to personal health information in a security-enhanced environment. CapMed also offers icePHR Mobile that will allow access to the information on cell phones and personal digital assistants (PDA) and a comprehensive PHR Online product that will capture and maintain all aspects of personal health management. The markets for our CapMed division continue to evolve favorably. We continue to be encouraged by the long-term prospects for this division although the revenue generating adoption rate has been slower than anticipated.

Table of Contents

**Forward Looking Statements**

Certain matters discussed in this Quarterly Report on 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 or compa terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding: our projected financial results; growth potential for our CapMed division; the demand for our services and technologies; growing recognition for the use of independent centralized core laboratories; trends toward the outsourcing of imaging services in clinical trials; realized return from our marketing efforts; increased use of digital medical images in clinical trials; integration of our acquired companies and businesses; expansion into new business segments; the success of any potential acquisitions and the integration of current acquisitions; and the level of our backlog are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the variability in size, scope and duration of projects, estimates made by management with respect to our critical accounting policies, regulatory delays, clinical study results which lead to reductions or cancellations of projects and other factors, including general economic conditions and regulatory developments, not within our control. The factors discussed in this Quarterly Report on Form 10-Q and expressed from time to time in our filings with the SEC, as well as the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2007, 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**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157, as it relates to financial assets and financial liabilities, became effective for Bio-Imaging Technologies, Inc. on January 1, 2008. On February 12, 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We have determined that the adoption of SFAS 157, as it relates to financial assets and financial liabilities did not have an impact on the Consolidated Financial Statements. We are currently evaluating the potential impact of SFAS 157, as it relates to nonfinancial assets and nonfinancial liabilities, on the Consolidated Financial Statements as we have elected the deferral of FAS 157-2.

On January 1, 2008, we elected not to adopt the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities, (SFAS 159) which permits companies to use fair value for reporting purposes under GAAP.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (Revised 2007), (SFAS 141R) which addresses ways to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination. This statement applies prospectively to business combinations for which the acquisition

Table of Contents

date is on or after fiscal years beginning December 15, 2008. Retrospective application is not permitted. The Company is currently evaluating SFAS 141R and the related impact on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated statement of financial position within equity separate from the parent s equity; consolidated net income to be reported at amounts inclusive of both the parent s and noncontrolling interest s shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. SFAS 160 becomes effective for Bio-Imaging Technologies, Inc. on January 1, 2009. Management is currently evaluating the potential impact of SFAS 160 on the Financial Statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133, (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. This standard becomes effective for Bio-Imaging Technologies, Inc. on January 1, 2009. Earlier adoption of SFAS 161 and, separately, comparative disclosures for earlier periods at initial adoption are encouraged. As SFAS 161 only requires enhanced disclosures, this standard will have no impact on the Financial Statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets, (SFAS 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP FAS 142-3 becomes effective for Bio-Imaging on January 1, 2009. Management has concluded that the adoption of FSP FAS 142-3 will not have a material impact on the Financial Statements.

On October 29, 2008 the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP FAS 157-3) which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The adoption of FSP FAS 157-3 had no impact on the Financial Statements.

Table of Contents

**Results of Operations**

Three Months Ended September 30, 2008 and 2007

| (in thousands) | Three Months Ended September 30, 2008 | % of Total Revenue | Three Months Ended September 30, 2007 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Service revenues | $15,104 | 83.2% | $ 9,563 | 76.8% | $5,541 | 57.9% |
| Reimbursement revenues | 3,047 | 16.8% | 2,894 | 23.2% | 153 | 5.3% |
| Total revenues | 18,151 | 100.0% | 12,457 | 100.0% | 5,694 | 45.7% |
| Cost and expenses: | | | | | | |
| Cost of service revenue | 8,465 | 46.6% | 5,365 | 43.1% | 3,100 | 57.8% |
| Cost of reimbursement revenue | 3,047 | 16.8% | 2,894 | 23.2% | 153 | 5.3% |
| Sales and marketing expenses | 2,705 | 14.9% | 1,688 | 13.6% | 1,017 | 60.2% |
| General and administrative expenses | 2,102 | 11.6% | 1,545 | 12.4% | 557 | 36.1% |
| Amortization of intangible assets related to acquisitions | 251 | 1.4% | 77 | 0.6% | 174 | 226.0% |
| Total cost and expenses | 16,570 | 91.3% | 11,569 | 92.9% | 5,001 | 43.2% |
| Income from operations | 1,581 | 8.7% | 888 | 7.1% | 693 | 78.0% |
| Interest income | 98 | 0.5% | 168 | 1.4% | (70) | (41.7)% |
| Interest expense | (1) | 0.0% | (1) | 0.0% | | 0.0% |
| Income before income tax provision | 1,678 | 9.2% | 1,055 | 8.5% | 623 | 59.1% |
| Income tax provision | 603 | 3.3% | 408 | 3.3% | 195 | 47.8% |
| Net income | $ 1,075 | 5.9% | $ 647 | 5.2% | $ 428 | 66.2% |

