BIO IMAGING TECHNOLOGIES INC
Form 10-Q
November 14, 2005
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2005

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File No. 1-11182

BIO-IMAGING TECHNOLOGIES, INC.

(Exact Name of Issuer as Specified in Its Charter)

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

826 Newtown-Yardley Road, Newtown, Pennsylvania 18940-1721

(Address of Principal Executive Offices)

(267) 757-3000

(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: x No: ¨

Check whether the Issuer is an accelerated filer (as described in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes: ¨ No: x

Check whether the Issuer is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes: ¨ No: x

State the number of shares outstanding of each of the Issuer s classes of common stock, as of October 31, 2005:

Class	Number of Shares
Common Stock, $0.00025 par value	11,155,620

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements.

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

Certain information and footnote disclosures required under generally accepted accounting principles in the United States of America have been condensed or omitted from the following condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission, although we believe that such financial disclosures are adequate so that the information presented is not misleading in any material respect. The following condensed consolidated financial statements should be read in conjunction with the year-end condensed consolidated financial statements and notes thereto included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.

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

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,801,839	$ 9,650,140
Accounts receivable, net	6,150,727	7,957,736
Prepaid expenses and other current assets	981,928	889,208
Deferred income taxes	462,200	1,551,916
Total current assets	17,396,694	20,049,000
Property and equipment, net	5,214,559	5,101,569
Intangibles and goodwill	2,653,366	2,905,025
Deferred income taxes	1,916,627	
Other assets	361,315	318,220
Total assets	$ 27,542,561	$ 28,373,814
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,115,749	$ 1,269,855
Accrued expenses and other current liabilities	1,532,658	1,859,022
Deferred revenue	4,704,130	3,076,630
Current maturities of capital lease obligations	883,190	722,086
Total current liabilities	9,235,727	6,927,593
Long-term capital lease obligations	653,784	906,922
Deferred income taxes		889,976
Other liability	201,784	131,681
Total liabilities	10,091,295	8,856,172
Commitments and Contingencies		
Stockholders equity:		
Preferred stock- $.00025 par value; authorized 3,000,000 shares, 0 issued and outstanding at September 30, 2005 and at December 31, 2004		
Common stock - $.00025 par value; authorized 18,000,000 shares, issued and outstanding 11,155,320 shares at September 30, 2005 and 11,027,320 shares at December 31, 2004	2,789	2,757
Additional paid-in capital	22,227,268	22,016,231
Accumulated deficit	(4,741,673)	(2,501,346)
Accumulated other comprehensive loss	(37,118)	
Stockholders equity	17,451,266	19,517,642

Total liabilities and stockholders equity	$ 27,542,561	$ 28,373,814

See Notes to Condensed Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Nine Months Ended September 30,	
	2005	**2004**
Service revenues	$ 17,020,783	$ 18,987,530
Reimbursement revenues	4,791,040	3,336,044
Total revenues	21,811,823	22,323,574
Cost and expenses:		
Cost of revenues	18,382,610	14,694,289
General and administrative expenses	3,698,660	3,284,646
Sales and marketing expenses	3,508,565	2,262,938
Total cost and expenses	25,589,835	20,241,873
(Loss) Income from operations	(3,778,012)	2,081,701
Interest income	128,419	112,844
Interest expense	(84,286)	(106,555)
(Loss) Income before income tax (benefit) provision	(3,733,879)	2,087,990
Income tax (benefit) provision	(1,493,552)	846,332
Net (loss) income	$ (2,240,327)	$ 1,241,658
Basic (loss) earnings per common share	$ (0.20)	$ 0.12
Weighted average number of common shares	11,100,261	10,789,760
Diluted (loss) earnings per common share	$ (0.20)	$ 0.10
Weighted average number of common shares and dilutive common equivalent shares	11,100,261	12,256,529

See Notes to Condensed Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Three Months Ended September 30,	
	2005	2004
Service revenues	$ 6,042,382	$ 6,547,281
Reimbursement revenues	1,708,000	1,231,585
Total revenues	7,750,382	7,778,866
Cost and expenses:		
Cost of revenues	6,208,387	5,231,944
General and administrative expenses	1,229,609	1,067,226
Sales and marketing expenses	1,196,256	759,456
Total cost and expenses	8,634,252	7,058,626
(Loss) income from operations	(883,870)	720,240
Interest income	50,213	26,293
Interest expense	(21,621)	(28,957)
(Loss) income before income tax provision	(855,278)	717,576
Income tax (benefit) provision	(325,315)	287,784
Net (loss) income	$ (529,963)	$ 429,792
Basic (loss) earnings per common share	$ (0.05)	$ 0.04
Weighted average number of common shares	11,146,059	10,824,041
Diluted (loss) earnings per common share	$ (0.05)	$ 0.04
Weighted average number of common shares and dilutive common equivalent shares	11,146,059	12,154,820

See Notes to Condensed Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	For the Nine Months Ended September 30,	
	2005	**2004**
Cash flows from operating activities:		
Net (loss) income	$ (2,240,327)	$ 1,241,658
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,662,814	1,300,001
Provision for deferred income taxes	(1,575,883)	671,759
Bad debt (recovery) provision	(10,781)	12,588
Sales leaseback deferred gains	14,683	
Stock based compensation expense	1,142	10,278
Loss on foreign currency options	13,800	
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,817,790	(2,575,227)
Increase in prepaid expenses and other current assets	(62,849)	(418,615)
(Increase) decrease in other assets	(43,095)	52,903
Increase in accounts payable	845,894	110,689
Decrease in accrued expenses and other current liabilities	(340,340)	(455,697)
Increase in deferred revenue	1,627,500	203,391
Increase (decrease) in other liabilities	70,103	(26,838)
Net cash provided by operating activities	1,780,451	126,890
Cash flows from investing activities:		
Purchases of property and equipment	(1,522,310)	(1,184,212)
Net cash used in investing activities	(1,522,310)	(1,184,212)
Cash flows from financing activities:		
Payments under equipment lease obligations	(598,906)	(486,841)
Payments under promissory note		(125,001)
Premium paid for foreign currency options	(97,307)	
Proceeds from sales leaseback	506,872	672,102
Proceeds from exercise of stock options	82,899	108,531
Net cash (used in) provided by financing activities	(106,442)	168,791
Net increase (decrease) in cash and cash equivalents	151,699	(888,531)
Cash and cash equivalents at beginning of period	9,650,140	13,289,453
Cash and cash equivalents at end of period	$ 9,801,839	$ 12,400,922

See Notes to Condensed Consolidated Financial Statements

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 - Interim Financial Statements:

Basis of Presentation.

