BIO IMAGING TECHNOLOGIES INC
Form 10QSB
November 06, 2002

QuickLinks -- Click here to rapidly navigate through this document

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2002

Commission File No. 1-11182

BIO-IMAGING TECHNOLOGIES, INC.

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

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

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

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

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

Yes ý No o

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

Class	Number of Shares
Common Stock, $0.00025 par value	8,418,903

Transitional Small Business Disclosure Format (check one):

Yes o No ý

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

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

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

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

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

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

See Notes to Consolidated Financial Statements

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

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

See Notes to Consolidated Financial Statements

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

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

See Notes to Consolidated Financial Statements

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

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

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

See Notes to Consolidated Financial Statements

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Basis of Presentation:

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

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

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

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

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

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

In addition, the Emerging Issues Task Force recently issued accounting pronouncement EITF 01-14, which states that fees reimbursed by customers on a pass-through basis, should be recorded as revenue. Historically, the Company had offset such reimbursements against the

related expenses. The consolidated statements of income for the nine months and three months ended September 30, 2001 have been reclassified to conform to the current year's presentation.

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

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

Note 2 Earnings Per Share:

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

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

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

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

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 3 Long-term Debt:

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

Note 4 Recent Acquisition:

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

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

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

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

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

calculated by dividing the outstanding principal balance of the Note, plus all accrued and unpaid interest thereon, by the greater of: (i) 75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to the date of conversion; or (ii) $0.906 per share. At September 30, 2002, the Note would have been convertible into approximately 592,282 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance ($875,000 as of September 30, 2002) plus accrued interest (approximately $7,500 as of September 30, 2002), totaling $882,500, by $1.49 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to September 30, 2002).

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

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

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

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

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

	Nine Months Ended September 30, 2001		Three Months Ended September 30, 2001	
Revenues	$	12,505,015	$	4,548,117
Net income	$	760,507	$	532,078
Basic earnings per common share	$	.09	$	.06
Diluted earnings per common share	$	.09	$	.06

BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 5 Recently Issued Accounting Standards:

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

Note 6 Income Tax Provision:

The Company's income tax provision of $156,514 relates to estimated state income taxes. The Company has no remaining net operating loss carry forwards in the Commonwealth of Pennsylvania. During the nine months ended September 30, 2002, the federal income tax provision has been offset by a reduction in the Company's valuation allowance of approximately $340,000. Management has determined that it is more likely than not that a portion of the Company's Federal net operating loss carryforwards will be realized in the future. The determination took into account that the Company has been profitable for the last nine quarters and the Company's 2002 budget. The Company has approximately $4,400,000 of Federal net operating loss carryforwards as of September 30, 2002. The deferred tax asset of $417,000 at September 30, 2002 has been recorded net of a valuation allowance of approximately $1,600,000.

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

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

Overview

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

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

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

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

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

The number of shares of common stock into which the Note may be converted is calculated by dividing the outstanding principal balance of the Note, plus all accrued and unpaid interest thereon, by the greater of: (i) 75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to the date of conversion; or (ii) $0.906 per share. At September 30, 2002, the Note would have been convertible into approximately 592,282 shares of the Company's common stock. This was calculated by dividing the unpaid principal balance ($875,000 as of September 30, 2002) plus accrued interest (approximately $7,500 as of September 30, 2002), totaling $882,500, by $1.49 (75% of the average closing price of the Company's common stock over the ten consecutive trading days ending prior to September 30, 2002).

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

The Company's sales cycle (the period from the presentation by the Company to a potential client to the engagement of the Company by such client) has historically been 12 months but is shortening as the awareness of these services increases and regulatory guidelines become better defined. In addition, the contracts under which the Company performs services typically cover a period of 12 to 60 months and the volume and type of services performed by the Company generally vary during the course of a project. No assurance can be made that the Company's project revenues will remain at levels sufficient to maintain profitability. Service revenues were generated from 65 clients encompassing 173 distinct projects for the nine months ended September 30, 2002. This compares to 49 clients encompassing 101 distinct projects for the nine months ended September 30, 2001. This represents an increase of 32.7% in clients and

71.3% in projects for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001. The Company's contracted/committed backlog was approximately $33,137,000 as of September 30, 2002. This compares to approximately $20,972,000 as of September 30, 2001, an increase of 58.0%. Contracted/committed backlog is the amount of service revenue that remains to be earned and recognized on both signed and agreed to contracts. Such contracts are subject to termination by the Company's clients at any time. In the event that a contract is cancelled by the client, the Company would be entitled to receive payment for all services performed up to the cancellation date.

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

Certain matters discussed in this Form 10-QSB are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, the Company's statements regarding the integration of Intelligent Imaging into the Company, the demand for the Company's services and technologies, growing recognition for the use of independent centralized core laboratories, trends toward the outsourcing of imaging services in clinical trials, realized return from the Company's marketing efforts and increased use of digital medical images in clinical trials are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the variability in size, scope and duration of projects, estimates made by management with respect to the Company's critical accounting policies, regulatory delays, clinical study results which lead to reductions or cancellations of projects, and other factors, including general economic conditions and regulatory developments, not within the Company's control. The factors discussed herein and expressed from time to time in the Company's filings with the Securities and Exchange Commission could cause actual results and developments to be

materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Results of Operations

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

Nine months ended September 30, 2002 and 2001

	Nine Months Ended September 30, 2002	% of Total Revenue	Nine Months Ended September 30, 2001	% of Total Revenue	$ Change	% Change
Service revenues	$ 12,625,857		$ 6,979,677		$ 5,646,180	80.9%
Reimbursement revenues	$					