Service revenues for the three months ended September 30, 2008 and 2007 were $15.1 million and $9.6 million, respectively, an increase of $5.5 million, or 57.9%. The increase in service revenues was due to $4.0 million in service revenue from PDS and an increase in work performed from our backlog. Our backlog at September 30, 2008 was $101.7 million, including $18.7 million from PDS, compared to $88.7 million at September 30, 2007, an increase of 14.7%. The year over year increase in backlog is due to our expansion into the eClinical market through the acquisition of PDS.

Reimbursement revenues and cost of reimbursement revenues for the three months ended September 30, 2008 and 2007 were $3.0 million and $2.9 million, respectively, an increase of $153,000, or 5.3%. Reimbursement revenues and cost of reimbursement revenues consist of payments received from the customer for reimbursable costs. Reimbursement revenues and cost of 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 and cost of reimbursement revenues are not a significant indicator of our overall

performance trends. At the request of our clients, we may directly pay the independent radiologists who review our client s imaging

Table of Contents

data. In such cases, per contractual arrangement, these costs are billed to our clients and are included in reimbursement revenues and cost of reimbursement revenues.

Cost of service revenues for the three months ended September 30, 2008 and 2007 were $8.5 million and $5.4 million, respectively, an increase of $3.1 million, or 57.8%. Cost of service revenues for the three months ended September 30, 2008 and 2007 were comprised of professional salaries and benefits and allocated overhead. The increase in cost of service revenues is primarily due to the addition of salaries and other labor related costs of $2.1 million related to the operations of PDS. The cost of revenues as a percentage of total revenues also fluctuates due to work-flow variations in the utilization of staff and the mix of services provided by us in any given period. We expect that our cost of revenues will continue to increase in fiscal 2008 as we expand our presence in the eClinical market.

Sales and marketing expenses for the three months ended September 30, 2008 and 2007 were $2.7 million and $1.7 million, respectively, an increase of $1.0 million, or 60.2%. Sales and marketing expenses for the three months ended September 30, 2008 and 2007 were comprised of direct sales and marketing costs, salaries and benefits and allocated overhead. The increase is primarily due to the addition of sales personnel from the PDS acquisition along with increased marketing and tradeshow attendance. We expect that sales and marketing expenses will increase in fiscal 2008 as we continue to expand our market presence in the United States and Europe.

General and administrative expenses for the three months ended September 30, 2008 and 2007 were $2.1 million and $1.5 million, respectively, an increase of $557,000, or 36.1%. General and administrative expenses for the three months ended September 30, 2008 and three months ended September 30, 2007 consisted primarily of salaries and benefits, allocated overhead, professional and consulting services and corporate insurance. The increase is primarily due to the addition of personnel and other professional services related to the administration of PDS. We expect that our general and administrative expenses will increase in 2008 due to increased professional fees and general corporate matters.

Amortization of intangible assets related to acquisitions for the three months ended September 30, 2008 and 2007 were $251,000 and $77,000, respectively, an increase of $174,000, or 226.0%. Amortization of intangible assets related to acquisitions consisted primarily of amortization of customer backlog, customer relationships, software and non-compete intangibles acquired from the acquisitions of PDS and Theralys. We expect that the amortization of intangible assets related to acquisitions may increase as we look to continue to expand our pharmaceutical contract services through potential acquisitions.

Net interest income was $97,000 for the three months ended September 30, 2008 and $167,000 for the three months ended September 30, 2007, a decrease of $70,000, or 41.9%. Net interest income and expense for the three months ended September 30, 2008 and 2007 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. We expect interest income to decline in 2008 due to the reduction in cash balance as a result of the cash used during the first quarter 2008 for the acquisition of PDS and the decline in interest rates for short-term investments.