The financial statements included in this Form 10-Q have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-KSB for the year ended December 31, 2004.

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

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

Bio-Imaging, at the request of our clients, may directly pay the independent radiologist who reviews our client s imaging data. These costs are passed directly to our clients and are included in Reimbursement Revenue and Cost of Revenues. Amounts for such reimbursements were immaterial in prior years and have been reclassified from Cost of Revenues to Reimbursement Revenues in our Consolidated Statements of Operations for the three months and nine months ended September 30, 2004 to conform with the current year presentation. This reclassification had no effect on income from operations, net income, cash flows or the balance sheets.

Recent Accounting Pronouncements.

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections . SFAS No. 154 replaces Accounting Principles Board (APB) No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and establishes retrospective application as the required method for reporting a change in accounting principle. SFAS No. 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

December 15, 2005. We do not anticipate that the adoption of SFAS No. 154 will have a material impact on our consolidated balance sheet, statements of operations or shareholders equity.

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123(R) (FAS 123(R)), *Share-Based Payment*. FAS 123(R) revises FASB Statement No. 123 (FAS 123), *Accounting for Stock-Based Compensation*. Also, FAS 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. In April 2005, the Securities and Exchange Commission extended the effectiveness deadline. For public companies, FAS 123(R) is now effective for annual periods beginning after June 15, 2005.

FAS 123(R) requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. Specifically, FAS 123(R) requires companies to (i) use fair value to measure stock-based compensation awards and (ii) cease using the intrinsic value method of accounting under APB 25 that resulted in no expense for many awards of stock options for which the exercise price of the option equaled the price of the underlying stock at the grant date. In addition, FAS 123(R) retains the modified grant date model from FAS 123 in that compensation cost is measured at the grant date fair value of the award and adjusted to reflect actual forfeitures and the outcome of certain conditions. The fair value of an award is not re-measured after its initial estimation on the grant date, except in certain cases. FAS 123(R) s transition provisions provide a number of alternatives to address implementation issues and to increase the comparability of compensation cost.

We expect to adopt the Modified Prospective Application (MPA) method, without restatement of prior interim periods on January 1, 2006. Under the MPA method without restatement approach, we would recognize compensation cost for (1) awards that were granted or modified after the fiscal year beginning after December 15, 1994, (2) any portion of awards that have not vested by January 1, 2006, and (3) any outstanding liability awards. Compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding at January 1, 2006, will be recognized using the measurement data and attribution method used in our FAS 123 pro forma disclosures as those services are received after January 1, 2006.

FAS 123(R) also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated because they depend on when the employees exercise stock options, among other things.

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We are currently assessing the impact of FAS 123(R) on our 2005 financial statements and believe that this will have a material affect on our results of operations.

We have undergone a study of our stock-based compensation plans in anticipation of the adoption of FAS 123(R) and recent changes in tax laws with regard to deferred compensation. Currently, we do not anticipate a change in our current compensation strategy or structure, but continue to look for ways to compensate individuals via avenues that align the interests of individuals with the interests of shareholders through ownership of company stock.

Note 2 - Stock-Based Compensation:

At September 30, 2005, we have one stock-based employee compensation plan. We account for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and Related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan as of September 30, 2005 had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant. However, we have recorded stock-based compensation expense for restricted shares granted to one of our executives. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148 Accounting for Stock-Based Compensation Transition and Disclosure, to account for stock-based employee compensation.

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net (loss) income, as reported	($ 2,240,327)	$ 1,241,658	$ (529,963)	$ 429,792
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	689	6,167	689	2,056
Deduct: Total stock-based Employee compensation determined under fair value based method for all awards, net of related tax effects	(196,878)	(329,496)	(65,626)	(109,832)
Pro forma net income	($ 2,436,516)	$ 918,329	($594,900)	$ 322,016
Earnings per share:				
Basic-as reported	$ (0.20)	$ 0.12	$ (0.05)	$ 0.04
Basic-pro forma	$ (0.22)	$ 0.09	$ (0.05)	$ 0.03
Diluted-as reported	$ (0.20)	$ 0.10	$ (0.05)	$ 0.04
Diluted-pro forma	$ (0.22)	$ 0.08	$ (0.05)	$ 0.03

On January 31, 2005, we issued 30,000 shares of Common Stock to an executive officer pursuant to his employment agreement dated February 1, 2002. We recorded $1,142 and $10,278 of stock based compensation expense during the nine months ended September 30, 2005 and 2004, respectively. We recorded $0 and $3,426 of stock based compensation expense during the three months ended September 30, 2005 and 2004, respectively.

Note 3 - Earnings Per Share:

Basic (loss) earnings per common share for the three months ended September 30, 2005 and 2004 was calculated based upon net (loss) income divided by the weighted average number of shares of our common stock, $0.00025 par value, outstanding during the period. Diluted

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

earnings per share for the three and nine months ended September 30, 2004 was calculated based upon net income divided by the weighted average number of shares of our common stock outstanding during the period, adjusted for dilutive securities using the treasury method. Diluted loss per common share for the three and nine months ended September 30, 2005 exclude the impact of outstanding stock options as their inclusion would be antidilutive.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004	2005	2004
Net (loss) income basic	($2,240,327)	$ 1,241,658	($529,963)	$ 429,792
Interest expense on convertible note		24,897		11,516
Net (loss) income diluted	($2,240,327)	$ 1,266,555	($529,963)	$ 441,308
Denominator basic:				
Weighted average number of common shares	11,100,261	10,789,760	11,146,059	10,824,041
Basic earnings per common	($0.20)	$ 0.12	($0.05)	$ 0.04
Denominator diluted:				
Weighted average number of common shares	11,100,261	10,789,760	11,146,059	10,824,041
Other potential common stock of outstanding stock options		1,318,086		1,181,969
Other potential common stock related to the convertible promissory note		148,683		148,810
Weighted average number of common shares and other potential common stock	11,100,261	12,256,529	11,146,059	12,154,820
Diluted (loss) earnings per common share	($0.20)	$ 0.10	($0.05)	$ 0.04

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As of September 30, 2005 and 2004, options to purchase 1,846,475 and 206,100 shares, respectively, of our common stock have been excluded from the calculation of diluted earnings per common share as they were all antidilutive.

Note 4 - Debt:

On May 17, 2005, we renewed and amended our agreement with Wachovia Bank, National Association. The renewed and amended agreement is for an unsecured committed line of credit of $5,000,000. Interest is payable at the LIBOR Market Index Rate plus 2.0%. The agreement requires us, among other things, to maintain certain financial covenants. The committed line of credit matures June 30, 2006 and may be renewed on an annual basis. At September 30, 2005, we had no borrowings under the committed line of credit and are compliant with the financial covenants.

On June 1, 2005, we entered into a $506,872 sale-leaseback transaction whereby we sold and leased back computer equipment and furniture. The resulting lease is being accounted for as a capital lease. There was a gain on the sale in the amount of $16,518 which is being deferred and amortized over the life of the lease. The lease term is for 3 years with an interest rate of 6.1%. During the nine months ended September 30, 2005, we amortized $1,835 of this gain to our operational costs.

Note 5 - Commitments and Contingencies:

On March 28, 2005 and upon recommendation of the Compensation Committee, we executed an employment agreement with our President and Chief Executive Officer for a two-year period, beginning as of February 1, 2005 and ending on February 28, 2007. Prior to or on February 28, 2006, the Board of Directors, in its sole discretion, may extend the employment period until February 28, 2008. The aggregate amount due under this agreement is $410,833.

Note 6 - Business Segments

FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, requires companies to provide certain information about their operating segments. In November 2003, we acquired the intellectual property of CapMed Corporation. Accordingly, we now have two operating segments: pharmaceutical contract services and the CapMed division. Our pharmaceutical contract service segment provides services that support the product development process of the pharmaceutical, biotechnology and medical device industries. Our CapMed segment offers a software application that enables users to manage and store personal

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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.

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

	Pharmaceutical Contract Services	CapMed Division	Consolidated Total
For the nine months ended September 30, 2005			
Total revenues	$ 21,502,930	$ 308,893	$ 21,811,823
Total cost and expenses	$ 24,510,141	$ 1,079,694	$ 25,589,835
Loss from operations	($3,007,211)	($770,801)	($3,778,012)
For the nine months ended September 30, 2004			
Total revenues	$ 22,301,618	$ 21,956	$ 22,323,574
Total cost and expenses	$ 19,501,147	$ 740,726	$ 20,241,873
Income (loss) from operations	$ 2,800,471	($718,770)	$ 2,081,701
For the three months ended September 30, 2005			
Total revenues	$ 7,665,603	$ 84,779	$ 7,750,382
Total cost and expenses	$ 8,278,400	$ 355,852	$ 8,634,252
Loss from operations	($612,797)	($271,073)	($883,870)
For the three months ended September 30, 2004			
Total revenues	$ 7,763,524	$ 15,342	$ 7,778,866
Total cost and expenses	$ 6,739,950	$ 318,676	$ 7,058,626
Income (loss) from operations	$ 1,023,574	($303,334)	$ 720,240
Segment assets at September 30, 2005	$ 26,582,466	$ 960,095	$ 27,542,561
Segment assets at September 30, 2004	$ 26,330,726	$ 915,258	$ 27,245,984

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Our foreign customers accounted for approximately 25% and 9% of service revenues for the nine months ended September 30, 2005 and 2004, respectively. For the three months ended September 30, 2005 and 2004, our foreign customers accounted for approximately 23% and 0% of service revenues, respectively.

Note 7 - Accounts Receivable and Allowance for Doubtful Accounts

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

	September 30, 2005	December 31, 2004
Billed trade accounts receivable	4,595,477	3,718,465
Unbilled trade accounts receivable	1,550,602	4,252,845
Other receivables	7,943	593
Total Receivables	6,154,022	7,971,903
Allowance Rollforward:		
Balance at January 1, 2005	14,167	
Additions		
Write offs (net of recoveries)	(10,872)	
Balance at September 30, 2005	3,295	

Note 8 - Income Taxes

We record a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized. In assessing the need for the valuation allowance, we consider our future taxable income and on-going prudent and feasible tax planning strategies. In the event that we were to determine that, in the future, we would be able to realize our deferred tax assets in excess of its net recorded amount, an adjustment to the deferred tax asset would be made, thereby increasing net income in the period such determination was made. Likewise, should we determine that it is more likely than not that we will be unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged, thereby decreasing net income in the period such determination was made.