Income before income taxes was $1.7 million for the three months ended September 30, 2008, and $1.1 million for the three months ended September 30, 2007. The increase was due to greater service revenue resulting from the acquisition of PDS and our improved operating margin.

Our income tax provision for the three months ended September 30, 2008 and 2007 was $603,000

Table of Contents

and $408,000, respectively. Our effective tax rate is approximately 37% for fiscal 2008. Our effective tax rate was approximately 39% for fiscal 2007. The lower effective tax rate in fiscal 2008 was due to the mix of pre-tax income in the U.S. and in the Netherlands, which has a lower corporate income tax rate than the U.S., and the changes affecting state tax rates.

Table of Contents

Nine Months Ended September 30, 2008 and 2007

| (in thousands) | Nine Months Ended September 30, 2008 | % of Total Revenue | Nine Months Ended September 30, 2007 | % of Total Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| Service revenues | $41,487 | 80.3% | $27,830 | 79.0% | $13,657 | 49.1% |
| Reimbursement revenues | 10,198 | 19.7% | 7,388 | 21.0% | 2,810 | 38.0% |
| Total revenues | 51,685 | 100.0% | 35,218 | 100.0% | 16,467 | 46.8% |
| Cost and expenses: | | | | | | |
| Cost of service revenue | 23,347 | 45.2% | 16,085 | 45.7% | 7,262 | 45.1% |
| Cost of reimbursement revenue | 10,198 | 19.7% | 7,388 | 21.0% | 2,810 | 38.0% |
| Sales and marketing expenses | 7,504 | 14.5% | 4,938 | 14.0% | 2,566 | 52.0% |
| General and administrative expenses | 5,810 | 11.2% | 4,536 | 12.9% | 1,274 | 28.1% |
| Amortization of intangible assets related to acquisitions | 486 | 0.9% | 207 | 0.6% | 279 | 134.8% |
| Total cost and expenses | 47,345 | 91.5% | 33,154 | 94.1% | 14,191 | 42.8% |
| Income from operations | 4,340 | 8.5% | 2,064 | 5.9% | 2,276 | 110.3% |
| Interest income | 352 | 0.7% | 484 | 1.3% | (132) | (27.3)% |
| Interest expense | (4) | 0.0% | (11) | 0.0% | 7 | 63.6% |
| Income before income tax provision | 4,688 | 9.2% | 2,537 | 7.2% | 2,151 | 84.8% |
| Income tax provision | 1,729 | 3.3% | 1,001 | 2.8% | 728 | 72.7% |
| Net income | $ 2,959 | 5.9% | $ 1,536 | 4.4% | $ 1,423 | 92.6% |

The Consolidated Statement of Income for the nine months ended September 30, 2008 excludes the financial results of PDS from the acquisition date of March 24, 2008 through March 31, 2008 due to immateriality of PDS s results of operations for that period.

Service revenues for the nine months ended September 30, 2008 and 2007 were $41.5 million and $27.8 million, respectively, an increase of $13.7 million, or 49.1%. The increase in service revenues was due to $8.3 million in service revenue from PDS and an increase in work performed from our increased backlog. Our backlog at September 30, 2008 was $101.7 million, including $18.7 million from PDS, compared to $88.7 million at September 30, 2007, an increase of 14.7%. The year over year increase in backlog is due to our expansion into the eClinical market through the acquisition of PDS.

Reimbursement revenues and cost of reimbursement revenues for the nine months ended September 30, 2008 and 2007 were $10.2 million and $7.4 million, respectively, an increase of $2.8 million, or 38.0%. Reimbursement revenues and cost of reimbursement revenues consist of payments received from the customer for reimbursable costs. Reimbursement revenues and cost of 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 and

Table of Contents

cost of reimbursement revenues are not a significant indicator of our overall performance trends. At the request of our clients, we may directly pay the independent radiologists who review our client s imaging data. In such cases, per contractual arrangement, these costs are billed to our clients and are included in reimbursement revenues and cost of reimbursement revenues.