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We have accumulated tax losses, which include allowable deductions related to exercised employee stock options, generating federal and state net operating loss (NOL) credit carryforwards of $6.6 million as of September 30, 2005. Due to ownership changes that have occurred in prior years, we have estimated that $1.1 million of our current federal net operating loss will likely expire unused due to Internal Revenue Code Section 382 limitations. Our current and long-term deferred tax assets are comprised of the NOL credit carryforwards with a tax effected value of $2,378,827 as of September 30, 2005. Generally accepted accounting principles require that we establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not we will be unable to utilize the asset to offset future taxes. We will continue to evaluate the potential use of our deferred tax assets and the need for a valuation allowance by considering our future taxable income and our on-going prudent and feasible tax planning strategies. Subsequent revisions to the estimated realizable value of our deferred tax assets could cause our provision for income taxes to vary significantly from period to period, although our cash tax payments would remain unaffected until our NOL credit carryforward is fully utilized or has expired.

We recognize contingent liabilities for any tax related exposures when those exposures are both probable and estimable. At September 30, 2005, we have determined that there is sufficient future taxable income to more likely than not utilize the unlimited net operating loss carryforward at September 30, 2005.

Note 9 - Derivatives and Other Hedging Instruments

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

In accordance with our current foreign exchange rate risk management policy, during the nine months ended September 30, 2005, we purchased sixteen monthly Euro call options in the amount of 250,000 Euros each and one 200,000 Euro call option for anticipated additional costs

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BIO-IMAGING TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

in May, 2006, with the first expiration on July 27, 2005 and the last expiration on September 21, 2006 with a strike price ranging from $1.26 to $1.27 to hedge against the exposure to variability in our cash flows due to the Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $97,307 for the options and at September 30, 2005 have recorded an Accumulated Other Comprehensive Loss of $37,118 in the stockholders equity section of the Balance Sheet due to changes in the value of this derivative. During the nine and three months ended September 30, 2005, we recognized a loss in our Consolidated Statement of Operations of $13,600.

Upon expiration or ineffectiveness of the derivative, we will record a gain or loss from the derivative that is deferred in stockholders equity to cost of revenues and general and administrative expenses in the Consolidated Statement of Operations based on the nature of the underlying cash flow hedged.

Note 10 - Subsequent Event

On November 9, 2005, the Compensation Committee of the Board of Directors of Bio-Imaging Technologies, Inc. (the Company) recommended, and the Company s Board of Directors approved, the acceleration of vesting of all out-of-the-money unvested options to purchase shares of common stock of the Company with an exercise price greater than $7.00 held by current employees and executive officers of the Company (but excluding any options granted to members of the Company s Board of Directors). These options were previously awarded to employees of the Company on February 4, 2004, pursuant to the 2002 Stock Incentive Plan, and would still have been unvested at January 1, 2006. Options to purchase 107,691 shares of common stock are subject to this acceleration. The exercise price per share for these options was $7.03, while the closing price per share on November 9, 2005 was $2.25.

The following table summarizes the options subject to acceleration:

	Aggregate Number of Shares Issuable Under Accelerated Options	Exercise Price Per Share	Date of Grant
Employees as a group (other than executive officers)	69,722	$ 7.03	February 4, 2004
Executive officers as a group	37,969	$ 7.03	February 4, 2004

The acceleration of vesting of these out-of-the money options is being undertaken primarily to eliminate any future compensation expense the Company would otherwise recognize in its income statement with respect to these options with the implementation of the Financial Accounting Standard Board (FASB) statement Share-Based Payment (FAS 123R) effective for the Company on January 1, 2006.

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

Overview

Pharmaceutical Contract Services

We are a global pharmaceutical contract service organization, providing services that support the product development process of the pharmaceutical, biotechnology and medical device industries. We specialize in assisting our clients in the design and management of the medical imaging component of clinical trials for all modalities, which consist of computerized tomography (CT), magnetic resonance imaging (MRI), x-rays, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA) and ultrasound. We provide services that include the processing and analysis of medical images and the data-basing and regulatory submission of medical images, quantitative data and text. We also offer a service called Bio-Imaging ET&C^{SM}, which focuses on education, training and certification for medical imaging equipment, facilities and staff.

Our sales cycle, referring to the period from the presentation by us to a potential client to the engagement of us by such client, has historically been approximately 12 months. In addition, the contracts under which we perform services typically cover a period of 12 to 60 months and the volume and type of services performed by us generally vary during the course of a project. We cannot assure you that our project revenues will be at levels sufficient to achieve profitability. Service revenues were generated from 103 clients encompassing 233 distinct projects for the nine months ended September 30, 2005. This compares to 78 clients encompassing 191 distinct projects for the nine months ended September 30, 2004.

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 $55.2 million as of September 30, 2005. This compares to $46.5 million as of September 30, 2004 and $38.5 million as of December 31, 2004. Contracts included in backlog are subject to termination by our clients at any time. In the event that a contract is cancelled by the client, we would be entitled to receive payment for all services performed up to the cancellation date. The duration of the projects included in our backlog range from less than 3 months to 5 years. We believe that our backlog assists our management as a general indicator of our long-term business. However, we do not believe that backlog is a reliable predictor of near-term results because service revenues may be incurred in a given period on contracts that were not included in the previous reporting period s backlog and/or contract cancellations or project delays may occur in a given period on contracts that were included in the previous reporting period s backlog.

We believe that demand for our services and technologies will continue to grow as the use of digital technologies for data acquisition and management increases in the radiology and drug development communities. We also believe that there is a growing recognition within the bio-pharmaceutical industry of the advantages in using an independent centralized core

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laboratory for analysis of medical-imaging data and compliance with the regulatory demands for the submission of such data. In addition, the FDA is gaining experience with electronic submissions and is continuing to develop sophisticated guidelines for computerized submission of clinical trial data, including medical images. Furthermore, we believe that the increased use of digital medical images in clinical trials, especially for important drug classes such as anti-inflammatory, neurologic and oncologic therapeutics and diagnostic image agents, generate large amounts of image data from a large number of imaging sources. These studies require processing, analysis, data management and submission services best handled by vendors with scalable logistical capabilities and extensive experience working with research facilities worldwide. Due to several factors, including, without limitation, competition from commercial competitors and academic research centers and the risk of project cancellations, slowing of patient enrollment in on-going studies or delay of future project awards, among others, we cannot assure you that demand for our services and technologies will grow, sustain growth, or that additional revenue generating opportunities will be realized by us.

CapMed Division

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

We intend to expand our CapMed division through partnerships and marketing efforts devoted to the PHR and Personal HealthKey products. We believe that continued emphasis on improving patient care and reducing cost will contribute to the growth of the personal electronic medical records market.

Certain matters discussed in this Form 10-Q are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes, expects, may, will, should, or anticipates or the negative thereof or other variations thereon comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding the demand for our services and technologies, growing recognition for the use of independent centralized core laboratories, trends toward the outsourcing of imaging services in clinical trials, realized return from our marketing efforts, increased use of digital medical images in clinical trials, integration of our acquired companies and businesses, expansion into new business segments and the level of our backlog are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, the timing of revenues due to the variability in size, scope and duration of projects, estimates made by management with respect to our critical accounting policies, regulatory delays, clinical study

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results which lead to reductions or cancellations of projects, and other factors, including general economic conditions and regulatory developments, not within our control. The factors discussed in this Form 10-Q and expressed from time to time in our filings with the Securities and Exchange Commission, as well as the risk factors set forth in our most recent Form 10-KSB, 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.

Results of Operations

Nine Months Ended September 30, 2005 and 2004

	Nine Months Ended September 30, 2005	% of Total Revenue	Nine Months Ended September 30, 2004	% of Total Revenue	$ Change	% Change
Service revenues	$ 17,020,783	78.0%	$ 18,987,530	85.1%	($1,966,747)	(10.4%)
Reimbursement revenues	4,791,040	22.0%	3,336,044	14.9%	1,454,996	43.6%
Total revenues	21,811,823	100.0%	22,323,574	100.0%	(511,751)	(2.3%)
Cost of revenues	18,382,610	84.3%	14,694,289	65.8%	3,688,321	25.1%
General and administrative expenses	3,698,660	17.0%	3,284,646	14.7%	414,014	12.6%
Sales and marketing expenses	3,508,565	16.1%	2,262,938	10.1%	1,245,627	55.0%
Total cost and expenses	25,589,835	117.3%	20,241,873	90.6%	5,347,962	26.4%
Interest (expense) income - net	44,133	0.2%	6,289	0.0%	37,844	601.7%
(Loss) income before income tax (benefit) provision	(3,733,879)	(17.1%)	2,087,990	9.4%	(5,821,869)	(278.8%)
Income tax (benefit) provision	(1,493,552)	(6.8%)	846,332	3.8%	(2,339,884)	(276.5%)
Net (loss) income	($2,240,327)	(10.3%)	$ 1,241,658	5.6%	($3,481,985)	(280.4%)

Service revenues for the nine months ended September 30, 2005 and 2004 were $17,020,783 and $18,987,530, respectively, a decrease of $1,966,747 or 10.4%. The decrease in service revenues was due to a significantly higher than historical norm cancellation rate in the fourth quarter of fiscal 2004 which resulted in a loss of revenue from anticipated projects for the nine months ended September 30, 2005. Our backlog at September 30, 2005 increased to $55.2

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million from $38.5 million at December 31, 2004, an increase of 43.4%. This compares to $46.5 million at September 30, 2004, an increase of 18.7%. We believe this increase in backlog is an indicator that the overall market growth for medical-imaging related services for clinical trials continues to be positive, subject to project cancellations, slowing of patient enrollment in on-going studies and delays of future project awards.

Service revenues were generated from 103 clients encompassing 233 distinct projects for the nine months ended September 30, 2005. This compares to 78 clients encompassing 191 distinct projects for the nine months ended September 30, 2004. No client accounted for more than 10% of our service revenues for the nine months ended September 30, 2005 and September 30, 2004. Service revenues generated from our client base, while still concentrated as measured by the number of clients, has continued to become more dispersed over time, and we believe more diversification is evident when revenue concentration is measured by the number of individual projects. We believe that measuring revenue concentration by project diversification may be more indicative of revenue concentration risk since we are often working on several separately-based and funded projects with a single client, with each project often being wholly independent from the others. Our primary scope of work in both periods included both medical-imaging core laboratory services and image-based information management services.

Reimbursement revenues consist of reimbursements received from the customer for pass-through costs. Reimbursement revenues fluctuate significantly over the course of any given project and quarter to quarter variations are a reflection of this project timing. Therefore, our management believes that reimbursement revenues are not a significant indicator of our overall performance trends.

Cost of revenues for the nine months ended September 30, 2005 and 2004 was $18,382,610 and $14,694,289, respectively, an increase of $3,688,321 or 25.1%. The increase in cost of revenues is primarily due to the increase in reimbursement revenues for the nine months ended September 30, 2005 of $1,454,996 and an increase of $1,500,000 attributable to the expansion of our European facility to expand our global capabilities and further develop our therapeutic expertise in the cardiovascular area, including the additional personnel and costs from the Heart Core acquisition. Cost of revenues for the nine months ended September 30, 2005 and nine months ended September 30, 2004 were comprised of professional salaries and benefits, allocated overhead and pass-through costs, which includes fees paid to independent radiologists. We expect that our cost of revenues will continue to increase in fiscal 2005 as reimbursement revenues increase and also due to an anticipated increase in operational personnel to service the increase in backlog.

The increase in the cost of revenues as a percentage of total revenues to 84.3% for the nine months ended September 30, 2005 from 65.8% for the nine months ended September 30, 2004 is primarily due to the increase in reimbursement revenue, lower service revenues for the nine months ended September 30, 2005 due to cancellations from the fourth quarter of 2004 and the increase in cost from the expansion of our European facility. 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.