Cost of service revenues for the nine months ended September 30, 2008 and 2007 were $23.3 million and $16.1 million, respectively, an increase of $7.2 million, or 45.1%. Cost of service revenues for the nine months ended September 30, 2008 and 2007 were comprised of professional salaries and benefits and allocated overhead. The increase in cost of service revenues is primarily due to the addition of salaries and other labor related costs of $4.3 million related to the operations of PDS along with the increase in costs of our European facilities and an increase in operational personnel to support 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. We expect that our cost of revenues will continue to increase in fiscal 2008 as we expand our presence in the eClinical market.

Sales and marketing expenses for the nine months ended September 30, 2008 and 2007 were $7.5 million and $4.9 million, respectively, an increase of $2.6 million, or 52.0%. Sales and marketing expenses for the nine months ended September 30, 2008 and 2007 were comprised of direct sales and marketing costs, salaries and benefits and allocated overhead. The increase is primarily due to the addition of sales personnel from the PDS acquisition along with increased marketing and tradeshow attendance. We expect that sales and marketing expenses will increase in fiscal 2008 as we continue to expand our market presence in the United States and Europe.

General and administrative expenses for the nine months ended September 30, 2008 and 2007 were $5.8 million and $4.5 million, respectively, an increase of $1.3 million, or 28.1%. General and administrative expenses for the nine months ended September 30, 2008 and nine months ended September 30, 2007 consisted primarily of salaries and benefits, allocated overhead, professional and consulting services and corporate insurance. The increase is primarily due to the addition of personnel and other professional services related to the administration of PDS. We expect that our general and administrative expenses will increase in 2008 due to increased professional fees and general corporate matters.

Amortization of intangible assets related to acquisitions for the nine months ended September 30, 2008 and 2007 were $486,000 and $207,000, respectively, an increase of $279,000, or 134.8%. Amortization of intangible assets related to acquisitions consisted primarily of amortization of customer backlog, customer relationships, software and non-compete intangibles acquired from the acquisitions of PDS and Theralys. The increase is due to the acquisition of PDS on March 24, 2008. We expect that the amortization of intangible assets related to acquisitions may increase as we look to continue to expand our pharmaceutical contract services through potential acquisitions.

Net interest income was $348,000 for the nine months ended September 30, 2008 and $473,000 for the nine months ended September 30, 2007, a decrease of $125,000, or 26.4%. Net interest income and expense for the nine months ended September 30, 2008 and 2007 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. We expect interest income to decline in 2008 due to the reduction in cash balance as a result of the cash used during the first quarter 2008 for the acquisition of PDS and the decline in interest rates for short-term investments.

Income before income taxes was $4.7 million for the nine months ended September 30, 2008, and

Table of Contents

$2.5 million for the nine months ended September 30, 2007. The increase was due to greater service revenue resulting from the acquisition of PDS and our improved operating margin.

Our income tax provision for the nine months ended September 30, 2008 and 2007 was $1.7 million and $1.0 million, respectively. Our effective tax rate is approximately 37% for fiscal 2008. Our effective tax rate was approximately 39% for fiscal 2007. The lower effective tax rate in fiscal 2008 was due to the mix of pre-tax income in the U.S. and in the Netherlands, which has a lower corporate income tax rate than the U.S., and the changes affecting state tax rates.

Table of Contents

**Business Segments**

We have set forth certain financial information with respect to our two business segments, pharmaceutical contract services and the CapMed division, in Note 5 Business Segments to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

During the three months ended September 30, 2008, we had CapMed segment sales of $11,000 and total costs and expenses of $776,000, consisting of $621,000 of sales and marketing expenses, $155,000 of general and administrative expenses and $0 of cost of revenues. This compares to the three months ended September 30, 2007, whereby we had CapMed segment sales of $63,000 and total costs and expenses of $740,000, consisting of $575,000 of sales and marketing expenses, $144,000 of general and administrative expenses and $21,000 of cost of revenues. The increase in total costs and expenses of $36,000 was primarily due to amortization of capitalized software costs for the three months ended September 30, 2008.

During the nine months ended September 30, 2008, we had CapMed segment sales of $262,000 and total costs and expenses of $2.2 million, consisting of $1.7 million of sales and marketing expenses, $437,000 of general and administrative expenses and $1,000 of cost of revenues. This compares to the nine months ended September 30, 2007, whereby we had CapMed segment sales of $396,000 and total costs and expenses of $1.8 million, consisting of $1.4 million of sales and marketing expenses, $357,000 of general and administrative expenses and $47,000 of cost of revenues. The increase in total costs and expenses of $400,000 was primarily due to amortization of capitalized software costs for the nine months ended September 30, 2008 and increased tradeshow attendance and marketing expenses.