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General and administrative expenses for the nine months ended September 30, 2005 and 2004 were $3,698,660 and $3,284,646, respectively, an increase of $414,014 or 12.6%. The increase is primarily due to an increase in professional and consulting services. General and administrative expenses in each of the nine months ended September 30, 2005 and 2004 consisted primarily of professional salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. We expect that our general and administrative expenses will continue to increase due to anticipated expenditures for Sarbanes-Oxley compliance and a general increase in the fees associated with being a publicly traded company.

The increase in general and administrative expenses as a percentage of total revenues to 17.0% for the nine months ended September 30, 2005 from 14.7% for the nine months ended September 30, 2004 is primarily due to a lesser increase in our total revenues.

Sales and marketing expenses for the nine months ended September 30, 2005 and 2004 were $3,508,565 and $2,262,938, respectively, an increase of $1,245,627 or 55.0%. The increase is due to an increase associated with our CapMed division of $309,000, $251,000 fees and expenses associated with our Scientific Advisory Board and $575,000 of other sales and marketing expenses, including an increase in personnel and sales commissions. Sales and marketing expenses in each of the nine months ended September 30, 2005 and September 30, 2004 were comprised of direct sales and marketing costs, professional salaries and benefits and allocated overhead. We expect that sales and marketing expenses will increase in fiscal 2005 as we continue to expand our market presence in the United States and Europe.

The increase in sales and marketing expenses as a percentage of total revenues to 16.1% for the nine months ended September 30, 2005 from 10.1% for the nine months ended September 30, 2004 is primarily due to an increase in personnel and increased expenses associated with our CapMed division and Scientific Advisory Board.

Net interest income for the nine months ended September 30, 2005 and 2004 were $44,133 and $6,289 respectively, an increase of $37,844 or 601.7%. This increase is primarily due to the payment of the Quintiles Note in November 2004, and, therefore, we did not incur this interest expense for the nine months ended September 30, 2005. Net interest income and expense for the nine months ended September 30, 2005 and 2004 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. Net interest income and expense for the nine months ended September 30, 2004 also included interest expense incurred on the Quintiles Note.

Loss before income taxes was $3,733,879 for the nine months ended September 30, 2005 and income before income taxes was $2,087,990 for the nine months ended September 30, 2004, a decrease of $5,821,869 or 278.8%. The decrease was due to lower service revenues, an increase in personnel (including the Heart Core acquisition), an increase in professional and consulting services fees and an increase in our sales and marketing expenses.

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We had an income tax benefit of $1,493,552 for the nine months ended September 30, 2005 as compared to an income tax provision for the nine months ended September 30, 2004 of $846,332, a decrease of $2,339,884, or 276.5%. The decrease is primarily due to the net loss for the nine months ended September 30, 2005 generating a 40% income tax benefit as compared to our estimated effective tax rate for 2004 of 41%.

Three Months Ended September 30, 2005 and 2004

	Three Months Ended September 30, 2005	% of Total Revenue	Three Months Ended September 30, 2004	% of Total Revenue	$ Change	% Change
Service revenues	$ 6,042,382	78.0%	$ 6,547,281	84.2%	($504,899)	(7.7%)
Reimbursement revenues	1,708,000	22.0%	1,231,585	15.8%	476,415	38.9%
Total revenues	7,750,382	100.0%	7,778,866	100.0%	(28,484)	(0.4%)
Cost of revenues	6,208,387	80.1%	5,231,944	67.3%	976,443	18.7%
General and administrative expenses	1,229,609	15.9%	1,067,226	13.7%	162,383	15.2%
Sales and marketing expenses	1,196,256	15.4%	759,456	9.8%	436,800	57.5%
Total cost and expenses	8,634,252	111.4%	7,058,626	90.8%	1,575,626	22.3%
Interest income (expense) net	28,592	0.4%	(2,664)	0.0%	31,256	(1,173.3%)
(Loss) income before income tax provision	(855,278)	(11.0%)	717,576	9.2%	(1,572,854)	(219.2%)
Income tax (benefit) provision	(325,315)	(4.2%)	287,784	3.7%	(613,099)	(213.0%)
Net (loss) income	($529,963)	(6.8%)	$ 429,792	5.5%	($959,755)	(223.3%)

Service revenues for the three months ended September 30, 2005 and 2004 were $6,042,382 and $6,547,281, respectively, a decrease of $504,899 or 7.7%. The decrease in service revenues was due to a significantly higher than historical norm cancellation rate in the fourth quarter of fiscal 2004 which resulted in a loss of revenue from anticipated projects for the three months ended September 30, 2005. Our backlog at September 30, 2005 increased to $55.2 million from $38.5 million at December 31, 2004, an increase of 43.4%. This compares to $46.5 million at September 30, 2004, an increase of 18.7%. We believe this increase in backlog is an indicator that the overall market growth for medical-imaging related services for clinical trials continues to be positive, subject to project cancellations, slowing of patient enrollment in on-going studies and delays of future project awards.

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Service revenues were generated from 88 clients encompassing 194 distinct projects for the three months ended September 30, 2005. This compares to 75 clients encompassing 179 distinct projects for the three months ended September 30, 2004. No client accounted for more than 10% of service revenues for the three months ended September 30, 2005. One client, Novartis Pharmaceutical Corporation, encompassing 14 projects represented 13.9% of our service revenues for the three months ended September 30, 2004. Service revenues generated from our client base, while still concentrated as measured by the number of clients, has continued to become more dispersed over time and we believe more diversification is evident when revenue concentration is measured by the number of individual projects. We believe that measuring revenue concentration by project diversification may be more indicative of revenue concentration risk since we are often working on several separately-based and funded projects with a single client, with each project often being wholly independent from the others. Our primary scope of work in both periods included medical-imaging core laboratory services and image-based information management services.

Reimbursement revenues consist of reimbursements received from the customer for pass-through costs. Reimbursement revenues fluctuate significantly over the course of any given project and quarter to quarter variations are a reflection of this project timing. Therefore, our management believes that reimbursement revenues are not a significant indicator of our overall performance trends.

Cost of revenues for the three months ended September 30, 2005 and 2004 was $6,208,387 and $5,231,944, respectively, an increase of $976,443 or 18.7%. The increase in cost of revenues is primarily due to the increase in reimbursement revenues for the three months ended September 30, 2005 of $476,415 and an increase of $540,000 attributable to the expansion of our European facility to expand our global capabilities and further develop our therapeutic expertise in the cardiovascular area, including the additional personnel and costs from the Heart Core acquisition. Cost of revenues for the three months ended September 30, 2005 and three months ended September 30, 2004 were comprised of professional salaries and benefits, allocated overhead and pass-through costs, which includes fees paid to independent radiologists. We expect that our cost of revenues will continue to increase in fiscal 2005 as reimbursement revenues increase, offset in part by the cost reductions discussed below.

The increase in the cost of revenues as a percentage of total revenues to 80.1% for the three months ended September 30, 2005 from 67.3% for the three months ended September 30, 2004 is primarily due to the increase in reimbursement revenue, lower service revenues for the nine months ended September 30, 2005 due to cancellations from the fourth quarter of 2004 and the increase in cost from the expansion of our European facility. The cost of revenues as a percentage of total revenues also fluctuates due to work-flow variations in the utilization of staff and the mix of services provided by us in any given period.

General and administrative expenses for the three months ended September 30, 2005 and 2004 were $1,229,609 and $1,067,226, respectively, an increase of $162,383 or 15.2%. The increase is primarily due to an increase in professional and consulting services. General and

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administrative expenses in each of the three months ended September 30, 2005 and 2004 consisted primarily of professional salaries and benefits, depreciation and amortization, professional and consulting services, office rent and corporate insurance. We expect that our general and administrative expenses will continue to increase due to anticipated expenditures for Sarbanes-Oxley compliance and a general increase in the fees associated with being a publicly traded company.

The increase in general and administrative expenses as a percentage of total revenues to 15.9% for the three months ended September 30, 2005 from 13.7% for the three months ended September 30, 2004 is primarily due to a lesser increase in our total revenues.

Sales and marketing expenses for the three months ended September 30, 2005 and 2004 were $1,196,256 and $759,456, respectively, an increase of $436,800 or 57.5%. The increase is due to an increase in expenses associated with our CapMed division of $48,000, $62,000 fees and expenses associated with our Scientific Advisory Board and $327,000 of other sales and marketing expenses including and an increase in personnel and sales commissions. Sales and marketing expenses in each of the three months ended September 30, 2005 and September 30, 2004 were comprised of direct sales and marketing costs, professional salaries and benefits and allocated overhead. We expect that sales and marketing expenses will increase in fiscal 2005 as we continue to expand our market presence in the United States and Europe.

The increase in sales and marketing expenses as a percentage of total revenues to 15.4% for the three months ended September 30, 2005 from 9.8% for the three months ended September 30, 2004 is primarily due to an increase in personnel and increased expenses associated with our CapMed division and Scientific Advisory Board.

Net interest income for the three months ended September 30, 2005 was $28,592 as compared to net interest expense for the three months ended September 30, 2004 of $2,664, an increase of $31,256 or 1,173.3%. This increase is primarily due to the payment of the Quintiles Note in November 2004, and, therefore, we did not incur this interest expense for the three months ended September 30, 2005. Net interest income and expense for the three months ended September 30, 2005 and 2004 is comprised of interest income earned on our cash balance and interest expense incurred on equipment lease obligations. Net interest income and expense for the three months ended September 30, 2004 also included interest expense incurred on the Quintiles Note.

Loss before income taxes was $855,278 for the three months ended September 30, 2005 and income before income taxes was $717,576 for the three months ended September 30, 2004, a decrease of $1,572,854 or 219.2%. The decrease was due to lower service revenues, an increase in personnel (including the Heart Core acquisition), an increase in professional and consulting services fees and an increase in our sales and marketing expenses.

We had an income tax benefit of $325,315 for the three months ended September 30, 2005 as compared to an income tax provision for the three months ended September 30, 2004 of $287,784, a decrease of $613,099, or 213.0%. The decrease is primarily due to the net loss for

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the three months ended September 30, 2005 generating a 40% income tax benefit as compared to our estimated effective tax rate for 2004 of 41%.

Business Segments

We have set forth certain financial information with respect to our two business segments, pharmaceutical contract services and the CapMed division, in Note 6 Business Segments to our Condensed Consolidated Financial Statements in this Form 10-Q. During the nine months ended September 30, 2005, we had CapMed segment sales of $308,893 and total costs and expenses of $1,079,694, consisting of $753,553 of sales and marketing expenses, $188,388 of general and administrative expenses and $137,757 of cost of revenues. During the three months ended September 30, 2005, we had CapMed segment sales of $84,779 and total costs and expenses of $355,852, consisting of $239,313 of sales and marketing expenses, $59,828 of general and administrative expenses and $56,711 of cost of revenues.

Liquidity and Capital Resources

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net cash provided by operating activities	$ 1,780,451	$ 126,890
Net cash used in investing activities	($1,522,310)	($1,184,212)
Net cash (used in) provided by financing activities	($ 106,442)	$ 168,791

At September 30, 2005, we had cash and cash equivalents of $9,801,839. Working capital at September 30, 2005 was $8,160,967.

Net cash provided by operating activities for the nine months ended September 30, 2005 was $1,780,451 as compared to $126,890 for the nine months ended September 30, 2004. This is primarily due to the net collection of our accounts receivable of $1,817,790 during the nine months ended September 30, 2005 and from the increase in our deferred revenue of $1,627,500 at September 30, 2005 from December 31, 2004 due to advance deposits received from our clients for new contract signings. This was offset by the net loss for the nine months ended September 30, 2005 of $2,240,327.