**Liquidity and Capital Resources**

| (in thousands) | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| Net cash provided by operating activities | $ 5,559 | $ 5,200 |
| Net cash used in investing activities | $ (10,489) | $ (6,525) |
| Net cash provided by (used in) financing activities | $ 323 | $ (158) |

At September 30, 2008, we had cash and cash equivalents of $13.3 million. Working capital, defined as current assets minus current liabilities, at September 30, 2008 was $5.1 million.

Net cash provided by operating activities for the nine months ended September 30, 2008 was $5.6 million as compared to $5.2 million for the nine months ended September 30, 2007. This increase from the prior year is primarily due to the increase in accounts payable of $1.4 million and the increase in net income of $3.0 million.

Net cash used in investing activities for the nine months ended September 30, 2008 was $10.5 million as compared to $6.5 million for the nine months ended September 30, 2007. The increase was primarily due to $8.1 million used for the acquisition of PDS on March 24, 2008. We currently anticipate that capital expenditures for the remainder of the fiscal year ending December 31, 2008 will be approximately $500,000. These expenditures primarily represent additional upgrades in our networking, data storage and core laboratory capabilities for both our U. S. and European operations, as well as capitalization of software costs.

Net cash provided by financing activities for the nine months ended September 30, 2008 was $323,000 as compared to net cash used in financing activities of $158,000 for the nine months ended

Table of Contents

September 30, 2007. The change is primarily attributable to fewer payments under equipment lease obligations for the nine months ended September 30, 2008 due to not entering into any new capital leases and the expiration of existing capital leases in 2008 along with the proceeds from exercise of stock options.

The following table lists our cash contractual obligations as of September 30, 2008 (in thousands):

| | | Payments Due By Period | | | |
|---|---|---|---|---|---|
| Contractual obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Capital lease obligations | $ 138,813 | $ 85,455 | $ 48,931 | $ 4,427 | $ |
| Facility rent operating leases | $ 5,999,325 | $ 2,433,864 | $ 2,175,330 | $ 867,302 | $ 522,829 |
| Employment agreements | $ 244,165 | $ 244,165 | $ | $ | $ |
| Total contractual cash obligations | $ 6,382,303 | $ 2,763,484 | $ 2,224,261 | $ 871,729 | $ 522,829 |

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 foreign exchange rate risk management policy, we had purchased monthly Euro call options in prior years. These options were intended to hedge against the exposure to variability in our cash flows resulting from the Euro denominated costs for our Netherlands subsidiary. During the nine months ended September 30, 2008 and 2007, we have not purchased any Euro call options, because our foreign currency needs are generally being met by the cash flow generated by Euro denominated contracts. As of September 30, 2008, there are no outstanding derivative positions. During the nine months ended September 30, 2008, we did not exercise any options.

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.

We anticipate that our existing capital resources together with cash flow from operations will be sufficient to meet our cash needs for the next 12 months. However, we cannot assure you that our operating results will maintain profitability on an annual basis in the future. The inherent operational risks associated with the following factors may have a material adverse affect on our future liquidity:

our ability to gain new client contracts;

project cancellations;

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

other changes in our operating assets and liabilities.

We may seek to raise additional capital from equity or debt sources in order to take advantage of unanticipated opportunities, such as more rapid expansion, acquisitions of complementary businesses or

Table of Contents

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 2008 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, 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, 2007. As of September 30, 2008, there have been no changes to such critical accounting policies and estimates.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157, as it relates to financial assets and financial liabilities, becomes effective for Bio-Imaging Technologies, Inc. on January 1, 2008. On February 12, 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. We have determined that the adoption of SFAS 157, as it relates to financial assets and financial liabilities, does not have an impact on the Consolidated Financial Statements. We are currently evaluating the potential impact of SFAS 157, as it relates nonfinancial assets and nonfinancial liabilities, on the Consolidated Financial Statements.

On January 1, 2008, we adopted the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities, (SFAS 159) which permits companies to use fair value for reporting purposes under GAAP. We have determined that the adoption of SFAS 159 does not have an impact on the Consolidated Financial Statements.

On October 29, 2008 the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP FAS 157-3) which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The adoption of FSP FAS 157-3 had no impact on the Financial Statements.

Table of Contents

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

*Interest Rate Risk*

We invest in high-quality financial instruments, primarily money market funds, bank deposits, federal agency notes, corporate debt securities and U.S. treasury notes, with an effective duration of generally less than three 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 U.S. dollars. Fluctuations in foreign currency exchange rates could materially increase the operating costs of our facilities in the Netherlands and France, which are Euro denominated. A 10 percent increase or decrease in the Euro to U.S. dollar spot exchange rate would result in a change of $414,518 and $546,000 to our net asset position at September 30, 2008 and December 31, 2007, respectively. In addition, certain of our contracts are denominated in foreign currency. We believe that any adverse fluctuation in the foreign currency markets relating to these contracts will not result in any material adverse effect on our financial condition or results of operations. In the event we derive a greater portion of our service revenues from international operations, factors associated with international operations, including changes in foreign currency exchange rates, could affect our results of operations and financial condition.

We hedge our foreign currency exposure when and as appropriate to mitigate the adverse impact of fluctuating exchange rates. Our foreign currency financial assets and liabilities primarily consist of cash, trade receivables, prepaid expenses, fixed assets, trade payables and accrued expenses. We were in a net asset position at September 30, 2008 and December 31, 2007. 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 4T. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures.* We evaluated, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 ( Exchange Act ), as amended) as of September 30, 2008, the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, 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 were effective at September 30, 2008. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and were operating in an effective manner for the period covered by this report, and (ii) is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures

Table of Contents

*Changes in internal control over financial reporting*. There was no change in our internal controls over financial reporting that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION.

**Item 1. Legal Proceedings.**

None.

**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.

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

Table of Contents

***The current economic downturn coupled with the current regulatory environment could have a negative impact on the pharmaceutical, biotechnology and medical device industrieis.***

The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. Our revenues are contingent upon the research and development expenditures by pharmaceutical, biotechnology and medical device companies. Recently, companies in these industries have found it difficult to raise capital in the equity and debt markets or through traditional credit markets to fund research and development. In addition, the increase regulatory environment from the FDA have increased the costs of research and development for these companies. Accordingly, these companies have recently cut costs in response to the economic downturn and increased regulatory environment, including, canceling current clinical trials and not pursuing additional clinical trials, which may reduce the need for our services. As a result, our revenues will be similarly decreased. Furthermore, while our revenues may decrease, our costs may remain fixed, resulting in decreased earnings.

***The current economic downturn may harm our business.***

The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. The fallen equity markets and adverse credit markets may make it difficult for us to raise capital or borrow credit in the future to fund the growth of our business, which could have a negate impact on our business and results of operations.

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

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

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

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

clients reduce their research and development expenditures.

No one client accounted for more than 10% of our service revenue for the nine months ended September 30, 2008. One client, Hoffmann-LaRoche, encompassing nine projects represented 11.1% of our service revenues for the nine months ended September 30, 2007. 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 $101.7 million at September 30, 2008 is based on anticipated service revenue from uncompleted projects with clients. Backlog is the expected service revenue that remains to be earned and recognized on signed and verbally agreed to contracts. Contracts included in backlog are subject to termination by our clients at any time. In the event that a client cancels a contract, we would be entitled to receive payment for all services performed up to the cancellation date and subsequent client authorized services related to the cancellation of the project. The duration of the projects included in our backlog range from less than three months to seven years. We cannot assure that this backlog will be indicative of future results. A number of factors may affect backlog, including:

Table of Contents

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

the loss or delay of projects;

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

the cancellation of such contracts by our clients.

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

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

Our business has expanded substantially in the past. Our continuing sales and marketing efforts have resulted in increased revenues. In addition, we acquired Phoenix Data Systems in March 2008, Theralys in February 2007, HeartCore in December 2004 and CapMed in November 2003.

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

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

continue to improve operating, administrative and information systems;

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

successfully integrate our acquired companies and businesses;

track the progress of on-going client projects; and

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

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

assimilate differences in foreign business practices and regulations;

hire and retain qualified personnel; and

overcome language and cultural barriers.

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

We recently acquired PDS and 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. Either as a result of the acquisition of PDS or future acquisitions undertaken, the process of integrating the 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 such acquisition. Such 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.