Net cash used in investing activities for the nine months ended September 30, 2005 represents our investment in furniture and fixtures for new space in our Newtown facility and software for our operations. We currently anticipate that capital expenditures for the remainder of the fiscal year ending December 31, 2005 will be approximately $500,000. These expenditures represent software development and additional upgrades in our networking, data storage and core laboratory capabilities for both our United States and European operations.

Net cash provided by financing activities for the nine months ended September 30, 2005 is primarily attributable to the proceeds of $506,872 from our sales leaseback transaction offset by payments under equipment lease obligations of $598,906.

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The following table lists our cash contractual obligations as of September 30, 2005:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual obligations					
Capital lease obligations	$ 1,536,975	$ 883,191	$ 653,784		
Facility rent operating leases	$ 6,282,291	$ 1,391,480	$ 2,773,699	$ 2,117,112	
Employment agreements	$ 476,366	$ 355,533	$ 120,833		
Total contractual cash obligations	$ 8,295,632	$ 2,630,204	$ 3,548,316	$ 2,117,112	

On May 17, 2005, we renewed and amended our agreement with Wachovia Bank, National Association. The renewed and amended agreement is for an unsecured committed line of credit of $5,000,000. Interest is payable at the LIBOR Market Index Rate plus 2.0%. The agreement requires us, among other things, to maintain certain financial covenants. The committed line of credit matures June 30, 2006 and may be renewed on an annual basis. At September 30, 2005, we had no borrowings under the committed line of credit and are compliant with the financial covenants.

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

In accordance with our current foreign exchange rate risk management policy, during the nine months ended September 30, 2005, we purchased sixteen monthly Euro call options in the amount of 250,000 Euros each and one 200,000 Euro call option for anticipated additional costs in May, 2006, with the first expiration on July 27, 2005 and the last expiration on September 21, 2006 with a strike price ranging from $1.26 to $1.27 to hedge against the exposure to variability in our cash flows due to the Euro denominated costs for our Netherlands subsidiary. We paid a total premium of $97,307 for the options and at September 30, 2005 have recorded an Accumulated Other Comprehensive Loss of $37,118 in the stockholders equity section of the Balance Sheet due to changes in the value of this derivative. During the nine and three months ended September 30, 2005, we recognized a loss in our Consolidated Statement of Operations of $13,600.

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 and borrowing capacity under the existing line of credit, will be sufficient to meet our cash needs for at least the next twelve months. However, we cannot assure you that our operating results

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will achieve profitability on an annual basis in the future. The inherent operational risks associated with the following risks may have a material adverse affect on our future liquidity:

- our ability to gain new client contracts;
- the variability of the timing of payments on existing client contracts; and
- other changes in our operating assets and liabilities.

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

Changes to Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are set forth in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004. As of September 30, 2005, there have been no changes to such critical accounting policies and estimates.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

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

Foreign Currency Risk

Our financial statements are denominated in United States dollars. Fluctuations in foreign currency exchange rates could materially increase the operating costs of our facility in the Netherlands, including the operations of Heart Core, which are primarily EURO denominated. If the exchange rate undergoes a change of 10%, we believe that it would have a material impact on our results of operations due to the increased cost of our Netherlands facility. 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.

As a result, we do hedge our foreign currency exposure. Our foreign currency financial instruments primarily consist of cash, trade receivables, prepaid expenses, fixed assets, trade payables and accrued expenses and were in a net asset position at September 30, 2005 and December 31, 2004. 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. At September 30, 2005 and December 31, 2004, a 10% increase (decrease) in the EURO to U.S. dollar spot exchange rate would result in a change of $154,000 and $127,000 to our net asset position at September 30, 2005 and December 31, 2004, respectively.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2005, our president and chief executive officer (principal executive officer) and our chief financial officer (principal accounting and financial officer) have concluded that our disclosure controls and procedures are effective to ensure that information

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required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and are operating in an effective manner.

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, 2005 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION.

Item 5. Other Information.

On November 9, 2005, the Compensation Committee of the Board of Directors of Bio-Imaging Technologies, Inc. (the Company) recommended, and the Company s Board of Directors approved, the acceleration of vesting of all out-of-the-money unvested options to purchase shares of common stock of the Company with an exercise price greater than $7.00 held by current employees and executive officers of the Company (but excluding any options granted to members of the Company s Board of Directors). These options were previously awarded to employees of the Company on February 4, 2004, pursuant to the 2002 Stock Incentive Plan, and would still have been unvested at January 1, 2006. Options to purchase 107,691 shares of common stock are subject to this acceleration. The exercise price per share for these options was $7.03, while the closing price per share on November 9, 2005 was $2.25.

The following table summarizes the options subject to acceleration:

	Aggregate Number of Shares Issuable Under Accelerated Options	Exercise Price Per Share	Date of Grant
Employees as a group (other than executive officers)	69,722	$ 7.03	February 4, 2004
Executive officers as a group	37,969	$ 7.03	February 4, 2004

The acceleration of vesting of these out-of-the money options is being undertaken primarily to eliminate any future compensation expense the Company would otherwise recognize in its income statement with respect to these options with the implementation of the Financial Accounting Standard Board (FASB) statement Share-Based Payment (FAS 123R) effective for the Company on January 1, 2006. We estimate this compensation expense, before tax, would be approximately $402,763 in aggregate future expenses based on value calculations using the Black-Scholes methodology.

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Item 6. Exhibits.

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

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

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

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.

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SIGNATURES

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

BIO-IMAGING TECHNOLOGIES, INC.

DATE: November 14, 2005 By: /s/ MARK L. WEINSTEIN
Mark L. Weinstein,
President and Chief Executive Officer
(Principal Executive Officer)

DATE: November 14, 2005 By: /s/ TED I. KAMINER
Ted I. Kaminer,
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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