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

Table of Contents

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 third quarter of 2008, a portion of our service revenues were denominated in foreign currency. Our financial statements are denominated in United States dollars. In the event a greater portion of our service revenues are denominated in a foreign currency, changes in foreign currency exchange rates could affect our results of operations and financial condition. Fluctuations in foreign currency exchange rates could materially impact the operating costs of our European facility in Leiden, the Netherlands, which are primarily Euro denominated.

***Our investments may be exposed to credit risk.***

Financial instruments that potentially subject us to significant credit risk consist principally of cash. As part of our risk management processes, we continuously evaluate the relative credit standing of all of the financial institutions that service us and monitor actual exposures versus established limits. We have not sustained credit losses from instruments held at financial institutions. We maintain cash and cash equivalents, comprised of savings accounts, short-term certificate of deposits and money market funds with various financial institutions. These financial institutions are generally highly rated and the company has a policy to limit the dollar amount of credit exposure with any one institution.

***We may be required to record additional significant charges to earnings if our goodwill becomes impaired.***

Under accounting principles generally accepted in the United States, we review our goodwill for impairment each year as of December 31 and when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of our goodwill may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, a significant decline in our stock price and/or market capitalization may result in goodwill impairment. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill is determined to exist, which may negatively impact our results of operations.

**Risks Related to Our Industry**

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

Table of Contents

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.

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

Table of Contents

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 for the three months ended September 30, 2008 of $765,000 and a loss of $1.9 million for the nine months ended September 30, 2008. If our CapMed division continues to incur such losses, our business, results of operations and financial condition will be materially adversely affected. As a result, we continually evaluate all strategic alternatives for this division in order to maximize shareholder value.

***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

Table of Contents

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 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 September 30, 2008, we had the following capital structure (in thousands):

| | |
|---|---|
| Common stock outstanding | 14,339 |
| Common stock issuable upon: | |
| Exercise of options which are outstanding | 1,721 |
| Exercise of options which have not been granted | 1,081 |
| Total common stock outstanding assuming exercise or conversion of all of the above | 17,141 |

As of September 30, 2008, we had outstanding options to purchase 1.7 million shares of common stock at exercise prices ranging from $0.63 to $8.06 per share (exercisable at a weighted average of $4.57 per share), of which 1.2 million options were then exercisable. Exercise of our outstanding options into shares of our common stock may significantly and negatively affect the market price for our common stock as well as decrease your percentage ownership and voting power. In addition, we may conduct future offerings of our common stock or other securities with rights to convert the securities into shares of our common stock. As a result of these and other events, such as future acquisitions, that increase the number of our outstanding shares, your percentage ownership and voting power and the price of our common stock may decrease.

***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

Table of Contents

price of our common stock. As of September 30, 2008, we had 14.3 million shares of our common stock issued and outstanding, all of which are currently freely tradable. In addition, the sale of a significant number of shares of our common stock in the public market following the effectiveness of the registration statement we recently filed to register shares issued in connection with our acquisition of PDS could harm the market price of our common stock. As additional shares of common stock become available for resale in the public market pursuant to the registration statement and releases of lock-up agreements, the market supply of shares of common stock will increase, which could also decrease its market price.

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

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

Our directors, officers and principal stockholders (stockholders owning 10% or more of our common stock), including Covance Inc., beneficially owned 20% of the outstanding shares of common stock and stock options that could have been converted to common stock at September 30, 2008, 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;

analysts reports;

market conditions in the industry;

changes in governmental regulations; and

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

The overall market (including the market for our common stock) has also experienced significant

Table of Contents

decreases in value in the past. This volatility and potential market decline could affect the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. Between January 1, 2008 and September 30, 2008, our common stock has traded at a low of $6.18 per share and a high of $8.98 per share.

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

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

We have an authorized class of 3,000,000 shares of undesignated preferred stock, of which 1,250,000 shares were previously issued and converted to common stock. The remaining 1,750,000 shares may be issued by our board of directors, on such terms and with such rights, preferences and designation as the board of directors 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Table of Contents**

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).

**Table of Contents**

SIGNATURES

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

BIO-IMAGING TECHNOLOGIES, INC.

DATE: November 7, 2008

By: /s/ Mark L. Weinstein

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

DATE: November 7, 2008

By: / Ted I. Kaminer
/s

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

-42-